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THE CITY OF NEW YORK
DEPARTMENT OF FINANCE

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Presentation to the NYC Rent Guidelines Board

April 15, 2008

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Commissioner

NYC Department of Finance



Agenda

- ❑ Background—The New York City Property Tax
- ❑ How Finance Values Apartment Buildings
- ❑ Other Issues—Rentals Compared to Other Properties
- ❑ Addressing Property Tax Related Issues



Background: The New York City Property Tax

- ❑ Market Value – Finance uses one of 3 Approaches:
 - Sales
 - Income, or
 - Cost
- ❑ Assessed Value – Owners are assessed at a Percentage of Market Value (Not 100%)
 - Small Homes—Class 1 is Assessed at 6%
 - All Other Properties—Classes Class 2, 3 and 4 are Assessed at 45%



Background: The New York City Property Tax

- ❑ There are 4 Separate Tax Classes
- ❑ Complicated Assessment Rules
 - Assessment Changes for Residential Buildings with less than 11 units are Capped at 8% per year and 30% over 5 years
 - Assessment Changes for Residential Buildings with more than 10 units are Phased-In over 5 years
 - Changes Attributable to Renovations and New Construction are not Phased-In



Background: The New York City Property Tax

- Assessment Rules are Complicated
 - Rental Buildings Cannot Be Valued Using a Sales Approach
 - Cooperative and Condominium Properties Must Be Valued Based on Income from Comparable Rental Buildings, Not Based on Sales



Background: The New York City Property Tax

- ❑ Class Shares—The Amount of Tax Paid by Each of the Four Tax Classes was Set in the Early 1980's
 - Share of Tax Paid Cannot Increase More than 5% Each Year



