Footing the Bill

Fifty Years of NYC Overtaxing Tenants, Towers, and Low-Income Communities of Color

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CSS Community Service Society

Progress & Poverty INSTITUTE

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CSS Community Service Society

The Community Service Society of New York (CSS) has worked with and for New Yorkers since 1843 to promote economic opportunity and champion an equitable city and state. We power change through a strategic combination of research, services, and advocacy to make New York more livable for people facing economic insecurity. By expanding access to health care, affordable housing, employment, opportunities for individuals with conviction histories, debt assistance, and more, we make a tangible difference in the lives of millions.

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Founded in 1925 as the Robert Schalkenbach Foundation, the Progress and Poverty Institute (PPI) was created to share the ideas of Henry George – especially those put forth in his seminal work Progress and Poverty – with the world. Throughout our 100-year history PPI has fulfilled that mission through a combination of original research and publishing, distribution of George's original books and speeches, and by providing support for the efforts of like-minded individuals from a variety of disciplines. In recent years, we have added college scholarships and a library and archive to our programmatic portfolio, further ensuring that current generations of community practitioners and scholars have access to George's ideas and are empowered to incorporate them into a variety of modern contexts.

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Executive Summary

New York City has one of the most convoluted and unfair property tax systems in the country. Built out of necessity after the old system was found unconstitutional by the 1975 State Supreme Court case Hellerstein v. Town of Islip, NYC's property tax code has aged poorly. Marking its 50th anniversary, the Community Service Society of New York (CSS) and Progress and Poverty Institute (PPI) collaborated on this report to clearly explain the system's problems and needed reforms. Decades of articles and analyses have shown how the core design of NYC's property tax system and its supplemental web of tax breaks results in comical comparisons and contributes to various types of inequity.

"Assessed value is much closer to market value in walkup and elevator properties than it is for two-family and one-family properties," Economist Emanuel Tobier wrote in a blistering 1975 critique of the system. Back then, he found that assessments weren't keeping up with rising property values, that the homes of low-income residents were overly assessed and over-taxed, and 50 years later, despite several attempts at reform, the system continues to suffer the same flaws. This report examines the regressivity of NYC's property tax system, across owned vs rented homes, luxury vs cheap rental units and condos, and by neighborhood. We use tax data to determine the effective tax rates— the percentage of a property's market value that is actually paid annually— within these various categories, including when abatements or exemptions are applied. We found that NYC's present-day tax code puts a disproportionate tax burden on multifamily apartments, the suppliers of the lion's share of New Yorkers' housing, and families of color. Furthermore, our data shows that NYC consistently charges high-value buildings lower effective tax rates and over-taxes lower-value buildings, rewards ownership over renting, and under-taxes speculators who sit idly, waiting for value to rise on vacant and underutilized land. Ultimately, our research reveals the reality that NYC has a unacceptably regressive property tax structure that benefits the haves over the have-nots.

TIMELINE

1975

Hellerstein v. Islip finds that fractional assessments in NY's property tax system are unconstitutional

1981

S7000A/A9200 passes, bringing class share-based tax burdens, imposed fractional assessments, and assessment caps to NYC & Nassau County

1996

S6628-A/A10588-A passes, creating the NYC Cooperative and Condominium Abatement

2001

Following a Home Rule Message request from the NYC Council, S8029/A11340 passes capping assessment value increases at 2 percent rather than 5 percent, reducing tax bills for Class One properties.

2013

The Citizens Budget Commission presents options to redistribute the tax burden more equitably and "reduce the complexity of the current system, making it more transparent for taxpayers." (Options for Property Tax Reform: Equitable Revenue Raising Reforms for New York City's Property Tax Prepared by Andrew Hayashi)

2015

A report by Assembly-member Dan Quart finds that NYC's property tax system favors those in 1-3 family homes over those who live "vertically... [and] disincentivizes... affordability." (New York City Property Taxes, An Unbalanced Burden)

Key Findings

- **Large Multifamily and Commercial Properties Are Over-Taxed:** Low-density residential properties comprising 1-3 units (Class 1) pay an effective tax rate (ETR) of only 0.7%, significantly lower than for all other classes of property. By comparison, apartment buildings with more than 10 units (Class 2) face an average ETR of 3.6%.

- **In a City of Renters, Homeowners Get the Breaks**: More than two-thirds of households in NYC are renters, yet properties which are owner-occupied tend to pay lower taxes. We find that the average ETR paid by homeowners is 3.0%, compared to 4.3% paid by those who own rental properties. Single family homes—including mansions and brownstones in neighborhoods like Forest Hills, Queens and Prospect Park, Brooklyn— have an ETR that is 2.4 times less than low-density rentals and more than 5 times less than large rentals.

- **The System Penalizes Poverty and Upholds Racial Disparity:** Properties worth between $500,000 and $600,000 per unit have an average effective tax rate that is 1.3 times higher than those worth more than $1 million, while properties worth less than $300,000 per unit face an average effective tax rate that is 3 times higher than those most valuable properties. Some of the last remaining mostly Black neighborhoods in the city— Canarsie, East New York, and Cambria Heights— are paying tax rates double those paid by Park Slope or East Village homeowners. The hot market Brooklyn neighborhoods along the East River have Class 2 ETRs 2.3 percentage points higher on average than the largest Hispanic (non-Black) communities like Hunts Point and North Corona.

- **Assessment Methods Favor More Valuable Condos/ Coops:** Department of Finance's technique for valuing commercial properties, coop/condos, and rentals leads to the undervaluing of the most luxurious buildings and forces lower value sites to pick up a greater tax burden.

- **Land Speculation is Rewarded:** The property tax system penalizes productive land use (building stores, units, etc.) and rewards those who keep land vacant.

Reforming our tax code should be a priority for those who want lower rents, more development, and who don't want speculators playing monopoly with our city. Across political affiliations, from advocates to government officials, from residents who want lower taxes to those who just want to pay their fair share, there is agreement that it is time for sweeping reform. We offer both short and long-term recommendations including: abolishing fractional assessments and class shares, equalizing growth caps, taxing vacant land, transitioning towards a land value tax, and giving tax credits to homeowners and tenants alike.

TIMELINE (CONT.)

2017

Tax Equity Now New York (TENNY) files a lawsuit against the City of New York, arguing that the tax system violates the federal Fair Housing Act (FHA) by imparting "inequitable and discriminatory disparate impact" on certain protected classes of New York City property owners.

2021

The DeBlasio Administration Advisory Commission on Property Tax finds that NYC's property tax system is "Opaque. Arcane. Inequitable." and recommends 7 systematic solutions.

2022

NYC Comptroller Brad Lander calls the tax system "notoriously opaque, confusing, and inequitable", and proposes fixes which unify the treatment of residential properties and target tax relief at vulnerable New Yorkers

2022

NYC Independent Budget Office (IBO) publishes a report showing that for commercial properties "of similar market sale prices have different assessed values" and that higher-value properties are under-taxed (Does NYC's Method for Assessing Commercial Property Values Result in Inequities?)

2024

In a 4-to-3 decision, the NY State Court of Appeals permits TENNY's case against the City of New York to move forward.

Introduction to the NYC Property Tax System

To understand why NYC's property tax system is rife with unfairness and inequity we must grapple with the notoriously complex set of overlapping rules. Our city values properties using different methods depending on their property type; the same goes for how much of that "market value" is taxable and what rate each property type should pay when all is said and done. As seen in the timeline of the tax system, both the complexity and unfairness has been recognized, but instead of reform, those in power layered on additional caps on the amount of new property value the city recognized year-over-year and created new abatements. These changes have served only to make the property tax system more opaque.

Before we explore the ways in which the tax code creates inequality, here's a quick refresher on how property taxes are calculated in NYC:

How Property Taxes are Calculated in NYC

First, the Department of Finance (DOF) uses a variety of techniques to estimate the market value of every property in the city. Low-density residences are valued using the sale prices of similar properties which have recently sold, whereas valuation for larger buildings use reported rental incomes.

Second, these market values are reduced to an assessed value by a percentage called the 'assessment ratios'. These ratios are mandated by state law, and are significantly less for low-density homes than for all other types of properties (see the diagram below). Next, to make sure that each property's taxable value is not rising too fast, these assessed values are constrained by a growth cap. These are calculated differently for each class of property, and are lower for low-density homes than for multifamily buildings. Tax exemptions (such as those for veterans, seniors or disabled homeowners) are then subtracted, yielding each property's taxable value.

DOF then calculates a tax rate that will be sufficient to meet the City's budget needs for the next year, adjusting this tax rate up and down for each class of property to more evenly disribute the share of taxes that will be paid by each class. Every property in the city has its taxable value multiplied by its tax rate, producing a provisional tax bill. Finally, abatements (such as 421a and the condo/coop abatement) are subtracted, producing each property's actual tax bill.

