Spike in New York’s prime property sales masks an uncertain market

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“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.

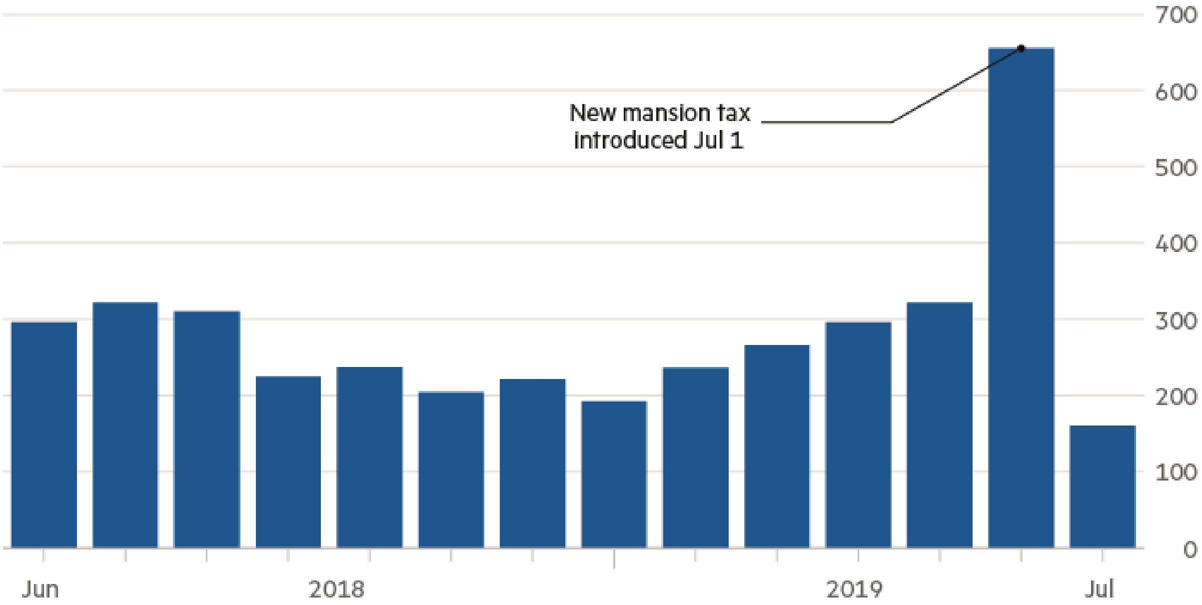
Intended to fund the renovation of New York’s creaking subway, the surcharge came into effect this July. The one-off tax starts at 1.25 per cent on homes worth more than $2m, rising to 3.9 per cent on those sold for more than $25m. A $15m Manhattan property that would have previously been taxed at $150,000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

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.

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.