Background: The New York City Property Tax

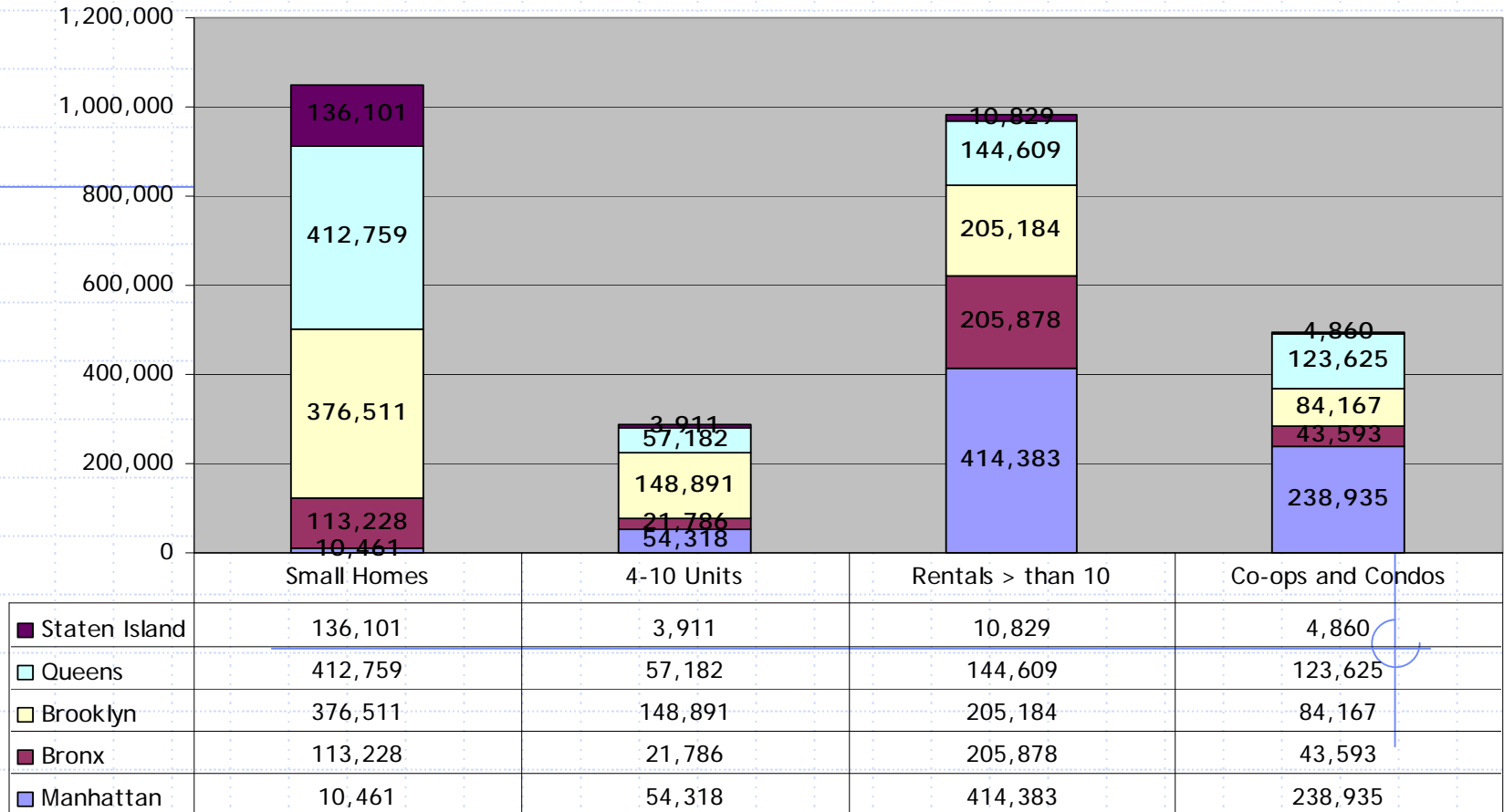
□ Rental Properties—FY'2008

- Total Number of Properties: 24,214
- Total Number of Units: 980,883
- Total Market Value: \$60.6 Billion
- Total Assessed Value: \$19.6 Billion
- Total Taxes Paid: \$2.4 Billion



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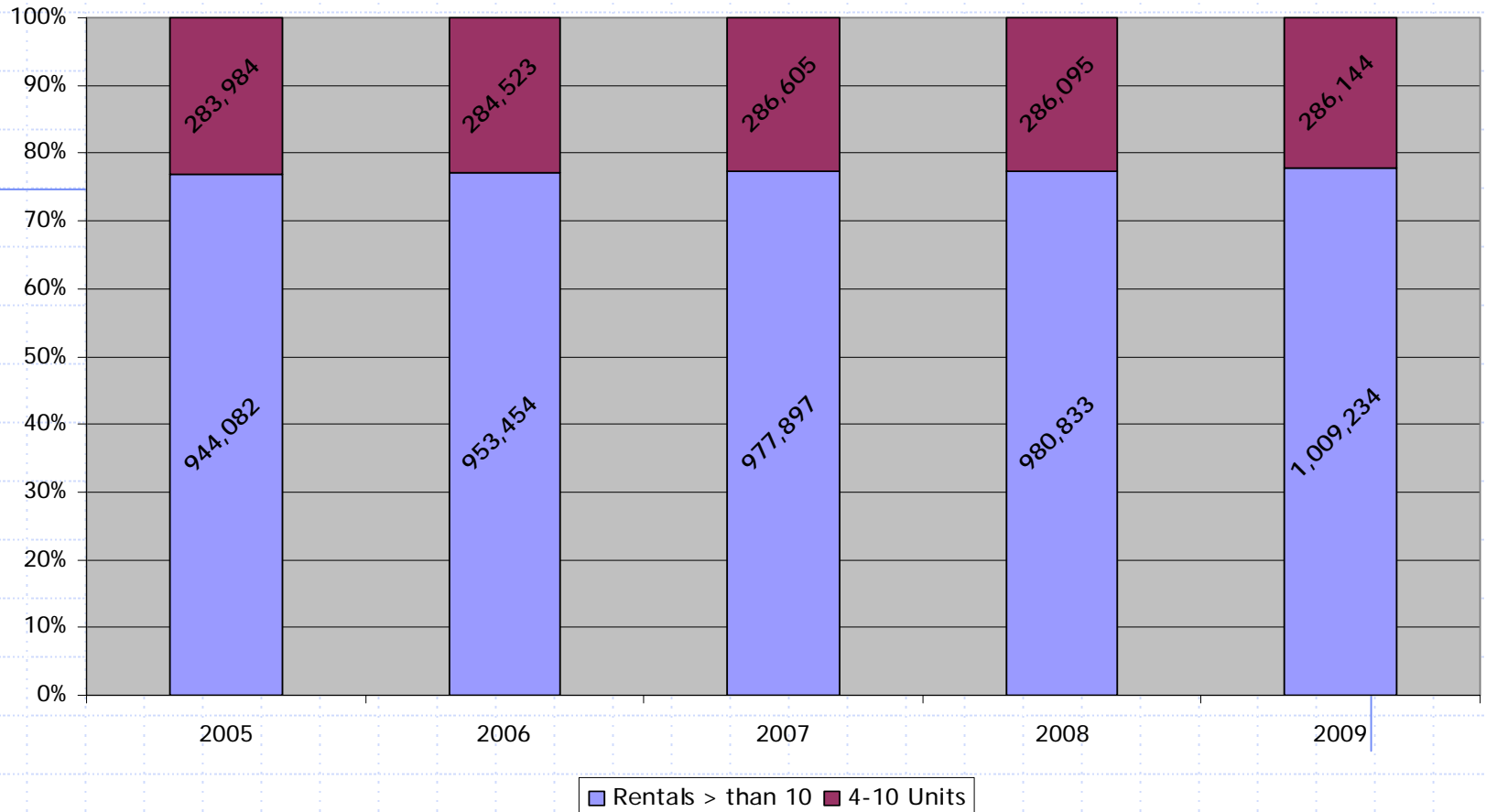
Residential Units In New York City





