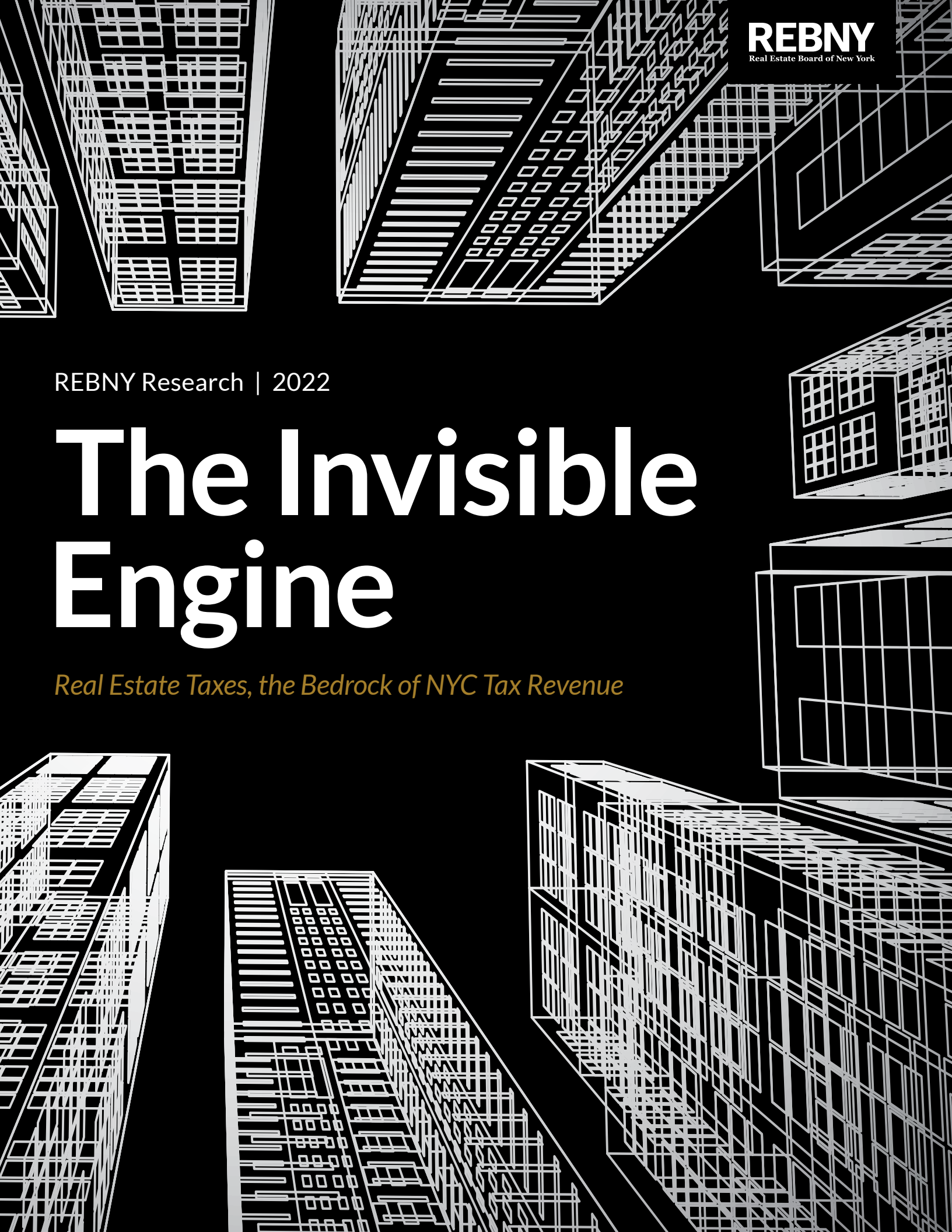


REBNY Research | 2022

# The Invisible Engine

*Real Estate Taxes, the Bedrock of NYC Tax Revenue*



Real Estate Related Taxes (RERT) accounted for more than **50%** of City Tax Collections for 8 Straight Years

