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Notice of Property Value: New York City's new real estate property tax assessments

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It's anyone's guess as to whether snow will arrive in January. There is no doubt new real property tax assessments will arrive in January, at least for New York City. Equally as guess worthy, however, is what that new assessment will be. For many people, understanding how the municipality arrived at that magical and increasingly important figure is the much more difficult exercise.

In New York City, it begins with your annual January 15th Notice of Property Value. The notices are typically mailed by the New York City Department of Finance in mid to late January and are available on the NYC DOF website. The release of the new assessments opens the real estate tax protest filing period which closes for most properties on March 1st. These new assessments will affect tax bills as of July 1st.

Despite many improvements in the last several years by the City Department of Finance, notices can still be less than transparent. For example, your Notice of Property Value continues to highlight market value as a meaningful indicator as to the appropriateness of the assessment for your property. In reality, the city's indicated market value means very little. To avoid a hyper-technical discussion as to why, suffice it to say the city has utilized the same 45% equalization rate for several decades. Reliance on that extremely dated rate has left imputed market values at unrealistically low levels for many years. As a result, an unwitting taxpayer reads the notice and concludes a protest would be futile, as the property is worth much more than indicated. After all, if you believe your property is worth $10 million and the listed market value on the notice is $5 million, you may not investigate the fairness of the assessment.

The Notice of Property Value also contains detailed information as to your property's description, such as the s/f, year of construction and number of stories. It also reveals the city's blueprint for your magic number via the income and expense approach to value. In pursuit of transparency, the notice even itemizes the financial factors considered in arriving at your assessed value. These factors include gross income, expenses, Net Operating Income (NOI), base cap rate and overall cap rate.

The income and expense approach to value can frequently prove more art than science. By focusing on your property's cash flow, in addition to those of your "competitors," the City Department of Finance estimates the income and expenses that it attributes to your property. In other words, the city isn't limited to assessing and taxing what you in fact collected from tenants. This issue continues to confound taxpayers who review their annual notices. Many presume the figures should match their RPIE, or tax return, which were filed as legally required. Mass appraisal has only weak resemblance to that type of formulaic system.

While a property owner is familiar with their own bottom line, most have only limited information as to comparable properties used by the city. Predictably, the city tends to use comparable properties which collect the highest rent in the neighborhood. This approach overlooks two important issues; first, not every property can obtain an institutional, anchor type tenant; and second, the city's apparent inability to identify distinguishing characteristics between properties. Should a mid-block, side-street, 1,500 s/f taxpayer be compared to the building on the corner with 10,000 s/f and Starbucks as the tenant?

Exacerbating this inexact and inequitable process are the errors, by the city, which are frequently made as to a property's size or use. Review of your annual notices is critical, because not catching a problem before March 1st means no assessment protest. Many property owners first realize the change in circumstances when the tax bill due July 1st is received in June. For other owners, they learn of the big increase when fall escrow statements from their lenders arrive with irrevocable consequences, as there is no longer an opportunity to challenge the municipality's assessment.

By the same token, blindly accepting the Notice of Property Value as to the "estimated" income and expenses can prove costly. Even if your actual collections and expenses match the notice identically, it is still possible that you are over-assessed. For instance, there are times where the city treats collections as triple net, even though the tenant is not responsible for 100% of the real estate taxes. Such a situation usually leads to an over-assessment. A more common example is a property that was doing very well, but perhaps lost a major tenant towards the end of the fiscal year. In that situation, protesting the assessment and demonstrating a distressed situation despite past performance can lead to a reduction, if only temporarily.

In the end, keep an eye out for those annual notices and review them carefully for discrepancies. When it comes to determining whether a protest is advisable, it's usually best to consult with a licensed professional.

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