

UNJUST ADJUSTMENTS



*Average Central Williamsburg
(low-end middle income area)*

Condo MV:

*1.46 X its three-rental
comparables*



*Average North Williamsburg
(high-end luxury condos)*

Condo MV:

*.77 X its three-rental
comparables*

*Report calling to address the unjust impacts of NYC-DOF
adjustments to the valuations of condos in Central
Williamsburg and its vicinity*



Submitted by the UJO of Williamsburg to the:

NYC Advisory Commission on Property Tax Reform

October 15, 2018

Background

The service and catchment area of the UJO of Williamsburg and North Brooklyn encompasses the entire area defined by the Department of Finance as Central Williamsburg, as well as small portions of Bedford Stuyvesant, South and East Williamsburg.

Williamsburg has distinct housing markets. Non-luxury family units without any special amenities (virtually all condos in Central Williamsburg and its immediate surroundings), and luxury units that were developed during the past two decades with amenities such as doormen, gyms, pools etc., and other luxuries, priced double or more than their non-luxury neighbors. The luxury housing market in North Williamsburg is booming. Apartments net much higher rent than their non-luxury peers several just blocks away for a very good reason. One provides a simple housing unit, the other a luxury unit with loads of amenities and exquisite structures.

Over the past couple of years, we received numerous complaints by struggling families shocked by their extremely excessive tax bills. Reviewing the issue, we found that some non-luxury condos in central Williamsburg are being compared to luxury rentals which incorrectly distorts the Central Williamsburg market valuations.

We met with NYC Department of Finance staff requesting explanation for the extreme surge in the DOF market valuations for Central Williamsburg and surrounding condos.

At the time of those discussions, NYC DOF recognized the need for, and implemented a stricter criterion, to better differentiate between luxury and non-luxury condos. However, instead of seeing a decline in the market valuation of the subject condos, when changing the comparables to lower-valued rentals, *their valuations increased*.

After our review, we realized that DOF applies huge adjustment to condos in some areas, more than in other areas. We asked DOF several times to share the full methodology and data behind those adjustments, only to have these requests turned down. DOF claimed that it's their "work product" and they don't have to share it.

In the following memo we show the huge disparities in the adjustment rates from neighborhood to neighborhood, how our area is subjected to very large adjustments, and how inexplicable those adjustments actually are.

Taxpayers are owed answers why their properties are adjusted to double and triple the value of the comparable rental buildings!

DOF should welcome the opportunity to allow the public to understand their formulas and computer models, not keep them hidden!

Cooperative/Condominium Comparables

“You probably think of the market value of your co-op or condo as the price you could sell it for on the open market. However, State law requires us to value residential cooperative and condominium buildings as if they were rental apartment buildings. This means that we look at the income and expense statements of rental buildings that have similar characteristics to determine your condo or co-op buildings market value.

Comparable properties are chosen based on the number of units, size, age, distance and number of stories. There is never a perfect match. To account for any differences, adjustments are made to the income and expense of the rental buildings used as comparables for your property. For example, if your co-op is older than the rental building that is the best comparable match in your neighborhood, we use a computer model to adjust the rental comparable to produce a more accurate value for your building. You can view the comparable properties that were used to value your co-op or condo below.”

Source: DOF Website¹.

At the beginning of each calendar year, DOF releases its Condominium Comparable Properties, for condo buildings with more than 10 units². The following report is based on the most recent list of FY18/19 - CONDOMINIUM COMPARABLE PROPERTIES as of 01/05/2018 prepared on 02/01/2018 for Brooklyn³.

For each condo building DOF lists three comparable rentals⁴.

For each comparable rental, DOF lists their gross income and gross expenses adjusted to the subject condo⁵. It then lists the rental’s full real market value, and real market value per SqFt, not adjusted to the condo⁶.

¹<https://www1.nyc.gov/site/finance/taxes/property-cooperative-and-condominium-comparables.page>

²Separate lists are published for condos up to ten units, and co-ops. Condo buildings with more than 10 units make up the bulk of housing in the studied areas. We used the 11+ units lists to provide a larger sample as they are better indicators of how the market valuations works.

³https://www1.nyc.gov/assets/finance/downloads/excel/condo_coop_comps/1819/b3_brooklyn_condo_comp_d020118.xlsx

While the market valuations of some properties may change, based on successful appeals, DOF doesn’t publish a similar revised comparable list in Excel format. Hence, we had to base our findings on this preliminary list.