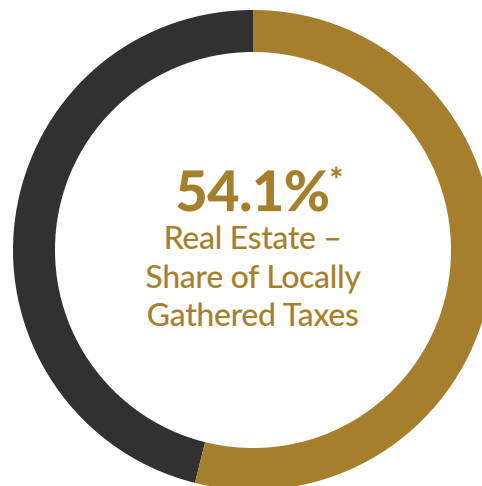
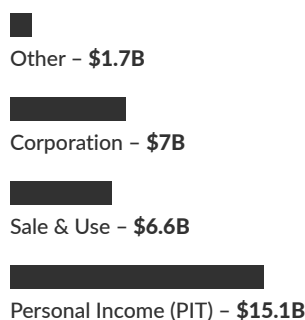
Keeping New York City running is a tall order: New York City's FY 2023 Adopted Budget totals \$101 billion. This report highlights the critical role of the real estate sector to the City's tax base.

Real Estate Related Taxes (RERT) are the single largest source of tax collections by the City of New York. As detailed in the following sections, RERT flow from multiple sources in terms of types of taxes, property types and geography. RERT – ranging from property assessments, transfer taxes, and mortgage taxes, to commercial rent taxes and hotel occupancy – all tap into New York City's deep and diverse real estate sector. What's more, taxes collected from RERT contribute to more than just the City's General Fund, providing essential funds to the region's transit system.

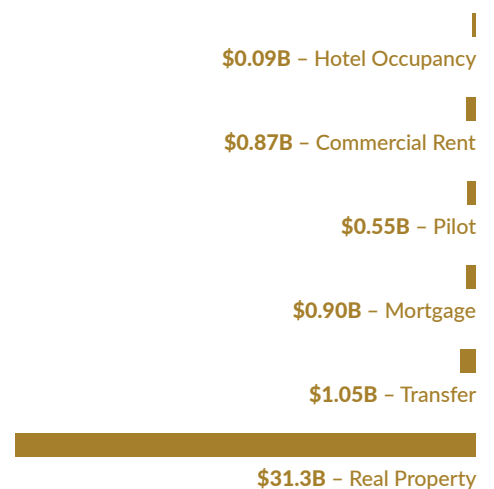
**NYC FY 2021 Adopted Budget**

*RERT was the Single Largest Source of NYC Tax Revenues in FY 2021\**

**\$30.4B**  
Other Tax Sources



**\$34.8B**  
Real Estate Related Taxes



Sources: NYC FY 2023 Adopted Budget (released June 2022), Department of Finance

\*All Totals from NYC Budget, for FY 2021. The percentage (53.4%) is based on locally gathered tax collections of \$64.2 billion (not including tax audit revenue and STAR Aid). It does not include revenues from other sources such as federal and state grants.

# Table of Contents

This report is intended to serve as a guide for policymakers, stakeholders and the public to understand the multitude of ways real estate supports City expenditures as well as support the operations of the MTA, the lifeblood of the region's economy.

In addition to highlighting the role of RERT to City revenues and the MTA (pages 4-6) this report looks closely at how the real property transfer taxes (RPTT) were impacted by the pandemic (pages 7-9).

- 04 | What Funds New York City
- 05 | Picking Up the Slack
- 06 | A Growing Share
- 07 | Powering Transit
- 08 | A Starring Role
- 09 | Geographic Diversity Is Key
- 10 | Sources & Methodology

## Acronyms Used in This Report

RERT – Real Estate Related Taxes – *includes any taxes related to assessment, property transfers and rent taxes*  
RPTA – Real Property Tax Assessment  
RPTT (NYC) – Real Property Transfer Tax  
RETT (NYS) – Real Estate Transfer Tax  
MRT – Mortgage Recording Taxes  
PIT – Personal Income Taxes

# What Funds New York City

## RERT – The Single Largest Source of Local Tax Revenue

RERT are the largest source of taxes collected by New York City and have comprised over half of all locally gathered taxes for the last eight years. Personal Income Tax (PIT) collections run a distant second.

During FY 2021, the last year for which data is fully available for all RERT, these taxes totaled \$34.8 billion, twice the second-largest source, Personal Income Taxes (\$15.1 billion). RERT are projected to total \$34.2 billion in FY22 and then increase to \$35.6 billion in FY 2023.

