Report: State Law Requires NYC to Undertax Some of Its Most Valuable Properties

NYU’s Furman Center for Real Estate & Urban Policy shows that some of NYC’s most expensive apartments are valued at a tiny fraction of their market price, and thereby drastically under-taxed

NEW YORK, NY—Some of New York City’s most valuable properties in its highest-cost neighborhoods are significantly and persistently undervalued, according to a new report by NYU’s Furman Center for Real Estate and Urban Policy. This undervaluation has significant consequences for the distribution of tax burdens in New York City.

"The undervaluation of these properties causes the property tax to be more regressive—the owners of some of the most valuable apartments in the city are paying among the absolute lowest effective tax rates,” said Vicki Been, co-director of NYU’s Furman Center for Real Estate and Urban Policy.

The report, Shifting the Burden, identified 50 individual co-ops in 46 buildings that were sold in 2012 for more than the New York City Department of Finance’s estimate of the market value of the entire building. For example, an apartment in an Upper East Side co-op building sold for $50 million, while the entire 13-unit building was valued at only $15.7 million.

This discrepancy is due to a state tax law that requires the city to value condo and co-op properties the same way it values rental properties. The Department of Finance does this by using the rents generated by “comparable” rental buildings. But, as the report highlights, this practice results in enormous undervaluation because it is impossible to find comparable rental buildings for many of these high-end properties. Often, extremely valuable coops end up being
compared to rent-regulated rental buildings that have little in common with the co-op building other than the era in which the buildings were built.

The report found that 70% of the undervalued properties are concentrated in four neighborhoods: the Upper East Side, the Upper West Side, Park Slope/Carroll Gardens, and Fort Greene/Brooklyn Heights Community Districts.

Since 1981, New York City’s property has been divided into four classes with different rules for the assessment and taxation of each class. The combined effects of the tax class system and the valuation method for co-ops and condos result in a disproportionate share of the property tax levy falling on rental buildings with more than four units.

“The undervaluation of condos and co-ops in New York City is one of several significant inequities in the property tax system,” said Been. “The burden of the undervaluation of co-ops and condos falls on families already struggling to afford housing in New York City.”

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“Shifting the Burden” is now available (PDF).

The report builds upon a chapter in the Furman Center’s State of New York City’s Housing and Neighborhoods 2011 report, available here (PDF).

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The Furman Center for Real Estate and Urban Policy is a joint center of the New York University School of Law and the Robert F. Wagner Graduate School of Public Service. The Furman Center is the leading academic research center in New York City devoted to the public policy aspects of land use, real estate, and housing development, and is dedicated to providing objective academic and empirical research. More information on the Furman Center can be found at www.furmancenter.org and @FurmanCenterNYU.