1 Assign property to one of the 4 classes and assess market value

CLASS ONE 1-3 FAMILY HOMES	CLASS THREE UTILITIES
CLASS TWO 4+ FAMILY HOMES	CLASS FOUR COMMERCIAL

Classes 1 and 3 are valued based on the sales price of similar properties

Classes 2 and 4 are valued based on the incomes of the property and similar ones

2 Calculate assessed value

ASSESSED VALUE = MARKET VALUE X ASSESSMENT RATIO

6%

Class 1 has a very low 6% assessment ratio

45%

Classes 2, 3, and 4 have an assessment ratio of 45%

3 Apply caps and phase-ins

No matter what the assessed value says assessed value cannot grow by more than:

6%	CLASS ONE	**8%**	CLASS TWO W/ 4-10 UNITS	Over 1 year
20%	CLASS ONE	**30%**	CLASS TWO W/ 4-10 UNITS	Over 5 years

4 Apply tax rate exemptions and abatements

For Classes 3 and 4, assessed value cannot equal more than the prior year's assessed value plus 20% of the year to year assessed value over the previous 5 years

Abatements and exemptions exist for rehabilitation, conversion, and construction of housing, foreclosed properties (mostly tied to the affordable units), aged people and those experiencing disabilities, verterans, victims of crime, etc.

2023 TAX RATES

Class 1 – 20.309%

Class 2 – 12.267%

Class 3 – 12.755%

Class 4 – 10.646%

TAX RATES IN NYC

Step 1
The Mayor and Council determine how much the city will need in total from property taxes to reach a balanced budget and run the government. This total amount of property tax revenue the city aims to collect is called the Tax Levy.

Step 2
The NYC Department of Finance (DOF) assesses the value of properties in the city, creating an overall "total assessed value" based on characteristics of and the market conditions for a property.

Now that we have a basic understanding of the system, we can identify the four main pathways by which inequalities are introduced into the NYC property tax system:

ASSESSMENT METHODS

The method used by the Department of Finance (DOF) to estimate a property's value has a large impact on the amount of taxes paid. Assessment methods vary across housing types, sizes, and tenures (rental vs owned). Large residential buildings (Class 2) are valued using rents in comparable buildings. A lack of adequate comparable properties (especially for luxury condos) means that more valuable condos and coops tend to be under-assessed, contributing to property tax regressivity. (See page 22 for more details on assessment methods.)

FRACTIONAL ASSESSMENTS

Commercial and residential properties are divided into different classes. Each class has a different percentage of its assessed value that can be taxed. Low-density homes (Class 1) enjoy a low assessment ratio of 6%, less than one-seventh the 45% rate applied to all other properties of all other classes. This substantially reduces tax bills for single family homes, duplexes and triplexes, effectively increasing the tax burden on all other apartments & commercial properties which now have to shoulder a larger tax burden to meet city budgetary needs.

GROWTH CAPS ON ASSESSED VALUES

Compounding the advantages to low-density homes, the assessed values of Class 1 properties may only grow by 6% each year, compared to 8% for medium-sized residences (Classes 2a, 2b and 2c). Assessments for apartments and commercial buildings (Classes 2 and 4) are phased in over 5 years, which our analysis finds tends to increase their tax burden relative to smaller buildings. Additionally, these growth caps constrain the increase in property taxes in neighborhoods which are enjoying rapid increases in property values, effectively increasing the tax burden in less prosperous areas. Furthermore, assessment value caps do not reset upon resale (unlike in most other cities). In fact, Portland, Oregon and New York City are the only US locales with assessment limits that do not reset upon sale. This causes a tax burden age bias where in NYC, homes purchased in the last year are taxed 60% higher on average than those of similar value built 63 years ago (the average building age).

CLASS SHARES VS MARKET SHARES

When determining tax rates, the City Council keeps the share of the tax levy (total tax burden) that different classes of properties pay very consistent, over time. While classes pay almost the same percentage of the tax levy every year, their values in the market do change dramatically.

For example, low-density homes (Class 1) are estimated to be worth more than $750 million, which is more than half of the $1.2 billion total property value DOF estimates is in NYC's properties. However, they contributed only $5 million in taxes— that's less than 15% of the city's property taxes revenues last year which sat at $33.7 million.

Together, these pathways create a tax system that is both unfair and perplexing to taxpayers. In subsequent sections of this report, we calculate actual tax bills for every property in New York City and present summary statistics and case studies which demonstrate the unfair tax treatment of different properties. We find evidence that New York City's property tax system over-taxes large apartment buildings, coops and rental units, affordable homes, commercial buildings, and neighborhoods with more Black residents.

DATA & ANALYSIS: TAX BILLS & EFFECTIVE TAX RATES

Our goal is to test whether different properties are paying more or less than their fair share of property taxes. For this, we need to know their actual property tax bill. Unfortunately, there is no publicly available dataset which details tax bills for individual properties in NYC. We therefore calculate these tax bills manually, for every single property in the 2022 tax roll. A full methodology detailing this process is available in our Technical Appendix. To our knowledge this is the first study which uses publicly available data to analyze tax bills at this individual property level of detail.

Our primary measure of tax fairness is each property's effective tax rate (ETR) calculated for each property by dividing the amount of property tax it was charged in 2022 by its market value, as estimated by DOF. For example, an ETR of 1.0% indicates that a property valued at $500,000 will have paid $5,000 in taxes during FY2022. By comparing average ETRs across different types of property, we can observe which properties are paying more or less in taxes relative to their assessed value. For the purposes of our analysis, we assume that a fair tax system would charge a similar ETR across all classes of property.

While it would be preferable for our ETRs to be measured against true market value rather than that calculated by DOF, this was not possible using publicly available data. As a consequence, all of the analyses presented below are blind to any inequality introduced by the assessment methods used by DOF. A summary of the known issues introduced by assessment methods in the can be found in Finding #4 (page 22), but we begin with an exploration of the novel findings from our own analysis.

FINDING #1

Multifamily and Commercial Properties Are Over-Taxed

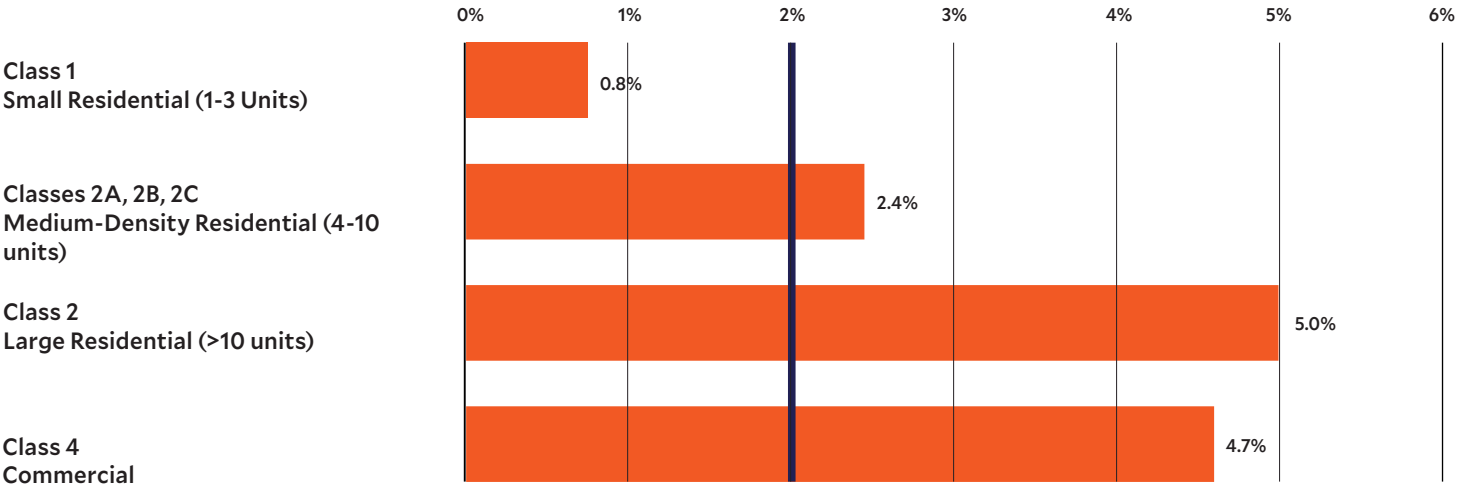
Our analysis begins with effective tax rates (ETRs), calculated by dividing the assessed values by the actual tax bill in 2022. In Figure 1, we compare the effective tax rates of properties by tax class. The bold line depicts the fair ETR that would be paid if all assessment ratios and caps, differential tax rates, exemptions and abatements were abolished in favor of charging all properties a single tax rate (which would need to be 2.0% to raise the same amount of revenue).

Compared to this line, we find that the NYC property tax system results in the over-taxing of multifamily, commercial, and industrial properties, while low-density residential buildings are under-taxed.