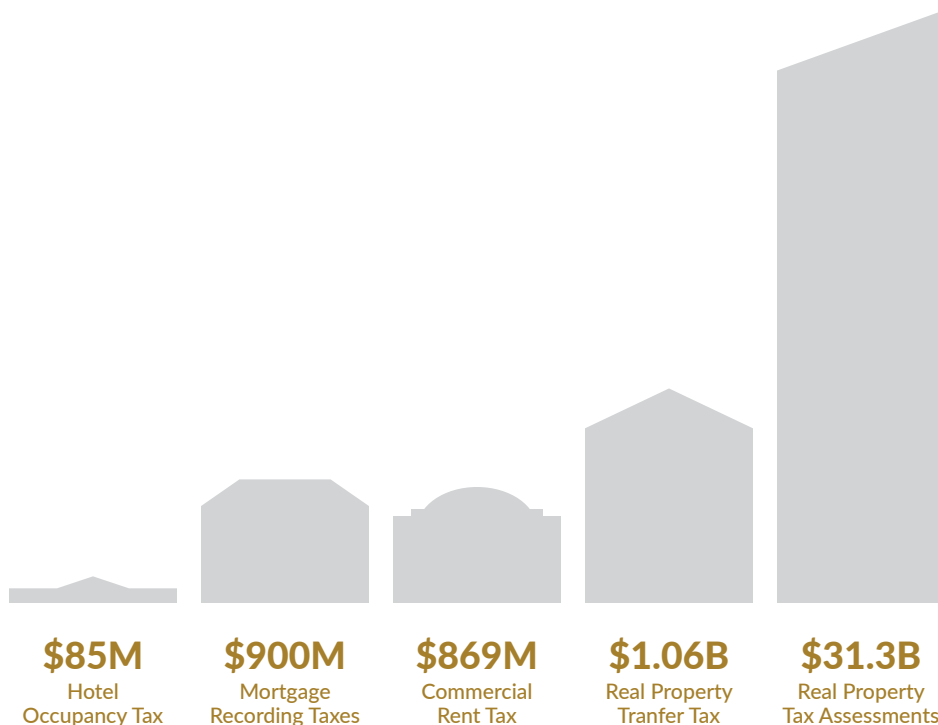
Real property tax assessments (RPTA) are by far the largest single component of the various real estate taxes, accounting for more than 90% of all RERT. The second largest source is the City’s Real Property Transfer Tax (RPTT), which is levied on property transfers.

Other real estate taxes (not shown below) provide funding to New York State, the MTA, and New York City transit. These include the New York State Real Estate Transfer Tax (RETT), Mansion Taxes, and Mortgage Recording Taxes (MRT). Cumulatively, transfer and mortgage taxes contributed more than \$3.0 Billion to the City, State, and MTA during 2021. For a more detailed overview of the sources for RERT, the tax rates, and what RERT funds see [Table 1 in the Appendix](#).

**\$34.8B**

**Real Estate Related Taxes Collected by NYC**

54.1% of Local Taxes Collected



Sources: NYC FY 2021

Sources: NYC FY 2023 Adopted Budget (released June 2022), Department of Finance

1) This report includes tax collection data from the FY2023 Adopted Budget – all collections for FY23 and FY22 are estimates, FY21 is based on actual collections. Data for transfer tax and MTA are based on Calendar Years. See Sources at the end of this report for more detail.

