

# MANSION GLOBAL

November 1, 2019

## **With New York Townhouse Prices Down, Now Is a Good Time for Buyers to Re-Enter the Market**

*Sellers have become more flexible on price, but don't expect bargain- basement deals*



*There are many factors at play in the pricing of a townhouse. John Wang / Getty Images*

The Manhattan real estate market has been showing signs of a slowdown since early 2019, and recent market reports indicate a sharp drop in third quarter sales volume and prices, with average and median prices on the decline, closings down and inventory up. The third quarter of 2019 was particularly challenging for sellers of townhouses: The median sales price dropped 34.9% to \$1,826,250 year over year, and the average sales price fell by 32.6% to \$1,901,807, Douglas Elliman found.

Many real estate analysts are attributing this cooling of sales to a recent increase to New York City's mansion tax. The hike to the one-time fee, passed by the state government, charged on a sliding scale of 1% to 4.15% depending on sales price, went into effect July 1, and buyers rushed to close deals ahead of the change. This, in turn, led to a third quarter drop in activity at the high end of the market.

But there are other factors at play as well for the luxury townhouse market in New York.

"There's uncertainty about the political climate, and we're heading into an election year, which always depresses the market a bit," said Lisa Larson, a broker with Warburg Realty in New York. "And there's the SALT deduction, which most buyers in New York can't take anymore, in addition to the mansion tax."

The state and local tax (SALT) deduction, which lets people in high-tax states like New York deduct local taxes from their federal returns, used to have no limit, but was capped in 2018 to \$10,000.

The introduction of abundant high-end new development options over the past several years has drawn buyers away from townhouses, as well.

As a result, townhouses have been sitting on the market longer, and many sellers are beginning to adjust prices for a buyer's market. Coupled with low mortgage interest rates, this makes now a good time for luxury buyers to re-enter New York City's townhouse market—and hunt for discounts.

“Some townhouses are priced as low as they can go,” said Louise Beit, a broker with Sotheby's International Realty in New York. “Others are still not down to what their value is now, so buyers just have to be sure that the townhouse they're interested in is priced at value in this market.”

This requires working with an experienced broker, looking closely at comps, and gathering as much information as you can. But don't wait too long to make an offer, experts say, because some recovery in the fourth quarter is expected as the market bounces back from its drop in the third.

### The State of NYC's Townhouse Market

New York's luxury real estate markets overall peaked in 2014 and 2015, but many sellers have continued to price their homes with those values in mind. As a result, in recent years townhouses have lingered on the market for longer than they used to.

For brokers, “a townhouse exclusive is usually for nine months, and in the old days you could sell within those nine months,” Ms. Beit said. “Now, it's much longer, sometimes up to two years, because sellers are slow to adjust.”

However, now townhouse owners seem to be finally coming down in their asking prices.

As the market started declining, there was a disconnect between buyers and sellers,” said Rick Pretsfelder, a managing director at Leslie Garfield who focuses on the Upper West Side. “Now, owners are getting more real, and there are deals to be had.”

This doesn't necessarily mean that the townhouse market has bottomed out, however. Although third quarter data suggests a significant drop in sales prices, these numbers can't be taken purely at face value.

“Prices are considerably down from their previous peak in 2015, but quite a few houses closed in advance of July 1 to beat the mansion tax change deadline,” Ms. Larson said. “The news is a bit skewed because of that rush to close. The third quarter data looks worse than it was, because the second quarter was inflated.”

Third quarter market data from CORE indicates that Manhattan has 8.8 months of inventory overall, an increase from 7.9 months in the third quarter of 2018, giving buyers plenty of options, and more room to negotiate.

“There are about seven townhouses worth over \$10 million in contract now in Manhattan. That's definitely not a lot,” Ms. Larson said in mid-October. “At the same time, people haven't stopped putting houses on the market. There are some carriage houses and interesting luxury inventory downtown. This is the best time we've had in the last 10 years to jump in.”

Townhouse owners seem to have gotten the memo, and there have been several examples of sellers coming down substantially in their asking price even before the mansion tax change went into effect. In

March, for instance, a Greenwich Village carriage house that pop star Taylor Swift once rented sold for \$11.5 million, down from its initial \$24.5 million asking price.

That same month, a limestone townhouse on the Upper East Side dropped its ask from \$44 million to \$30.1 million.

But there are many factors at play in the pricing of a townhouse, experts caution.

“Prices have definitely fallen, but it’s very easy to draw too much from data points because there are so many variables,” said Lindsay Barton Barrett, a broker with Douglas Elliman in New York.. “When you’re comparing the average price per square foot in a townhouse versus a new condo, you’re looking at very different types of square footage. A lot of townhouses that come onto the market need a full renovation, and that is reflected in the prices.”

### What to Know Before you Buy

It’s crucial to work with a broker who is plugged into the latest news about townhouse sales, and is able to communicate with other brokers about market trends.

“You need to have a broker who is willing to go talk to other brokers about houses in contract,” Ms. Larson said. “There’s a lot of side-talking going on, with townhouses being listed at a certain price, but sellers also communicating that there’s room to negotiate here.”

Interested buyers must do their research and look at real-time information about townhouse sales and deals. It could also be helpful to go beyond townhouses and seek out data on the latest condo sales as well.

“Look at what sponsors and developers are giving as concessions. Sometimes it’s the same set of buyers, so gather as much data as you can and don’t be shy about making an offer,” Ms. Larson said.

Part of the challenge in making a smart offer is that townhouses are a unique product, and no two are identical, which can make it difficult to identify comps.

In addition to looking at the latest sales data, buyers must also consider individual aspects of the houses they’re interested in, including their age, when they were last renovated, and more.

“You’re buying a unique self-contained home with lots of variables,” Ms. Barrett said. “When was the last renovation done? Are there tenants in place who are rent-stabilized? Is the house landmarked, and what does that mean?”

She advised that buyers pay close attention to the physical conditions of the house, as well as its title history. And if the property needs an extensive renovation, buyers should factor into their offering price the high costs of remodeling in New York City.

Buyers should also manage their own expectations around getting a big discount. Despite the recent cooling of the townhouse market, most sellers, especially at the high end, are not necessarily desperate to offload their properties.

“Owners are not distressed and the economy is still doing well,” Mr. Pretsfelder said. “If you’re looking to really bottom-feed, you’re not going to. But if you’re methodical, patient, and reasonable, but aggressive in your bidding, you can buy properties at good prices now.”

We are in a buyer’s market, he added, but there are still bidding wars on some properties, and if you wait too long, or are too aggressive in your negotiating, you could lose out on the townhouse you’re interested in.

“It’s a good time to be a buyer, but things are not quite as doom and gloom as some of the reports are suggesting,” Mr. Pretsfelder said.