New York City Independent Budget Office IBO Explains

IBO's Real Property Tax Forecast: Comparisons and Sensitivity Analyses for the November Plan

Introduction

The real property tax (RPT) is New York City's largest source of tax revenue, comprising 44 percent of the City's tax revenue collections in fiscal year 2023. (Unless otherwise noted, all years refer to city fiscal years.) RPT is typically a source of steady revenue growth, driven by rising property values and new real estate construction. But the Covid-19 pandemic's effect on city property values led to swings in RPT revenue in 2022 and 2023, and RPT current forecasts through 2027 anticipate slower growth in tax collections. A softening in the commercial real estate market and interest rate hikes from the Federal Reserve have made accurate projections, or forecasts, of RPT revenues more difficult. This brief reports on the instability of recent RPT collections and compares IBO's forecast to projections made by other city entities. It then elaborates on IBO's forecast by presenting the specific projections of revenue for each property tax class. Finally, it examines the sensitivity of IBO's forecast under two different alternative assumptions.

Recent RPT revenue and forecasts

Property tax collections increased relatively steadily by an average of 6.4 percent per year from 2012 through 2021. A shift occurred in 2022, however, in response to the Covid-19 pandemic. In anticipation of major declines in rental income for commercial properties and residential apartment buildings, the Department of Finance (DOF) sharply reduced the assessment of property values that were used to calculate the 2022 tax bills, which led to a 6.0 percent decrease in property tax collections that year. Annual RPT revenues rebounded in 2023, rising by 7.0 percent to a level just above 2021 revenues (see Figure 1). The rebound is in part due to DOF determining that some of the reductions it made for 2022 were overestimated and, as a correction, DOF boosted estimated property value for determining 2023 tax bills. Because of this, the 2023 rebound in RPT collections does not necessarily indicate a return to pre-pandemic annual growth trends.

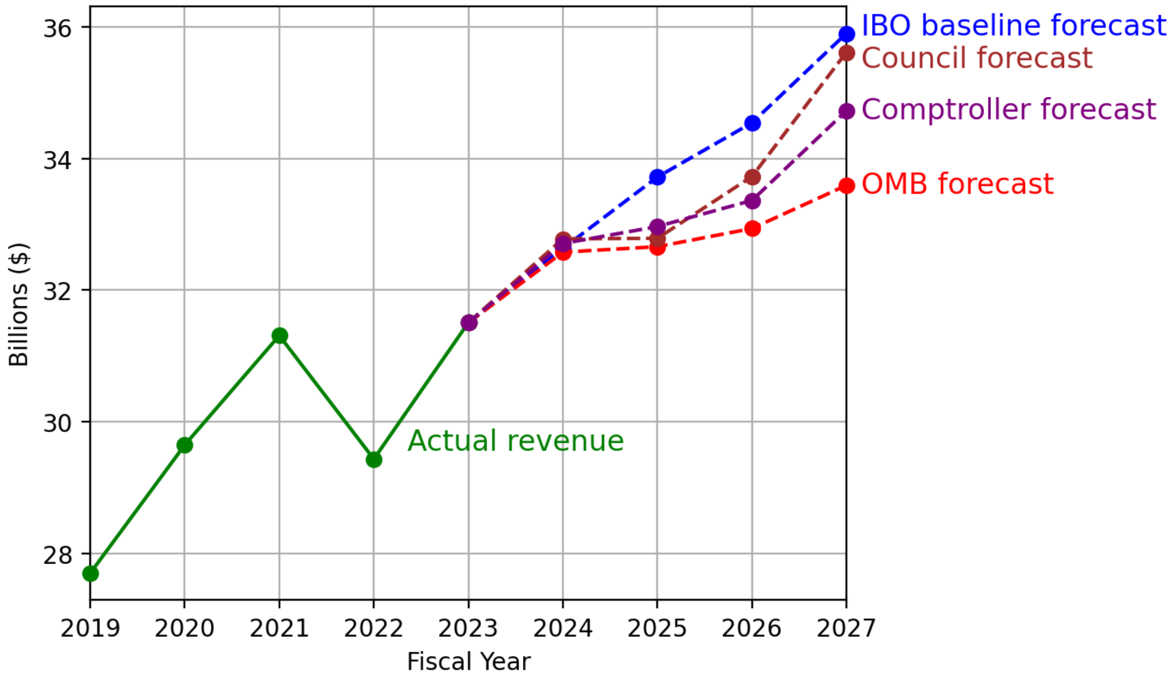
New York City
Independent Budget Office
Louisa Chafee, Director

