The New York Times

July 12, 2013

How the Rich Get a Big Real Estate Tax Break

By JULIE SATOW

The rarefied few who can afford to shell out tens of millions of dollars for an apartment in one of the gleaming new condominiums being built across New York City may be searching for luxury, but in some cases they will find an unexpected perk: a break on real estate taxes that can mean tax bills as low as $96 a month.

At 56 Leonard Street, where a penthouse just went into contract for $47 million, the buyers are poised to receive a 76 percent break on their real estate taxes.

At 150 Charles Street, an ultraluxury development in the West Village, the tax break is 70 percent.

And at One57, the 90-story skyscraper in Midtown where asking prices top $10,500 a square foot, the tax break is an eye-popping 94 percent.

A recent review of the offering plans for some of the city's most expensive new apartment buildings offers an interesting peak into the perquisites and disadvantages of a lavish lifestyle. There are the windfalls, like the generous tax breaks, but there are also oft-overlooked expenses, like mandatory health club and dining-room fees, that can add to a buyer's bottom line.

At 56 Leonard Street, for example, the buyer who is in contract for the record-breaking penthouse would typically pay $140,000 a year in real estate taxes, according to estimates from the offering plan. But because the project laid its foundation in 2008 — it stalled during the downturn and was resurrected only recently — it was eligible to apply for a 10-year tax abatement. The city has given its preliminary approval, which means that when the building is completed, the penthouse buyer will pay just $33,000 annually for the first two years, with taxes progressively increasing through the remaining eight.

The tax abatement, known as the 421A program, was established in the 1970s depths of the city's financial crisis, to spur residential construction. In the 198 economy improved, the program was modified, and affordable-housing requir added. In 2008 it was substantially scaled back, although some buildings, like made it just under the wire to get the abatements by starting construction before the stricter rules went into effect.

The case for One57 is slightly more complex. Its location on West 57th Street would prohibit the developer from applying for the abatement, but in January the state legislature passed a broad housing bill that included an exemption for the building. The legislation gave a similar pass to several others, including 99 Church Street, otherwise known as 30 Park Place, an ultraluxury condominium that the developer Larry Silverstein is building in Lower Manhattan, and to a site owned by the developer Joseph Sitt at 516 Fifth Avenue in Midtown.

The city has not yet signed off on the abatement, but if it does, a result will be an annual real estate tax bill of under $18,000 for the buyer of the penthouse at One57, assuming it sells for its $115 million list price. That tax bill would more typically apply to a $3 million apartment; for this penthouse, the typical bill would be nearly $300,0000, according to the offering plan. Similarly, the least expensive unit in the building, a 1,000-square-foot one-bedroom, has monthly taxes of just $96, which works out to $1,157 a year — versus $19,234 without the tax break.

“Yes, we allowed an exemption,” said Senator Martin J. Golden, who sponsored the bill with Assemblyman Keith L. T. Wright, “but I am a proponent of the 421A program, and I believe it was the right thing to do.” An Extell spokeswoman said in a statement that the legislation merely “remedied an oversight” in the 421A program.

The exemptions have given some market observers pause, particularly in the case of One57, which was already under way when the legislation was passed and presumably would have been built even without the tax break. “The idea of the program was that tax subsidies can be an important tool to create residential housing and affordable housing that otherwise wouldn’t be built,” said Vicki Been, the faculty director of the Furman Center for Real Estate and Urban Policy. “I don’t see how giving a tax break to a building like One57 helps either of those goals.”

While some may question whether buyers of multimillion-dollar homes deserve breaks on city taxes, there is no doubt that the benefits are lucrative. But within the fine print of offering plans, which run hundreds of pages and are thick with dense legalese, hidden costs can also crop up. For example, at 432 Park Avenue, which will be the tallest condo in the Northern Hemisphere when it opens in 2015, full-floor penthouses are priced between $72.5 million and $95 million and will be saddled with common charges of more than $17,000 a month. The common charges are several times what the average New Yorker typically pays in rent, and they are most likely being underestimated, experts said.

“Developers have been known to low-ball their estimated figures,” said Aaron Shmulewitz, a partner at the law firm Belkin Burden Wenig & Goldman. "I've seen common charges increase 25 percent between the first year and the second year."

On top of those costly common charges come fees like the mandatory membership in the building's gym, known as The Club at 432 Park Avenue, which bases its charges on the size of the apartment, with larger units owing more. Then there is the $2,000 that owners are required to pay annually toward the building's dining room, and the additional $1,200 in private dining services that owners are required to buy annually, whether or not they use the restaurant.

The budgets included in offering plans can also be overly rosy, said lawyers. They typically cover just the first year of the condominium's operations, allowing developers to fudge important expenses.

"Sponsors are motivated to have their budget seem as affordable as possible — they shoot low, not high, in many instances," said Jeffrey S. Reich, a partner at Wolf Haldenstein Adler Freeman & Herz.

For instance, developers often do not include the cost of maintenance contracts for elevators and other mechanicals, because most of the equipment is still under warranty. They also rarely allocate money to hire an engineer or a lawyer should there be construction defects, which are seldom discovered until a development is inhabited, Mr. Reich said.

There is even the risk that buyers could lose the views for which they have paid so dearly. Both 150 Charles Street and One57, for example, have apartments with "lot line" windows — windows adjacent to neighboring buildings — which may eventually have to be boarded up and removed if the neighboring buildings are expanded. In the case of One57, the developer estimates the cost of removing the windows at $5,000 per window, to be borne by the owner.

Still, while there are both risks and rewards in buying these exclusive properties, "none of it should come as a shock to anyone who reads the offering plans," Mr. Reich said.