

October 2, 2019

The Results Are In: The Mansion Tax Has New York City Real Estate Sales Plummeting



NYC real estate sales saw a steep drop in the third quarter, thanks to new taxes on high-priced properties. GETTY

It's clear that New York's newly increased mansion tax has had an impact. According to data from three New York brokerages, Manhattan real estate sales have plummeted since the hike went into effect on July 1.

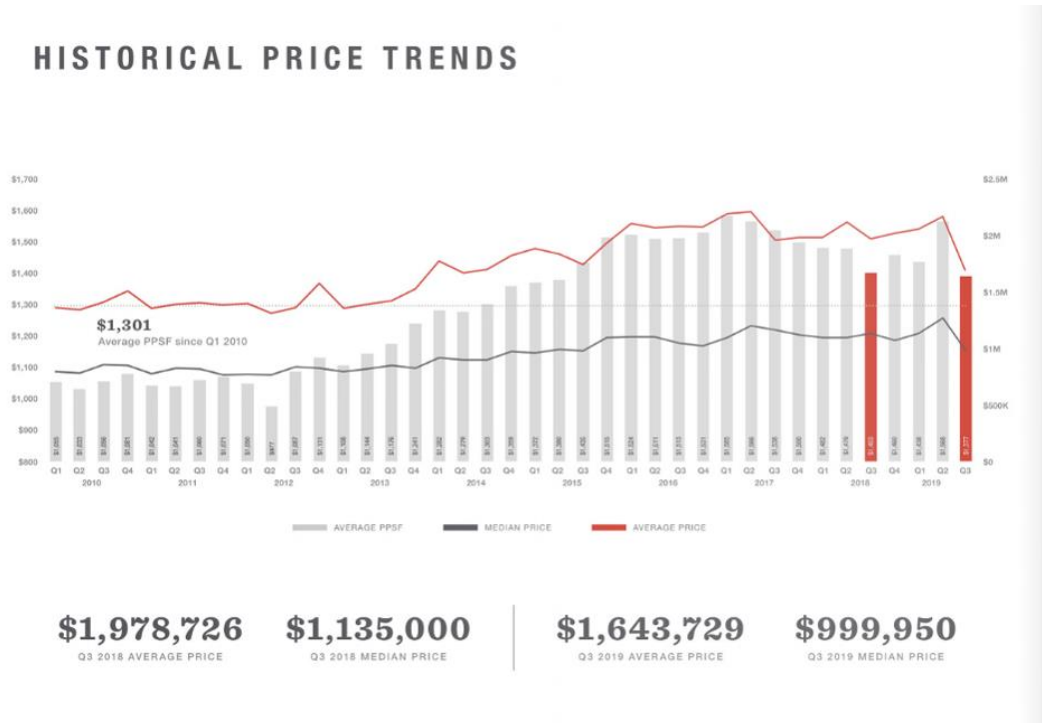
Compass, CORE and Halstead Real Estate released Q3 market reports this morning, all noting that Manhattan sales were down last quarter—anywhere from 6% to 16% over the year. Sales are particularly down on higher-priced listings. According to CORE's report, sales above \$3 million dropped nearly 15% since Q3 last year, while those over \$5 million dipped 48%. The quarter marks the fewest units sold over \$3 million in four years.

The dip is likely a result of the recently increased mansion tax, which charges a 1% to 4.15% sliding-scale tax on homes priced over \$1 million. July also saw an additional real estate transfer fee levied on homes sold at \$3 million or higher.

The new taxes caused a flurry of sales toward the end of Q2, followed by a steep drop in Q3.

“Increases in transfer and mansion taxes starting July 1 pushed buyers and sellers to close before the end of June,” Halstead CEO Diane Ramirez said. “Unsurprisingly, this led to higher-than-usual activity in high-end sales last quarter. Third-quarter data reflects a more accurate snapshot of the current market—continued price correction.”