Low-density residential properties comprising 1-3 units (Class 1) pay an effective tax of only 0.7%, significantly lower than for all other classes of property. Medium-density residential properties of 4-10 units (Classes 2A, 2B and 2C) face an ETR of 1.6%. This is more than double the tax burden faced by smaller houses, despite housing more families, more efficiently, on New York's scarce and valuable land. This pattern of penalizing density continues for large residential properties of more than 10 units (Class 2), which paid an ETR of 3.6% in 2022, more than five times higher than that charged to low-density homes. Commercial & industrial properties (Class 4) are also over-taxed, facing an average ETR of 2.6%.

In addition to disparities across tax classes, there are significant differences in ETRs based on the number of units within residential properties. Properties with fewer than 50 units face an average ETR of 1.5%, compared to 3.7% for properties with 50 or more units—a 2.2 percentage point difference. These findings further emphasize how the NYC property tax system penalizes the construction of large residential buildings, which are often rentals. Such tax incentives undoubtedly discourage the development of denser housing and exacerbate housing shortages and affordability challenges. Furthermore, while the amount of property taxes passed to renters is a hotly debated topic, analysis of changes in rents before and after New York State allowed cities to tax rental properties more than owned properties, found that 14% of the tax increase was passed onto tenants.

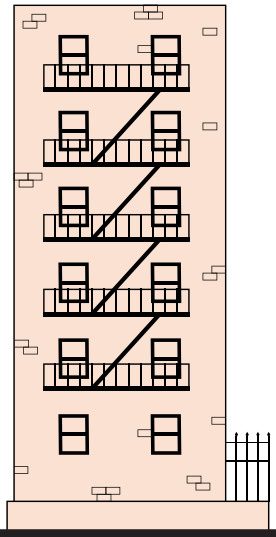
FIG. 1 EFFECTIVE TAX RATE BY CLASS

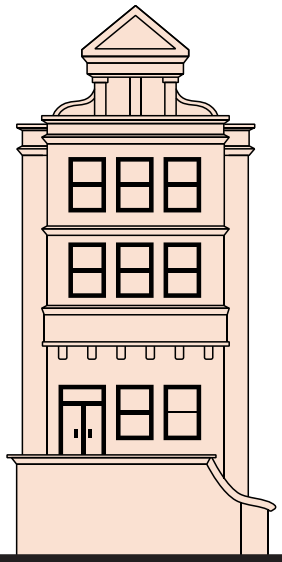


REAL WORLD EXAMPLE #1

In the West Harlem neighborhood of Hamilton Heights, two buildings sit aside one another but are treated very differently in terms of property taxes. Property A provides reasonable rents relative to many similar Manhattan buildings, and the owner even receives a J-51 tax exemption to fund building repairs, which puts the units into NYC's rent stabilization program. Property B on Convent Avenue is a low-density residential buidling housing a single family, while next door, Property A is home to 43 households.

In 2022, DOF considered both of these properties to be worth around $4.2 million. However, despite housing only a single family, Property B paid only $12,200 in property taxes that year, an ETR of only 0.3%. Conversely, despite housing far more families, far more efficiently, Property A faced an ETR of 1.6% and paid $71,500 in taxes, nearly six times more than its single-family neighbor.





	CONVENT AVENUE - PROPERTY A	CONVENT AVENUE - PROPERTY B
LOT AREA	9,800 sq ft	2,000 sq ft
UNITS	43	1
FLOORSPACE	42,000 sq ft	4,700 sq ft
RENT (ASKING)	$2,700 (3 bed)	n/a
MARKET VALUE	$4,423,000	$4,198,000
BILLABLE ASSESSED VALUE	$1,990,000	$61,000
EXEMPTION	$1,331,000 (J51)	n/a
ANNUAL PROPERTY TAX	$71,500	$12,200
ETR	1.6%	0.3%

PATH TO INEQUALITY

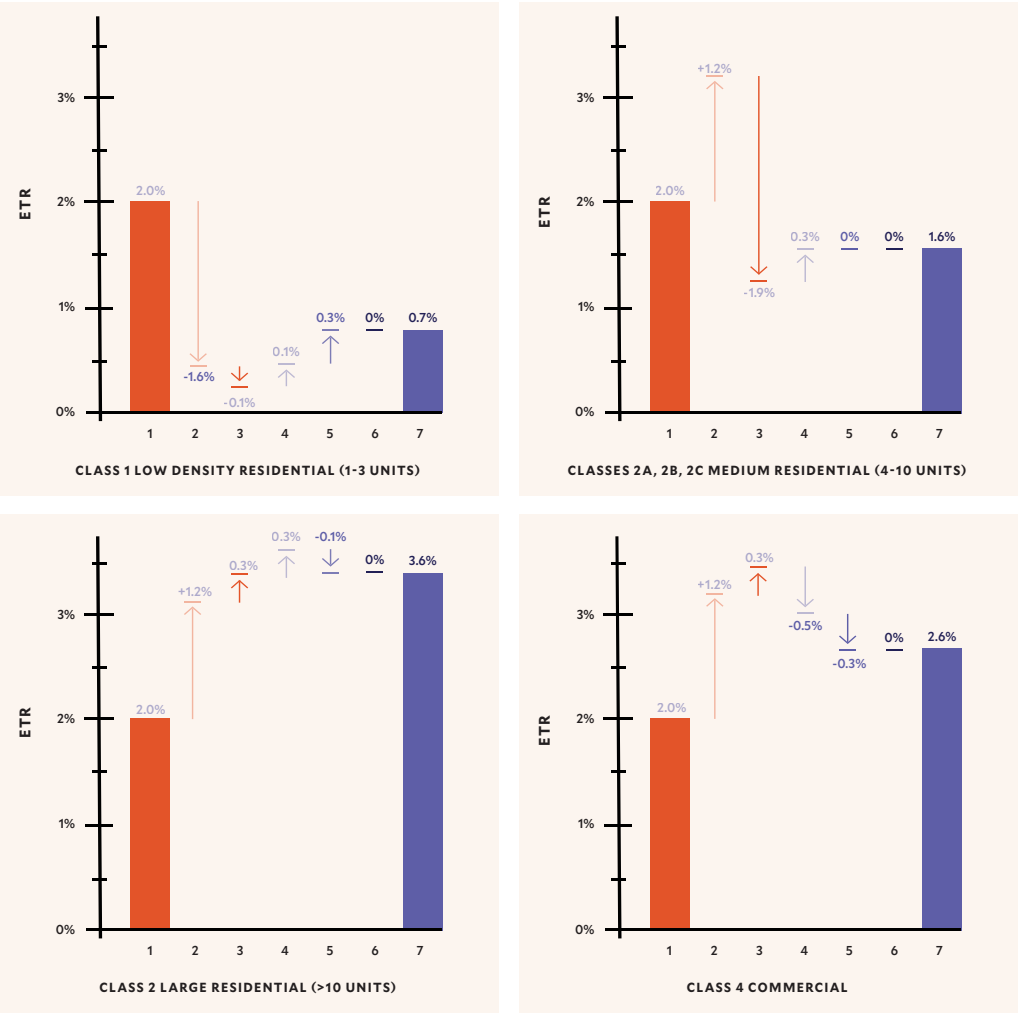
Because we have replicated each property's tax calculation, we are able to identify the impact of policies at each stage of the NYC property tax system. These are depicted in Figure 2, which shows how ETRs start at 2.0% if all properties were charged the same rate, diverge at each stage of the tax calculation, and ultimately arrive at the actual ETRs described above.

We observe the following insights:

- **Fractional Assessments** significantly benefit low-density residential properties, reducing their ETRs by -1.6%, thereby increasing the tax burden on other classes by +1.2%. Fractional assessments are a major contributor to tax inequalities in New York City.
- **Assessment Growth Caps** are more binding for low and medium-density residential properties, reducing their ETRs by -0.1% and -1.9% respectively. Conversely, the city has allowed taxable values for large residential and commercial properties to rise faster than those with lower density, constraining their tax bills by far less, and effectively raising their ETRs by +0.3%.
- **Class Shares** very slightly mitigate the earlier advantages for low-density residential properties, raising their ETR by +0.3%, while lower nominal tax rates for Class 2 and 4 properties reduce their ETRs by +0.1% and -0.3% respectively.
- **Exemptions** primarily benefit Commercial properties, while **Abatements** have relatively little impact on average ETRs for all properties.

These findings suggest that reforms which abolish fractional assessments are likely to be the policy which has the single biggest impact on improving tax equity in NYC.

