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GREATER NEW YORK

Buyers Race to Beat Mansion Tax

By Josh Barbanel

BRENDAN MCDERMID/REUTERS

The decline in sales of older apartments was offset by a surge in closings of units in new condominium towers, including at the Hudson Yards development on the far West Side.

Buyers have been racing to close on purchases of expensive Manhattan homes to avoid higher taxes that take effect July 1.

Yet the surge of closings wasn't enough to offset weakening apartment sales in the second quarter, according to a Wall Street Journal analysis of city property sales.

Brokers said that both the decline in sales overall and the spurt in closings of the most expensive apartments ahead of the tax increase showed that buyers, even affluent ones, were extremely sensitive to costs and worried about paying too much.

"Rich people didn't get rich by wasting money," said Kirk Henckels, the vice chairman of brokerage Stribling & Associates, which is in the process of being acquired by Compass.

The last-minute closings helped buyers and sellers beat new transfer taxes on properties worth more than $2 million, with tax rates rising steeply for the most expensive apartments and capping out for purchases of $25 million or more. A transfer tax is a one-time payment at the time of closing.

Combined city and state transfer taxes will total 6% for properties selling for $25 million or more, up from 2.85% under existing law.

Though many of these recent sales haven't yet been filed with the city, there were already 14 sales that closed for $10 million or more for houses and apartments over a recent seven-day period, more than in any other week in at least the past two years, according to city property records.

Bruce M. Cohen, a real-estate lawyer, said that he and his partner each handled seven closings on a single day last week to meet the demand, with closings scheduled from early morning until the evening.

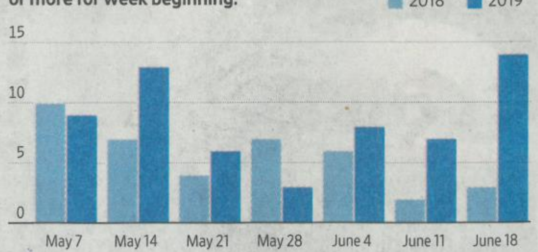
But overall sales of existing apartments fell 2.3% during the second quarter. In the same quarter in 2018, sales were down 5% from the previous period. Other measures of the strength of the market also deteriorated. Inventory rose and the number of luxury contracts signed fell. Closing prices were sold at an average discount of 9% from initial asking prices, the highest such discount in many years, said Garrett Derderian, managing director for market analysis at brokerage CORE.

Pamela Liebman, the president of Corcoran, a large Manhattan-based brokerage, said the Manhattan market was still underperforming because of the lingering effects of federal tax changes that took effect in 2018, which sharply limited the deductibility of state and local taxes.

"It was very damaging to our market, people underestimated how much New Yorkers relied on those deductions," she said.

Buyers have rushed to close on homes in Manhattan before a tax increase begins July 1.

Manhattan home sales of $10 million or more for week beginning:



Note: Sales filed by June 28 of each year
Source: WSJ analysis of city property records

Donna Olshan, a Manhattan broker who compiled statistics on the luxury market, found that the number of contracts signed for apartments listed for $4 million in the second quarter fell by 16.1% compared with the same quarter last year, to the slowest pace in seven years. Sales of apartments for less than $1 million also fell slightly, but Ms. Olshan said that there was some pickup in demand as mortgage rates fell late in the quarter.

It would take 10 months to sell the entire Manhattan apartment inventory at the current sales pace in June, up from 9.2 months in June 2018, according to inventory reports published by Halstead Real Estate and Brown Harris Stevens.

The decline in sales of older apartments was offset by a surge in closings of units in new condominium towers. These included 66 condos at One Manhattan Square, an 80-story tower near the base of the Manhattan Bridge on the Lower East Side, and 53 condos at 15 Hudson Yards, on the far West Side.

The median price of a Manhattan condominium rose 7.4% to $1.75 million in the second quarter compared with the same quarter in 2018, while the median co-op price was up 2.5% to $835,000.

Brokers were divided over whether the rush by wealthy buyers to close would translate into more sales overall, or was simply a speedup in timing of sales, leading to fewer sales in the next few quarters.

Lisa Lippman, a broker at Brown Harris Stevens, said she had seven closings last week, including one on a condo that closed only a week after her buyers got an accepted offer on a three-bedroom apartment on the West Side. "There won't be a closing for the next two or three months," she said.

Property records show that a three-bedroom penthouse on the 94th floor of 432 Park Ave. went into contract on June 20 and closed the next day. It was purchased by a living trust of Roy T. Eddleman, a biotechnology executive, for $33.5 million. By closing before July 1, the buyer and seller saved a combined total of about $1 million in taxes.

Mr. Eddleman declined to comment on the purchase. His attorney on the transaction, Sally R. Semonite, responded with an automatic email reply saying: "6/28 Out of the office in closings."

Later she added in an email: "This week insane! Contracts being signed at the closing in order to get them in and done."