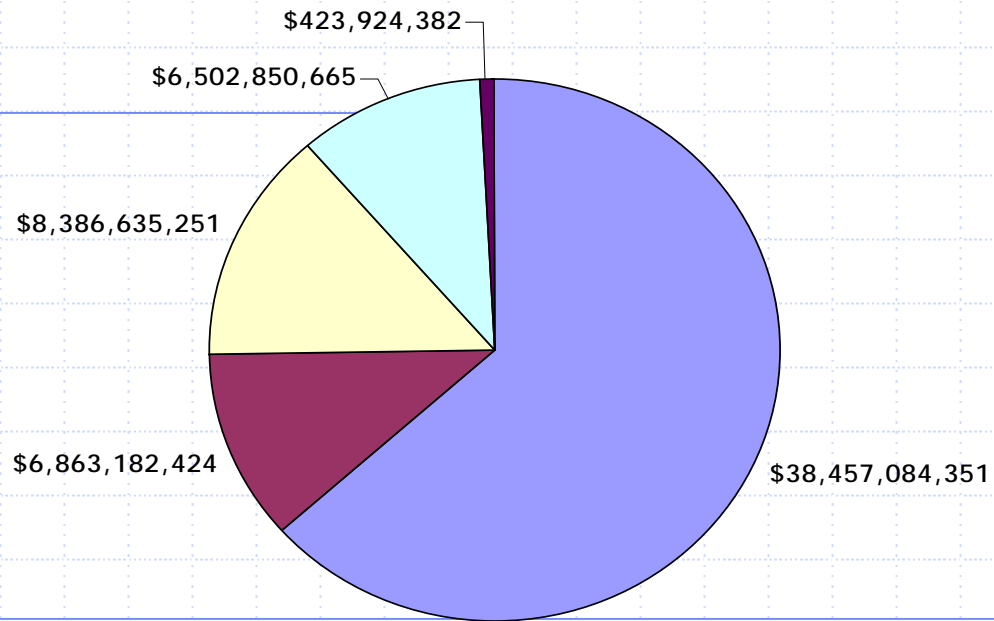
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Growth in Rental Units





