

MANSION GLOBAL

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Manhattan Home Sales Surge Ahead of Mansion Tax Hike

Buyers flooded the market, reversing a downturn in sales and prices that has plagued the city for at least a year and a half



A tax hike went into effect Monday on home sales of \$2 million or more. Getty Images

Home sales in Manhattan spiked in the second quarter, as eager consumers rushed to make a deal before an increase in the city's mansion tax went into effect on Monday, according to a slew of market data released Tuesday.

A total of 2,957 co-ops and condos sold in the second quarter, a 12.5% increase in activity compared to a year ago, and the first time in 18 months the borough logged a yearly rise in the number of sales, according to a report from brokerage Douglas Elliman. It marked a significant turnaround for a market that's been in the throes of a downturn in home sales and prices since at least the beginning of 2018.

Renewed activity drove the median price to an all-time high of \$1.215 million in the second quarter, 10.5% higher than this time last year.

"These are some of the best results that we've seen for a year and a half," said Jonathan Miller, chief executive of appraisal firm Miller Samuel and author of the Douglas Elliman report.

“This year and a half has been bookended by two new taxes. You have the federal tax law on one end and you have the mansion tax hike, which incentivized buyers to close before July 1, on the other,” he said.

Buyers, who might have otherwise planned to close in the third quarter, actively pushed to move up closing dates to avoid a new progressive tax on homes over \$2 million, which New York state lawmakers passed in March. The mansion tax starts at 1.25% on homes between \$2 million to \$3 million and rises up to 3.9% on those \$25 million or more.

As a result, homes from \$2 million to \$5 million—which some refer to as “affordable luxury”—saw the biggest spike in activity ahead of the new tax rules. Sales of such apartments spiked 37% compared to this time last year.

Sales over \$10 million also surged, with deals from \$10 million to \$20 million increasing 28% in the second quarter compared to last year.

To put the new taxes in perspective, a sale just under \$25 million now generates roughly \$1 million in mansion and transfer taxes. That’s “certainly not chump-change,” wrote Compass agent and former brokerage president Leonard Steinberg in market commentary this week.

It remains to be seen whether last quarter’s sales boom was a one-off or if the robust quarter signals the end to a marketwide downturn, driven mostly by sky-high asking prices and general uncertainty about the federal tax law implemented Jan. 1, 2018.

“I suspect that at first, the added closing costs could become part of a price negotiation, just the way buyers and sellers negotiate on who pays a building flip tax,” Mr. Steinberg said in his commentary, referring to a fee sometimes imposed on co-op transactions. “After that, the ‘new normal’ will set in for most properties.”

Still, the data shows luxury home buyers will continue to have the upper hand in Manhattan for some time, especially when it comes to the sheer number of homes from which to choose. Inventory has been steadily rising for nearly two years and is now significantly higher (about 19%) than the 10-year average, Mr. Miller said.

Despite record prices in the overall market, median luxury price—defined as the top 10% of sales—fell 6.2% in the second quarter compared to a year ago.

Even downtown, where sales in new developments are booming—including a record breaking \$80 million sale to Amazon head Jeff Bezos last quarter—is not immune to the deluge of new inventory, said Garrett Derderian, managing director of market analysis at brokerage CORE, which released its first new development report on Tuesday.

“There is a very real apprehension over how quickly units in these super-prime and prime properties can be absorbed. Not only along Billionaires’ Row, but throughout the city,” he

added. "Our estimates show it could take nearly nine to 10 years for the supply to absorb at the current pace."