

# The Telegraph

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## **Why are property prices in Manhattan nosediving? New York's new 'mansion taxes'**



Property prices in Manhattan have nosedived at the sharpest rate in nearly 10 years, amid a glut of new apartments and New York state's new "mansion taxes".

Between July and September, the median sale price fell to \$995,950 (£803,000), according to agent Core, a 12pc drop on the same period last year.

"This was the sharpest median price decline since the first quarter of 2010," says Garrett Derderian, managing director of market analysis at Core. It is the first time the average price has fallen below \$1m in four years.

In July, New York state dramatically increased the transaction taxes on higher priced properties. Manhattan's property market has long been in the doldrums, but these changes have pushed the market over the edge.



*Once a home hits the \$2m mark, a buyer pays 1.25pc of the sale price in tax C  
REDIT: LUCAS JACKSON/REUTERS*

### The toll of the 'mansion taxes'

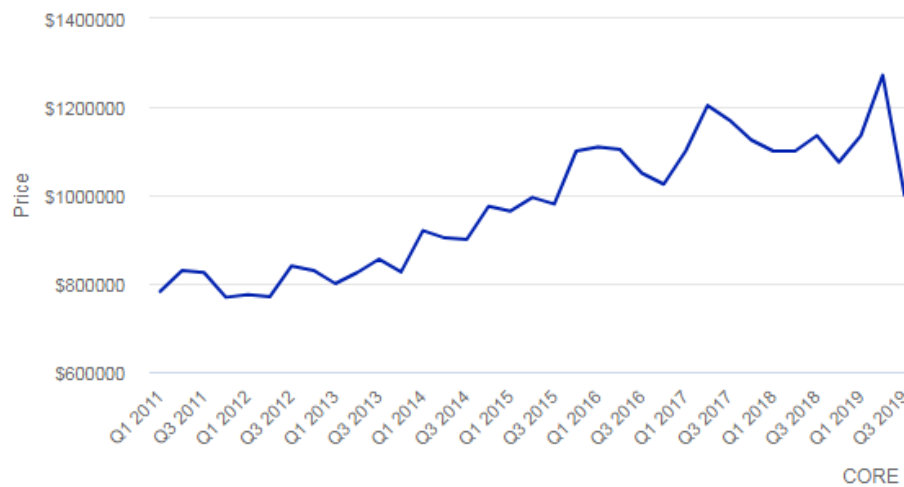
In June, activity in the market had spiked sharply as buyers rushed to transact ahead of “mansion taxes” that came into effect in July. While some agents had heralded a return of demand, but between the second and third quarters of this year, the median price fell by 21pc.

Previously, buyers paid a one-off additional 1pc “mansion tax” on the sale price of properties worth \$1m or more. Now, once a home hits the \$2m mark, a buyer pays 1.25pc of the sale price in tax.

The rates increase for different price bands: at \$25m, the rate is now 3.9pc. Between June and July, the sale tax bill on a \$10m New York home jumped from \$100,000 to \$225,000. In a city where almost 30pc of the stock costs \$3m or more, the implications are huge.

The hike is even more significant because it follows President Trump’s 2017 tax overhaul, which introduced a \$10,000 cap on the state and local taxes that citizens can write off against their tax bill. Previously, there had been no limit. In an ironic move for a billionaire whose wealth is rooted in New York real estate, President Trump's policy disproportionately hit high tax states such as New York when it was introduced. Now, it means that the new mansion taxes have no sweetener.

## Prices take a nosedive Manhattan median property prices



## Market slowdown

Transaction volumes have fallen sharply. In the third quarter, the number of closed co-op and condo sales fell by 14.2pc year on year, according to the brokerage Douglas Elliman. Meanwhile, the volume of properties on the market increased by 6.2pc.

In the luxury sector, the number of homes listed for sale jumped by 41.3pc in three months. This is partly due to a glut of new homes: the number of homes completed in New York last year was the highest in 50 years, according to UBS. Developers have been building too many prime homes for too long, while wealthy New Yorkers are selling up to seek lower tax states in the wake of the tax cap.

In a bid to adapt, developers are redesigning apartments to be smaller and therefore cheaper and more saleable. The average size of a luxury new build apartment in Manhattan has shrunk by almost 900 square feet in a year, according to Douglas Elliman.



*The Empire State Building rises above Manhattan in the widow of an apartment inside of the Central Park Tower*  
*CREDIT: LUCAS JACKSON/REUTERS*

## **Taking a bite out of the Big Apple**

Developers are also grappling with the fact that America's international market is evaporating. Between April 2017 and March 2018, non-resident foreign buyers accounted for \$53bn of existing home sales in the US, according to the National Association of Realtors. Between April 2018 and March 2019, the figure was just \$33.2bn, a drop of 37pc in a year.

China is key. For the seventh consecutive year, Chinese buyers accounted for the highest dollar volumes in the US - a total of \$13.4bn, according to the National Association of Realtors.

In the wake of the US-China trade war, the strengthening dollar, the Chinese government's 2016 restrictions on dollar values leaving the country and China's slowing economic growth, the number has fallen by 56pc in 12 months.

Four years ago, it took an average of 4.6 months to sell a home in Manhattan, according to Douglas Elliman. In the third quarter of this year, the average transaction took 8.6 months. This slowdown in the market come despite the fact that American mortgage rates are nearly at a three-year low.

"The perception is prices will continue to soften," says Derderian. "Buyers are keenly aware of this and are negotiating at all levels."