Market Value for Rental Properties FY'2008



■ Manhattan ■ Bronx ■ Brooklyn ■ Queens ■ Staten Island



How Finance Values Apartment Buildings

- Finance Values Rental Properties Based on the Income Approach
 - Finance Receives Income and Expense Information From Owners of Rental Properties in September
 - Finance Values Property Free and Clear of Encumbrances
 - Mortgage Not Included as Expense
 - Don't Reward Bad Management or Penalize Efficient Management
 - Compliance Rate Has Increased
 - Electronic Filing Requirement
 - Simplified Form
 - Implemented Consistent Policy for Valuing Properties when Owner Did Not File



How Finance Values Apartment Buildings

- Finance Values Rental Properties Based on the Income Approach
 - Income Approaches
 - Capitalizing Net Income
 - Estimate Income, Expenses
 - Develop Capitalization Rate
 - Gross Income Multiplier
 - Estimate Income
 - Develop Multiplier, takes into account expenses



How Finance Values Apartment Buildings

- ❑ In the Past Finance, Capitalized Net Income
 - ❑ Produced Tax to Gross Income Ratios Ranging from 7% to 45%
 - ❑ Expense Ratios Varied from 21% to 89% for Unregulated Rentals and 24% to 84% for Regulated Rentals



How Finance Values Apartment Buildings

- Simple, Predictable and Fair
- Different Multiplier Depending on Income
Recognizes that Buildings with Lower
Incomes have Higher Expenses
- Buildings Categorized by Income per Square
Foot Deciles



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Apartment Buildings with More than 10 Units, Including Cooperatives and Condominiums

Income Range Per Square Foot		Gross Income Multiplier	Market Value Range Per Square Foot		Taxes Per Square Foot		Taxes as % of Income
\$1.47	\$8.22	3.0704	\$5	\$25	\$0.24	\$1.35	16.48%
\$8.23	\$9.52	3.2964	\$27	\$31	\$1.46	\$1.68	17.69%
\$9.52	\$10.80	3.3789	\$32	\$36	\$1.73	\$1.96	18.14%
\$10.80	\$12.16	3.5254	\$38	\$43	\$2.04	\$2.30	18.92%
\$12.16	\$13.57	3.7593	\$46	\$51	\$2.45	\$2.74	20.18%
\$13.57	\$15.11	3.9636	\$54	\$60	\$2.89	\$3.21	21.28%
\$15.11	\$19.11	4.0673	\$61	\$78	\$3.30	\$4.17	21.83%
\$19.11	\$25.38	4.4692	\$85	\$113	\$4.58	\$6.09	23.99%
\$25.38	\$33.88	4.8446	\$123	\$164	\$6.60	\$8.81	26.00%
\$33.88	\$152.83	5.0281	\$170	\$768	\$9.14	\$41.25	26.99%



