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Brooklyn's Luxury Market Started the First Quarter Strong Before Sales Slammed to a Halt

Inventory and transactions have dropped, but prices have yet to show the full effects of the coronavirus

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As with much of the market in and around New York City, Brooklyn sales began the year with a fresh sense of momentum, seeing year-over-year increases in January and February before social distancing measures and fears surrounding the coronavirus threw a wrench in the market last month, according to market reports released Thursday.

"Everything in the first quarter has to be taken with a grain of salt, given that coronavirus really started impacting activity in the first and second week of March," said Garrett Derderian, managing director of market analysis at CORE. "But if you look at the luxury sector in Brooklyn, it had a really strong [performance] in January and February, and even with the slowdown in March, outperformed last year."

Data from CORE's Q1 Brooklyn Market Report, released Thursday morning, showed median condo contract prices increasing 10% year over year, up to $988,000, while the average price of a one-to-three family home was up by 16%.

Bigger-ticket sales of single-family homes and brownstones drove up overall numbers for the first quarter of 2020 compared to the same period last year, which had a higher proportion of condo sales, Mr. Derdrian said.

More broadly, CORE reported a 14% year-over-year increase in sales for properties over $2 million, the largest increase of any price bracket. (A Q1 report from Corcoran also noted a higher-than-usual proportion of sales over $5 million driving up average prices.)

A first quarter Brooklyn sales report from Douglas Elliman, released Thursday, similarly showed prices trending upward in Brooklyn, with the average sales price breaking the $1 million mark for just the third time ever. However, Elliman's numbers indicate the median luxury sales price dropping by 6% year over year, to $2.35 million.

Jonathan Miller, president and CEO of Miller Samuel and author of the Elliman report, said that the decline is likely in large part attributable to the high-end housing stock that happened to come on line in the past quarter.

"There's a certain randomness to when new development closings occur," Mr. Miller said. "You have a high concentration of new development in the luxury market, and in Brooklyn, the median new development price is down 14.1%. In other words, a flood of new development units that are priced relatively low for the luxury sector can easily skew the numbers, and account for a certain degree of volatility from quarter to quarter.

The Market Starts Showing Signs of Damage

Many data points aren't yet showing the full effects of the coronavirus on New York City home sales, but warning signs have started to appear. By all accounts, listing inventory has dropped sharply as sellers decide to wait out market uncertainty. Douglas Elliman's reports indicated an 18.3% inventory decline in the first quarter compared to the same period last year, while Corcoran recorded a 25% decline.

Transactions have declined, as well, and a Q1 Brooklyn report released by Compass on Thursday recorded a 44% decline in contracts compared to the same period last year. While Brooklyn properties priced $2 million and up had typically traded at a pace of around 15 to 20 contracts per week, according to Compass, by the end of March "activity was in the single digits."

Still, strong market performance prior to March has experts hopeful that, depending on the length of the current economic downturn and how the virus gets under control, a surge of pent-up demand will boost numbers once the current crisis has passed.

"If you look at it comparatively year over year, if you took out Covid-19 [and its effects on this quarter], we'd be up," said Compass managing director Elizabeth Ann Stribling-Kivlan.

More Immediate Strain the Rental Market

A slowdown in new leases and inventory is also affecting the rental market, according to a separate report from Douglas Elliman, which released a March rental report for Manhattan, on Thursday.

While Manhattan prices remained strong—at $3,590, the median rent was up 5.6% year-over-year, while average rents rose 3.2% to $4,299—the number of new leases fell by 37.7%.Inventory dropped by 17.7%.

In Brooklyn, median and average prices rose, as well—to $3,000 and $3,375, respectively—but the number of new leases plunged by 45.7%, and inventory saw a 35.9% decline. In the immediate term, this trend is likely to continue both for luxury properties and the broader rental market, as landlords strike bargains in an effort to retain tenants who find themselves suddenly without income and unable to pay their full rent.

"In the top 10% of the market, luxury rentals have been performing equally if not better than the balance of the market since last fall. There's a lot of momentum going into this in terms of pricing," Miller said. "However, I do think we're going to see rent declines over the coming months, or at least not the same growth we've seen."