THE REAL DEAL NEW YORK CITY REAL ESTATE NEWS

Pied-à-terre tax would go "a long way toward killing the market," resi brokerage execs warn

Proponents of tax say it could raise $665M a year, and help fix crumbling infrastructure

By E.B. Solomont | March 18, 2019 07:00AM

Clockwise from top left: Douglas Elliman's Steven James, Warburg Realty's Frederick Peters, Stribling & Associates' Elizabeth Ann Stribling-Kivlan, and Brown Harris Stevens' Hall Willkie (Credit: iStock)

With momentum building for a pied-à-terre tax in the upcoming state budget, the city's residential brokerage chiefs are warning that the fee on second homes would harm an already-shaky luxury market.

In particular, they predicted that the tax would have a chilling effect on the new development market, which has attracted a disproportionate number of investors and second-home buyers, including foreign buyers.

"It seems some people who are for this think people are coming here, contributing nothing to the city and parking money," said Hall Willkie, president of Brown Harris Stevens. "When those people are here — whether for one month or six months — I honestly think they spend more in a day than the average New Yorker spends in a month. To scare them off is just not smart."

Proponents of the tax say it could generate $665 million a year, and that money could be used as leverage to sell $9 billion in bonds to fund the city's crumbling infrastructure. Earlier this month, Gov. Andrew Cuomo called it the "only agreed-to new money" to fund such repairs.

“It’s not an easy solution, [but] to shove the burden on real estate seems unfair,” said Steven James, Douglas Elliman’s president of New York. He argued that high-net worth individuals spend significantly when they’re in town.

“Maybe they only come in a couple times a year, but they pay taxes, they go to restaurants, they buy art, they go to charity benefits.” If a pied-à-terre tax were enacted, he argued, “All that would come to a screeching halt.”

Those ripples extend beyond theater, restaurants and shopping, brokerage executives argued.

There are construction crews hired to build condominiums; agents who sell units; concierges who work behind front desks. They’d all take a hit.

“There’s a whole infrastructure around real estate,” said Elizabeth Ann Stribling-Kivlan, president of Stribling & Associates.

If New York taxes pied-à-terre buyers, she argued, those buyers are apt to spend less time in the city or stay in a hotel during their visits because even the ultra-wealthy don’t want to feel they’re overspending. “No matter how rich you are, you do want to be liquid,” she said.

The prosed tax also comes at a time when some brokers say they are under siege: A proposed bill in the New York City Council would cap rental fees. Meanwhile, issues like rent regulation and prevailing wages for construction workers are up in the air.

“I can’t think of a better way to throw a huge wet blanket over an industry than to do all these things at once,” said John Banks, president of the Real Estate Board of New York. “It’s easy right now to vilify out of state owners of high-end real estate.”

Willkie and others emphasized that pied-à-terre buyers already pay real estate and transfer taxes; that revenue would be at risk if an additional levy turned investors away.

Citadel founder Ken Griffin — whose $238 million quadplex at 220 Central Park South bolstered renewed calls for a pied-à-terre tax — paid nearly $6.8 million in taxes on the property. That included a $3.4 million New York City real property tax plus a $3.4 million New York State real estate transfer tax, according to the deed. (And that doesn’t include the city’s 1 percent mansion tax.)

“Just the sales tax on that apartment are enormous. Do we want to say ‘Get out of here?’” Willkie said. “That’s the last thing we want.”

It’s hard to know precisely how many pieds-à-terre exist in New York City. In 2017 the city estimated there were 75,000, up from 55,000 in 2014.

One brokerage executive estimated that one-third of his firm’s business involves second-home purchases or pieds-à-terre. Already this year compared to last, buyers signed 20 percent fewer contracts for properties $4 million and up, according to data from Olshan Realty.

Warburg Realty CEO Frederick Peters said he's not opposed to the idea of a pied-à-terre tax — so long as it's a "reasonable" amount. "What I think is a terrible idea is the idea that you annualize it," he said. "If you make it a one-time tax, then it just ends up getting built into the sales price and prices adjust."

"As proposed," he said, "it really goes a long way toward killing the market."

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