How Finance Values Apartment Buildings

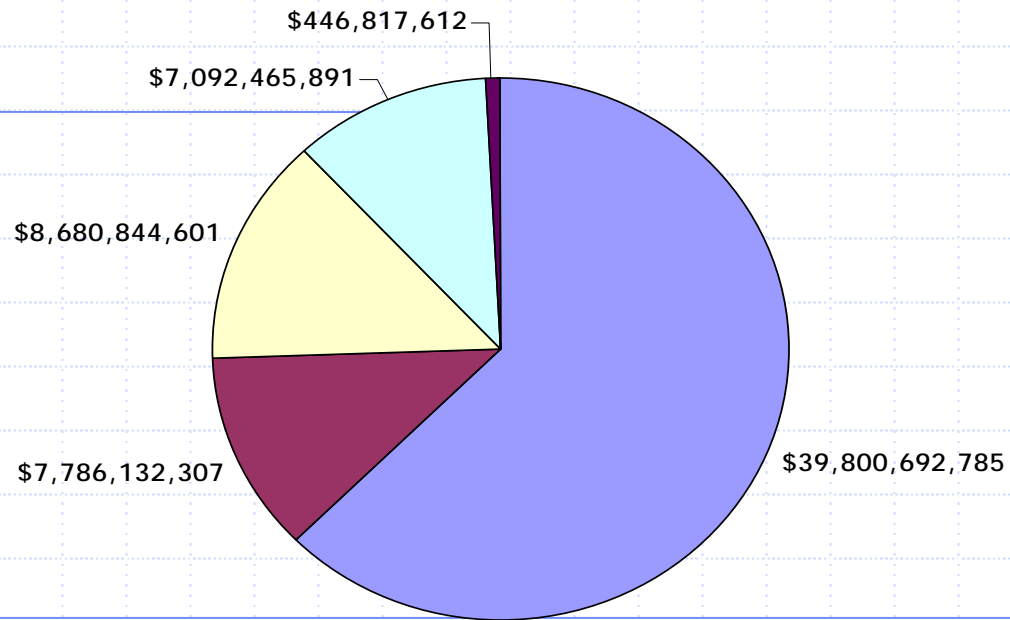
□ Rental Properties—Tentative FY'2009

- Total Number of Properties: 24,484
- Total Number of Units: 1,009,234
- Total Market Value: \$63.8 Billion
- Total Assessed Value: \$21.1 Billion



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Market Value for Rental Properties FY'2009 Tentative



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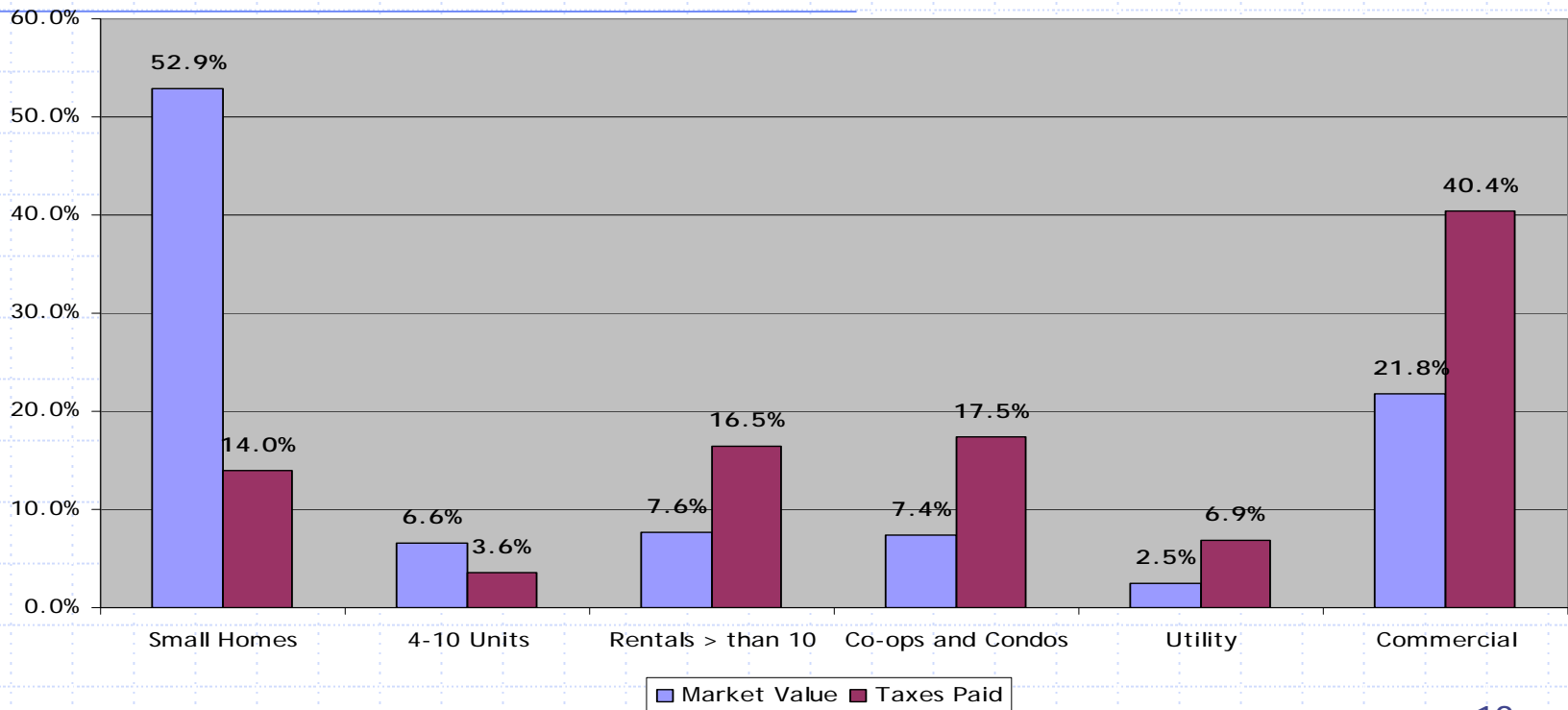
How Finance Values Apartment Buildings

