

NEW YORK

# That New York Condo Just Got a Lot More Expensive

Apartment buyers in New York are pausing to figure out how the new tax law will affect ownership costs



Developments in the Hudson Yards neighborhood of New York tower over existing properties in October. Apartment shoppers in Manhattan are taking a pause after the new tax law. PHOTO: RICHARD B. LEVINE/ZUMA PRESS

By Josh Barbanel

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Apartment shoppers in Manhattan are taking a pause after a federal tax overhaul removed some key incentives for homeownership, brokers say.

After four consecutive months of increases, the number of contracts signed in December declined both for new condo buildings and older co-ops and condos.

Overall the number of contracts signed in December, the month the tax overhaul was finalized, declined 12% from the same month in 2016, according to real-estate listing and data site UrbanDigs.com.

Brokers said it was too soon to tell whether the pullback is temporary or may be the beginning of a reassessment of the value of homeownership in light of higher after-tax ownership costs.

“I think it is all psychological,” said Noah Rosenblatt, a broker and founder of Urban Digs.

“Buyers are talking to their CPAs and figuring out their negotiating strategies. Everything has slowed down.”

Mr. Rosenblatt said he wondered whether the sales slowdown might provide an opportunity for buyers to scoop up properties at low prices.

The new tax law, signed by President Donald Trump on Dec. 22, lowers tax rates, but limits the deduction for state and local taxes, including property taxes, to \$10,000. It also caps deductions for interest to the first \$750,000 of new mortgages.

The limitation on state and local tax deductions hits hardest in states like New York, New Jersey and Massachusetts, where state and local taxes—and the deductions for those taxes—are higher.

In Manhattan, the higher ownership costs might hit new condo developers, who could face more competition and buyers demanding price cuts and other concessions.

In December, contracts signed on new development units declined 11%, according to the UrbanDigs data.



Contracts on new-development units slipped in December. PHOTO: DREW ANGERER/GETTY IMAGES

Leonard Steinberg, the president of real-estate brokerage Compass, said new condos typically have much higher taxes than older buildings in the same neighborhoods, under rules the city uses to value new construction.

“People will start to look a lot closer at the monthly costs of their tax bill,” he said. “Recently, we have seen a really almost outrageously disproportionate tax burden

placed upon new buildings.”

The impact on buyers was underscored last week when the New York state attorney general ordered revisions to hundreds of condominium plans, to make sure they reflect changes in the federal tax code.

“Many offering plans now contain potentially inaccurate tax information and projections due to recent changes to the Internal Revenue Code,” the attorney general’s real-estate finance bureau said.

All new plans and plans that are pending approval will need to be revised before they can move forward, under the guidance distributed to condominium lawyers on Thursday. Last year, more than 400 new plans were filed.

Older plans will have to include a disclaimer in future filings warning that the tax information disclosed in the plans may be inaccurate, the state said. One condo lawyer estimated there are between 1,000 and 2,000 such plans still active.

Condo plans typically include a formal legal opinion from a tax lawyer about potential tax benefits, but these opinions also include warnings that deductions can vary from year to year.

Warren Gleicher, a partner at Olshan Frome Wolosky LLP, said his firm has been revising the language in several plans on behalf of developers. The new tax provision has caused worry among developers, he said, since most buyers of expensive apartments have more than \$10,000 in state and local taxes.

“I’ve had clients call me, and they are very concerned about it in New York, especially the loss of property-tax deductions,” he said.

Several condo lawyers, however, said they were unaware of a single case so far in which a buyer in contract asked to back out of a deal because of the tax law changes.

Some lawyers worried they would have to change plans once again if New York Gov. Andrew Cuomo succeeds in developing a plan in which state and local taxes would be deductible, perhaps as payroll taxes or charitable donations.

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