# Picking Up the Slack

## Stronger than Expected Real Estate Taxes Played a Key Role in Funding City Operations During the Pandemic

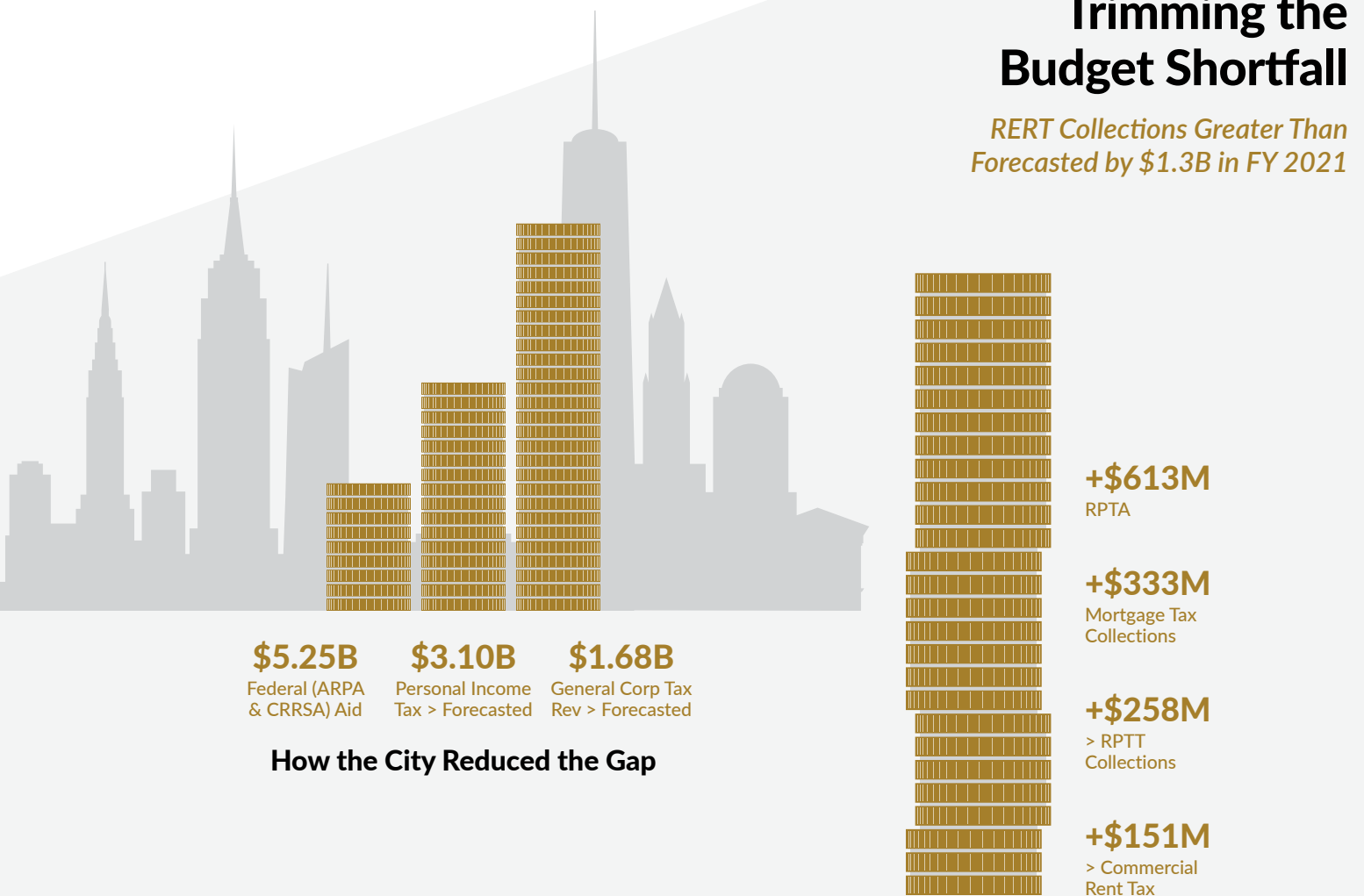
RERT played a critical role in helping secure the City’s finances during the COVID-19 pandemic. When the Mayor’s office released its FY 2021 budget in June of 2020, the City faced a \$4.18 billion shortfall in fiscal year 2022 and a \$10.4 billion budget gap through 2024.

General reserve funds and extensive Federal aid were critical to keeping City services running over the last several years. In addition, stronger than anticipated personal income (+\$3.1 billion) and corporate tax collections (+\$1.7 billion) were also a big help.

At the same time, the real estate sector also did its part – the resurgence of residential sales in 2021 boosted RERT which exceeded projections by \$1.3 billion in FY 2021.