- ❑ Taxes as % of Gross Income for 80% of Properties Built Before 1974 is Less than 22%
- ❑ Taxes as % of Gross Income for Newer Buildings is Between 22% and 27%
- ❑ Last Year Average Taxes as % of Gross Income for these deciles was between 16% and 30%



Other Issues: Rental Buildings Compared to Other Properties

Share of Market Value Compared to Share of Taxes Paid





Other Issues: Rental Buildings Compared to Other Properties

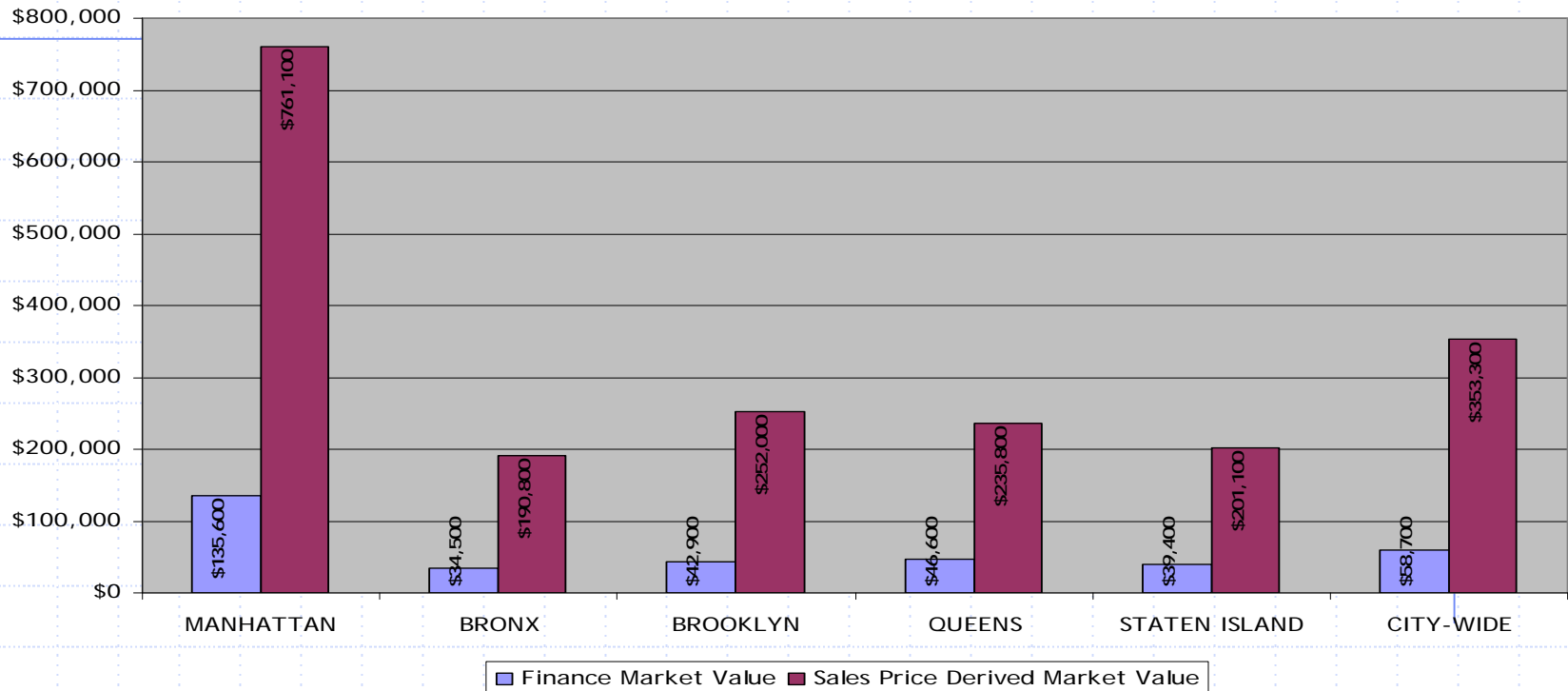
- Finance Must Value Co-ops and Condos Based on Rental Income
- Co-ops and Condos Built Before 1974 and with Subsidy Must Be Valued Using Rents from Rent Regulated Buildings
- As a result Income-Based Market Value for Co-ops and Condos is Far Below Sales Price-Based Market Value



