WHAT IS GOING ON WITH 2023/24 NYC PROPERTY ASSESSMENTS?

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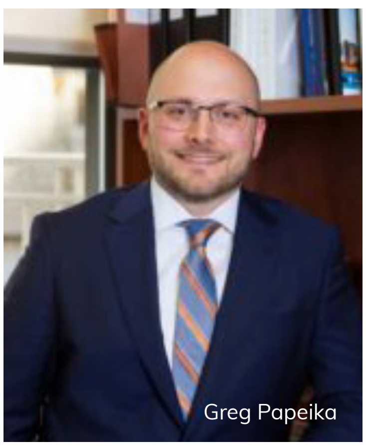

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On January 17, the New York City Department of Finance published its tentative property tax assessment roll valuing all real estate in New York City as of the January 5, 2023 "taxable status date." The final assessment roll will be published on May 25 and will affect property taxes due for the city's 2023/24 fiscal year (July 1, 2023 – June 30, 2024).

As a city whose core industries once attracted an influx of more than one million daily commuters into its central business districts, New York City has suffered as those workers have lagged in returning to their offices. The latest surveys do not anticipate Manhattan office occupancy to break the high 50% range even by the end of 2023. This change in the way we work has had an undeniably negative impact on real-world market values of commercial real estate assets such as office buildings. Retail properties, too, have suffered, as those tenants have long relied on foot traffic from office workers. Higher interest rates and tighter financing markets have also not helped the situation. Meanwhile, other city economic sectors that were absolutely ravaged early in the pandemic, like tourism and residential real estate, have begun to recover since 2020.

Where does that leave us vis-à-vis real property assessments in 2023/24? In 2022/23, we saw increases in nearly all asset classes and subclasses from 2021/22 pandemic-induced lows. In 2023/24, we see more mixed results. Overall, citywide market values increased by 6% from 2022/23 to $1.479 trillion — higher than before the pandemic. Much of that was due to increases in values of one-, two- and three-family homes (8.27%) and commercial properties (7.37%), while the city-held multifamily residential properties (including rentals, condos and co-ops) were relatively flat.

Parsing the data further, we see some confusing year-over-year trends. Manhattan office buildings increased in value by almost 7% to a total valuation of $128 billion, just shy of their pre-pandemic 2020/21 valuation of $133 billion, despite low occupancy and ominous signs. Manhattan retail values increased by almost 8%, despite lackluster leasing activity. Meanwhile, Manhattan multifamily values dropped by 1.5% (with rental buildings decreasing in value by 3%), despite residential rents being higher than ever before.

Why are the valuations of some asset classes moving in opposite directions to the real-world market conditions? It could have to do with the lag time between reported financial results and assessments. For property types like office and retail, statements likely reflected pre-pandemic longer-term leases that were still in place during 2021, whereas the residential properties likely reflected a rental market that was still negatively affected by COVID-19-induced tenant turnover.

The long-term effects of the pandemic on the valuation of real estate in New York City have yet to be fully realized. Barring another COVID-19-like event, it is likely that in 2024/25 and later, as properties' financial results become more reflective of longer-term market trends, we will see corresponding trends in valuation within each asset class.