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Queens hotel to pocket $11M property-tax refund after it was overvalued by city

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Bloomberg

In a decision that could significantly help ailing hotels while harming the city's finances, a judge on Tuesday said tax assessors substantially overvalued a Queens hotel for several years prior to the pandemic.

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The owners of the closed Courtyard by Marriott near LaGuardia Airport are now in line for a refund of more than $11 million, said an attorney for the hotel, Joel Marcus.

“This case is important for all hotel owners because the city has been overvaluing hotels for years,” Marcus said.

He added several hotels are seeking tax relief, including the closed Omni Berkshire Place, the InterContinental Times Square and the Residence Inn by Marriott on Sixth Avenue.

The prospect of shelling out refunds to struggling or closed hotels is nettlesome for the city, which relies on property taxes for half its tax revenue. The collections are expected to decline by more than $1 billion next year, to $29.8 billion, according to the Independent Budget Office—driven by shrinking payments from office buildings, retailers and hotels. The assessed value of hotels citywide fell by 21% in the past year, according to the Department of Finance.

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Hotels and office towers are considered the same by the city for property-tax purposes. Hoteliers have long argued the system is unfair because their income streams are less stable than a typical office building’s. Nevertheless, assessments continued to rise as the number of hotel rooms in the city soared by 73% since 2007, an increase of more than 54,000.

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Then along came the Covid-19 pandemic.

“Because of its characteristics and specific dependencies, New York City’s hotel sector will take two years longer to recover than the national market,” consulting firm STR predicted in a January report to the city.

Even before the pandemic, some hotels were struggling due to the surge in supply. Among those was the 288-room Courtyard by Marriott near LaGuardia. The hotel closed in 2018.

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Owner GCP Realty sued the city. It argued the hotel's assessment was incorrect because its appraiser compared the Marriott to similar properties, while the city's appraiser compared it to more upscale New York hotels and even those in other states.

In an opinion released Tuesday, Judge Joseph Risi of state Supreme Court agreed that the hotel provided "substantial evidence" it had been overvalued for five years and that the city's appraisal was "defective, as it failed to adequately set forth the facts, figures and calculations to support their conclusion."

The city did not respond to requests for comment.

Marcus said hotels are now contesting their property-tax bills because they can't afford to pay their obligations.

"The thinking before was, Let's see if we can lighten the load," he said. "Now, it's a matter of life or death."

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