NYC Undertaxes Most Valuable Apartments, Report Says

By **Kaitlin Ugolik**

Law360, New York (July 25, 2013, 2:35 PM ET) -- Some of the most expensive properties in New York City are regularly undervalued, resulting in a skewed tax burden for city residents, according to a report released Wednesday by New York University's Furman Center for Real Estate and Urban Policy.

Consistent undervaluation of expensive properties causes the property tax to be more regressive, allowing the owners of very valuable apartments to pay some of the lowest effective tax rates, according to Vicki Been, co-director of the Furman Center.

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

The discrepancy is possible thanks to a state tax law that requires the city to use the same formula for valuing condo and co-op properties as it does for traditional rental properties, according to the Furman Center.

With prices for luxury residential real estate rising quickly, this has become an increasing issue for those unable to afford such high-end lodgings but forced to pay higher taxes, according to the report.

The number of residential units selling at or above listing price **reached 35.9 percent** in the second quarter of this year, up from 16.6 percent in the second quarter of 2012, according to a market report issued earlier this month by Douglas Elliman.

Residential sales volume has skyrocketed this year as well, increasing nearly 19 percent in the second quarter over the same period last year.

The Furman Center study identified 50 individual co-op units sold in 2012 for prices above the New York City Department of Finance's estimate of the market value of the entire building. One apartment on the Upper East Side sold for $50 million, while the entire 13-unit building was valued at only $15.7 million, according to the report.

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It's often impossible to find rental buildings with the same characteristics as many of these high-end properties, the center argues, meaning that using the Department of Finance's method of valuing buildings by looking at the rents of comparable buildings doesn't result in an accurate depiction of value.

As a result, the date of construction is often used as the comparative variable.

“Often, extremely valuable co-ops 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 center said.

Most of the overvalued properties are in the Upper East Side and Upper West Side in Manhattan and Park Slope, Carroll Gardens, Fort Greene and Brooklyn Heights in Brooklyn, according to the report.

--Editing by Lindsay Naylor.

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