FIG. 2 EFFECT OF EACH STAGE OF NYC PROPERTY TAX SYSTEM ON ETRS, BY PROPERTY CLASS



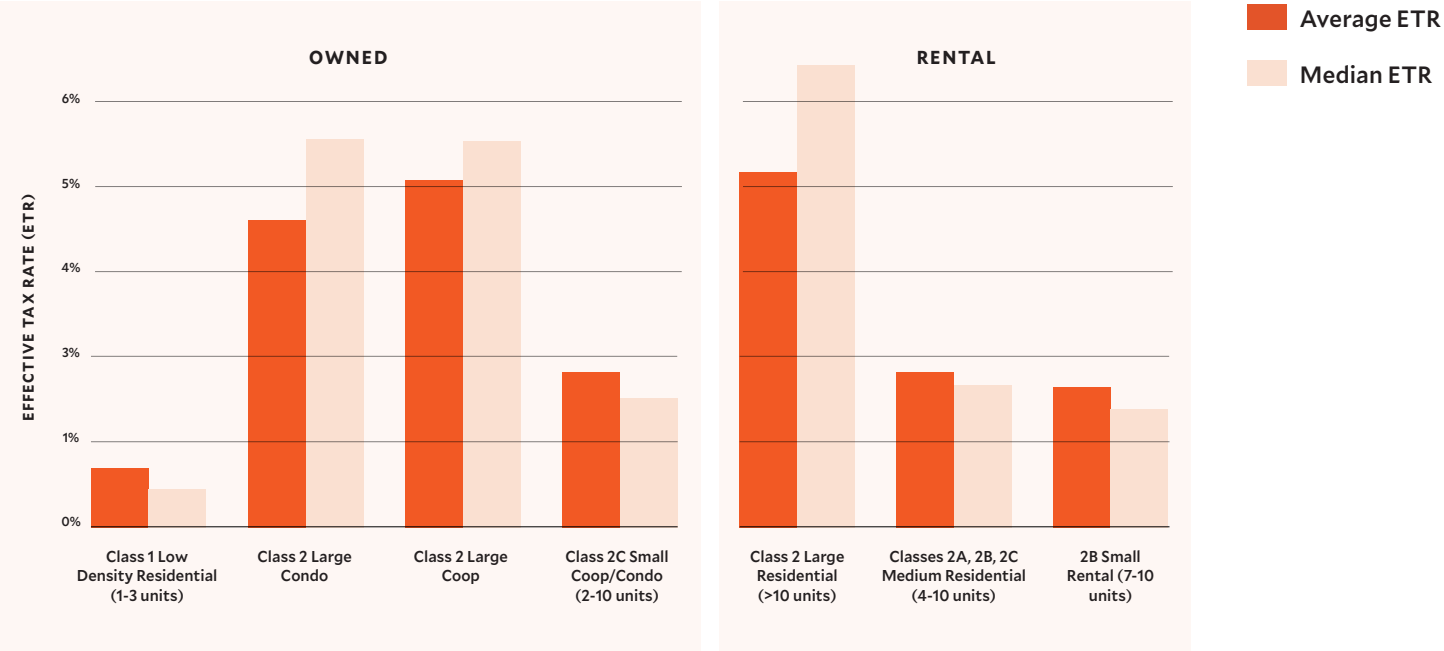
FINDING #2

In a City of Renters, Homeowners Get the Breaks

More than two-thirds of households in NYC are renters, yet properties which are owner-occupied tend to pay lower taxes. We find that the average ETR paid by homeowners is 3.0%, compared to 4.3% for rental properties. Single family homeowners — including mansions and brownstones in neighborhoods like Forest Hills, Queens and Prospect Park, Brooklyn — have an ETR that is 2.4 times less than small rentals and more than 5 times less than large rentals.

Later in this report, we cover the bias baked into our property tax system against large condos and coops, due to state law requiring that they are treated as if they were rental properties. This results in large condos and coops being taxed at higher rates than other owner-occupied properties. However, as shown in Figure 3, large rental properties are still taxed at a higher rate than large condos & coops.

FIG. 3 PROPERTY TAXES: OWNED VS RENTAL



[1] PLUTO enables classification of ownership status for residential properties with more than 3 units, but there is no definitive indicator for (Class 1) low-density homes of 1-3 units. We approximate ownership status for these properties by classifying properties which belong to owner names who are listed for more than one property as rented (7% of Class 1 properties), and those properties with a unique owner name as owner-occupied (93%).

REAL WORLD EXAMPLE #2

In the South Brooklyn neighborhoods of Dyker Heights and Bay Ridge, there are two nearby buildings treated completely differently by the City for tax purposes. Property B on 82nd Street is a large mansion with six bedrooms and four bathrooms that houses a single family. Less than 2 miles west sits Property A 92nd Street, a six-story apartment building housing 42 families. This building charges reasonable rents relative to NYC as a whole. Both of these buildings recently sold for $3.2 million each.

In 2022, DOF valued the 82nd St mansion at $2.4 million, yielding a tax bill of that is $9.50 per $1,000 of market value, an ETR of 1.0%. By contrast, the large rental building on 92nd faced an ETR more than five times higher. It was valued at $2.9 million and paid a whopping $52.40 in taxes per $1,000 of market value, contributing more than six times as much to the city budget as did the undertaxed owner-occupied mansion nearby.

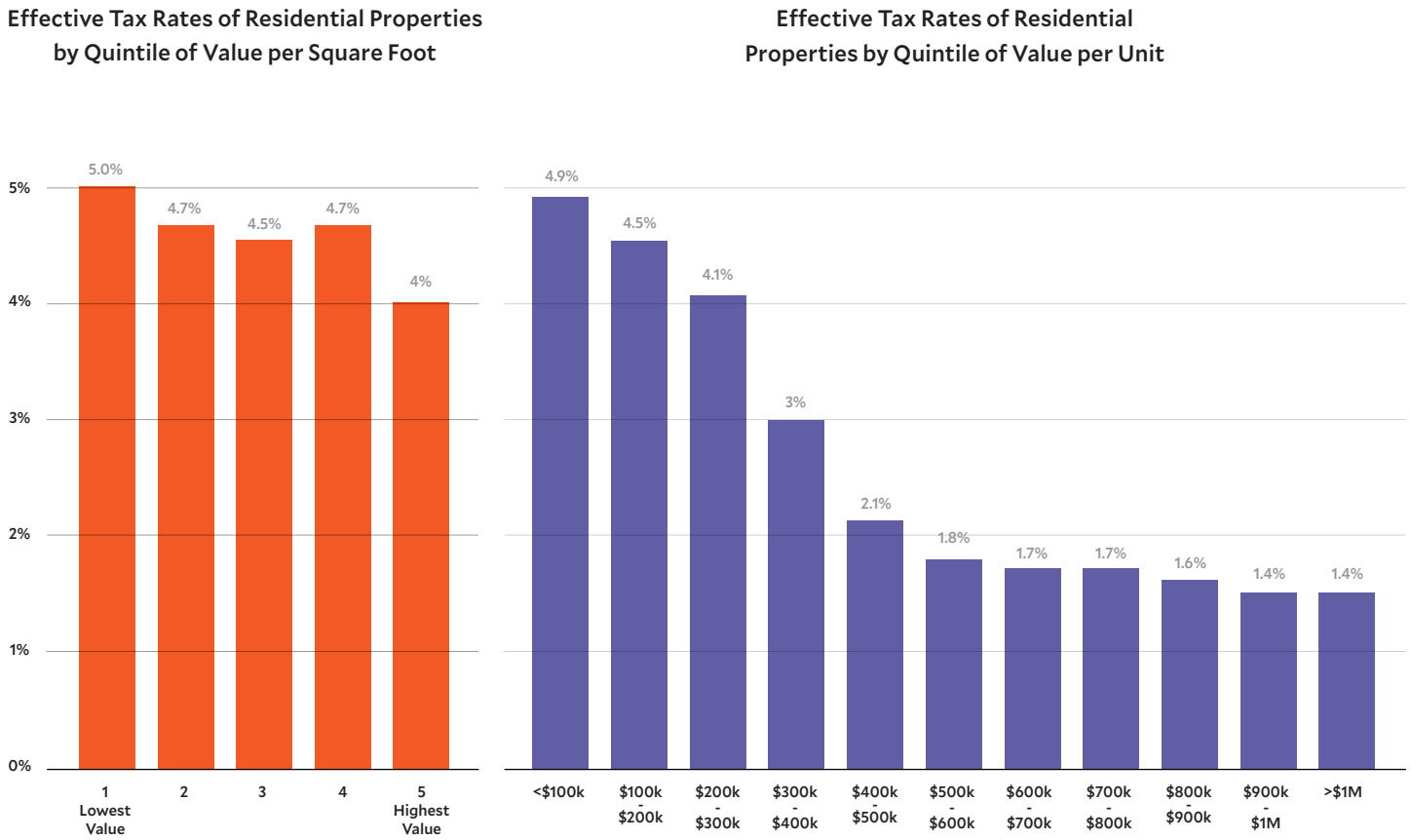
	PROPERTY A - 92ND STREET, BAY RIDGE	PROPERTY B - 82ND STREET, DYKER HEIGHTS
LOT AREA	10,200 sq ft	10,000 sq ft
UNITS	42	1
FLOORSPACE	45,800 sq ft	2,800 sq ft
LAST SALES PRICE	$3,200,000	$3,150,000
RENT (ASKING)	$3,850 (3 bed)	n/a
MARKET VALUE	$2,874,000	$2,387,000
BILLABLE ASSESSED VALUE	$1,293,000	$114,000
EXEMPTION	$7,600 (Solar)	n/a
ANNUAL PROPERTY TAX	$150,700	$22,700
ETR	5.2%	1.0%

FINDING #3

The System Penalizes Poverty and Upholds Racial Disparity

NYC's tax code is highly regressive, charging higher tax rates to lower-value properties and in predominantly Black neighborhoods. As seen in Figure 4, there is a strong negative relationship between ETR and the assessed value of properties. Properties worth between $500,000 and $600,000 per unit have an average effective tax rate that is 1.3 times higher than those worth more than $1 million per unit, while properties worth less than $300,000 per unit face an average ETR that is 3 times higher than those most valuable properties. Sorting properties by their value per square foot, we see that the top 20% face an average ETR of 4.0%, lower than the average of 5.0% for the bottom 20%.

