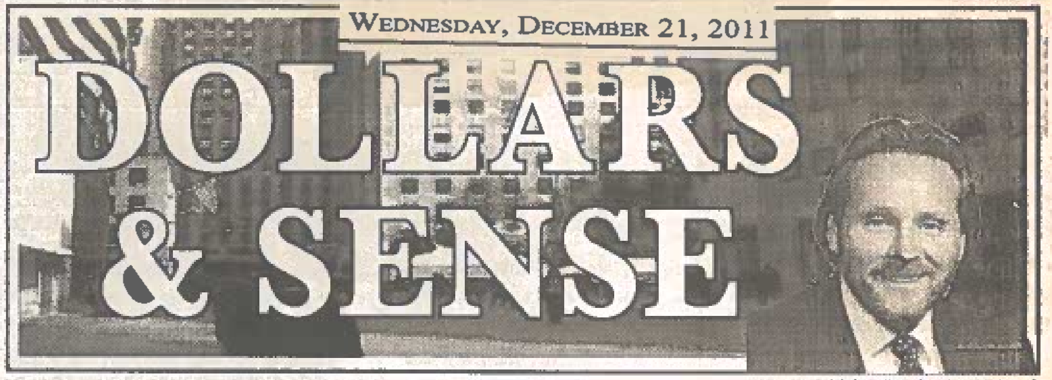

with Bob Knakal

Real estate taxes will increase

Q. Given the Mayor's recent announcement that real estate taxes will not be increased in 2012, do you think that will be positive for commercial property values next year?

A. Indeed, the Mayor announced that "real estate taxes won't increase next year" a position which was endorsed by City Council Speaker, Christine Quinn.

However, this statement, and the games politicians play with the real estate tax issue, is one of the biggest misrepresentations made by politicians across the city.

Typically, when politicians discuss tax caps they are talking about the tax rates. And tax rates are very different than real estate taxes.

The tax assessment is a number which is supposed to bear some relationship to the market value of a property.

Politicians can take cover by saying that "real estate taxes will not go up", seemingly appealing to our industry, but rest assured that real estate tax bill amounts are going to be higher next year than they were this year and there is no doubt about that.

This is because real estate tax assessments, the value upon which the tax rate is multiplied to determine the tax amount payable, will continue to rise. Even if tax rates stay the same, if tax assessments rise, owner's real estate tax bills are going to go up.

Under current market conditions, in which we are seeing appreciation in the value of Manhattan properties and stability in the value of properties in the boroughs, it is incomprehensible to think that tax assessments will not increase.

Municipal spending continues to increase and financial obligations, which so heavily burden the city, are growing at an alarming rate. These obligations are primarily in the form of pension obligations which are on an unsustainable course. These burdens create budget deficits. While many people look at New York City and believe that the financial services industry is the most important sector here, the real estate industry is really the economic driver that matters most.

Between real estate taxes, mortgage recording taxes and transfer fees, the real estate industry provides the city with over 50 percent of its annual revenue.The mechanism of assessed value calculation is most perplexing. It appears that this process is manipulated to meet the city's needs to constantly increase the tax burden faced by our industry.

Assessed values are expected to bear relationship to market value, yet from 2007 to 2010, average property values in the city dropped by 38 percent on a price per square foot basis.

During this period of declining values, real estate tax assessments continued to increase. There is a phase-in period for these assessments but it is doubtful that actual tax bills will be dropping anytime soon.

If taxable assessments consistently rose through this period of dropping values, there is no way assessments will not continue to increase as the market rebounds. Therefore, there is no doubt that property owners will see higher tax bills next year and the rate of that increase will be determined based upon the formulas used to determine assessed values.

Recent history has shown that real estate taxes are increasing at faster rate than other operating expense and additionally at a far greater rate than revenue. This is the main reason why in New York we have the highest real estate tax burden, as a percentage of building revenue, anywhere in the country.

The gap between our ratio and the ratio of other cities continues to grow as the city becomes more and more reliant on our industry to support its operations.

There is no reason to think that this dynamic is going to change anytime soon as continuing municipal expense obligations will necessitate the need for even more revenue. So the next time you hear a politician say that real estate taxes will not increase, you will know better.