## Trimming the Budget Shortfall

*RERT Collections Greater Than Forecasted by \$1.3B in FY 2021*



### How the City Reduced the Gap

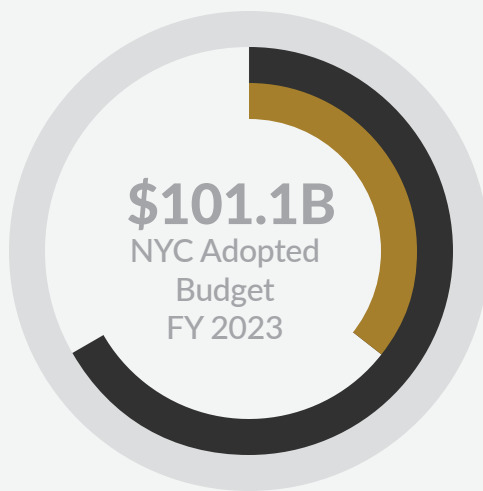
Sources: NYC Office of the Comptroller

# A Growing Share

## Real Property Tax Assessments are Projected to Play a Growing Share

The importance of real estate taxes, particularly RPTA, to the City budget is expected to increase in the years ahead. City OMB is projecting that RERT will offset a portion of forecasted declines in FY 2023. In FY 2023, the combined increase in tax collections from RERT (compared to FY 2022) is expected to be roughly \$1.0 billion, helping to offset nearly half of the projected declines of \$1.3 billion in PIT and \$1.07 billion in corporate taxes, respectively. Of note, this includes projections released by the NYC Comptroller in late August that include a steeper decline in RPTT due to rising mortgage rates.

*RERT Forecasted to Offset Decline in Other Tax Revenue in FY 2023*



**\$66.7B**  
All City Taxes

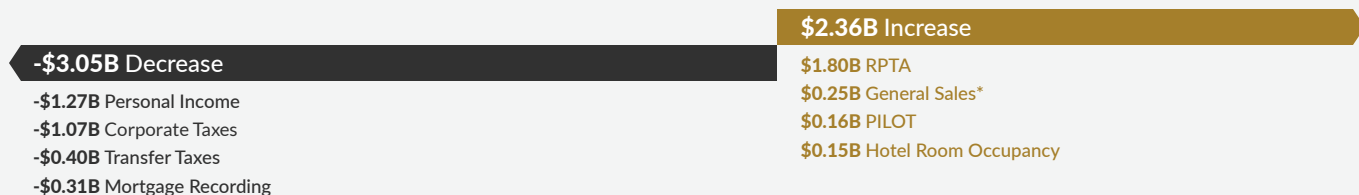
**\$35.0B**  
Real Estate Related Taxes (RERT)

**52.5%** of Locally-Gathered Taxes



### RERT Boosting Revenues – FY 2023 Tax Gains (From FY 2022) Rely Heavily on Real Estate Turnaround

Estimated Increase in FY23 Revenue



Sources: City of NY Executive Budget FY 2023, Adopted Budget FY 2022

# Powering Transit

## RERT Contributions to the MTA

In addition to contributing to the NYC General Fund, RERT provide critical funds for the MTA. Rider fares remain the primary source of funding for the MTA. With ridership still far below pre-pandemic levels and congestion pricing yet to be implemented, RERT also generate funds that are dedicated to the MTA

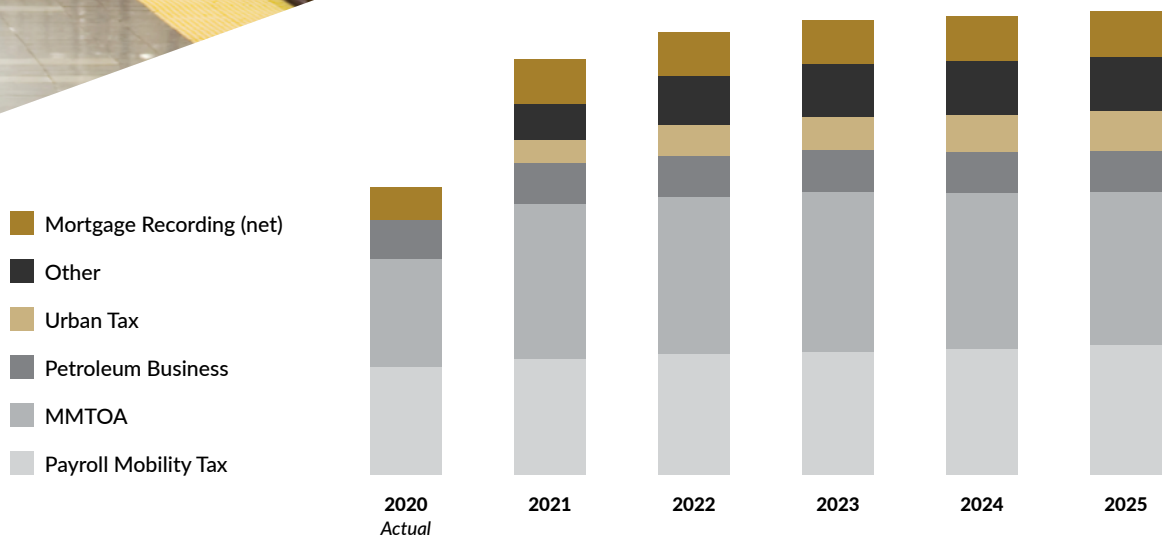
RERT gathered by New York City and New York State provide some funding to general MTA operations. Enacted in 1989 by New York State, the original base mansion tax levies a 1% tax on the buyers of all residential properties with a price exceeding \$1 million. In 2019, the State legislature changed the base mansion tax to a progressive tax rate system for residential properties selling over \$2 million. These additional funds, which totaled \$305.8 million in FY 2021, are committed to the MTA Capital Lockbox.