FIG. 4 ETR BY VALUE PER SQUARE FOOT AND VALUE PER UNIT

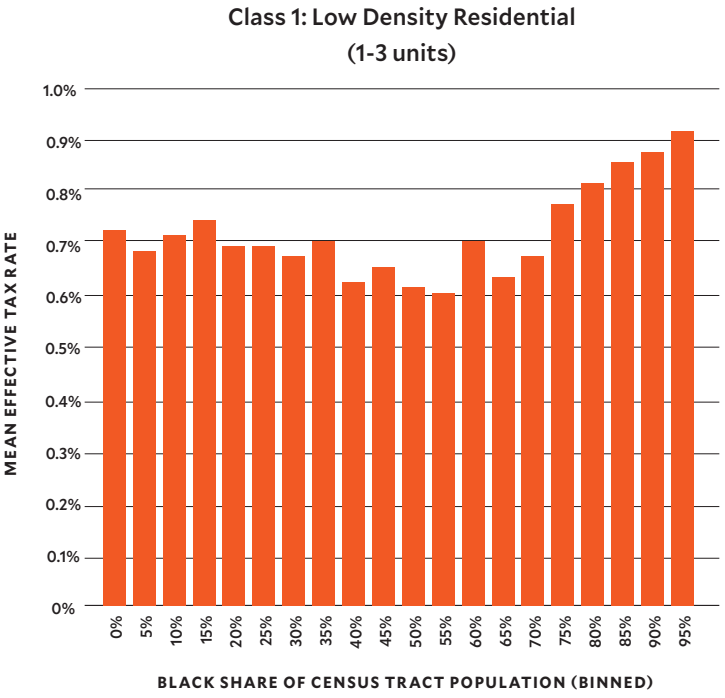


Similarly, the city's tax code produces racial iniquities. A recent NYU Furman Center analysis found that predominantly Black neighborhoods in NYC face higher effective property tax rates (ETRs) than predominantly white neighborhoods, such that neighborhoods with the highest share of Black residents paid $17 million more in property taxes than they would have under an equitable tax system where all properties pay the average rate (2% for our analysis). Such biases lie behind the recent legal challenge titled *Tax Equity Now NY LLC v. City of New York*, which alleges that the City "imposes substantially unequal tax bills on similarly-valued properties" that bear "little relationship" to fair market value, leading to "staggering inequities," including along racial lines. Racial bias in property assessments is well-documented throughout the US, such as recent research which analyzed 118 million homes and found that Black and Hispanic residents face a 10–13% higher tax burden than White residents even when considering similar properties. The 'Bias in Assessments Handbook', published by the Progress & Poverty Institute, details strategies that assessors can use to prevent such racially-disparate property tax outcomes.

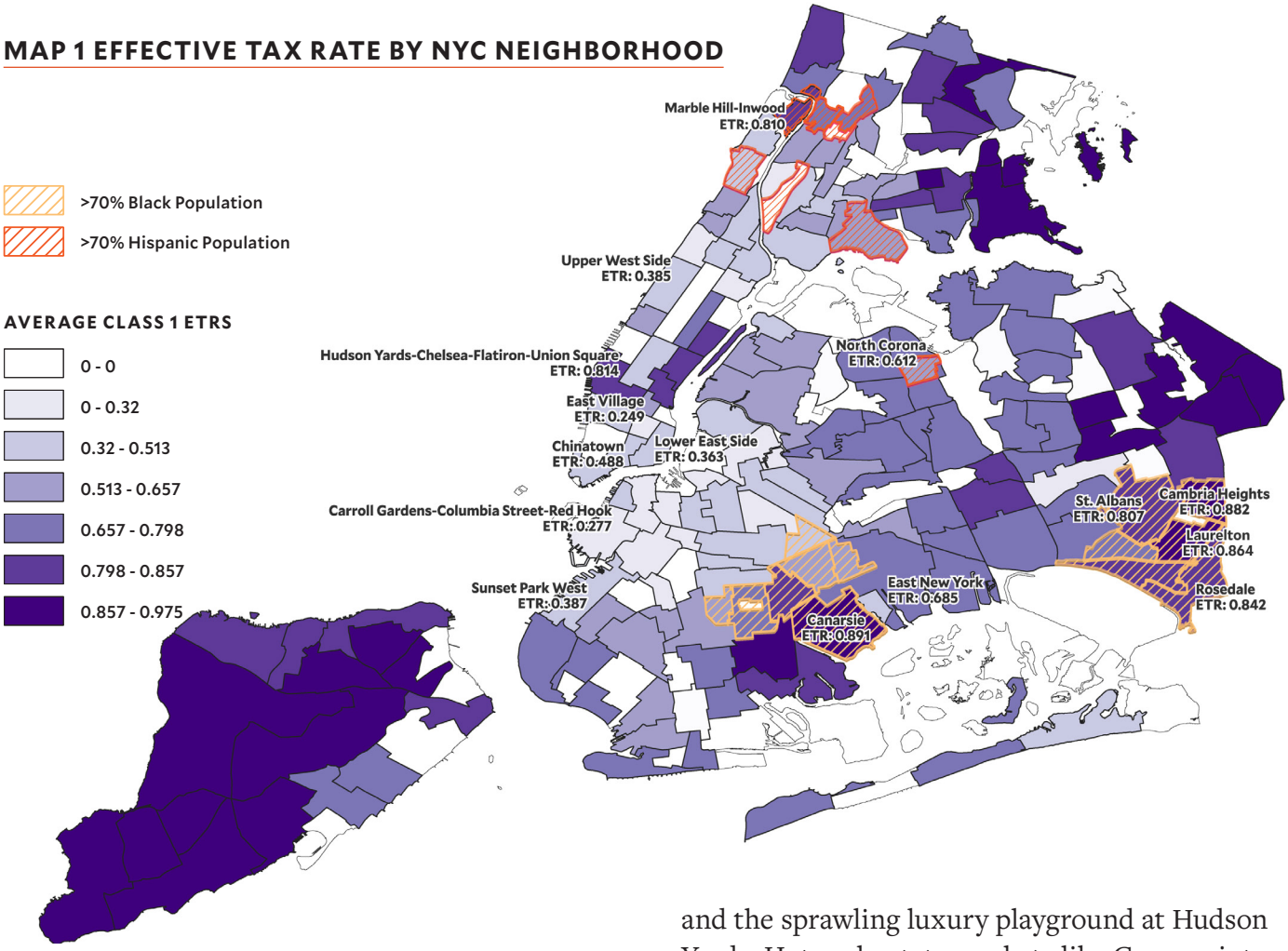
We likewise found further evidence of racial disparities in NYC's property taxes. Firstly, effective tax rates are higher in precisely the types of buildings where Black and Hispanic households tend to live. NYC is extremely segregated by neighborhood, which leads to people of different races living in different types of building classes. As we have already discussed, tax classes are taxed differently due to the assessment ratios. This has the largest impact on Hispanic (non Black) families as 27% live in Tax Class 1 properties compared to 33% for Whites and 46% for Asians, and thus are less likely to benefit from tax rules favoring low-density single-family homes. And overall, Black and Hispanic NYers are less likely to live in condo/coops than White neighbors.

In our analysis of effective tax rates calculated as a percentage of assessed property value, we still found racial disparities. Fig. 5 shows that there is a stark increase in Class 1 ETRs for census tracts where more than 80% of residents are Black. There is no clear relationship between race and ETRs for Class 2, likely due to the 421-a tax benefit, which is often used on large multifamily construction deals in communities of color.

FIG. 5 CENSUS TRACT ETR BY SHARE OF BLACK POPULATION



MAP 1 EFFECTIVE TAX RATE BY NYC NEIGHBORHOOD



The racial inequity in effective tax rates is even more obvious when looking at neighborhoods. To isolate racial inequities not attributable to disparate treatment of each class of property, Map 1 depicts the average ETR by neighborhood for Class 1 properties. For these mostly owner-occupied, 1-3 unit homes, we observe the highest tax rates in several of the last remaining majority-Black neighborhoods in Brooklyn and Queens: Canarsie, East New York and Cambria Heights, for example. There is no good reason why homeowners in Cambria Heights, a residential community that is 90% Black, should pay an effective tax rate that is double those paid by homeowners in Park Slope or East Village, which are 62% and 50% White, respectively .

