NEW YORK CITY COMPTROLLER
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Property Tax Reform

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This is a real moment of opportunity for comprehensive property tax reform.

- Advisory Commission report outlines key features for fairness with protections.
- 421-a expiration opens opportunity to link homeowner & multifamily reform.
- Governor and Mayor have an early-in-term moment of opportunity to collaborate.
- Good moment to address longstanding concerns of outer-borough homeowners, and to create new pathways for permanently affordable homeownership.

Broad Coalition in Support of Comprehensive Property Tax Reform

DAILY NEWS

OPINION

It's time to repair NYC's unjust property taxes

By Brad Lander and Joe Borelli
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Staten Island Advance

Politics

S.I. Republicans join NYC progressives to call for property tax reform

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Key Elements of Reform

Homeowner property tax reform

- Tax parity among homeowners.
- Gradual phase-in.
- Protections for potentially vulnerable homeowners.

Multifamily property tax reform

- Reduce tax rate on new multifamily rental development toward parity with condos (approx. 30%)
- Allow HPD to underwrite tax breaks for developments based on actual costs and affordability.
- Establish new Mitchell Lama-type cooperative homeownership program (in place of unaffordable 130% program in 421-a)

New York City Advisory Commission on Property Tax Reform

Final recommendations released in December 2021. Following eight in-person public hearings during 2018-2019 and five remote public hearings during 2021.

Three core problems emerged:

- 1-3 family homes, co-ops and condos are not subject to the same rules for valuation.
- The system is generally too confusing and difficult to understand.
- Differences in effective tax rates (ETR) across neighborhoods is too wide.

Valuation of Residential Properties

- 1-3 family homes (Tax Class 1 properties) are currently valued by a statistical model of recent sales of similar properties.
- Co-ops and condos are currently valued as if they are rental buildings, but because these co-ops and condos do not typically generate income, the valuation is imputed based on a statistical model of "comparable" rental buildings.
- DOF captures a decreasing share of the sales-based market value of co-op and condo units as sales value increases. Luxury co-ops and condos are consistently undervalued. A Furman Center study from 2013, found over 50 examples of sales of individual co-op units that were sold for more than the DOF estimated market value of the entire building.

Fractional Assessments

- The estimated market value of a property is multiplied by the target assessment ratio in order to determine the assessed value.
- Class 1 properties have a target assessment ratio of just 6%, while classes 2, 3, and 4 have an assessment ratio of 45%.
- Variation in ratios by property type and the additional step in determining the amount of property taxes owed confuses owners and makes the system less transparent.

Assessed Value Growth Caps

- Growth caps are meant to prevent taxes from increasing sharply as market values rise.
  - Assessed value of Class 1 properties cannot grow by more than 6% annually or more than 20% over a period of five years.
  - Assessed values for Class 2 properties with up to 10 units cannot increase by more than 8% in one year or 30% in a period of 5 years.
- Due to AV growth caps, Class 1 properties are not usually taxed at the target assessment ratio of 6%.
- In neighborhoods with significant market appreciation over time, the accumulation of growth caps can cause high-value class 1 properties to pay a lower tax (and have a lower Effective Tax Rate - ETR) than moderately priced properties.

The Commission's Recommendations

Achieve parity among homeowners (and small rental) properties

- Aggregate Class 1, Class 2 condos and coops, and small rentals (up to 10 units) in one class and uniformly value all properties at sales-based market value
- End fractional assessments and apply one tax rate to the sales-based market value
- Over time, this will reduce and ultimately eliminate disparities and bring effective tax-rates for property owners into parity, easing the burden on currently overtaxed owners.

The Commission's Recommendations

Protect potentially vulnerable homeowners

Avoid quick changes in tax burden: changes in market value smoothed over five years.

Additional protection could include:

- delay reset until sale of property
- allow deferral of tax payment (w/interest) until sale of property

Provide targeted tax relief:

- homestead exemption for owners who use the property as their primary residence, and
- circuit breakers that protect low- and moderate-income New Yorkers

Good riddance to 421-a
A better way to facilitate multifamily development

- For 40 years, rather than dealing with its structural flaws, New York State has layered on a patchwork of exemptions and abatements to lower tax rates for various owners.
- Disparity in assessment methodology means the median tax rate on rental buildings with more than 10 units is 1.53%, roughly double the current median rate for condos.
- 421-a was used to address that disparity. But at $1.77 billion in forgone tax revenue, and with widespread fraud, it was far too expensive for the few genuinely affordable units it produced.

