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THE APPRAISAL

Where Everything Is Lavish Except the Property Taxes



Marilynn K. Yee/The New York Times

At the Plaza Hotel, at Fifth Avenue and 59th Street, owners of luxury apartments benefit from a quirk in the tax code.

By ELIZABETH A. HARRIS

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The shimmering limestone tower at [15 Central Park West](#), where apartments routinely trade for upward of \$20 million, has become symbolic of the most luxurious upper reaches of New York's real estate market. Its architect, [Robert A. M. Stern](#), is the dean of the Yale School of Architecture. The views stretch out over the expanse of Central Park. And earlier this year, a single penthouse [sold for \\$88 million](#).

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A luxury building at 15 Central Park West, between 61st and 62nd Streets.

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Yet despite its sublime finishes, refined pedigree and nosebleed prices, the residential portion of that Manhattan building is officially valued by the city, for tax purposes, at only \$332 per square foot. According to the [Miller Samuel](#) appraisal firm, the average price per square foot for apartments sold there over the past 18 months has been \$7,813.

The remarkably low official figure is the result of a state law dating from decades ago that requires the city to calculate the value of condominiums and co-ops by using rental buildings as comparable properties, instead of apartment sales. At the tippy top of the market, populated by \$20 million, \$30 million, \$40 million, even \$88 million apartments, real estate experts say that truly comparable rental buildings essentially do not exist.

As a result, the owners of many of the highest-end

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apartments pay a far smaller percentage of their apartments' sales value than other condo and co-op owners pay. So despite a boom in the sale of stratospherically expensive apartments in recent years, the city is unable to truly cash in.

"The highest-value ones are going to tend to be the hardest to line up," said George Sweeting, deputy director of the city's [Independent Budget Office](#). Their resulting effective tax rates, he continued, "will be extremely low, even by the standards of the city."

According to the Independent Budget Office, the overall city valuation for condos and co-ops is only about 20 percent of what it would be were the city allowed to use comparable sales. That is a striking discount, but one that shrivels in comparison with the market's upper echelons, which means the percentage of the sales value that those apartments pay in taxes shrivels right along with it.

In a study of 2010 nationwide property tax rates, the average homeowner paid a median of 1.14 percent of home value that year, according to the [Tax Foundation](#), a research group. In Manhattan, that figure was 0.78 percent. For the \$88 million apartment at 15 Central Park West, 0.78 percent would be \$686,000. But this year, the property taxes due on that penthouse were \$59,000.

The relatively low tax bill was mainly due to its valuation, but the owners of that penthouse — the financier [Sanford I. Weill](#) sold it to a trust controlled by Ekaterina Rybolovleva, the daughter of a Russian billionaire — were also helped by a program called 421a, which gives developers big tax breaks for a certain number of years that they can pass along to condo buyers, in exchange for which the developers build or help finance affordable housing.

But even without the 421a abatement, the bill for the penthouse would have been only \$145,000.

An apartment at the Plaza Hotel that sold for \$48 million last year is valued by the city at \$1.7 million. A condo at 80 Columbus Circle that sold for \$30.55 million last summer is valued at \$2 million. And the \$88 million apartment is valued at \$2.97 million, or just 3.4 percent. The impact on city revenue needs then ripples down.

"If a certain kind of property is systematically undervalued, another kind of property has to pick up the slack," said Andrew Hayashi, a property tax expert at the [Furman Center for Real Estate and Urban Policy](#) at New York University.

The state law mandating the use of rental data has been on the books since the 1980s, when the market in the city was a very different place. Manhattan had more rent regulation, many fewer condos and lots of co-op conversions.

A 2006 city report said tying the value of co-ops and condos to rentals was expected to keep an apartment's official value — and, thus, its property taxes — from rising too quickly, because rent regulation kept rental values relatively stable.

Today, to find a condo's or co-op's comparable rental cousin, the Finance Department looks at factors like age, location and size. Older buildings, even the grandest, often have a greater value discrepancy than new condos because older rentals are more likely to have at least some rent-stabilized unit; this means that the taxes on those properties are generally lower.

But for any truly lavish building, finding a comparable rental is a challenge. One of the rental buildings used to find the value of 15 Central Park West, for example, is 145 West 67th Street — a very tall, but otherwise unremarkable, building.

"We understand that the requirement by state law to ignore sales prices makes an already complex property tax system even more confusing for property owners, which raises questions of equity within the system," Owen Stone, a spokesman for the Finance Department, said in an e-mail. "We are always looking for ways to make things more



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transparent.”

Property tax experts say that from time to time, some effort is made to rethink the way apartments are valued. But changes can be made only by the State Legislature, and the technical and political pressures tend to overwhelm the cause, which then is quietly put on a shelf.

“It’s not so easy to go and change one screw,” said Ana Champeny, a supervising analyst at the Independent Budget Office. “Potentially, you have to redo the whole system.”

These property taxes, of course, are not paid in a vacuum. The city does receive a transfer tax every time a property is sold, as well as a mortgage recording tax — though many high-priced homes are bought with cash. And while the property taxes on mansions in the sky may be a relatively low percentage of sales value, they are still substantial.

A spokeswoman for Extell, which is developing the luxury market’s hottest ticket of the moment, [One57](#), where two apartments are under contract for at least \$90 million, said the project would contribute over 1,000 construction jobs and hundreds of permanent jobs to the city.

As it happens, Extell has also applied for 421a tax abatements for One57.

But if the property taxes on these luxury apartments were to rise, would it even make a difference in sales to the superrich?

“I think you’d choke off that market,” said Jonathan Miller, president of Miller Samuel.

Mr. Miller said that in some instances, exceptionally high carrying costs had tugged down prices and slowed the pace of sales, even in apartments that cost tens of millions of dollars.

“The logic was that the high end of the market doesn’t really care if the monthly charges are high; it’s more readily absorbed than on the lower end, and that turned out not to be true,” Mr. Miller said. “The conventional wisdom was, ‘Ah, the wealthy don’t care!’ But of course they do.”

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