This report was prepared by
Richard DiSalvo and Eric Mosher

110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632
www.ibo.nyc.gov

Figure 1

Comparing IBO's Baseline Forecast to City Council, Comptroller, and OMB Forecasts



SOURCES: IBO analysis of Department of Finance data, OMB November 2023 Financial Plan, Comptroller 2023 Annual State of the City's Economy and Finances, New York City Council Finance November 2023 Economic & Tax Revenue Forecast Update
NOTE: Because the Comptroller's forecasts include STAR rebates while the other forecasts (including IBO's) do not, IBO adjusted the Comptroller's forecasts down by subtracting off the OMB forecast for STAR rebates.

In 2024, IBO forecasts a 3.6 percent increase in property tax revenue, followed by average annual growth of 3.2 percent from 2025 through 2027. This is about half of the annual growth seen in the decade prior to the pandemic. Other forecasters also anticipate a slowing of RPT collections growth during the forecast period. Figure 1 illustrates IBO's RPT revenue forecast together with the forecasts of the Mayor's Office of Management and Budget (OMB), City Council Finance Division, and the Office of the New York City Comptroller. IBO forecasts faster revenue growth from 2024 through 2027 than the other forecasts, and OMB forecasts the slowest growth. City Council Finance and the Comptroller published their RPT forecasts in November 2023 and December 2023, respectively. The OMB property tax forecast values included in the figure were published in November 2023, revised slightly upward since June 2023 when they published the most recent comprehensive update of their forecast.

IBO's Forecast by Tax Class

Under state property tax law, there are four classes of property in the city: Class 1 consists of one-, two-, and three-family homes; Class 2 comprises apartment buildings—rentals, cooperatives, and condominiums; Class 3 is exclusively real property owned by utility companies; and Class 4 consists of all other commercial and industrial properties. State law and DOF practices for estimating properties' market values and assessed values for tax purposes vary by tax class, as do tax rates. For its RPT forecast, IBO generates a separate forecast of aggregate assessed value for tax purposes for each class and for the total levy of the tax class. The levy is the aggregate tax liability for properties in the class, prior to the subtraction of abatements (specific tax breaks) and other adjustments, such as for delinquencies in tax payments, referred to as uncollectible taxes. The sum of abatements and other adjustments is known as the reserve, and IBO forecasts the total reserve as a single value (not separately by tax class). IBO's total RPT forecast is the sum of the four projected gross levies minus the forecasted total reserve.

Figure 2

IBO's Baseline Real Property Tax (RPT) Forecast by Tax Class
(Dollars in millions)

	Fiscal Year				
	2024	**2025**	**2026**	**2027**	**Average Annual Growth Rate**
IBO Baseline Forecast					
Gross Levies					
Class 1	5,095	5,293	5,481	5,677	3.7%
Class 2	13,920	14,392	14,589	15,202	3.0%
Class 3	2,658	2,702	2,851	3,008	4.2%
Class 4	13,668	14,005	14,345	14,821	2.7%
Reserve	(2,707)	(2,674)	(2,726)	(2,810)	1.3%
IBO Baseline Revenue Forecast	**$32,633**	**$33,717**	**$34,540**	**$35,898**	**3.2%**
Compare with total revenue forecasts of					
OMB	$32,577	32,660	32,934	33,592	1.0%
City Council	$32,779	32,787	33,725	35,613	2.8%
City Comptroller	$32,708	32,966	33,362	34,725	2.0%

SOURCES: IBO analysis of Department of Finance data, OMB November 2023 Financial Plan, Comptroller 2023 Annual State of the City's Economy and Finances, New York City Council Finance November 2023 Economic & Tax Revenue Forecast Update.
NOTES: Growth rates represent average annual percent growth from 2024 through 2027. The reserve includes abatements.

