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New York's luxury real estate falters ahead of increased taxes



The New York luxury home market is still struggling. Image credit: Core

Luxury home sales in New York fell 5 percent over the first half of the year, even with a revised mansion tax acting as incentive for buyers to finalize purchases.

Less than 400 homes were sold in New York's luxury markets between Jan. 1 and June 30, although there was a slight increase in condo sales, according to real estate brokerage firm Core. On July 1, an updated mansion tax went into effect, which could further depress luxury home sales.

"The luxury market will continue to face a series of headwinds throughout the second half of the year," said Garrett Derderian, managing director of market analysis at Core. "There is a glut of high-price inventory, both new development and resale, currently on the market.

"Now, with the tax in effect, we have seen a slowdown in super-prime transactions," he said. "We expect these factors to impact the luxury market throughout the rest of 2019."

Core's Mid Year 2019 Luxury Report analyzes sales, contracts and active inventory in the Manhattan and Brooklyn boroughs priced at \$5 million and above.

Condos dominate

Total contract activity was down 18 percent year-over-year, making it the weakest first half in New York since 2012.

Homes were on the market an average of 302 days before selling. However, buyers had extra motivation for closing their sales in the first half of the year.



The average sales price for luxury condos increased 10 percent. Image credit: Core

As of July 1, the city's mansion tax – which applies to sales of at least \$1 million – begins at 2 percent and rises incrementally up to 3.9 percent for sales of \$25 million or more. Previously, the tax had been 1 percent.

During the first six months of 2019, the median home sale price was \$7.4 million, while the average sale price was north of \$10.5 million. About two-thirds of condo and co-op inventory was priced between \$5 and \$10 million.

Overall, condo sales fared better than co-op sales.

One more condo sold in the first half of 2019 than in the same period of 2018, for 312 total condo sales. Although the median sale price fell 1 percent, the average sale price jumped 10 percent to \$10.98 million.

Eleven percent of condos were sold for \$20 million and above, including three units that sold at more than \$50 million.

More than half of condo sales were in downtown Manhattan, but Midtown had the greatest average sale price at \$16.49 million. One percent of luxury condos were sold in Brooklyn.

Co-op sales fell 21 percent year-over-year to 84 in the first half. Although the median sale price remained steady at \$7 million, the average sale price dropped 4 percent to \$8.85 million.



The Upper East Side is home to the most expensive co-ops. Image credit: Core

More than 60 percent of co-op sales were on the Upper East Side, home to the highest average sale price at \$10.1 million.

“The co-op market was particularly sluggish throughout the first half of 2019,” Mr. Derderian said. “One change we have seen more recently to spur co-op sales is boards loosening their financial requirements and increasing the percentage of purchase price that can be financed.”

City cool down

New York’s high-end real estate market has seen a cool down for some time, particularly in Manhattan.

According to the Stribling Q1 2019 Manhattan Market Report, sales of luxury homes in Manhattan fell for the sixth straight quarter.

While the average and median sale prices in Manhattan increased 3 percent year-over-year, sellers are receiving an average of 9 percent less on their listing prices. Sales at expensive developments skew the numbers (see story).

Before revising the mansion tax, officials also explored additional taxes on part-time properties in New York.

Under a proposed pied-à-terre tax, part-time New Yorkers would have likely been required to pay surcharges on residential properties valued at more than \$5 million. Absentee owners do not pay city or state income taxes, leaving millions in tax revenue on the table annually (see story).

New York decided not to implement the pied-à-terre tax.

Moving real estate in the city today comes down to price.

“There are buyers engaging the market; the difference now is that they want to negotiate in all locations and at all price points,” Core’s Mr. Derderian said. “Properties that are priced appropriately are selling; it is just a matter of determining what that price is.”