Don’t assume your real estate taxes drop immediately following an income stream change - by Peter Blond

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The age of entitlement has seemingly infected the real estate industry as of late with a “this can’t be the case” attitude not seen since the days leading up to the financial collapse of 2008. Just today I spent a valuable amount of time patiently explaining to someone that I can’t prove their property is worth less than $1.275 million. Bear in mind the property in question was developed roughly 15 years ago by the caller at a total cost of $1.5 million. How many residential projects do you know of that lost money over the last 15 years?! What if I told you the builder also benefitted from the 421a program for an equal period? Expectations can be a tricky thing, especially in the New York City real estate landscape.

Obviously, the above example is a small-scale deal by a relatively inexperienced developer. Yet, other recent calls from large, experienced investors include comments like “my taxes are higher than ever” while in fact the taxes are frequently back to the pre-Covid level of the 2020/21 New York City tax year. How quickly many property owners have conveniently forgotten their 2021/22 NYC assessments and corresponding real estate taxes fell – precipitously in some instances - due to the pandemic’s impact on both actual and potential rent collections.

What these panicked calls tell me, particularly from the more “mom & pop” or family held portfolios, is we are just beginning what may be another painful period locally. There are continued intrusions on real estate bastions at all levels of government. On the Federal frontier, the very popular 1031 remains under fire. In New York State, long-standing programs such as the 421a continue to sunset. With history as a guide, should the 421a phoenix return, it will be with greatly reduced benefits and more stringent than ever with respect to eligibility.

Prominent “blue” state representatives continue to push for restoration of the classic “SALT” deductions, but the likelihood is we will not see the full restoration of such historically valuable tax breaks. The City Council continues to propose myriad anti-landlord regulations. Many property owners believe the system is designed as a money grab first, and an Orwellian big brother is watching operating as a close second. It’s particularly frustrating when so many property owners called to complain about the August 1st rent roll update for the RPIE. The City Council continues to push their new regulations without providing sufficient online support or phone assistance for property owners or their paid representative.

Real estate investors of all types prefer stability and predictability over just about everything else. Considering the FBI just raided the immediate past-President’s “home” while prosecutorial recalls, suspensions and outright removals continue, suggest social instability is unlikely to dissipate anytime soon. Accordingly, it’s not surprising the economic climate is evidently teetering globally and locally. With borrowing constrained by higher rates and institutional as well as public fears of a recession, there is for most concerned no long-er cheap money available to carry a struggling or failed investment.

Inflationary pressures may boost your asset value, as many investors have sought comfort in real estate during historically similar economic periods. On the other hand, sneaking out stage right—at best—from a pandemic is not the typical historical comparable to utilize in addition to the overall economic concerns regardless of their origins.

I have often preached to clients and potential clients about the perils of proceeding with any deal in which the real estate taxes are the chief economic concern in determining viability (a/k/a profitability). Even for unflinching investors, why jump into an unknowingly deep pool before asking the lifeguard standing there? It never ceases to amaze me how many millions of dollars people are willing to risk in a deal where no principals requisitioned a real estate tax opinion on anticipated liabilities following a purchase, new construction, etc.

Nothing pains professionals more than having to explain to a potential client that had you inquired originally, we could have forecast this potential outcome. As an example, Client X contacted us to discuss a potential deal. City records reflect the property referenced by Client X previously received an income stream in the range of $2,000,000, at apex, prior to COVID. The subject property is vacant at present and market speculation suggests best case scenario base rent of roughly $600,000 in the current marketplace. Current real estate taxes are approximately $600,000 in this example. Barring a fire sale, why would any prudent buyer wish to take this gamble, with or without overage provisions? Until the city recognizes new potential rent realities in certain sectors and neighborhoods, many spaces may remain empty. Landlords and their professionals on retainer should automatically be communicating all vacancies and new rental deals to their hired certiorari professionals without invitation.

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