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Other Issues: Rental Buildings Compared to Other Properties

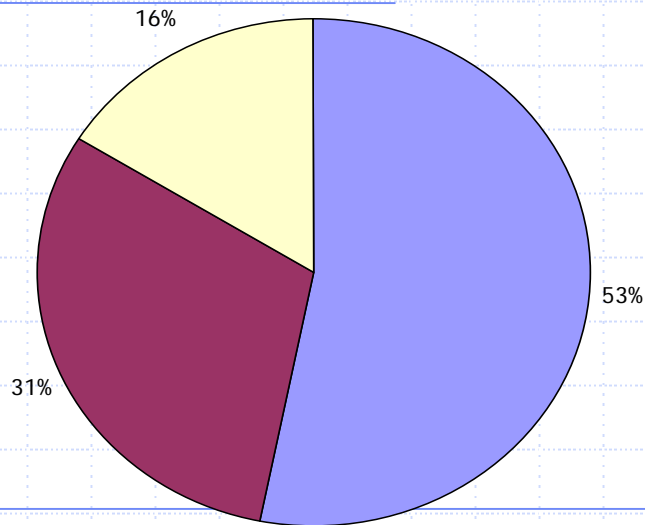
Finance Market Value Compared to Sales Price Derived Market Value for Cooperatives





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**Finance Estimated Market Value
(Based on Current Law)**

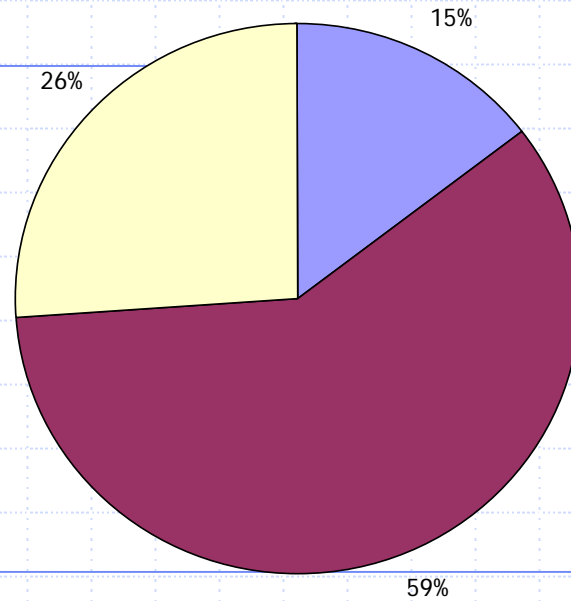


■ Rental Buildings ■ Cooperatives ■ Condominiums



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Finance Estimated Market Value
(Sales Prices for Co-ops & Condos)

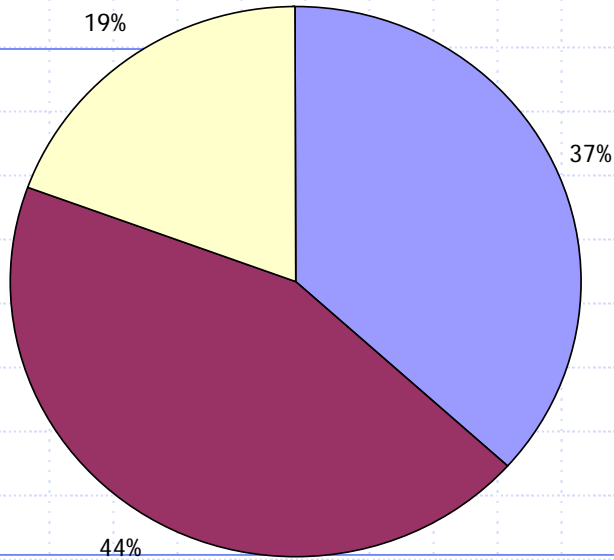


■ Rental Buildings ■ Cooperatives ■ Condominiums



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Finance Estimated Market Value (Sales Prices for All)

