



## **More bitter than sweet: Anti-landlord rent reforms will drive property tax reductions - by David Wilkes and Kevin Clyne**

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Property value is in part a function of the law, which places constraints upon a property's size, use, and permissible operation. Sometimes, the law goes so far as to unabashedly regulate how much income a property can generate. This was never more evident than the firestorm that followed the recent package of sweeping and permanent tenant reforms and rent regulations passed by the

NYS legislature and quickly signed by governor Cuomo – making evictions more challenging for owners and eliminating most opportunities for rental increases, as well as the so-called “vacancy bonus.” This will disincentivize landlords from investing in their properties, as these expenditures will not be able to be recouped from previously allowable major capital and individual apartment improvement allowances. Lower profitability and deteriorating condition inevitably mean lower values for multifamily properties.

One looming and mostly overlooked result will be, and should be, the presumed reduction in the property tax burden levied upon many apartment buildings throughout NYS, including the more than one million regulated units in NYC. The tax base is directly and inextricably tied to real estate value.

Evidence has already begun to show a shift among investors’ appetite for multifamily properties. Local banks focused on multifamily lending already experienced drops in their share prices following approval of the rent bill. This impact will intensify over the next several years as profit slows and ultimately reverses, while property conditions continue to deteriorate.

Notably, most low and moderate-income tenants live in older buildings that present the greatest need for upgrades of their antiquated systems. Further, a disproportionate number of units are owned by smaller investors with tighter margins. The premise that this only impacts large real estate entities is inherently incorrect. In the wake of the new laws, investors will assume a higher capitalization rate to account for diminished returns and minimal potential increases year after year. The value decreases will become evident over the next few years.

However, property taxes will continue to rise because assessors are unlikely to act swiftly to reduce values to match the market. Headlines about the rent laws are unlikely to prompt many assessors to quickly reduce their valuations, but as the data becomes available, the impacts will become undeniable, whether to assessors or those who review their determinations.

Multifamily apartment buildings have for years been viewed by assessors as a solidly low-risk, high-value asset class. This was true, as apartments were recently among the most attractive landing pads for real estate capital as money drained from retail bricks and mortar. However, multifamily has suddenly become a high-risk prospect. A seller’s market has shifted, virtually overnight, to a buyer’s market. Assessors do not pivot that quickly.

These laws represent an existential threat to the multifamily real estate industry in NYS. Recent lawsuits brought in federal court in Brooklyn based on a theory that these regulations constitute takings without fair and just compensation are expected to wind their way all the way to the U.S. supreme court and its new conservative majority. The court likely expedited that route when they determined recently that takings cases can be commenced directly in federal court. The stakes are enormous for all involved and the fight seems joined.

It has been suggested that real estate investment trusts, private equity firms, and pension funds may view the new restrictions as an opportunity to swoop in and buy distressed properties from struggling owners. That opportunity is borne directly from the distress that rent and value drops will

cause. There is little to cheer about for landlords this summer, but reduced property taxes may ultimately offer a bittersweet salve. More bitter than sweet, no doubt.

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