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Dream of buying a Manhattan apartment? Now's your chance: Prices are plunging

(CNN) The real estate market in Manhattan took a sizable hit this summer, with fewer sales and falling prices.

The average sale price for condos or co-ops in Manhattan was \$1.66 million during the third quarter, down 14% from last year, according to a report from Douglas Elliman Real Estate. The number of sales also fell 14% year-over-year, marking the lowest third quarter sales total since the financial crisis, the report found.

"This is the worst real estate market we've seen since 2008," said Shaun Osher, founder and broker at Core Real Estate. "The worst for sellers. We are fully in a buyer's market. Now is one of the most opportune times to buy that I've seen in 30 years in real estate."

A tax hike on high-end properties

One reason sales dropped so dramatically was because many buyers rushed to the market during the second quarter in order to get ahead of an increase in the so-called 'mansion tax' that went into effect July 1.

The 'mansion tax' is a supplemental tax of 1% of the purchase price that has long been applied to homes in New York valued at \$1 million or more. But starting this summer, the tax now progressively increases. Homes valued at \$2 million or more, for example, are now subject to a tax of 1.25%, while homes worth \$25 million or more can be taxed as much as 3.9%.

"We had a surge of high-end sales close in the second quarter instead of the third quarter," said Jonathan Miller of appraisal and consulting firm Miller Samuel and the author of the Douglas Elliman report. "You could save a few percent on a \$10 million transaction."

But, he said, the drop in prices could have been even greater if it weren't for low interest rates, which increased the number of home buyers buying with a mortgage.

Generally speaking, in New York City, half of all home purchases are made in cash and half are financed with mortgages, Miller said. And typically the higher the price, the lower the reliance on financing. Eighty percent of home sales of more than \$5 million are typically bought with cash.

But, in this past quarter, a little less than half of the buyers making purchases of \$5 million or more were paying all cash, suggesting that deep pocketed investors and foreign buyers are making up less of the market now than they previously did.

"The perception was the market was far wider and deeper than it actually is," he said. "We're coming out of what was a seemingly endless supply of capital for new development and a belief there was an endless supply of billionaires to buy those properties. That hasn't played out. This is the correction."

A buyer's market

Despite the fact that home prices are falling, buyers are still sitting on the sidelines, Osher said.

"We're not seeing buyers act," he said. "Not nearly as many as we should see relative to the strong economy, low unemployment, low interest rates."

While he said that's mostly due to a lack of confidence, he also feels that buyers could be hesitating because sellers are being slow to reduce their prices.

"In 2008, it was indisputable that the global financial crisis affected real estate values," said Osher. "Prices dropped quickly. But for sellers today there is no fundamental factor that points to a weakened market. Understandably, they are reluctant."

But it may be that people just don't know that it is time to get off the fence and they aren't recognizing the opportunity, said Richard Hottinger, an agent at Corcoran.

"Interest rates are at historic lows. It is phenomenal."