Additionally, in 2019, the state legislature increased the base New York State real estate transfer tax (RETT) tax rate and mortgage recording tax (MRT). These taxes apply to New York City and seven surrounding counties with extensive use of New York City transit. New transit taxes that secure substantial funding for the CBD Tolling Capital Lockbox were also passed. Thanks to record-setting residential sales in calendar year 2021, tax collections exceeded forecasts by more than \$300 million.

See sections marked New York State and MTA Transit in the [appendix table](#).



### Dedicated MTA Taxes



# A Starring Role

## Market Swings Have Resulted in Residential Sector Paying a Greater Share of Transfer Taxes than the Commercial Sector

The value of New York City's diverse and deep real estate sector was never more apparent than during the pandemic. Residential sales also fell, but not as sharply. Manhattan's office and retail districts were devastated during 2020 and much of 2021. Record-breaking residential sales during 2021 offset some of the massive decreases in commercial property sales.

RPTA tax collections have been an extremely reliable source of revenue for the City, having declined only twice in the last 25 years (in 1997 and in 2020.) In contrast, RPTT liability, particularly for commercial properties, have historically been very volatile.

Commercial property sales have fallen in four of the last five years, and fell to \$23.7 billion in 2020 – a year-on-year decrease of \$513 million. Consequently, RPTT liability fell by \$613 million (a 45% year-on-year decrease).

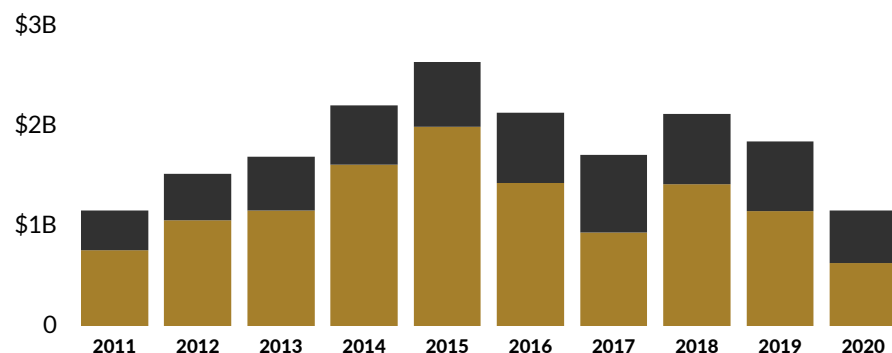
In comparison, total consideration fell by 25% in the residential sector, and RPTT liability fell by \$170 million. As a percentage of total real property transfer tax (RPTT) liability, commercial property has fallen from a peak of 75% in Calendar Year 2015 to 54% in Calendar Year 2020. The residential RPTT liability share rose to 46% in 2020.

REBNY estimates that commercial property sales jumped by 58% to \$38.5 billion in 2021. The residential sector posted record sales, exceeding \$54 billion. RPTT liability clearly rose, but the breakout between commercial and residential will not be known until the DOF releases its RPTT Statistical Report later this year.