Figure 2 presents IBO's current baseline forecast of each tax class's gross levy and total reserve. IBO's baseline forecast is what was presented in IBO's recent report on city revenues and spending, and this forecast reflects what IBO thinks is the most likely outcome. The bulk of revenue growth in IBO's forecast comes from Class 2 and Class 4, which account for, respectively, 38 percent and 34 percent of aggregate gross levy growth from 2024 through 2027. For comparison, Figure 2 also includes the total RPT revenue forecasts from OMB, City Council, and the Comptroller for the same time period.

Sensitivity Analyses

Forecasts of the City's property tax revenue are determined in large part by projected changes in the levies of different types of property. To gauge the sensitivity of IBO's forecast on levy projections, IBO generated two alternative RPT forecasts, each based on scenarios of levy growth for Class 2 or Class 4 that are lower than in IBO's baseline forecast. The results of these sensitivity analyses are shown in Figures 3 and 4.

In both alternative forecasts, IBO believes that the growth of Class 1 and Class 3 levies will remain steady, because of the way in which these two levies are calculated. For Class 1 properties, state rules set caps on assessment growth that drive relatively steady, and predictable, levy growth, ranging from 3.5 percent to 3.9 percent each year in the baseline forecast. The levy of Class 3, which consists solely of utility properties, is also largely determined by state assessment practices, generating stable growth over time. With Class 1 and Class 3 having relatively stable growth, IBO's sensitivity analyses focus on a combination of changes in the growth rates of the Class 2 and Class 4 levies.

Scenario 1: Office Doomsday

IBO's first sensitivity analysis is motivated by the widespread discussion of a softening in the commercial office market due to remote and hybrid work schedules that became prevalent following the onset of the Covid-19 pandemic. IBO's baseline forecast accounts for some office market softening by projecting 2 percent annual growth in Manhattan office values throughout the forecast period, rather than the 5 to 6 percent growth seen before the pandemic. To examine sensitivity of IBO's RPT forecast to a more pessimistic outlook for Manhattan offices, IBO incorporated a 6 percent annual decline in the Manhattan office gross levy—rather than a 2 percent annual increase—calling this the "office doomsday" scenario.[1] This substantially reduces IBO's RPT forecast: IBO had baseline forecasted about $35.9 billion in revenues in 2027, and 3.2 percent annual growth from 2024 through 2027. But with this more pessimistic office outlook, IBO forecasts $1.3 billion lower revenues in 2027, and only 1.9 percent annual growth. Across the forecasted years, this alternative forecast is 1.4 percent to 3.7 percent lower than IBO's baseline. Still, IBO's office doomsday revenue forecast of $34.6 billion in 2027 remains $1 billion dollars higher than OMB's 2027 forecast.[2]

Figure 3

IBO Baseline Forecast and Sensitivity Analyses
(Dollars in millions)

	Fiscal Year			
	2024	**2025**	**2026**	**2027**
IBO Baseline Forecast				
(A) Class 1 and 3 Gross Levy	7,753	7,995	8,332	8,685
(B) Reserve (incl. Abatements)	(2,707)	(2,674)	(2,726)	(2,810)
(C) Class 2 Gross Levy	13,920	14,392	14,589	15,202
(D) Class 4 Gross Levy	13,668	14,005	14,345	14,821
Includes: Manhattan Offices (2 percent annual growth)	5,752	5,867	5,984	6,104
(R1) Baseline Revenue Forecast	$32,633	$33,717	$34,540	$35,898
IBO Office Doomsday				
(E) Class 4 Gross Levy	13,668	13,545	13,443	13,494
Includes: Manhattan Offices (6 percent annual decline)	5,752	5,407	5,083	4,778
(R2) Implied Revenue Forecast (= A+B+C+E)	$32,633	$33,257	$33,639	$34,572
IBO No Class 2 or 4 Growth				
(F) Class 2 Gross Levy	13,920	13,920	13,920	13,920
(G) Class 4 Gross Levy	13,668	13,668	13,668	13,668
(R3) Implied Revenue Forecast (= A+B+F+G)	$32,633	$32,909	$33,194	$33,463

SOURCES: IBO analysis of Department of Finance data

1 The assumption of a 6 percent annual decline is motivated by estimates from the recent working paper by Arpit Gupta, Vrinda Mittal, and Stijn Van Nieuwerburgh, **"Work From Home and the Office Real Estate Apocalypse"** (December 2, 2023). It also follows the assumptions in the "doomsday scenario" evaluated in the Comptroller's Spotlight Report, **"What Risks Does the Office Market Pose for the City's Finances?"** (June 13, 2023).