⁴ For some condos, where the DOF couldn’t identify three similar rentals, it only lists two comparables.

⁵While DOF doesn’t spell out which columns in that list have actual figures, and which are adjusted, we understand that the rental’s gross income gross expenses and net income, are not the actual income and expense of the rental, but an adjusted income and expense that the condo would derive based on their formula. That may explain why the list consistently have different gross incomes and expenses when compared to different condos. E.g., 110 Broadway is used 16 times as a comparable. In each it has a different gross income per SqFt, ranging between 18.48 to 32.23.

Based on a compilation of the three-rentals' adjusted incomes and expenses, DOF derives the subject condo's potential income and expenses and arrives at a net operating income for the condo, a market valuation for the condo, and market value per SqFt.

The market value is the first number on which the tax assessment is based. Hence, if that is incorrect, the foundation on which that owner is taxed is faulty and wrong.

⁶ The full market value and market value per SqFt listed for rentals are consistent each time that rental is listed. For 110 Broadway, the list has its market value at 210.32 in all 16 places where it's used as a comparable.

Assessing the Extent of the Adjustments

In this review, the UJO, to the best of our ability, because of the lack of explanations of the data from the DOF, analyzed how closely aligned the average condo's market value in 5 of the DOF defined neighborhoods – Central, North, East and South Williamsburg, and Bedford Stuyvesant - to their comparable three rentals.

To determine that, we summed up the actual market values per SqFt of the three comparables, and divided them in three⁷ ("average comp", column BJ in the enclosed excel sheet tables). We then divided DOF's assigned market value per SqFt for the condo (column o), in the average comps' market value per SqFt. The result, show how closely aligned the market value of the condo is to the average market value of its comparables.

We also looked at the total average market value per SqFt of all the condos in those neighborhoods and in each neighborhood separately; and what that market value would have been if one would strictly use the average comps market value for each condo.

This was done by:

- Totaling up the actual market value for all condos in the review area;
- Summing up the total SqFt in a review area;
- And dividing the market value by the square footage in the area, deriving the actual DOF average market value per SqFt for the area's condos;
- Then we multiplied the average comps market value per SF for each condo to the square footage in the condo building, arriving at a hypothetical market value per SF that the condo would have been on a non-adjusted basis.
- We summed up these valuations for an entire area, and divided it by the total square footage of condos in that area, to derive an average market value per SF in an area if the comps would not have been adjusted;
- Finally, we divided an area's actual market value per SF, to show how much the market value would have been on a non-adjusted basis.

⁷ For those condos that only had two condos, we summed up the market value per SqFt of the two rentals, and divided it in two.

Huge Disparity in Adjustments from Neighborhood to Neighborhood

Looking at the condos in all five analyzed neighborhoods, DOF's average condo's per square foot was at 95 % of what it would have been on a non-adjusted basis.

Yet, when breaking out those areas, we found large disparities in the extent of adjustments, with the greatest increased adjustments happening in Central Williamsburg; versus the steepest downward adjustments occurring in North Williamsburg.

- **North Williamsburg's luxury building's market value per SqFt is adjusted to .776 of the market valuations of the average comps.**
- **Central Williamsburg's low end of middle income condos, on the other hand, saw its average condo per SqFt valuation adjusted upwards, to 1.46 of its average comp.**

Bedford Stuyvesant also has a very high adjustments rate, where condos' market valuations per SqFt are adjusted to 1.25 of their average comps.

When looking at the individual condos within these neighborhoods:

North Williamsburg condos are adjusted between .49 and 1.18 of their average comps. Out of its 30 condo buildings, only 1/6th are adjusted above their average comp.

In South Williamsburg, the adjustments range between .46 and a whopping 3.16 of their average comps. In fact, over half of its 69 buildings (37) are adjusted to over double of their average comps - two of those are adjusted to over three times their comps; while only two condo buildings are adjusted under North Williamsburg's average adjustments.