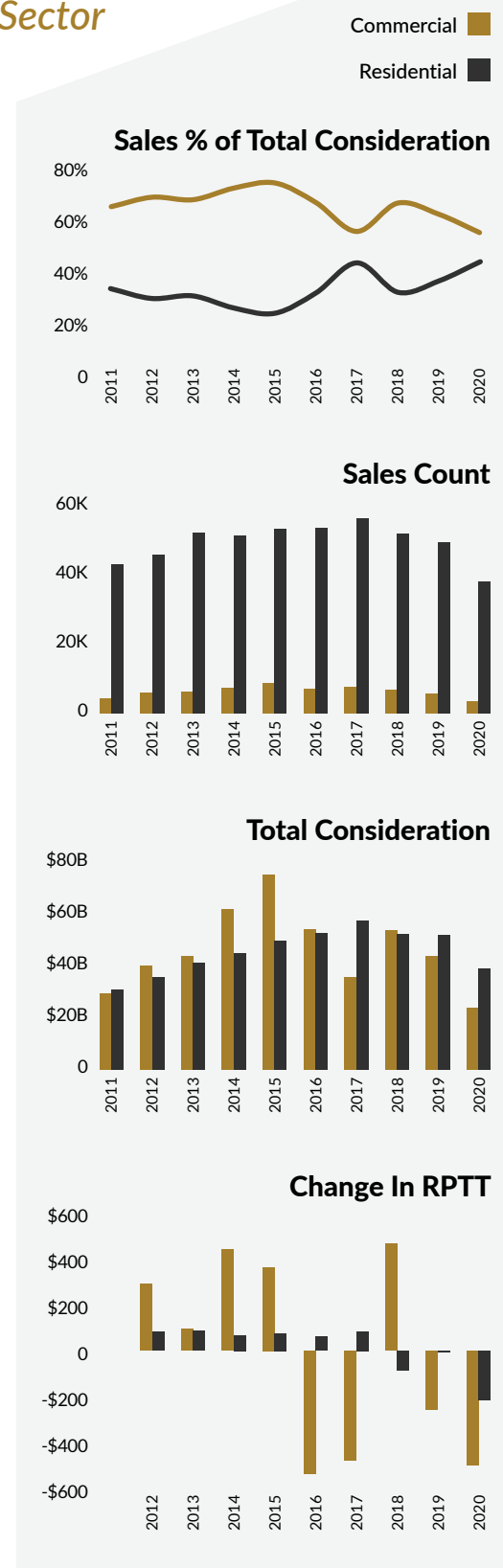
### Commercial Sales Plummeted in 2020, Smaller Decline in Residential

*The ratio of RPTT liability shifted Residential as sales in commercial properties fell sharply in 2020.*

#### RPTT Liability



All 2021 sales totals based on DOF/REBNY Data, all other data from NYC RPTT Statistical Profile





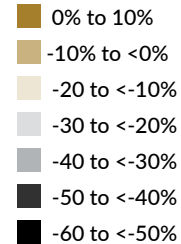
# Geographic Diversity Was Key

## RPTT Liability Shifted from Manhattan to Brooklyn

RPTT were also buoyed by a shallower decline and more rapid recovery in areas outside of the Central Business District, particularly in Brooklyn. A majority of the decreases in commercial property sales were in Manhattan. Manhattan's share of RPTT liability fell from 61% in 2018 to 47% in 2021. Brooklyn's share jumped from 19% to 25% in the same period.

RPTT Liability fell in every major property type in every borough, but unsurprisingly, the fall in commercial RPTT liability was much larger in Manhattan than in any other borough; RPTT liability for commercial properties fell by 57% in Manhattan. In comparison, the total RPTT liability for Brooklyn's condo transactions dropped by only 13%. In Queens, it fell by only 3%.

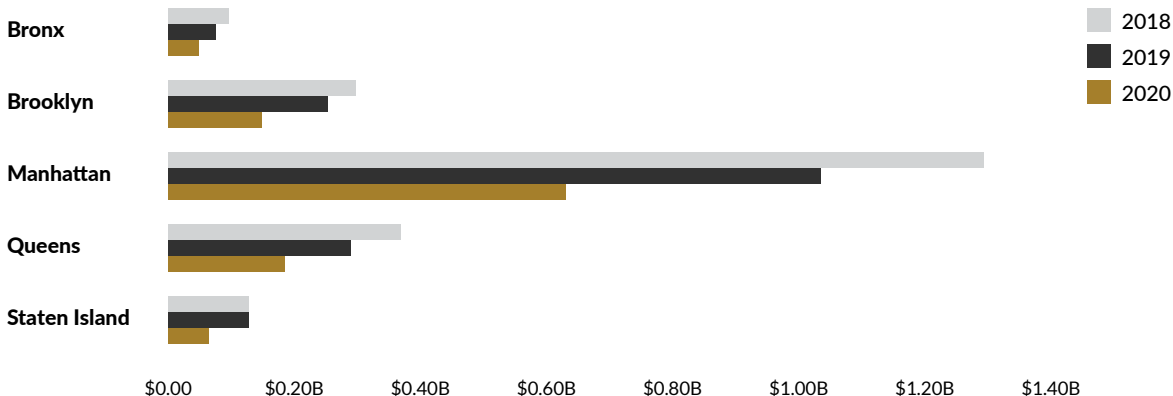
### Y-O-Y % Difference in Total RPTT Liability



