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Spike in New York's luxury property sales

Tax deadline causes second-quarter surge but underlying slowdown persists



Chelsea and Meatpacking District © Artem Vorobiev/Getty Images

Nicole Douglas Morris 7 HOURS AGO



“The cover charge to enter this club just got higher,” says Constantine Valhouli, director of research at NeighborhoodX, a US property analytics firm. Manhattan is the club, and New York City’s increased “[mansion tax](#)” the new charge.

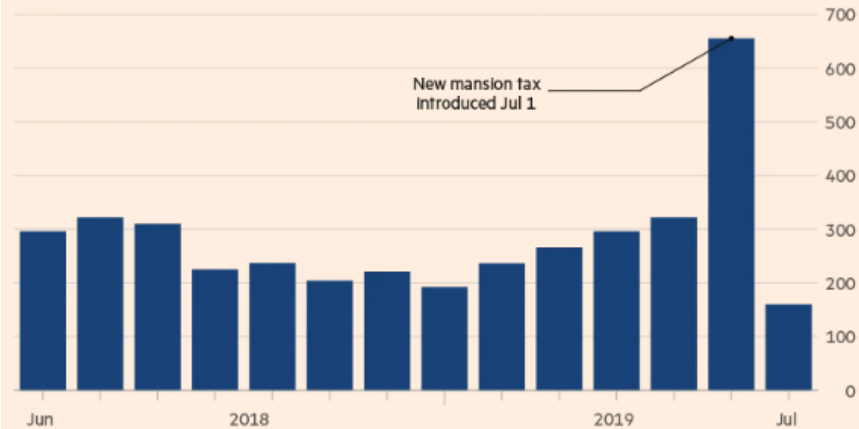
Intended to fund the renovation of New York’s creaking subway, the surcharge came into effect this July. The one-off tax starts at 1.25 per cent on homes worth more than \$2m, rising to 3.9 per cent on those sold for more than \$25m. A \$15m Manhattan property that would have previously been taxed at \$150,000 now has a liability of \$525,000.

The looming deadline caused a spike in the sale of luxury homes. According to property company Douglas Elliman, sales in the second quarter of 2019 increased 10.5 per cent year-on-year — after six consecutive quarters of decline. On properties worth between \$2m and \$5m, the agency registered a 37 per cent surge in sales. Sellers were eager to get deals through too, it seems. One 7,000 sq ft penthouse on Park Avenue was listed at \$21.9m but sold for \$17.25m.

Tamir Shemesh, a broker at Douglas Elliman, says that June's wave of activity may be a sign of a more active market for luxury homes. "There are buyers and serious sellers out there looking to transact, but at prices that make sense to both of them," he says.

Luxury property sales spike in Manhattan before mansion tax

Sales of \$2m+ homes



Source: NYC Department of Finance
© FT

Others believe the rush in sales masks the [dire state of the luxury property market](#) in New York. "High-priced homes unable to find buyers in the rush to close in June are in a difficult spot," says Grant Long, senior economist at property marketplace StreetEasy. He expects a steep drop in sales at the top of the market, "followed by lower prices as sellers begin to grasp this new reality."

In July, the number of \$2m-plus sales in Manhattan dropped back down, falling 76 per cent from one month to the next, according to new data from the NYC Department of Finance.



Townhouse near Gramercy Park, \$21.5m

Several factors have been blamed for causing the prolonged recent slowdown, including an oversupply of luxury homes, unrealistic pricing and tax changes introduced by President Donald Trump. His decision to cap the amount of state and local taxes — known as the Salt cap — that citizens can write off against their federal tax bill at \$10,000, has left some owners of high-priced homes paying greatly inflated annual property tax bills — especially in high-tax states such as New York.

However, according to some property experts, the most important factor driving the Manhattan downturn is a shortfall in foreign buyers. The dollar value of foreign-bought homes in the US fell by 36 per cent in the year to March 2019, according to a report from the National Association of Realtors. During that period, the dollar value of homes bought by the Chinese — the leading overseas property buyers in the US — fell 56 per cent.

Why the drop-off? “Uncertainty is kryptonite to a property market,” says Penny Mosgrove, chief executive of buying agents Quintessentially Estates. Unlike changes such as the Salt cap or higher mansion tax, which cause a “knee-jerk reaction and then become the norm”, the US’s deepening trade war with China is unpredictable. Increasing control over capital flight out of China has also stemmed the flow of property investment abroad, she says.

House & Home Unlocked



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A leading international property website in China, Juwai.com, reports that US property inquiries fell 28 per cent in the first quarter of this year, compared with the last quarter of 2018, while interest in Japan more than doubled. Carrie Law, Juwai.com chief executive, calls it the “Trump effect”, a result of “anti-Chinese political rhetoric” and visa processing clampdowns.

Some homes left on the market have had their prices slashed in recent years. In 2016, a five-bedroom duplex on Fifth Avenue was listed for \$30m; in March, the

price had been cut to \$19m. Since June, the home has been on the market with Compass for \$17m.

Also on Compass is a modernised two-bedroom 8,600 sq ft townhouse near Gramercy Park. The home has been on and off the market since 2017, originally at \$28.5m. The price has since been cut to \$21.5m — it is yet to find a buyer.

Buying guide

- Sellers must pay a New York State transfer tax of 0.4 per cent on properties worth up to \$3m, and 0.65 per cent on those above that. The seller also pays a New York City tax: 1 per cent on sales below \$500,000 and 1.425 per cent above
- The typical price of properties listed in Manhattan is \$1.2m, more than four times the national average
- Manhattan apartments largely fall into two categories: co-ops and condos. Condo owners own the property outright while buyers of co-ops purchase a share in the corporation that owns the building

What you can buy for . . .

\$600,000 A one-bedroom apartment in Midtown East

\$2m A three-bedroom loft with a patio on the Upper East Side

\$22m A six-bedroom townhouse in Greenwich Village

Additional reporting by Ido Vock

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