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Real Estate Spring Buying Season Could Be 'Catastrophic'

A strong start to the year for property sales in Manhattan was erased by the coronavirus outbreak.

The real estate market in New York had been rebounding, until the pandemic effectively halted sales.Credit...Stefano Ukmar for The New York Times

In spite of market headwinds, overpriced apartments and legislative obstacles, New York's residential real estate market was on an improbable upward swing for most of the first quarter.

Then the coronavirus struck, stopping the rebound in its tracks. Now, the pandemic threatens to do the same in real estate markets nationwide during the peak of buying season.

What happened in the first two months of the year no longer matters, said Jonathan J. Miller, the president of Miller Samuel Real Estate Appraisers & Consultants. "All that matters to the housing market is what happens next."

New York State's stay-at-home order, and similar restrictions elsewhere, had effectively banned open houses and in-person property showings, and "most people are not going to make a big purchase without seeing it," said Frederick Warburg Peters, the chief executive of Warburg Realty. Depending on the duration of the outbreak, he said, the number of new contracts in New York could drop by more than 70 percent in the second quarter, compared with the same period last year.

The number of sales in Manhattan in the first quarter actually jumped 13.5 percent, compared with the same period last year, to 2,407 from 2,121, according to data from the brokerage firm Douglas Elliman.

This was only the second time in two and a half years that sales have risen compared with the same period the previous year, said Mr. Miller, the author of the report.

The median sales price was $1,060,000, down just 1.4 percent from the same time last year, suggesting the market was close to turning the corner, as previous price declines had been higher. The average listing discount was 7.2 percent, the highest it had been since 2012, which suggested that sellers were finally getting serious about negotiating, Mr. Miller said.

There were 1,231 contracts signed in February, the most for that month in a decade, and a sign that buying would continue to be robust, said Garrett Derderian, the managing director of market analysis at CORE, another brokerage firm.

But in March, after the Federal Reserve cut interest rates close to zero, and Gov. Andrew M. Cuomo of New York issued a stay-at-home order in response to the virus, early indicators suggest that momentum has ground to a halt.

“We find ourselves with little to no empirical evidence of what’s happening,” said Mr. Miller, because the virus outbreak became a factor so late in March. “I don’t have a sense, other than it’s going to be catastrophic.”

Contracts and closings can lag the reality of the market by several weeks or months as paperwork makes its way through the system, but there are already some signals of decline.

At the end of March, there were 5,801 active listings for sale in Manhattan, down 15.3 percent from the same period last year, said Noah Rosenblatt, the chief executive and founder of UrbanDigs, a real estate data company. And 1,159 listings were taken off the market, compared with just 417 the same time last year.

One of the biggest obstacles for the real estate market will be trying to sell apartments under virtual lockdown. Real estate agents in New York had been deemed nonessential workers, so in-person showings were effectively banned, although new guidance from the Cuomo will now allow showings and some back-office real estate functions to continue. And few apartment buildings are allowing visitors or move-ins. Even if buyers agree to purchase a home sight unseen, many of the steps toward closing remain stubbornly analog, in spite of efforts to incorporate video calls and other technology into the process.

Before the pandemic, “2020 would have been a very strong recovery year for us,” said Diane Ramirez, the chief executive of Halstead, a real estate brokerage firm. “I can’t even begin to think of what it will be like now.”

The luxury market, which is in a yearslong price correction, could be further affected. Last week, only two properties in Manhattan went into contract at $4 million or more, the lowest weekly sales rate since August 2009, during the last recession, said Donna Olshan, the president of Olshan Realty. In the last week of March 2019, 21 contracts at or above that price were signed.

“Anything left on the market now, the price is just a suggestion,” she said, noting that sellers already in contract, as well as new buyers, are pushing for more aggressive price cuts.

After the Sept. 11 terrorist attacks and the fall of Lehman Brothers in 2008, sale prices fell 25 to 35 percent, said Mr. Miller. It’s unclear where prices will end up, but they have been sliding since the market peaked around 2015, he said.

The market’s resurgence, before the coronavirus outbreak, was hard won. In 2018, new caps on state, local and property tax deductions disproportionately affected high-price markets like New York, and a series of tax changes in 2019, including increased transfer taxes for luxury apartments, further stalled the market. New tenant-friendly rent laws passed last summer, the possibility of new taxes on pieds-à-terre and growing fears of a recession were cause for more belt-tightening, agents said.

Much of the impact will depend on how quickly the city recovers from the pandemic, with some agents hoping that pent-up demand from months of lockdown will carry into the fall and winter, which are typically slower sales seasons.

With much of the city cooped up indoors for at least the next several weeks, there is some hope of buyer demand surging when the mandate is lifted, Ms. Ramirez said.

“I thought I had a great apartment before,” she said, “But I’m telling you, now I’m looking for what I can change.”