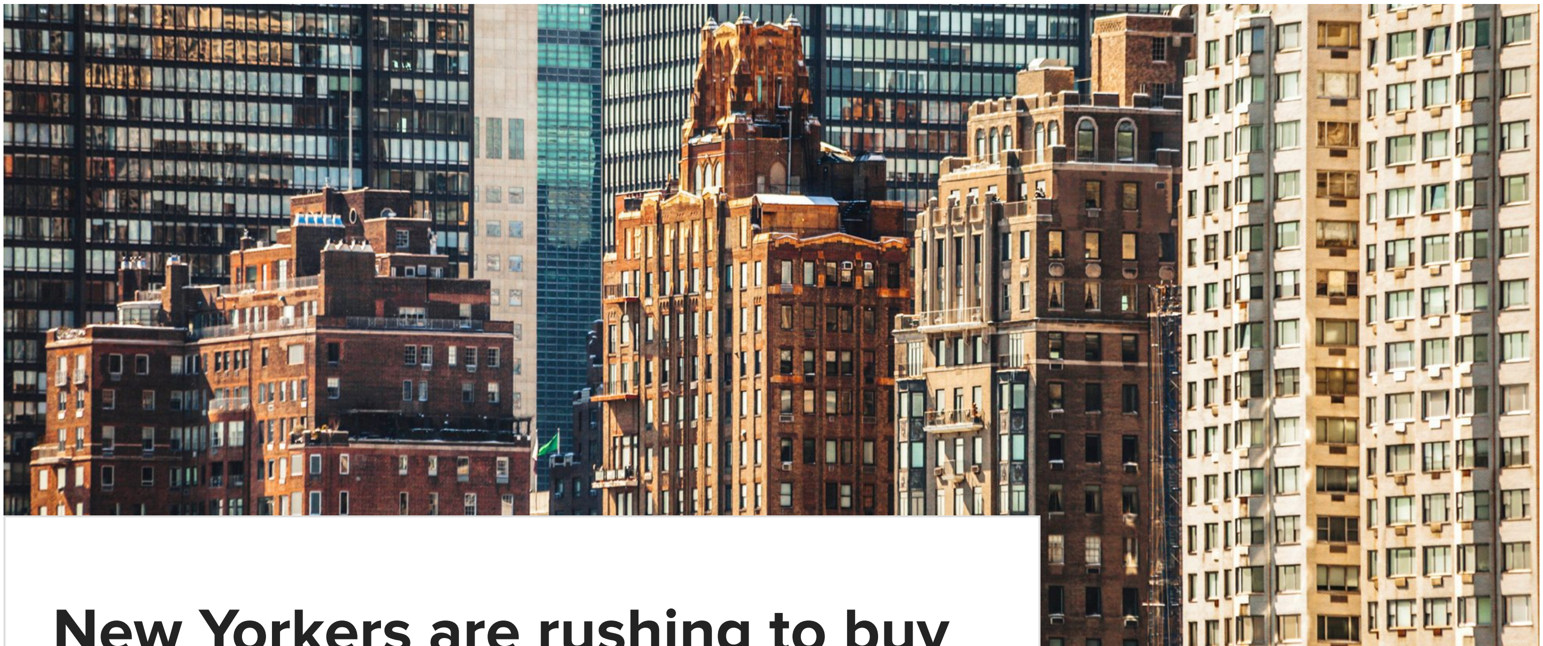


New Yorkers are rushing to buy before July 1 'mansion tax' kicks in

The Big Apple's long-standing tax will soon become significantly more expensive for high-end properties

Back to top

k City on Realtor.com this week is a $88 million. For that massive price tag, some extraordinarily well-heeled buyer will get a grand ballroom, a home theater, a two-story wood-paneled library and what looks like an entire mountain's worth of marble.

But if that buyer waits until after July 1 of this year to snatch the property up, he or she will also get something else: a much higher tax bill.

The higher bill will come courtesy of New York's so-called "mansion tax," which charges buyers extra for properties over $1 million. Though the tax, which is paid at closing, has been around for decades, New York lawmakers tweaked it this spring to make it more progressive. Now, buyers of $1 million homes will still pay a 1 percent tax but the rate rises for higher end properties. For homes over $3 million, for example, buyers will face a 1.75 percent fee, including a higher transfer tax. Properties over $5 million will face a 2.5 percent tax, and so on. The rate tops out at 4.15 percent for properties over $25 million.

(The tax only applies in New York City, not the rest of the state, and is being used to raise funds for mass transit projects.)

So, the eventual buyer of that $88 million townhouse, then, could be facing a staggering tax of nearly $3.7 million.