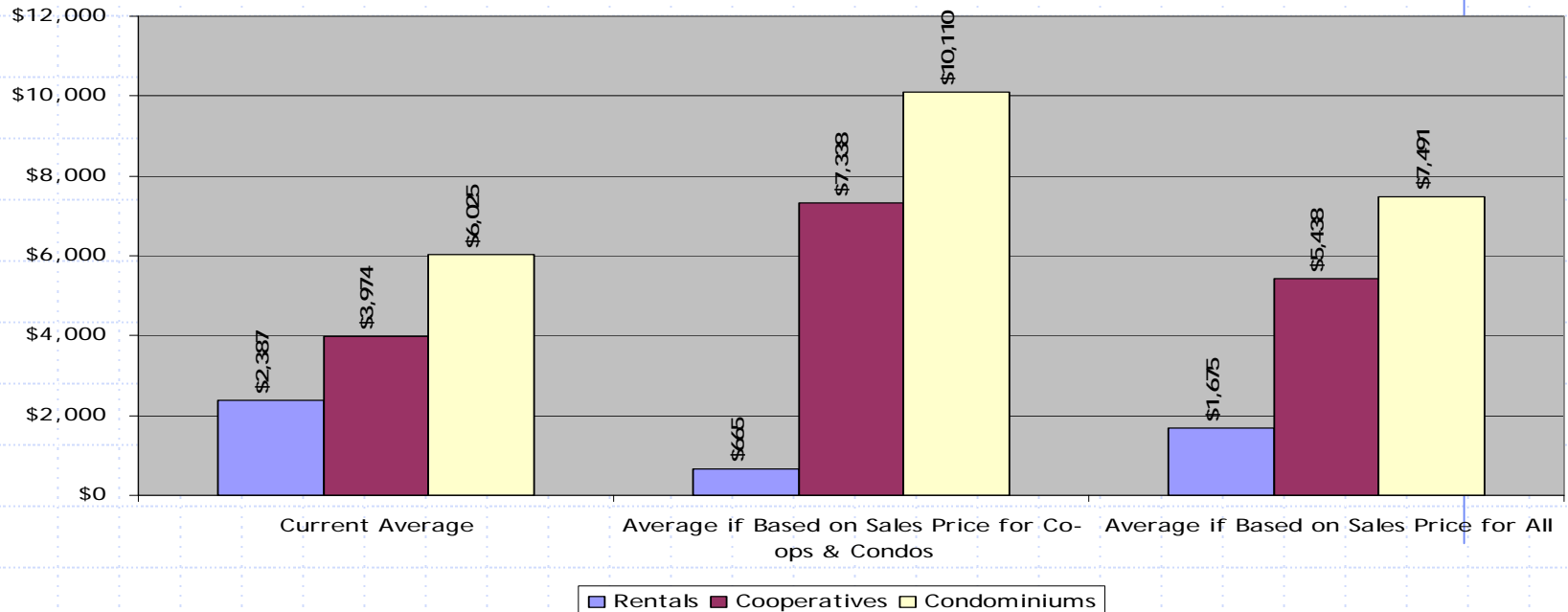


■ Rental Buildings ■ Cooperatives ■ Condominiums



Other Issues: Rental Buildings Compared to Other Properties

Average Taxes for Rentals, Cooperatives, & Condominiums





Addressing Property Tax Related Issues

- New Notice of Value
- Guidelines Published
- Information About Exemptions Available On Line
- Open to Feedback—Want to Value Properties Fairly and Transparently