NAI Realvest®

News & Information September 22, 2021

What the Tax Bill Reveals About CRE in NYC and Beyond

Commercial real estate (CRE) is counting the costs of Covid-19 as the property tax bills went out last month. Bloomberg News is reporting that the property tax bills have shone a stark light on what they've termed the "carnage wrought by the pandemic" on one of the world's most resilient and vibrant CRE markets, New York City (NYC) – and some of its most iconic landmarks. Furthermore, the valuations method is being criticized by many owners who want to push the city for further relief, according to BisNow.

No Small Fry

The following two sentences are a real eye-opener of a paragraph from Bloomberg:

> "From the Empire State Building to the Four Seasons, property owners saw the value of their buildings drop. The lower assessments stand to provide tax relief, but also serve as an [sic] ominous reminder of the damage done to commercial buildings as Covid-19 emptied out Manhattan."

Specifically, the City's tax bill for Class 4 properties (which excludes residential) suggests a drop in tax revenue in the coming fiscal of around $1.6 bn – which is roughly 5% - making for the most substantial weakening in about three decades.

That's no small matter for a city nearly built on CRE revenue – and the City's income from this segment is expected to take a further knock as "haggling" over the estimations is common practice for the market.

What the Tax Bill Reveals About CRE in NYC and Beyond

Limits to the Data

These valuation estimations come from the city finance department, and show a widespread impact pattern: office buildings' market value (for tax purposes) declined some 16%, and hotels and retail saw a dip of a whopping 20%. However, several major landlords and owners say this underestimates the real impact of the pandemic and they want significant relief from their tax bill to help cushion the blow.

There are several caveats to this data that must be highlighted for even-handed assessment. Specifically, this is based on "mass appraisal methodology", meaning that it isn't accounting for the resilience (or not) of particular buildings and categories.

This is the standard method for NYC given the sheer volume of CRE buildings therein. The city uses self-reported information from owners, which means that for this assessment period they were dealing with lagging data (2019) and have had to take some analysis leaps – using "current macroeconomic data" including the unemployment rate – to extrapolate and account for the effect of the pandemic.

So What?

This highlights the extent to which New York City has faced particular challenges due to Covid-19, as a city that has evolved into one of the commuter workers, hotels and immense office buildings.

This isn't the only current battle between CRE and NY, but at the state level this time: a collective of owners is challenging the state proposed tax on mezzanine debt and preferred equity. GlobeSt reports that the legislation "would require mezzanine and preferred equity agreements to be recorded as mortgages". This would furthermore allow municipalities to collect tax on debts and investments.

Whatever the outcome they highlight the continued influence of the CRE industry – in NY State and beyond.