Zooming in on specific areas of the city, we found disturbing findings. For example, coops in Chinatown and Two Bridges are taxed at a significantly higher rate than the smaller coops and condos in the much whiter neighboring East Village and the sprawling luxury playground at Hudson Yards. Hot real-estate markets like Greenpoint and DUMBO in Brooklyn have ETRs 2.3 percentage points higher on average than the largest Hispanic (non-Black) communities like Hunts Point and North Corona in buildings with 4 units or more. There is actually a group of neighborhoods, including Hunts Point, Highbridge, Queensbridge, Longwood in the Bronx, and the Lower East Side in Manhattan that fall within the highest 10th in terms of percentage of families living under the federal poverty level (>26%) and average ETRs for multifamily buildings.

Overall, the racial bias found in our analysis presents serious concerns in regards to the Equal Protection Clause of the 14th Amendment of the Constitution and the Fair Housing Act (Title VII of the Civil Rights Act of 1968).

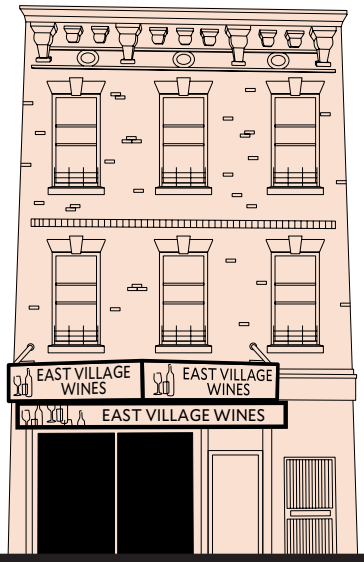
REAL WORLD EXAMPLE #4

This real-world example takes us to two very different neighborhoods to look at two not so different buildings. Property A on 1st Ave. in the East Village is a brick building built in the early 1900s, that has seen a lot of change. The culture and economic growth in the East Village neighborhood of Manhattan made the land under the building very valuable without any contribution necessarily from the owner. The community is close to millions of job opportunities, a vibrant nightlife, and home to one of the most storied art scenes in the world, once sheltering the likes of Basquiat and Keith Haring. These days you are now more likely to encounter NYU students and wealthy socialites than starving artists.

Ten miles Southeast in the Canarsie neighborhood of Brooklyn, Property B is a small brick building is nestled on a tiny lot on East 99th Street. Canarsie is known for its rich cultural history, being a landing spot for many new arriving Americans from the West Indies for the last half century. Built on marshland along Jamaica Bay, the neighborhood is one of the last majority Black communities in NYC, which has seen an exodus of Black families over the last decade. Serving as the title for recently released hip hop song by artist Fivio Foreign, Canarsie is a cultural touchstone in its own right.

Despite the cultural importance of both neighborhoods, their differences are stark. Commuting times for Canarsie residents to Manhattan and job centers in other boroughs are longer than those for many Long Island and New Jersey commuters. The East Village has a median household income of $118,000 and a population that is 50% White and only 10% Black-non Hispanic. The median income in Canarsie is $48,000, housing a 56% Black population and many of our city's teachers, healthcare workers, and MTA laborers. Despite their similarities, these two brick duplexes pay wildly different effective tax rates. The ETR for the Canarsie property is 1.0% - relatively low thanks to the Star Homeowner's Exemption (a benefit for low-income and elderly homeowners). But even with this exemption, the ETR for Property A sits significantly lower at just 0.2%. Assessment growth caps are the key cause of this difference, ensuring that even though this East Village property has enjoyed rapid growth in value, its tax bill remains low. Despite being five times more valuable than the Canarsie property, this East Village duplex contributes only slightly more than twice as much in property taxes.

This is a perfect example of how a tax code should not respond to escalating property values and gentrification. Instead of encouraging the East Village property to spread rising land values across many units by redeveloping, the tax system instead allows the landlord to enjoy growth in the property value while shielding them from rising tax bills. New Yorkers invested and built a thriving community around the building and the owner(s) profited. This property was last valued at $5.6 million.



	PROPERTY A - EAST VILLAGE	PROPERTY B - CANARSIE
LOT AREA	1,200 sq ft	2,000 sq ft
UNITS	2	2
FLOORSPACE	3,360 sq ft	1,780 sq ft
LAST SALES PRICE	n/a	$710,000
MARKET VALUE	$5,563,000	$550,000
BILLABLE ASSESSED VALUE	$65,410	$29,658
EXEMPTION		$1,440 (Star)
ANNUAL PROPERTY TAX	$13,058	$5,633
ETR	0.20%	1.00%

TAXES ON COMMERCIAL PROPERTIES ARE REGRESSIVE

While our analysis did not reveal regressivity in our analysis of commerical property ETRs, the degree to which the the City's assessment practices cause bias isn't identifiable using our menthods. However, other analyses have revealed that there are indeed inequalities that arise from how the city assesses commercial properties.

According to NYC's Independent Budget Office's (IBO) recent report on commercial property tax inequity, the "capitalized income approach" is at the center of this inequality. This approach uses net operating income and guideline capitalization rates provided annually by the Department of Finance (DOF). However, these rates tend to be higher than market-based capitalization rates, leading to under-assessment of property values compared to market sales. This discrepancy results in tax burdens that favor higher-value properties, exacerbating horizontal and vertical inequities.

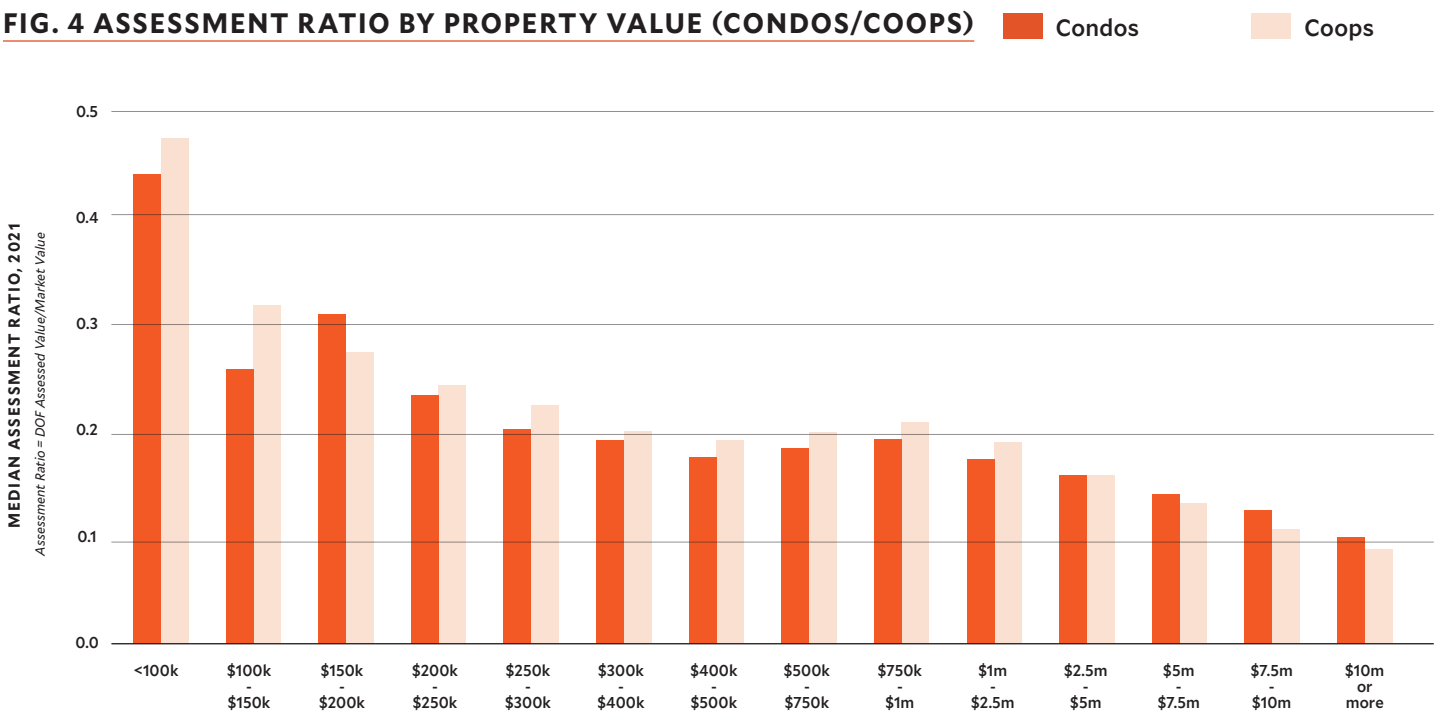
Another issue identified in the IBO report is that the income approach to assessing commercial (and large multifamily) properties results in valuations which reflect their current use, excluding market value that could be obtained because of future redevelopment potential of the site. This makes their property taxes more similar to a tax on rental income.

