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‘Mansion Tax’ Takes Its Toll on Manhattan Sales

Apartment transactions plummeted in the third quarter, especially on the high end

Manhattan apartment sales have fallen in the past three months
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Apartment sales across Manhattan plummeted in the third quarter, suppressed by the introduction of the city’s “mansion tax” earlier this summer, according to reports from several Manhattan brokerages released Wednesday.

In the second quarter, and prior to the introduction of the new citywide property tax on July 1 that effectively raised the cost of buying a home over $2 million, co-op and condo transactions saw a significant boost as buyers raced to beat its implementation.

The new tax rules, passed by the state, changed from a general 1% tax on home sales over $1 million to a progressive tax of 1.25% on sales between $2 million and $3 million, and up to as much as 3.9% on sales of homes of $25 million or more. The tax on homes sold for between to $1 million to $2 million remained at 1%.

In the third quarter, though, sales dropped 14.2% compared to the same period last year, according to Douglas Elliman.

"Though we saw sales decline rather significantly this quarter, it's important to keep in mind that many sales were achieved over the summer by buyers rushing to file ahead of the mansion tax deadline," said Steven James, president and CEO of Douglas Elliman, New York City, in the report.

"The combined sales for the second and third quarters of 2019 are only down slightly from the same time period last year, and I suspect that with mortgage rates remaining low and sellers loosening their hold on unrealistic pricing positions, the largest declines are behind us."

Alongside the tax increases, a shift in buyer demographics is also affecting the market, with foreign buyers now accounting for fewer purchases, according to a report from brokerage Warburg Realty.

"Russians completely disappeared from our high-end market years ago, and most Chinese buyers feel hesitant, caught between a slowing economy at home and a hostile government in the United States," wrote Frederick Warburg Peters, CEO of Warburg Realty in the report.

Transactions were hit hardest in the luxury market, where the mansion tax is highest, according to a separate report from Halstead. The brokerage found that sales of condos and co-ops priced over $5 million fell 48% in the third quarter compared to the same time last year.

The fall in high-end transactions helped to drag down the median sale price for Manhattan apartments, which in the third quarter stood at $999,950, a 17% decline year-over-year, according to another report from brokerage CORE.

"While prices have certainly come down, the average and median sale prices are more a reflection of what price points are trading," said Garrett Derderian, managing director of market analysis at CORE. "Right now, activity is concentrated well below $3 million."

According to Compass, which also released its report Wednesday, only 9% of transactions were priced above $3 million between July and September, the lowest proportion logged since 2015.

Condos and co-ops priced between $1 million and $3 million accounted for the greatest share of transactions at 39% of all deals. The $500,000 to $1 million bracket closely followed with 36%, the report said.