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As July tax bills soar despite uncertain outlook, is this just the tip of the real estate tax iceberg? - by Peter Blond

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Imagine the shock and awe each June as New York City real estate tax bills land on owners' desks, or via the internet for the more tech savvy, and the annual liability is up again. Fancy the environment this year as the 2022/23 real estate tax assessments skyrocketed following the proactive reductions by the New York City Department of Finance in January of 2021 (for the 2021/22 tax year). The reaction is consistently one of unrelenting frustration, whether appropriate or not. Believe it or not, there were properties largely unaffected by the pandemic from a revenue perspective. Properties that received "unwarranted" 2021/22 reductions certainly deserved corresponding 2022/23 assessment increases. By the same token, utilizing red herrings during a pandemic to value all comparable properties in each neighborhood is pure fiction.

Familiar taxpayer frustration has renewed to extreme disappointment in both the city's approach to value as well as the long-term assumptions applied city-wide. The Department of Finance was flying blind in January of 2021 when they had to promulgate assessments in the middle of the pandemic and the most recent fiscal data available was from 2019. While the city primarily had 2020 fiscal performance figures with which to base their 2022/23 decisions, they seemingly failed to employ their newest weapons available: The storefront registry and new version of the rent roll requirement.

It seems the Department of Finance reversed their approach from 2021/22 and simply increased most assessments for most asset types across the board for 2022/23. For taxpayers it's always easier to accept a broad stroke when your taxes go down, deservedly so or not. With that said, if Property X reported vacant ground floor retail via both the storefront registry and rent roll in the summer of 2021 and yet it received a 30% increase year-over-year in actual assessed value, it begs the question as to the true purpose of the city's new requirements.

Why require so much detail about each property if you're going to ignore it and apply whatever gross income per square foot the strongest comps dictate? In fairness, the City Council codified the new requirements just before the pandemic's arrival, so we have not had a true opportunity to see the new program's impact in a more ordinary business environment. In fact, the updated rent roll requirement places more burden on the taxpayer to complete the city's version of the data as opposed to merely providing your in-house standardized version. Similar to the RPIE changes that commenced all the way back in 2007, the city has placed the cost & responsibility of data entry on the taxpayer. This also enables the city Department of Finance to utilize the data much quicker than would have been the case if relying on third party outsourcing to complete the task. The city just had to delay the requirement for the second year in a row due to the confusion and workload involved.

Taxpayer frustration is frequently based on little more than a feeling of appropriateness. Nonetheless, when a property was vacant just before COVID's arrival and remains vacant today and yet the property taxes continue to rise that is more than mere sentiment. Vacancy for retail and office space should come as no surprise to anyone that reads or watches the news. Nonetheless, city assessors impute income for every rentable square foot on your property. Imagine anticipating a tax bill decrease based on no income and 100% vacancy but instead the new bill is higher. As I've told hundreds of clients over the years, very few property owners express glee when they see what's behind door number three in Monty Hall terms, but this is ridiculous.

As I suggested in past articles, while unintentional, the city has now exacerbated the winners and losers as we hopefully exit the pandemic. By increasing the assessed values to this extent, the city has placed landlords holding vacant space in a poor leverage position. Spaces that typically pay real estate tax overages as additional rent will now push for lower base rents per square foot to keep the "all-in" figure at acceptable levels to still attract tenants.

The city's assessment system obliges that any increase to your actual assessment each January be accompanied by a five-year phase in of changes to your transitional assessment (other than for construction or alteration situations). In other words, you may only be seeing the tip of the real estate tax iceberg. By blindly boosting assessments to this extent, the city has guaranteed itself down the road tax bill increases to thousands of still struggling properties of all types even if they remain vacant in whole or part at present.

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