New York City property tax assessments - by Peter Blond

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The January 18th release of the 2022/23 New York City real estate tax assessment roll provided property owners with a new-found layer of pessimism. To the chagrin of many property owners, assessments are not only up, but up substantially in many instances. The city's own press release indicates that the aggregate assessed value of class 4 commercial properties increased by 10%. The same report reveals the aggregate assessed value of class 2 residential properties is up 7.2%. Many assessments increased in as stunning a fashion as they plummeted by a year ago. Even some cooperatives received actual assessment increases in excess of 30%.

With so many properties experiencing a rubber band like snapback to their assessed value and corresponding taxes, a real estate recovery in many areas of the city may prove more difficult than recently anticipated. The NYC Department of Finance (DOF) had little choice a year ago and guesstimated the economic distress level for the entire city, as DOF only possessed 2019 income and expense performance data. Similarly, as the city only had 2020 fiscal data with which to determine appropriate assessed valuations for 2022/23, many properties will have wildly incorrect ascribed values depending on the differences for each property from 2020 to 2021.

The annual Notice of Property Value (NOPV) provides details as to your property's inventory (e.g., square footage, age and number of stories). Just as important, it discloses the city's estimate of your income and expenses utilized in valuing the property. To enhance transparency, the NOPV usually itemizes each financial factor considered including gross income, expenses, net operating income (NOI), base cap rate and overall cap rate. NOPV are mailed by the DOF in mid- to late-January and are simultaneously available on their website. The release of the new assessments opened the 2022/23 real estate tax protest filing period, which closes - for most NYC properties – on March 1st, 2022. These new assessments will impact NYC tax bills starting July 1st, 2022.

Taxpayer patience and trust continue to deteriorate because the income and expense approach to value is frequently more art than science. This phenomenon worsens during times of economic distress and a bureaucratic agency constrained by dated information only exacerbates the taxpayer's concerns. Assessors use your property's cash flow as well as comparable properties to arrive at a projected revenue stream. As NYC isn't obliged to assessing and taxing what you in fact collect from tenants, this counterintuitive inequity mystifies and angers taxpayers who review their annual notices expecting the figures to match their RPIE, which were filed as legally required.

Magnifying NYC's imprecise and unjust method are the gaffes, by the city, which are habitually made as to some properties size or use. Timely review of your annual NOPV is critical, because not recognizing discrepancies before March 1st means no assessment protest. Property owners initially detect the adverse change when they receive the tax bill due July 1st or at an even later point in time when annual escrow statements arrive. In either case, it is almost always subsequent to the March 1st protest deadline, leaving taxpayers with no legal recourse.

Blindly acquiescing to the city's valuation estimate can prove a lasting error. First, any increase to your actual assessment is phased in over a five-year period to your transitional assessment. Accordingly, by failing to protest a very large increase, you have effectively locked in four more years of a rising tide. Second, if the assessment increase was premised on alteration work, the increase will be felt faster (no phase in) and correcting the matter down the road may prove extremely difficult if not impossible.

Even in some instances where actual collections and expenses match the NOPV exactly, it is still possible that you are over-assessed. For example, NYC occasionally considers collections as triple net, even though no single tenant is liable for 100% of the real estate taxes. Erroneous triple net treatment by the city DOF commonly leads to an over-assessment. A timelier example, in light of the pandemic environment, is a property that was barely holding on but perhaps finally lost a major tenant subsequent to filing the RPIE by June 2021. In that example, disputing the assessment and clearly demonstrating a distressed situation as of January 5th (taxable status date)—despite 2021 performance—can bolster the case for a reduction.

As I anticipated, NYC had little choice but to increase assessed values overall or risk facing a multi-billion dollar shortfall without the Federal government adequately positioned financially. Make certain all of your property tax assessments receive review by a licensed professional before March 1st instead of generously filling NYC’s fiscal chasm instead.

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