



Old Astoria Neighborhood Association (OANA)
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Property Taxes, Housing, and the City of Yes

By Richard Khuzami

New York City's housing crisis is a daily struggle for residents across all five boroughs, with rising rents and a shortage of new housing. The recent zoning changes under the "City of Yes" initiative are a step in the right direction, allowing larger buildings, legalizing basement apartments, enabling commercial-to-residential conversions, and removing mandatory parking requirements for certain developments. However, without property tax reform, these changes may fall short of making a real impact.

Property taxes are one of the main barriers to building more housing in New York City. You can make it easier to build new units, but if property taxes spike dramatically, the cost of expanding properties becomes unfeasible for many owners. The City of Yes will remain a pipe dream unless the property tax system also supports it.

Let's break down what happens when a homeowner wants to add more units. Take a 3-family building worth \$1.5 million. If the owner wants to convert it into a 4-family building, here's how property taxes would change.

Property Taxes: New Construction vs. Expanding Existing Buildings

Once a building hits four or more units, it falls under Class 2, regardless of whether it's new or an expansion. The issue arises in how property assessments are calculated. Each property class uses its own percentage of the market value to determine assessed value, and each class has distinct tax rates. This difference in assessment practices is a major reason for the varying tax burdens between different types of structures.

Class 1 (1-3 Family)

Renovating Existing Building (Expansion)

Market Value: \$1,500,000

Assessed Value: $\$1,500,000 \times 0.037^* = \$56,200$

Tax Rate: 20.085%

Annual Property Tax: $\$56,200 \times 0.20085 = \$11,300$

New Construction

Market Value: \$1,500,000

Assessed Value: $\$1,500,000 \times 0.06 = \$90,000$



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Tax Rate: 20.085%

Annual Property Tax: \$90,000 x 0.20085 = \$18,076.50

Class 2 (4-6 Family)

Existing Building with Improvements (Expansion)

Market Value: \$2,100,000

Assessed Value: \$2,100,000 x 0.20* = \$420,000

Tax Rate: 12.5%

Annual Property Tax: \$420,000 x 0.125 = \$52,500

New Construction

Market Value: \$2,100,000**

Assessed Value: \$2,100,000 x 0.45 = \$945,000

Tax Rate: 12.5%


Annual Property Tax: \$945,000 x 0.125 = \$118,125

Why This Matters

The difference in property tax assessments is enormous. Changing a class one existing building with a class 2 renovation results in an increased tax burden from \$11,300.00 to \$52,500.00, more than 4.5 times greater. Creating class 2 new construction from the same class 1 building (By demolishing the old building) shows an increase from \$11,300.00 to \$118,125.00, 10.5 times greater.

This makes it financially difficult for many property owners to build or expand their properties, even though these projects could help alleviate the housing crisis.

There are more than 270,000 2-family buildings and over 77,000 3-family buildings across New York City.*** If property owners in these smaller buildings were allowed to increase the number of housing units without facing crippling tax hikes, it could go a long way toward alleviating the housing crisis. Moreover, many of these properties are owned by local residents, not large developers, and so expanding these buildings would help strengthen the neighborhoods and keep ownership within the community.

Old Astoria Neighborhood Association | PO Box 2286, Astoria, NY, 11102
Phone: 347.730.6137 | Email: Info@OANA-NY.org  [Facebook.com/OANA.NewYork](https://www.facebook.com/OANA.NewYork)
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A Solution: Property Tax Reform

To make the City of Yes a reality, we need to address the property tax system. While zoning changes can increase density, the high taxes tied to new construction and expansions can prevent these changes from having their intended effect. One solution is to consolidate 1-5 family buildings into a single Class 1 category, leaving Class 2 for buildings with six or more units. This would create a more consistent and fair tax structure for smaller residential properties, encouraging expansion without the threat of crippling tax hikes.****

Property tax reform could unlock the full potential of the City of Yes initiative. By addressing the tax burden, we can encourage property owners to build more housing and reduce the city's housing shortage. Without this reform, even the best zoning changes will fall short.

Notes:

*These are average assessment ratios for Existing Building Expansion. Keep in mind, therefore, that half of assessed values are higher, and half are lower.

** Estimated market value for a 4 family building converted from a class 1 building (Note that class 2 market value based on income, class 1 on comparative selling price of similar buildings)

*** NYC PLUTO (Property Land Use Tax Online) Database

**** The city has recently created J-51r tax incentive for rehabilitation of buildings; however this only applies for:

Buildings over 25,000 gross square feet

Two or more buildings on the same tax lot that together are over 50,000 gross square feet

Two or more buildings owned by a condo association that are governed by the same board of managers and that exceed 50,000 gross square feet

Therefore, it does not apply to most 2-5 family buildings referenced above.