NYC office landlords wonder when tax assessments will catch up to reality

Lawyers cite wide disparity between actual property values and city valuations

MAR 1, 2024, 7:00 AM
By Elizabeth Cryan

Will this be the year that New York City commercial property tax bills start to reflect the real world?

That's the question on the minds of New York City office landlords as they file their annual assessment appeals by today's deadline.

Assessed values for commercial properties continue to rise, despite plummeting market values and **growing signs of distress** on the ground. Assessments for office buildings, in particular, were **up 3.5 percent** this year over last, driven primarily by **trophy and premium space**.

But the rest of the office sector is struggling as companies shrink their office footprints with employees often working from home. Many office leases were inked before the pandemic, however, so the full effects are not yet reflected in the assessments, according to tax certiorari lawyers.

"I think what we're seeing is a wider disparity between what the market participants are telling us a property is worth and what the city is using in their valuations," said Steve Thompson of the tax services firm Ryan. "That's due to a lack of data points and not enough sales to review."

Assessed values are based on income and expense information from 2022. The city also applies a capitalization rate, based on the expected annual return on a property.

Most major landlords appeal their assessments every year. Property owners can use their most recent balance sheets and current occupancy rates and market conditions to make their case to the Tax Commission.

If the commission doesn't offer a reduction, the next step is to negotiate with the city Law Department. If that doesn't work, property owners can take the city to court.

"My analogy is to an off-the-rack outfit," said Greenberg Traurig attorney Glenn Newman, a former president of the Tax Commission. "The tax commission can do minor alterations – if you need pants shortened, you need the waist taken in or let out. If you want a full review with customization, you've got to go to the Law Department and that can take several years."

Approximately 26,000 appeals were filed last year for Class 4 properties, which includes commercial and industrial. Of those, owners of about 4,500 received offers and they accepted 3,700. That's compared to 27,000 appeals and 5,400 offers in 2020 at the start of the pandemic.

The commission prioritizes hearings for high-value properties — assessed at more than $67 million. Those owners will find out in a few weeks if they're getting an offer. The rest have to wait.

“I’m not super hopeful that the Tax Commission is going to issue huge reductions to office buildings unless the market can show that those reductions are warranted,” said one attorney who asked to remain anonymous. “This story for me is still unfolding. We’re still surmising. We’ve started to see consumers of office space need less of it, but I don’t know if we’ve had the time to see them filter through the income statements.”

This year, lawyers are expecting more cases to go beyond the Tax Commission to the Law Department and possibly to court as landlords grow more desperate. But property owners have to pay based on the city’s assessed value in the meantime. It may take years to get a refund check.

“I think we’re in uncharted waters,” said tax certiorari attorney Katharine Finch of Goldberg Weprin Finkel Goldstein. “We’ve gone through recessions in the past but it’s always worked itself out. This is a new normal. It will be interesting to see how this plays out. We’re just really starting to feel the repercussions of Covid and the hybrid work model and it’s going to continue for another two or three years at least.”

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