PROPERTY TAX ASSESSMENTS SPIRAL OUT OF CONTROL IN NEW YORK CITY

Massive assessment hikes in New York City confirm that Mayor Bill de Blasio intends to extract as much revenue as possible from real estate, one of the city's most important industries. This will kill the golden goose underlying the city's economic recovery.

The city released its tentative assessment roll for the 2015-2016 tax year on Jan. 15, 2015, revealing painful and substantial increases in market value for both residential and commercial properties. The city pumped up the value of residential properties by almost 11 percent, while driving up commercial assessments by 12 percent over the prior tax year.

These increases are nearly double the rate of increase effected by last year's final assessment roll, where residential market values increased by 6.6 percent and commercial market values increased by 7 percent over the 2013-2014 roll.

The compound effect of year-after-year increases is a crushing burden to owners and tenants, but the higher end of the commercial property spectrum was particularly hard hit in the latest assessment roll. Owners of trophy office buildings saw their market values spike by more than 31 percent over the prior year's values.

Even worse, owners saw the market value of luxury hotels soar almost 65 percent over the previous year's values for assessment purposes. The city is rough-handling these properties with mounting harshness on both sides of the income and expense equation.

As a result of the new citywide assessments, real estate taxes in the city continue to substantially erode owners' and developers' bottom lines. Based on an analysis of the most recent assessment roll, the percentage of income now dedicated to paying real estate taxes is so high that the city has essentially become a silent partner in these properties — without the inherent risks of ownership, of course.

Consider the example of a non-exempt Manhattan residential property, with annual net operating income of $1 million before real estate taxes. Factoring in the current municipal residential tax rate and the prevailing capitalization rates used by the City Department of Finance, our hypothetical property yields a taxable assessed value of approximately $3.6 million and a property tax bill of about $463,000.

That burden means the property owner in this example is paying 46 percent of his or her net income in real estate taxes alone. Even analyzing the numbers based on a gross income of $1.4 million (based on the Department of Finance's most recent expense guidelines), city property taxes account for more than one-third of the property's overall expenses.

The situation is similarly oppressive for commercial properties, although they currently enjoy a lower property tax rate and higher capitalization rates than their residential counterparts — at least according to the most recent New York City Department of Finance Assessment Guidelines. Utilizing a similar analysis to the residential example above, the owner of a midtown Manhattan office building with a net operating income of $1 million would be paying just under 40 percent of its net operating income and almost 30 percent of its gross income in real estate taxes.

Based on the de Blasio administration's ever-increasing crusade for revenue, owners and developers can expect this trend to continue. However, there are a number of avenues for them to pursue in order to ameliorate the effects of this rapid and seemingly endless rise.

While the release of the 2015-2016 assessment roll may have upset many taxpayers, it also marks an opportunity. That's because the roll's release begins the process under which owners and developers can initiate challenges to their property tax assessments. Based on the situation described above, it is likely that most of them will be doing exactly that.

Owners must challenge their assessments by filing applications and supporting documentation to the New York City Tax Commission. The owner's representative must prepare a detailed analysis of conditions at the property, an analysis of leasing and vacancy, and a carefully prepared set of comparable properties to support the relief sought.

The Tax Commission is the administrative agency charged with annually hearing owners' real estate tax challenges. The agency has the power to offer a reduction in the challenged assessment. Owners who are dissatisfied with the results of this Tax Commission review are entitled to challenge their assessments in New York State Supreme Court.

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