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New York Property Taxes Unfair to Renters, New Evidence Shows

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New Yorkers don't agree on much, but the 68 percent of us who rent our homes or apartments can usually find common cause on at least one issue: The rent we pay each month, as one perennial political candidate often says, is too damn high.

A new study by the Furman Center for Real Estate and Urban Policy at New York University should further stoke our angst. The high rent we've been paying -- the rent that we gripe about at children's birthday parties and anniversary dinners, write Broadway musicals about and lose sleep over when our bank accounts run low -- is probably inflated even more it should be due to city tax policy that strongly favors homeowners over renters.

The problem, according to the Furman Center, is "radically different tax treatment of equally valuable properties" under New York's byzantine tax code. Large apartment buildings (including any property with more than three units), where most renters live, are taxed at more than four times the effective rate of smaller one- to three-family homes, where many homeowners live, according to the Center. In addition, many condo and co-op owners who live in larger buildings benefit from abatements and other subsidies that helps lower their taxes.

"[The tax code] effectively requires renters to subsidize owners, even though the demographic and socioeconomic characteristics of the two groups

suggest that renters already are having a harder time meeting their housing costs," the Furman Center says.

The disparity is so stark that high-rises in New York are taxed at nearly the highest effective rate of all large metropolitan areas -- just after Detroit -- and the owners of smaller one- to three-family homes are taxed near the bottom.

Were the tax burden spread more equitably, taxes on rental units in the city would drop by between $1,200 and $1,500 annually on average, according to an earlier study cited by the Furman Center. With the current tax code, some part of those higher tax bills are likely passed along to renters in the form of increased rents or in cutbacks to repairs and service.

New York isn't the only place where renters are at a disadvantage come tax time. The federal tax code permits homeowners to deduct a mortgage interest, an entitlement that drives down the cost of homeownership by hundreds or thousands of dollars each year for millions of borrowers. Those of us who rent, of course, can claim no extra deduction.

Still, while we complain about rent, most New Yorkers accept it with the same kind of fatalism we attach to other indignities of city life: crowded subways, cab drivers with anger management issues, and funky smells emanating from both in the summer. After all, more than eight million people have piled onto one little island and four surrounding boroughs, and space is at a premium. We accept, though we don't like, that this is an experiment in economic Darwinism.

But what the study shows is that some city residents, those that own their own homes, and tend to be wealthier than the rest, simply aren't paying their fair share.

Smaller buildings make up half of the city's property value -- yet owners of these properties pay just 15 percent of all real estate taxes collected by the city. Another class of properties, which include large rental buildings, make up 24 percent of the city housing stock by market value, but their owners pay 36 percent of the real estate taxes. (Commercial properties are also taxed at a much higher effective rate than smaller buildings).

My first apartment in the city was a small fourth floor walk-up in the Brooklyn neighborhood of Clinton Hill. I could stand with my left foot in my bathroom, and my right foot in my living room, while straddling my kitchen. The rent was $625 a month, which for an English major with no discernible job skills working an entry level job in book publishing, was really more than I could afford. I once took out a cash advance on my credit card to fund a gambling trip to Atlantic City with the hope of making enough to pay the next month's rent.

The plan failed. Somehow, I stayed one step ahead of Darwin and wasn't evicted.

Now I'm one of the lucky ones, according to the study. My family rents the top floor of a two-family brownstone building in Park Slope, a neighborhood in Brooklyn with leafy streets and restored brownstones -- and lots of homeowners -- where the effective tax rate averages .9 percent.

According to the study, 1,636,023 rental units in New York fall into the higher-tax class, like my old building. These renters are poorer, and more likely to be a minority, than those who inhabit the 393,673 units in the lower-tax buildings, the study says. The effective property tax rate in Washington Heights and Inwood, for example, two minority-dominated neighborhoods in northern Manhattan where the housing stock is mostly large buildings, averages 4.3 percent.

So how much am I saving because my landlords pay a low effective tax rate? And how much extra in rent each month was I paying in my old building?

Andrew Hayashi, one of the co-authors of the study, told me that with the data collected thus far, it is simply impossible to say how much of a disadvantage renters face under the tax code. But he said the situation endures, in part, due to the failure of renters to understand how much of the property tax they pay "because the portion of their rent that goes to taxes is largely invisible to them."

Hayashi added that the disparity may have another unintended consequence: encouraging builders to construct more condo and co-op buildings, which also often come with large tax breaks. This may mean fewer new rental properties and higher rents for all the rest, he said.

"When something is taxed, the economy tends to produce less of it, and this general result is likely as true in the city's housing market as in other markets," his study says.

Rents in New York City average nearly $3,000 a month. In Manhattan, they have reached an average of nearly $3,500 per month. That's awfully high.

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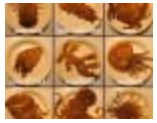

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