Where Will Property Tax Assessments Head In 2024/25?

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On or around January 15, 2024, the New York City Department of Finance (DOF) will publish its tentative property tax assessment roll valuing all real estate in New York City as of the January 5, 2024 “taxable status date.” The final assessment roll will be published on May 25 and will affect property taxes due for the city’s 2024/25 fiscal year (July 1, 2024-June 30, 2025).

While it is not possible to predict the 2024/25 values, we think it likely that the values of most asset classes will continue to rise (on average) as has been the case in the past two tax years from pandemic lows in 2021/22, given improvements in the market and the economy since the recovery from pandemic began.

How much those values will change remains to be seen, as values for tax assessment purposes are affected by a number of factors such as trends in reported operating income and vacancy rates. What will likely not affect commercial and multifamily residential asset values are sale prices. The DOF does not typically look to sale prices in setting assessments for tax purposes.

Of particular interest will be how DOF treats certain subsets of properties within broader asset classes that may have unique characteristics, namely Class “B” (or lower) office properties suffering from higher vacancies, and formerly transient hotels now serving as homeless or migrant shelters. In the world that has emerged post-pandemic, each of these property types has diverged from others in their overall asset classes in terms of performance and, thus, market valuation. It remains to be seen whether and when the city will begin to recognize the unique market realities with respect to such assets in its valuations for tax purposes.

The post-pandemic trend toward remote and hybrid work has resulted in higher office vacancies overall (and lower revenue) and a “flight to quality” for tenants still looking for space. This has left Class “B” and lower office properties, typically older buildings with obsolete layouts many of which were geared toward smaller tenants, with quite a dilemma. Do they lower rents substantially to attract tenants? Do they live with higher vacancies in the hope of an eventual turnaround? Do they convert these properties to another more profitable use?

Regardless of the answer, the fact remains that the city will continue to assess these properties as offices as long as they remain such.

Historically, valuations for lower-class offices moved in tandem with trophy and Class “A” values, but given longer-term higher vacancy and lower rental income relative to higher-quality assets, we would expect to see such valuation trends diverge going forward. Will 2024/25 be the year that it happens?

With respect to hotels, since the pandemic, we have seen what amounts to a new asset subclass emerge — hotels that once catered primarily to tourist and business travelers now fully or partially rented on a contract basis, first to house homeless individuals and now primarily to house migrants from abroad with the city itself as the primary customer Whatever the specific reasons for such hotel owners to decide to permanently refocus their business, such contracts produce less revenue than those properties historically had generated pre-pandemic as traditional transient hotels, often lower on a per-key basis than DOF’s valuation guidelines typically would allow.

As hotels that remained in regular transient operation recover from the pandemic, will DOF continue to treat these other shelter hotels as comparable properties with values moving upward in lockstep? Or will it treat these properties in line with new market realities, particularly when the city is providing its revenues?

Property owners and others responsible for paying the property tax should be ready to review their January 2024 assessments, and to discuss with their property tax counsel the benefits of filing a challenge to these valuations. Such values will be published by DOF on or about January 15.