Long Island commercial real estate tax forecast - by Douglas Atkins and Robert Renda

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As Long Island business and property owners continue to grapple with the impact of COVID-19, the coming months will be a bellwether for the commercial real estate market and its heavy property tax burden. In this article, we will discuss various events and trends which are unfolding across the Long Island property tax landscape.

Nassau County 2020/21 School Tax Bills, the First to be Based on County's Reassessment

From tax year 2011/12 through 2019/20, real estate tax assessments were based on a so-called “frozen roll” in Nassau County. While real estate tax assessments were subject to change as a result of assessment challenges, as well as the construction and destruction of improvements, Nassau County did not update property tax assessments to reflect the ebb and flow of the real estate market. This practice came to an end in 2018 when Nassau County began the process of the first county-wide reassessment in nearly a decade.

For commercial property owners, this reassessment, which was years in the making, has been clouded with uncertainty. While the county did promulgate tax impact notices that purported to show a property’s estimated taxes under the reassessment, the figures were based on tax rates from two years prior. Additionally, many notices contained errors. In October, at least a portion of that uncertainty will fade away when property owners receive the 2020/21 school tax bills, which will be the first based on the reassessment. Although these tax bills will serve as a good indicator of the general impact of the reassessment, its full impact will not be felt for years as increases in assessment must be “phased-in” over a five-year period.

Real Estate Tax Relief is Likely Not Imminent

While the Long Island economy is still very much in the process of reopening and many businesses are struggling to stay afloat, real estate taxes continue to come due. In both Nassau and Suffolk Counties, pursuant to law, real estate taxes due in late 2020 and early 2021 are based on property values from 2019, a time unaffected by COVID-19. As a result, even though the value of commercial real estate may have taken a significant hit during 2020, this decrease in value will not be reflected on real estate tax bills until late 2021, and in some cases, 2022.

The Federal Government’s Impact on Real Estate Taxes

Perhaps the most significant player in local property taxes in the near future will be the Federal Government. It is well chronicled that municipalities are desperate for funding. The desperation is due in part to a significant downturn in sales tax revenue resulting from COVID-19-related economic shutdowns. Given the loss of revenue to local governments, there will be significant shortfalls in the funding for many municipal services. Commercial property owners will be forced to make up that shortfall unless the Federal Government steps in and provides emergency funding to local governments. As a result, what the Federal Government does (or does not do) with respect to additional stimulus and COVID-19 relief in the coming months, will have a significant impact on our local governments and correspondingly, property taxes.

Uncertainty: The Changing Landscape of Retail and Office Real Estate Markets

The suburbs of New York City were developed after World War II, and for these communities, the commercial jewel was downtown retail-pharmacies, coffee shops, clothing stores, etc. Beginning in the 1970s, downtown retail suffered as shopping malls began to rise. Fast forward to the 2010s, where brick & mortar retail ceded tremendous ground to online shopping, led by the dominance of

Amazon. Now in the midst of a pandemic, retail real estate continues to erode. Shopping malls have seen gaping holes from vacancies of old stalwarts like Sears and JC Penney. Further, this year has seen notable retail bankruptcy filings by the likes of Modell's and Neiman Marcus. It remains to be seen what retail real estate will look like in 2021, but the outlook is bleak.

The office real estate market is also in uncharted territory. From 2008 until 2020, office rents were either stable or increasing. Since the country has shifted to working remotely during the pandemic, demand for office space in some markets is likely to be trending downward.

If retail and office real estate decline, their portion of the tax base will also shrink, leaving other segments to absorb the ever-increasing tax levies. This will negatively affect other real estate segments: Industrial, medical and even residential real estate.

Conclusion: Real Estate Markets and Tax in Flux

It is an understatement to say that COVID-19 has been a major real estate disrupter and the future of the market is uncertain. Commercial property owners should prepare for unstable times and take every possible step to ensure they are protected. This includes paying careful attention to all real estate tax bills and assessment notices.

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