Area	Avg Adjustment	Adjustment Range	Number of buildings adjusted downwards vs. all condos	Buildings adjusted at 1 - 1.5 X avg comp	Buildings adjusted over 1.5 - 2 X comp	Number of buildings over 2 X comp
Williamsburg North	.77	.49 – 1.18	25/30	5/30	0	0
Williamsburg Central	1.46	.46 - 3.16	11/69	15/69	6/69	37/69 (53%)
Williamsburg South	.86	.49 - 2	24/43	18/43	0	1/43
Williamsburg East	.81	.27 – 1.7	40/55	14/55	1/55	0
Bedford Stuyvesant	1.25	.67 – 3.05	16/78	50/78	10/78	2/78
All Areas	.95	.27 – 3.05	116/275	102/275	17/275	40/275

Chart of adjustment ranges and ratios in the study areas⁸.

⁸ Please see attached excel tables, with two tabs: One for all five areas, and one each area separated and sorted by adjustments rates, lowest to highest, and their totals.

To assess property taxes on condos DOF sets adjustments to their calculations of income and expenses of the buildings. Due to the fact that no two buildings are the same DOF will make adjustments to come up with their final number of a buildings comp.

The Average adjustment represents the average adjustments of buildings in a particular neighborhood.

The adjustment range gives the lowest and highest number of comp adjustments in a neighborhood.

Number of buildings adjusted downwards gives how many buildings in a neighborhood had a comp number that was too high and need to adjusted by being lowered

Building adjusted at 1-1.5 X average comps shows how many buildings needed to be multiplied by 1-1.5 times the average comp to reach the final number which was about the average comp.

Similar and almost-Identical Buildings, Compared to Same Rentals, with Huge Adjustment Disparities

When we raised the adjustments disparities with DOF, a common response was that Central Williamsburg lacks comparable rentals. Thus, they have to use not-so-similar comparables with larger adjustments. While this may explain a small part of the adjustments, it defies logic that habitable buildings should have such huge disparities in the potential rents and expenses.

Furthermore, neither age nor the lack of comparable rentals can explain the huge adjustment disparities between similar buildings adjusted to the very same rentals.

Below is one such example:

262 Heyward Street Vs. 713, 717 and 721 Bedford Avenue

262 Heyward is a 20,816 SqFt 12-unit walk-up condo building in Central Williamsburg, built in 1999. It is compared to three circa 1910-1915 rental buildings in the area – 202 Hewes, 178 Hooper and 160 Wilson. **262 Heyward is adjusted to 3.01 times its average comparable.**

Stroll a mere five blocks southeast, and you will find threenewer **12-unit condo walkup buildings**, built 2002-2004 each. Two of them are very similar in size to 262 Heyward Street and the third is of 15,840 SqFt. These three building are compared to the very same set of rental comparables as 262 Heyward Street, yet their market value is adjusted to 1.34 – 1.35 over the average comparable' market value per Sq Ft⁹.



Map showing the two condos

⁹ We should note that this adjustment rate of 1.34-1.35 over the comparables should also be lowered, because it's higher than the average adjustments in the aforementioned bordering neighborhoods.