FINDING #4

Assessment Methods Favor More Valuable Condos/Coops

All of our analysis above look at the rate properties are being taxed compared to their assessed value, but the way DOF calculates those values for properties is important as well. There is a trail of evidence showing that there are issues with the property assessement methods used in New York Coty. As with commercial properties, there are specific practices and rules that have major impacts on inequality both within and across classes. For example, Class 2 properties are valued based on their incomes, DOF uses a measure known as capitalization rates or "cap rates" to convert these reported incomes into a property valuation. Market value is estimated by dividing a properties net income by the capitalization rate. All else being equal, an increase in the cap rate results in a lower estimated market value. DOF cap rates are consistently found to be too high for commercial properties, coop/condos, and high value rentals. This is a major part of the regressivity in these property types, which undervalues the most luxurious buildings and forces lower value sites to pick up a greater tax burden. Relatedly, because condos and coops are valued using the incomes of comparable rental properties, older buildings tend to be undertaxed simply because their only comparable properties are rent stabilized buildings. New buildings, by comparison, receive more accurate valuations, creating yet another bias against new construction. The effects of these biases can be clearly seen in Figure 4, where properties at the low end of the condo/coop market enjoy assessed values which are a much higher proportion of their actual market value. Conversely, luxury condos and coops are even more under-assessed (and therefore under-taxed). Finally, as mentioned earlier, the income approach to assessment only recognizes the value a property has today, ignoring any development potential; this has serious implications, especially when it comes to underdevelopment and vacancy.

FIG. 4 ASSESSMENT RATIO BY PROPERTY VALUE (CONDOS/COOPS)



Source: NYC Advisory Commission on Property Tax Reform, FInal Report

FINDING #5

Land Speculation is Rewarded

One under-discussed aspect of NYC's property tax system is that it penalizes productive land use, while rewarding those who keep land vacant. When land is developed into stores, apartments and other uses, these properties see large increases in their valuation, and thus higher tax bills. Conversely, a vacant plot of land enjoys a relatively low tax bill, even while the value of the site may be rapidly increasing (despite the landowner having done nothing to earn this additional wealth). Such a system punishes productive investment and rewards speculation.

Worse, because vacant properties in NYC are assigned to a tax class based on their zoned land use, such sites are paying a wide range of different ETRs, even though they are all just empty lots.

LAND VALUE TAX (LVT)

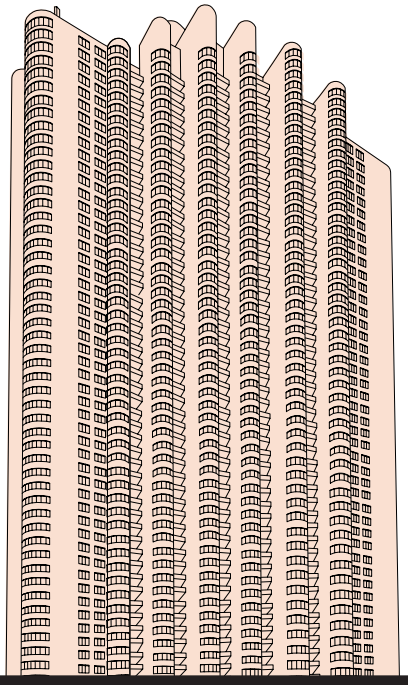
A land value tax (LVT) is similar to a traditional property tax, except that it only taxes the value of the land itself. Homes, businesses and other improvements are wholly exempt from taxation. LVT is often seen as fair because land is a natural resource whose value is not created by the landowner but comes instead from proximity to the rest of the community and from public investments like roads and schools. Economists consider LVT to be a desirable method of taxation because it does not penalize people for working, building or investing. This helps to encourage landowners to make the best use of their land, instead of letting it sit vacant or underused. Shifting the tax base onto land can help to boost the construction of infill housing, stimulate entrepreneurship and speed-up wage growth. LVT can therefore help tackle problems like housing affordability or urban sprawl.

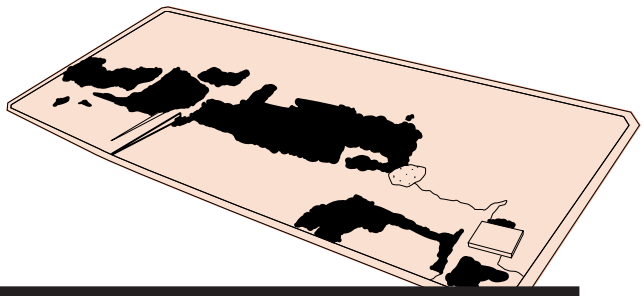
REAL WORLD EXAMPLE #5

Consider two adjacent properties in Midtown Manhattan. Located on 330 East 38th Street, The Corinthian is an iconic apartment building designed by Der Scutt and built in 1988 on 2 acres of land formerly home to the East Side Airline Terminal. Containing 863 apartments, many of which have sweeping views of Brooklyn and the East River, The Corinthian was valued at $206 million in FY2022. Its residents paid a total of $10 million in taxes to the City, for an ETR of 4.9%.

Kitty-corner is 666 First Avenue, an entire city block which has infamously sat vacant since the former Consolidated Edison powerhouse was demolished in 2006. Occupying over 6 acres of prime real estate, this site has seen its assessed value increase by $100 million over the past decade, despite stubbornly lying vacant the entire time. Indeed, with a valuation of $127 million in 2022, this site paid $4.3 million in taxes, an ETR of 3.4%.

Thus, we observe that The Corinthian is home to more than 800 households and occupies one third of the land area yet contributes more than double the taxes paid by 666 First Avenue. Using Manhattan's scarce land for much-needed housing is penalized by the tax code, while idle speculation is rewarded.





	THE CORINTHIAN AT 330 E 38TH ST	666 1ST AVENUE
LOT AREA	1,200 sq ft	82,764 sq ft
UNITS	863	0 (vacant since 2006)
FLOORSPACE	3,360 sq ft	1,780 sq ft
LAST SALES PRICE	n/a	$710,000
MARKET VALUE	$206,000,000	$127,000,000
ANNUAL PROPERTY TAX	$10,000,000	$4,300,000
ETR	4.90%	3.40%

Recommendations

The property tax system described in this report is not fit for a dense and diverse metropolis and progressive city like New York. At a time when low-income and working class households are reeling under oppressive housing costs, those in power must grapple with the reality that it is our choices in the past that have led us down this path and the choices made today will dictate what this city looks like many years from now.

As this report and countless prior analyses have found, there is an urgent need for a monumental shift in our property tax policy. We propose a set of immediate short-term solutions that can be adopted this year to dramatically reduce the regressivity of the NYC Property Tax system; along with a set of more long-term permanent solutions which would comprehensively reform our tax system once and for all.

Short Term Property Tax Solutions

1. SINGLE LOW-DENSITY PROPERTY CLASS

All residential properties below 10 units should be put into a single tax class, and all valued using sales *comparables*. This recommendation, suggested by the 2021 Tax Commission, brings simplicity to a large portion of properties and remedies the condo/coop disparity.

2. FAIR VALUATION FOR CLASS 2 AND 4:

All large residential and commercial properties should be valued using an income-based approach, but with cap rates adjusted towards the median at the top and bottom. This change addresses much of the regressivity found within these property types wherein lower-valued properties pay a disproportionate share of the burden. This recommendation was also endorsed by the City's Independent Budget Office in their 2022 analysis of commercial property taxes in NYC.

3. END FRACTIONAL ASSESSMENTS:

Fractional assessments should be abolished, such that all properties are taxed on the basis of their actual assessed value. Fractional Assessments continue to obfuscate effective tax rates (because the nominal tax rates for Class 1 look higher than other classes, but really their ETR is much lower due to the 6% assessment ratio).

4. EQUALIZE GROWTH CAPS:

All properties should use the same five-year smoothing method currently used for Class 2 and 4. We must end the practice of allowing speculators to capture value from our communities with no strategy of redistribution to those made vulnerable by inflationary effects. Additionally, caps should reset upon sale of a property.

5. ABOLISH CLASS SHARES:

Tax bills for any given class should closely resemble their share of assessed value. Taxes on mansions should not be discounted to the detriment of dense rental properties. Growth in a market should not be hidden behind class shares. This change would institute fairness across housing types.

6. TAX VACANT LAND FAIRLY IN NYC:

The Repairs to Apartments Act (A3286) proposes two key measures. Firstly, it creates a tax on vacant land in cities with populations of one million or more (like NYC). Residential and commercial properties that have been vacant for at least 180 days without a building permit will be taxed based on full market value. Additionally, the bill targets revenue from this tax towards funding of tax credits for rent-stabilized property renovations.