Achieving Tax Parity for New Multifamily Development

- Tax the property in the new residential class at 1% (before exemptions, circuit breaker, and other tax programs).
- Reduces the tax rate on new rental buildings (11+ units) by 1/3

Effective Tax Rate Differential Between New Rentals and New Condos				
	Core markets (MN below 96th and CDs 1 + 2 in BK & QNs)		Non-core markets (Excludes weaker markets)	
Before reform	1.2%	1.2%	1.6%	2.2%
After reform	0.1%	0.4%	0.7%	1.0%

Effective Tax Rates (ETRs): multifamily rentals vs. condos

Type of Development	Core markets (MN below 96th and CDs 1 + 2 in BK & QNs)	Non-core markets (Excludes weaker markets)
	Current Discrepancy in Effective Tax Rate	
Rentals	1.9% - 2.2%	2.7% - 3.2%
Condos	0.7% - 1.0%	1.0% - 1.1%
	Effective Tax Rates After Reform	
Rentals	1.1% - 1.2%	1.5% - 1.8%
Condos	0.8% - 1.1%	0.8%

* Based on pro-forma simulations. ** ETR is the ratio of tax owed to sales-based market value of the property. Average ETR before reform is from recently built fully taxable developments. ETR after reform is estimated from tabulations of median rates in Advisory Commission on Property Tax Reform (2021) *The Road to Reform*.

Market-rate rental production and tax revenues with lower tax rate

- The lower tax rate makes market-rate rental housing production possible in core and non-core markets
- New tax revenues can be used on more targeted and effective affordable housing programs
- We estimate up to $100 million per year on average for each new cohort of development

* Assumes hurdle rate of 5.5% yield on cost.
** Development in weak markets continues to be fully subsidized and proceeds at the same pace.

Production of rentals with income-restrictions

Projects in core areas undergo HPD's underwriting review to receive an appropriate tax exemption (full or partial) based in projected costs and committed affordability.

- This avoids the problem of "double-dipping."

Projects outside of core markets are eligible to receive a full or partial tax exemption through a streamlined HPD approval process in exchange for the development of income-restricted housing.

Affordability mix for underwriting matches HPD programs

- Underwritten tax break matches MIH options, with opportunities for larger tax break based on enhanced affordability.
- Full tax exemption and additional subsidies available through programs such as ELLA (Extremely Low and Low-Income Affordability), SARA (Senior Affordability Rental Apartments), and the Supportive Housing Loan Program.

Labor standards

- Tax exemptions require building services prevailing wage.
- HPD underwriting can account for projects where construction is done pursuant to prevailing wage or project labor agreement (PLA).

Options make affordable housing production feasible

ETRs	Core markets (MN below 96th, coastal BK/QN)	Non-core markets (Excludes weaker markets)
	Market rate rentals	
After reform	1.1% - 1.2%	1.5% - 1.8%
Set-aside/Average AMI	**Income-restricted rentals***	
20/40	1.0%	1.1% - 1.2%
25/60	1.2% - 1.4%	1.0% - 1.4%
30/80	1.2% - 1.4%	1.1% - 1.3%

* Assumes full exemption.

Increase homeownership production through 21st Century Mitchell-Lama Program

- Instead of the outer-borough 130% AMI homeownership program (only affordable to top 25% of New Yorkers) envisioned for 485w, create a new citywide, permanently affordable multifamily limited-equity cooperative program
- The program would increase outer-borough production by providing both a full property tax exemption and capital subsidy to builders
- New development in the outer boroughs that meets the demand for permanently affordable homeownership opportunities by low-and-moderate income New Yorkers
- Sales prices from moderate income buyers (80% - 110% of AMI) can cross-subsidize and create opportunity for homeownership for low-income residents (50% - 80% of AMI)
- Through Project Labor Agreements, this program could require strong labor standards for construction and building maintenance

Increase homeownership production through 21st Century Mitchell-Lama Program

- Option C + G of ANYHP created 15,028 housing units between 2017 – 2020.
  - ~70% or 10,365 of the units are market rate
  - ~30% or 4,663 of the units are affordable for households at 130% of AMI ($173,420 for a family of four)
- These units comprise almost all the income-restricted units outside of Manhattan, where in many cases they are set at prices that are indistinguishable from market-rate development in the neighborhood.
- Our proposal creates homeownership for New Yorkers at a range of AMIs: down to 50% of AMI, or $66,700 for a family of four, and up to 110% of AMI, or $146,740 for a family of four.
- With a $1 billion capital investment, New York City and State could create nearly 5,000 units of truly & permanently affordable homeownership, including the acquisition cost of land and prevailing wages for labor and building services.