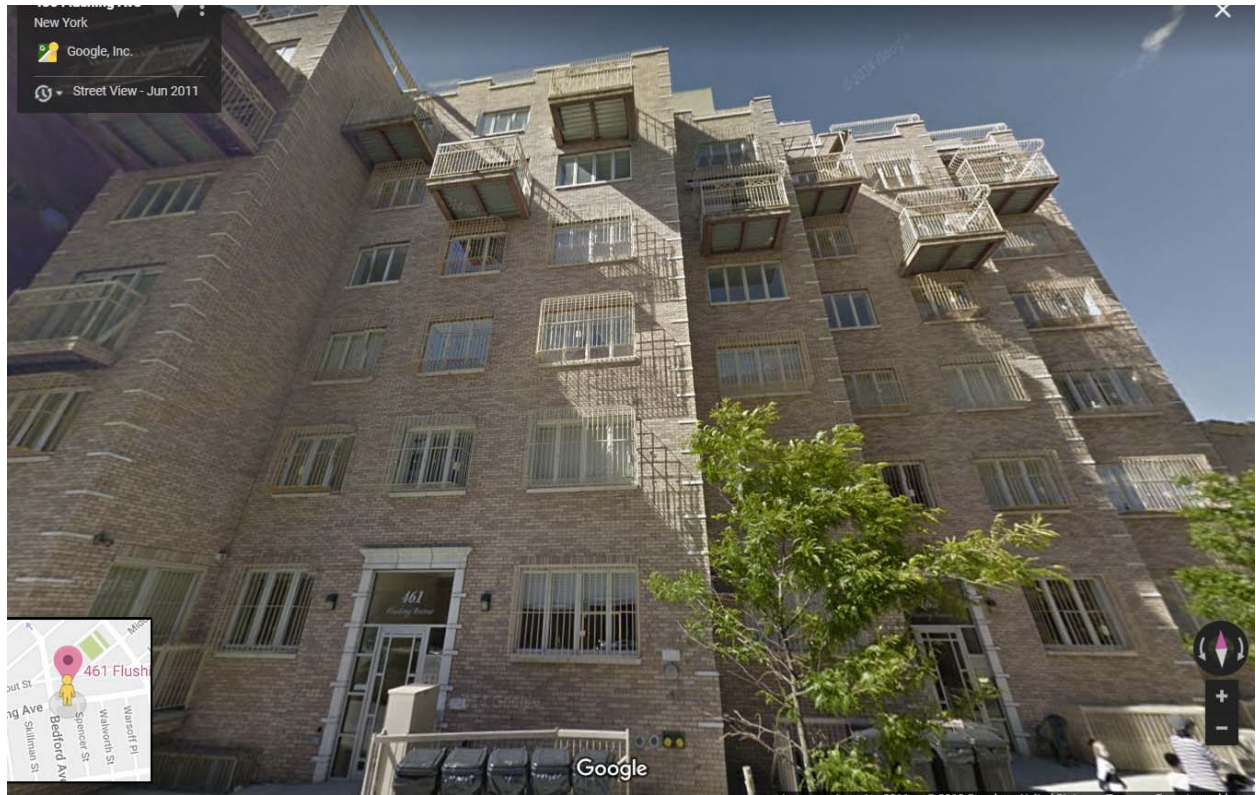
We repeatedly raise these inexplicable inequities with the NYC DOF, but they refused to give a full explanation how these differences are possible, beyond asking us to trust their computer models and input data. They refused to release data, saying that it's their "work product."



262 Heyward St. – 12 units built in 1999 – has a DOF market value over 3 times its average rental comparables.



713-721 Bedford, are 3 condo buildings, 12-units each, built in 2002-2004 – similarly sized, and compared to the same set of rentals, are assessed their market value at 1.34-1.35 times



Spot the difference?

**Left half of the building is 461 Flushing Avenue
Its market value is adjusted upward to 2.33 of
its rental comps**

**Right side is 463 Flushing Avenue.
Its market value is adjusted to .80 of its rental
comps**

Both were built in 2006 and are physically connected.

Two of their rental comparables are the same.

Both have an adjustment rate above the average of North Williamsburg

Conclusion: Taxpayers Right to Know

For several years we shared a number of similar findings with NYC DOF. We asked for an explanation that includes data, formulas and notes to demonstrate to us why there is such disparity in adjustments, and to explain to the taxpayers the full reasoning, data and methodology behind them and how they view this as equitable and fair. We were turned down, and have only received superficial charts without rationalizing how they came to their conclusions.

Additionally, the chasm between the adjustments in our area have only grown. While at first, when analyzing the 2016-2017 comparable list, we found Central Williamsburg's adjustments to be at 1.17 over its average comps, and North Williamsburg to be 84.8, Central Williamsburg's adjustments jumped up another 30 points, and North Williamsburg declined 7 points.

It's perplexing that taxpayers can be asked to pay these bills based on adjustment that they can't analyze. A taxpayer has every right to receive all the information going into the market valuations. Without that, they cannot know if they're being taxed fairly and if there is a basis for appeal.

The fact of the matter is that everyone in state and city government agrees that the tax valuation system is far from perfect. DOF told us that it is continuously being tweaked and improved. To say that those valuations are beyond scrutiny and beyond reproach, is unfair. It subjects taxpayers to unequal, unjust taxation rates.

We conclude by thanking Mayor Bill de Blasio, and City Council Speaker Corey Johnson for convening this all important Commission to reform that tax valuation system. We are grateful to the Chair and Commissioner members for devoting their time and efforts for this complex, but very important mission. May you succeed in this noble endeavor.

Recommendation

We appeal to the Commission to recommend that DOF makes accessible and understandable to the public all their formulas, methodologies and data going into those adjustments.