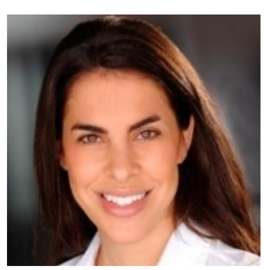
Unsurprisingly, agents in New York City told Inman that their clients are racing to close deals before the tax goes into effect on July 1.

Leonard Steinberg

“Buyers on the very high end especially are indeed rushing to close before July 1,” Leonard Steinberg, a Compass agent in New York City, told Inman. “It’s worth hundreds of thousands of dollars.”

Steinberg currently has numerous high-end listings that will be impacted by the mansion tax, assuming they sell after July 1. He described the people looking at these kinds of properties as “rushed,” but added that one upside is that the impending deadline is creating a sense of urgency — which the luxury market in New York had previously been lacking.

“I am seeing buyers who have been on the fence for months/years stepping in now,” he said.



Maria Daou of Warburg Realty described something similar, saying that she too is seeing a “sense of urgency” among clients. Daou mentioned one property in particular, a $7.5 million apartment in a new development, that a client is actively working to close before the tax goes in effect. Doing so, Daou said, will save the client $100,000.

Maria Daou

Daou said there is still time for buyers to close on properties before July 1, but added that "both buyers and developers are keenly aware of this right now since there is still a small window left."

"I think in the $5 million and up price point, that extra 1.25 percent starts to really add up since there are so many other closing costs for new developments," she also noted.

Other agents are already preparing for what might happen if contracts do drag out beyond the July cutoff. Martin Eiden, an agent at Compass, described some anxiety among clients wanting to wrap up deals before July and said that he foresees "some renegotiations happening if the closing is delayed and by whom."

The comment alludes to the sense that, while closing in time still remains possible, the clock is ticking — a point made by many of the agents who spoke to Inman for this story.


Dex Lipovic

Dex Lipovic, also at Compass, is thinking tax strategies as well. He told Inman that he recently submitted an offer for clients who want to buy a property listed at more than $3 million. In the offer, Lipovic specifically included language "to ensure that we close by June 15th so that we have at least a 2-week grace period to avoid the new mansion tax implementation date."

"If this particular deal were to choose after July 1," Lipovic explained, "then the buyer would be liable for an additional 0.5 percent tax at closing so time is of the essence to avoid it."

Beyond that particular case, Lipovic said that he has discussed the mansion tax with other clients as well and they have "definitely expressed that they want to close before July."

Other agents are using the mansion tax as an opportunity. Daou, for example, said some of her colleagues have played up the prospect of higher costs in their email and marketing materials, encouraging clients to close before they have to pay extra.

Noah Kaplan, an agent with Nest Seekers International, went even further, creating an informational rap video titled "Beat the Tax."

Beat The Tax (Final)
from **Noah Kaplan**

01:28

Kaplan, who is also a musician, told Inman that he made the video because he felt like not enough people were aware of the upcoming tax.

“I’m just basically highlighting something that’s real that’s actually pertinent,” he said.


Deanna Kory

Agents who spoke with Inman also said the impacts of the looming mansion tax vary by price point and neighborhood. Deanna Kory, a team leader and agent at Corcoran, told Inman that April was a busy month for her and that she had multiple bidding wars for properties in the $10 million to $15 million range.

That happened, she added, “because all of a sudden people have woken up and said, ‘we want to do it.’”

That’s a price range where buyers are uniquely poised to feel the impacts of the tax because it will be significant — it could be up to half a million dollars on some properties — but buyers are still going to be somewhat cost conscious (which is presumably less the case for the kind of people looking at that $88 million townhouse).

Kory also said that the tax is having something of a positive impact by jump starting parts of the high-end market.

“There were apartments sitting for a long while and now all of a sudden they’re gone,” she added.

Of course, not every property in New York City is affected by the tax, and despite the region’s reputation there are still some affordable neighborhoods. Patrick Smith, of Corcoran, pointed to places like Long Island City and Harlem, saying that those areas do have listings under $1 million, and that it has been a busy spring for real estate in those areas.

Smith said it is still too early to tell if the mansion tax will drive demand for properties that fall just under the threshold.

Smith also said that the New York City market appears to have greater stability now, with the details of the mansion tax fleshed out, than when lawmakers were still debating what they were going to do and were considering a second home fee that would have been even more onerous.

In any case, Smith concluded that higher end properties in New York will continue to sell going forward even with the mansion tax in place. But the key will be agents who understand the market and can price their listings correctly.

“As much PR as these topics get,” Smith said, referring to rising taxes, “what it comes down to is price at all levels.”

Correction: Patrick Smith recently joined Corcoran. This post initially mis-identified him as being affiliated with Stribling and Associates, which he recently left.

Email Jim Dalrymple II

Article image credited to Peeter Viisimaa / iStock.com