CORE shows Manhattan had a whopping 8.8 months of inventory on the market last quarter, up from just 7.9 last year. With this glut of listings, prices dipped, clocking in at an average \$1.6 million—a drop of 12% from 2018. It was also the first time the median sales price dropped below \$1 million in four years.



This chart shows how Manhattan real estate prices have dropped over the last quarter. COURTESY OF CORE

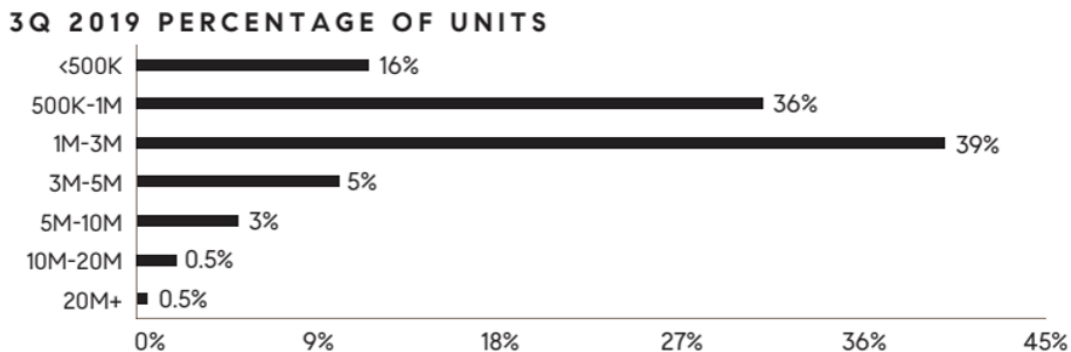
Properties also spent much longer on the market last quarter. According to Compass, the average Manhattan unit sold had been listed a whopping 152 days—the longest average since 2012. A full third of sales took 180 days or more to sell.

“The amount of inventory currently available, in addition to listings that have yet to come to market [in new developments], has put significant downward pressure on prices, especially at the high end,” according to Garrett Derderian, managing director of market analysis at CORE.

The downtick in prices isn’t a sweeping trend, though. As Derderian says, it’s simply a “reflection of what price points are trading.”

What’s clear is that buyers are avoiding higher-priced units in light of new tax laws. Though nearly a third of all inventory was priced at \$3 million or higher last quarter, the price tier

accounted for just 9% of total sales. Under-\$3 million units accounted for 83% of all condo sales and 96% of all co-op sales.



This chart shows the distribution of sales among price tiers. COURTESY OF COMPASS

“Market-wide, each price tranche up to \$3 million saw a yearly increase in sales, while those \$3 million and above all declined,” Derderian said. “In essence, the percentage increase in sales shrunk as sales approached \$3 million and percentage decline in sales accelerated at the higher price points.”

Sales on lower-priced units (those under \$500,000) were actually up 35% for the quarter. Derderian says it signals a “shifting interest from the luxury space to more affordable properties.”

But Compass’ Rory Golod and Elizabeth Ann Stribling-Kivlan say it’s not just the mansion tax causing the trend, though. The cloud of a possible recession is also looming over today’s New York City buyers.

“Many look back to 2008 and want to avoid purchasing at the wrong time, so even with low mortgage rates, buyers are appropriately re-evaluating their price range and opting for something slightly less expensive,” they said. “Declines in overall average price and average size but limited reduction in average price per square foot support this.”

Whatever the reason, the slowing will likely continue through the end of the year—a good thing for buyers overall.

“Typically, the fourth quarter is the slowest in terms of sales and the weakest for pricing,” Derderian stated. “The new mansion tax will continue to take a toll on the housing market as buyers evaluate the impact on their finances, as will uncertainty surrounding the upcoming presidential election. With an abundance of inventory available, expect buyers to take their time. However, there are still deals happening at all levels. This is undoubtedly the best buying opportunity since the recession.”