Long-term Solutions:

The next five recommendations should be seen as complementary policies that together create the environment for the creation of new units while avoiding the most pervasive effects of gentrification.

7. REMOVE THE CONDO/COOP ABATEMENT:

If the above short-term reforms are all in place, the condo/coop abatement is no longer necessary. Its purpose was to compensate for distortions introduced by the existing tax systemclasses and rules.

9. REMOVE OWNERSHIP BIAS WITH RENTER'S TAX CREDITS:

Recognizing that tenants help pay their landlord's tax bills, all tax relief that is provided to struggling homeowners should be equally available as cash transfers provided to tenants with equivalent levels of wealth/income. NYC is a city of renters, many of whom are rent burdened and facing the cost of living crisis. Housing and land use policy has a limited set of tools to protect renters today, but the tax regime should be used to support vulnerable renters with exactly the same support that it provides to homeowners.

10. TRANSITION TOWARDS LAND VALUE TAX:

NYC should switch to split-rate taxes, gradually reduce taxes on improvements, and raise them on land values.

Passing AB 9673 which proposes a pilot program for implementing local land value taxation in up to five municipalities in New York would be a great way to have localities experiment with the transition to capturing land rents. The bill requires participating municipalities to divide property asses-

-sments into two classes:

- Land or land exclusive of buildings (to be taxed at a higher rate).
- Buildings on land (to be taxed at a lower rate).

In order to participate, municipalities would be required to apply to the NY Department of Taxation and Finance, which will set application criteria. We recommend that NYC apply to pilot the LVT in Manhattan, as municipalities with populations over 50,000 must designate a specific neighborhood or area for the pilot.

8. ABOLISH THE 485-X TAX CREDIT:

Assuming a successful pilot and eventually full transition towards a land value tax, New York City is no longer in need of a system of credits to induce construction. The Land Value Tax serves as a corrective—putting the tax burden on areas with the greatest demand not the most effective use. With the long-standing tax credit abolished, the returning revenues should be used to fund the preservation of New York Housing Authority developments.

11. PASS A6265/S5674 ESTABLISHING THE NEW YORK STATE SOCIAL HOUSING DEVELOPMENT AUTHORITY:

A Social Housing Development Authority (SHDA) in New York would build and preserve thousands of publicly controlled and financed homes with union labor. As a state-run public authority, SHDA would serve as an alternative to private sector development, which is subject to major swings in the real estate investment cycle. While the property tax code can do a lot to spur development, there is nothing to counteract certain market environments— like high vacancy or new investment opportunities elsewhere. Additionally, units owned or created by SHDA would be social housing—a term used to describe development that prioritizes permanent affordability, democratic resident control, and social equality.

Methodology

SOURCES OF DATA

There is no publicly available dataset detailing the calculation of tax bills for every property in NYC, so we replicate these calculations manually.

Our primary dataset for this process is the Property Valuation and Assessment Data, which contains data on property assessments, exemptions, basic physical details (square footage, year built, alterations, etc) for 1,150,829 unique Borough-Block-Lot (BBL) numbers in the NYC property tax rolls in 2022Q3.

We supplement this data with the total value of exemptions and abatements applied to each BBL in 2022. As detailed in Table 1a, we apply Assessment Ratios of 6% for Class 1 properties and 45% for Classes 2, 3 & 4, and the published Property Tax Rates for year 2021/22.

TABLE 1A: RAW VARIABLES USED IN TAX BILL CALCULATIONS

DESCRIPTION	DATASET	VARIABLE
Market Value	Property Valuation and Assessment Data	CURMKTTOT
Capped Taxable Assessed Value	Property Valuation and Assessment Data	CURTXBTOT
Exemptions	Exemptions	FINEXMPTXBL
Abatements	Abatements	APPLIEDABT
Tax Commission Reductions	Reductions	REDUCTION

TABLE 2A: ASSESSMENT RATIOS AND TAX RATES APPLIED TO EACH PROPERTY CLASS

PROPERTY TAX CLASS	ASSESSMENT RATIO	TAX RATE
1 (+ 1A, 1B, 1C, 1D)	6%	19.963%
2 (+ 2A, 2B, 2C)	45%	12.235%
3	45%	12.289%
4 (+ 4A)	45%	10.755%

TAX BILL CALCULATIONS

We use the above variables to calculate each property's tax bill through the following five-stage calculation, which mirror the descriptions provided in the NYC Department of Finance Tax Guide:

1. Assessed Value = Market Value x Assessment Ratio
2. Billable Assessed Value = Smallest of Assessed Value & Capped Taxable Assessed Value
3. Taxable Value = Billable Assessed Value - Exemptions - Tax Commission Reductions
4. Provisional Tax Bill = Taxable Value x Tax Rate
5. Final Tax Bill = Provisional Tax Bill - Abatements

To explain, the Market Value of each property is determined by DOF using the methods described here. Each property has this Market Value marked-down by a predetermined Assessment Ratio (which is 6% for Class 1 properties and 45% for all other classes) to determine the Assessed Value. Because there are various legal constraints on how quickly any given property's tax bill may increase, this Assessed Value is compared to its Capped Taxable Assessed Value, and the lower of the two becomes its Billable Assessed Value.

We then subtract Exemptions granted by policies like 421a, J-51, and the Senior Citizen and Combat Veteran property tax exemptions. While testing the methods described here, it was discovered that Tax Commission assessment reductions are not reflected in the Exemptions dataset, so reductions from the 2021/22 tax year were extracted from the reports here and also subtracted from Billable Assessed Value.

This gives the Taxable Value for the property, which is then charged at its prevailing Tax Rate (which for 2021/22 ranged between 10.755% for Class 4, to 19.963% for Class 1), yielding the Provisional Tax Bill.

Finally, we remove any remaining tax Abatements, such as the Condo/Co-op, Solar Electric Generating Systems, or J51 abatement. During data checks it was observed that this process does not properly account for abatements arising from the School Tax Relief Program (STAR) program. Because these amounts cluster on a few specific values, it was possible to manually identify properties receiving STAR and also subtract their abatement values.

After these Abatements are subtracted from the Provisional Tax Bill, we have calculated the Final Tax Bill.

CHECKING THE ACCURACY OF TAX BILL CALCULATIONS

Because there is no publicly available dataset recording the tax bill charged to each property in 2022, we have no way of systematically testing the accuracy of our calculated Final Tax Bill. However, it is possible to look up the tax bills for individual properties using the DOF Property Address Search, where details are provided to explain each property's calculated taxes. Figure 3a provides one such example for 6A/166 Montague Street in Brooklyn.

FIGURE 3A: 2021/22 TAX BILL FOR 6A/166 MONTAGUE ST, BROOKLYN (BBL=3002491117)

Annual Property Tax Detail

	Overall Tax Rate	
Tax class 2 - Residential More Than 10 Units		
Current tax rate	12.2350%	
Estimated Market Value $249,354		
		Taxes
Billable Assessed Value	**$112,209**	
J-51 Alteration	-11,099.00	
Taxable Value	$101,110 x 12.2350%	
Tax Before Abatements and STAR	$12,370.84	**$12,370.84**
J51 Abatement		$-1,879.60
Annual property tax		**$10,491.24**

For information about the interest rate charged on late payments, visit nyc.gov/lateproperty payments.

Home banking payment instructions: Log into your bank or bill pay website and add "NYC DOF Property Tax" as the payee. Your account number is your borough-block-lot number: 3-00249-1117. Our address is P. O. Box 680, Newark, NJ 07101-0680.

To test the accuracy of our tax bill calculations, we take a random sample of 70 properties and manually check their published 2021/22 property tax statement against our calculations of their tax bill. For 94% of this sample, their tax bill is calculated perfectly. Our method properly accounts for the impact of the following exemptions and abatements:

- Exemptions: 421a, J-51 Alterations, Combat Veteran, Senior Citizen Homeowner, Urban Development Act. Proj., Div of Alt Mgmt Prog, Battery Park Authority.

- Abatments: Solar, Condo/Coop Abatement, J51, 421G.

Errors within the remaining 6% of sample cases are exclusively caused by two factors:

1. **School Tax Relief Program (STAR):** as described above, there is a consistent pattern in the discrepancies between two exemptions variables, which enables us to subtract the applied STAR abatement values for 305,057 properties. However, this process occasionally identifies false positives, resulting in a tax bill that is around $350 too low. This is unfortunately unavoidable, and accounts for 2 of the 4 discrepancies in our sample dataset.

2. **Tax Commission Reduction:** property owners can seek an adjustment of their tax bill if, for example, the Market Value is too high. Adjustments by the Tax Commission are published in report format on the Tax Commission website and were incorporated into our analysis, but does not appear to cover the full universe of properties which received adjustments in 2021/22. This accounts for 2 of the 4 errors in our sample dataset.

Comparing the total sum of tax bills, we find that the above discrepancies combine to a difference of 0.07% between calculated and actual tax bills. This is negligible for the purposes of the analysis described in the main report above.