Appendix

Homestead Exemption: 20%, phasing out at $500k

- Primary residents only
- Could require building services prevailing wage
- Income up to $500,000

Income	Exemption %
Up to $375,000	20%
$400,000	16%
$425,000	12%
$450,000	8%
$475,000	4%
$500,000	0%

Source: Advisory Commission on Property Tax Reform (2021) *The Road to Reform*

Circuit Breaker: Abates taxes in excess of 10% of income

- Primary residents only
- Capped at $10,000
- Income up to $90,550

Income	Abatement %
Up to $58,000	100%
$65,000	78%
$70,000	63%
$75,000	48%
$80,000	32%
$85,000	17%
$90,550	0%

Source: Advisory Commission on Property Tax Reform (2021) *The Road to Reform*

5-year smoothing (Transitional AV)

Year	Market value ("actual")	Change in market value	Smoothing of first change	Smoothing of the second change	Smoothed market value ("transitional")
1	$1,000,000	-	-	-	1,000,000
2	$1,100,000	100,000	20,000	-	1,020,000
3	$1,100,000	-	20,000	-	1,040,000
4	$1,200,000	100,000	20,000	20,000	1,080,000
5	$1,200,000	-	20,000	20,000	1,120,000
6	$1,200,000	-	20,000	20,000	1,160,000
7	$1,200,000	-	0	20,000	1,180,000
8	$1,200,000	-	0	20,000	1,200,000

Example: Primary resident Full homestead exemption

	Single family		Condo unit	
	Current	**New**	**Current**	**New**
Sales-based value	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Sales-based % of DOF market value	100%	100%	22%*	100%
DOF market value	$1,000,000	$1,000,000	$220,000	$1,000,000
AV ratio	3.38%**	100%	45%	100%
AV	$33,800	$1,000,000	$99,000	$1,000,000
Tax rate (FY22)	19.963%	1%	12.235%	1%
Tax before exemptions/abatements	$6,747	$10,000	$12,113	$10,000
Exemption/abatement				
Coop/condo (17.5%)	n/a	n/a	$2,120	n/a
Homestead (20%)	n/a	$2,000	n/a	$2,000
Tax owed	$6.747	$8,000	$9,993	$8,000
Effective tax rate (ETR)	**0.7%**	**0.8%**	**1.0%**	**0.8%**
Effective tax rate w/out homestead exemption		**1.0%**		**1.0%**

* Median FY21 ratio for condos with sales-based market value of $750k-$1m.

** Median 1-3 family FY21 AV ratio in Brooklyn (3.38%). Source: Advisory Commission on Property Tax Reform (2021) *The Road to Reform.*

Example: High-valued properties

	Single family		Condo	
	Old	**New**	**Old**	**New**
Sales-based value	$18,800,000*	$18,800,000*	$34,365,938*	$34,365,938*
Sales-based % of DOF market value	94%*	94%**	7%*	94%**
DOF market value	$17,672,000	$17,672,000	$2,405,616	$32,303,982
AV ratio	1.6%	100%	45%	100%
AV (without transitional value)	$282,752	$17,672,000	$1,082,527	$32,303,982
Tax rate (FY 22)	19.963%	1%	12.235%	1%
Tax before exemptions/abatements	$56,446	$176,720	$132,447	$323,040
Exemption/abatement				
Coop/condo	n/a	n/a	$0	n/a
Homestead	n/a	$0	n/a	$0
Tax owed	$56,446	$176,720	$132,447	$323,040
Effective Tax Rate (ETR)	**0.30%**	**0.94%**	**0.39%**	**0.94%**

* Actual transaction and property tax data.

** Assumes sales-based valuation accuracy observed for the single family property in the current system.

Transition to new system: 5-year phase-in

Assume:

1. Current tax: $3,500
2. New tax: $5,000
3. Phase-in: (New tax – Current Tax)/5 = $300/year

Year	Prior year tax	Phase-in	Tax on 5-year smoothing	Total
1	$3,500	$300	$200	$4,000
2	$4,000	$300	$208	$4,508
3	$4,508	$300	$216	$5,024
4	$5,024	$300	$225	$5,549
5	$5,549	$300	$234	$6,083

Source: Advisory Commission on Property Tax Reform (2021) *The Road to Reform*

Residential class transition based on reset upon sale only

- Existing properties:
  - Fix current ETR, implement sales-based valuation, remove fractional assessment, implement 5-year smoothing.
  - Maintain the existing ETR until sale (except for changes to exemption status)
  - No homestead exemption nor circuit breaker until sale
  - Similarly situated properties would have different tax burdens
- New properties: new system
- Revenue impact depends on sales decision

Tax revenue net of MIH-area maximum potential exemptions

Market	Tax revenue from market-rate development cohort 1, yr 1	Tax revenue from market-rate development cohort 1, yr 1 net of MIH-area exemptions*
Core	$71m	$55m
Non-core	$34m	$7m
Subtotal	$104m	$62m

* Assumes reasonable worst-case scenarios in MIH areas receives a full exemption.