



Old Astoria Neighborhood Association (OANA)
www.OANA-NY.org

Property Taxes Will Decide Whether “City of Yes” Reaches Its Full Potential

New York City is trying once again to tackle its housing crisis. With the recent announcement by Mayor Zohran Mamdani unveiling new tools and financing to help homeowners build accessory dwelling units, the city is embracing an important idea: small-scale housing growth must be part of the solution. (Full announcement: <https://www.nyc.gov/mayors-office/news/2026/03/mayor-mamdani-unveils-new-tools-and-financing-to-help-homeowners>)

That much is right.

Allowing basement apartments, backyard cottages, and modest additions is exactly the kind of incremental growth New York needs. It can create new homes without requiring massive new towers, and it allows existing property owners to play a direct role in addressing the housing shortage.

But there is a major problem embedded in the system, and unless the city addresses it, this initiative will fall short of its potential.

New York’s property tax structure punishes many of the very homeowners it is asking to add housing.

The issue comes down to how the city classifies buildings. One- to three-family homes fall under Class 1. Buildings with four or more units fall into Class 2. That distinction may sound technical, but in practice it creates a steep financial cliff.

Class 1 properties benefit from caps and a relatively stable, predictable tax structure. Class 2 buildings are treated as income-producing properties and are evaluated using a different methodology, largely based on rental income, without the same protections that apply to smaller homes.

The result is a sharp and permanent jump in taxes when a property crosses from three units to four.

Consider a typical three-family building. If the city determines a market value of about \$2,000,000 for tax purposes, the annual property tax bill would generally fall in the range of roughly \$20,000 to \$25,000, often lower in practice because of caps. Add one more unit, and that same property becomes a four-family building subject to Class 2 treatment. The annual taxes can then rise to \$50,000 to \$80,000 or more, depending on rents and valuation.

That’s not an increase. That’s a penalty.

And it has predictable consequences. Homeowners do not make decisions based on policy goals—they respond to long-term costs. When adding a unit results in a permanently higher tax burden, many simply choose not to build.



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This is not a marginal issue. New York City has more than 75,000 three-family buildings. These properties are spread across established neighborhoods and represent one of the city's most immediate opportunities to add housing one unit at a time.

If even a modest share of these buildings added a single unit, tens of thousands of new homes could be created without large-scale redevelopment. But under the current system, that potential remains largely untapped.

Existing incentive programs do not solve this problem. Programs like J-51r are designed primarily for larger buildings and large-scale projects. They do not apply to most small property owners, who are the very people the city is now counting on to expand housing supply.

There is a straightforward solution.

New York City should treat one- to five-family residential buildings as Class 1 and reserve Class 2 for buildings with six or more units. That would eliminate the tax penalty associated with modest expansions, including the move from three units to four or five.

This approach also reflects how these properties function in practice. Six-family buildings have long been treated as commercial in nature and contain a large share of the city's rent-stabilized housing. They are fundamentally different from small, owner-scaled properties. Treating them differently under the tax code is both logical and consistent with existing policy.

This is not a tax break. It is a correction.

Right now, the city is trying to encourage small-scale housing growth while maintaining a tax structure that discourages it. Zoning reform without tax reform will not produce its full potential.

City of Yes points in the right direction. But unless the city removes the tax penalty tied to small-scale expansion—especially the jump from three units to four—it will not deliver what it promises.

New York does not just need permission to build more housing. It needs a system that makes building it possible.

Richard Khuzami, President