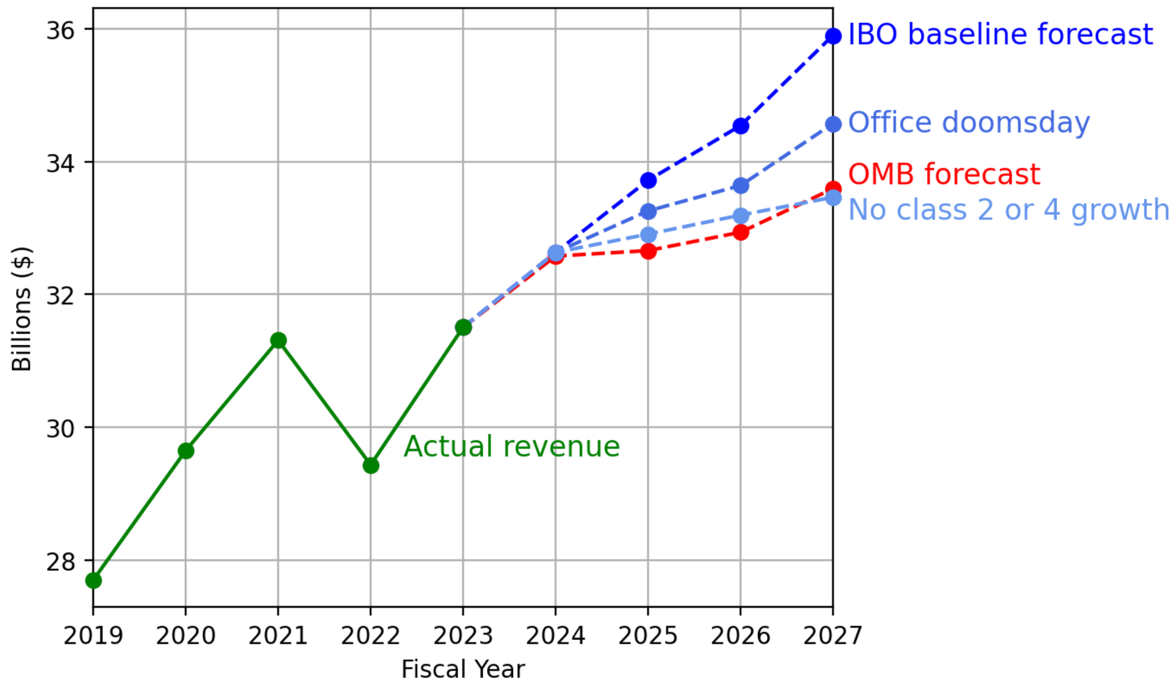
2 IBO's 2027 office doomsday gross levy forecast is $1.1 billion dollars higher than the Comptroller's **Spotlight Report** "doomsday scenario" levy forecast, which was published in June 2023.

Scenario 2: No Class 2 or 4 Growth

In the second sensitivity analysis, IBO considers a scenario where there is no growth in Class 2 and Class 4 gross levies after 2024; the levies remain at their 2024 levels through 2027. This scenario explores the possibility of a significant economic downturn that affects large residential incomes as well as office building incomes—in other words, a broader real estate impact than the office doomsday scenario. Across the forecasted years, this alternative forecast is 2.4 percent to 6.8 percent lower than IBO's baseline—and yields a more pessimistic RPT forecast, not dissimilar to the forecast OMB presented in the November Plan.

Figure 4

Comparing IBO's Baseline Forecast to Alternative Scenarios



SOURCES: IBO analysis of Department of Finance data, OMB November 2023 Financial Plan

Conclusion

While RPT forecasts for fiscal year 2024 are similar across city entities, IBO forecasts greater growth in RPT revenues than other city entities for fiscal years 2024 through 2027, and OMB forecasts the least growth. IBO's forecasted growth in RPT revenues is due to predicted assessed value growth from large residential and commercial properties. Changing this to an assumption of an office doomsday scenario—a relatively fast decline in Manhattan office assessed values—leads to a more pessimistic forecast but still higher RPT growth than OMB. Changing this to an assumption of no assessed value growth for large residential and commercial properties for the years 2024 through 2027 yields a forecast similar to OMB.