	1-3FAM		Comml		Coop		Condo	
	2019	2020	2019	2020	2019	2020	2019	2020
Bronx	0.82%	-17.52%	-0.95%	-27.52%	-7.78%	-23.26%	-3.86%	-35.27%
Brooklyn	-4.63%	-19.07%	-12.00%	-26.20%	-4.53%	-10.87%	-4.53%	-13.08%
Manhattan	3.29%	-25.40%	-22.68%	-57.07%	-4.39%	-31.87%	9.13%	-35.88%
Queens	-3.97%	-18.62%	-7.63%	-21.34%	0.45%	-25.31%	-10.52%	-2.57%
Staten Island	-10.06%	-3.39%	-48.65%	-4.53%	-3.00%	-15.66%	-17.62%	-8.14%

Under normal market conditions, Manhattan property sales generate three times the RPTT liability of any other borough. In Calendar Year 2018, for example, RPTT collection in Manhattan totaled \$1.27 billion compared to \$390 million in Brooklyn. During 2020 RPTT collection in Manhattan fell to \$540 million, compared to \$280 million in Brooklyn.

## RPTT Liability



# Sources & Methodology

[NYC FY 2023 Adopted Budget](#) – released June 2022

[Annual Report of the New York City Real Property Tax](#) – published based on Fiscal Year

Most recently released in May of 2022, covers through June of 2022. This report provided detail on sales by borough and by property type.

[RPTT Statistical Profile Report](#) – published based on Calendar Years

Most recently released in July of 2021, covers through December of 2020.

REBNY has supplemented total commercial and residential sales with its own reporting data collected from Department of Finance and Marketproof (for residential sales) for Calendar Year 2021 and year-to-date 2022 (through June). REBNY did not make any estimates regarding RPTT liability for these periods.

## MTA & RETT Collections

[MTA 2022 Final Proposed Budget](#) – November 2021

[MTA Budget Watch](#) – June 2022

[NYS Assembly Ways & Means Economic Review for 2022](#) – February 2022

[Office of the State Comptroller – MTA Fiscal Outlook](#) – October 2022

[Office of the State Comptroller – Administration and Collection of Real Estate Transfer Taxes](#) – October 2021

[State Audit of RETT Collections](#)

# Transfer (RPTT, RETT & Mansion) and Mortgage Recording Taxes (MRT)

More Than \$3 Billion In 2021 \$1.8 Billion To City, \$1.4b+ To MTA, Estimated \$800m+ To State

## Transfer Taxes

Collected by New York City	Paid By	Residential	Commercial	Funds	FY 2021 Amount	
RPTT (Real Property Transfer Tax)	Seller	\$500K or LESS	1.000%	1.425%	NYC General Fund	\$1.8 Billion
		>\$500K	1.425%	1.000%		
		>\$2M	N/A	1.000%	MTA Operating/Expenses (1 Point of RPTT plus 0.625% Urban Transit Tax on Commercial Sale) – 90% Goes to NYCT	\$263.1 Million
Mansion Tax (Graduated Rate, Sales Starting at \$2M)	Buyer	\$2M - \$2.99M	1.20%	N/A	MTA Capital Lockbox	\$305.8 Million
		\$3M - \$4.99M	1.50%	N/A		
		\$5M - \$9.99M	2.25%	N/A		
		\$10M - \$14.99M	3.25%	N/A		
		\$15M - \$19.99M	3.50%	N/A		
		\$20M-\$24.99M	3.70%	N/A		
		\$25M or more	3.90%	N/A		
Collected by New York State	Paid By	Residential	Commercial	Funds	FY 2021 Amount	
RETT (Real Estate Transfer Tax) - Enacted 1968	Seller	<\$3M Resi, <\$2M Commercial	0.4%	0.4%	Mandated \$119 Million to NY State Enviro Fund, remaining deposited into Clean Water/Clean Air Fund for debt service. Balance goes to General Fund. Proposed increase to \$257.4M	\$1.68 Billion – NYC historically 50% of collections
		>\$3M Resi, > \$2 M Commercial	0.60%	0.65%		
Base mansion tax >\$1 million	Buyer	>\$1 Million	1%	N/A?	MTA Operating/Expenses	

## Mortgage Recording Taxes

Collected by New York City & 7 Nearby Counties	Paid By	Residential	Commercial	Funds	FY 2021 Amount
MRT (Urban Transit Tax)	Borrower		0.625%	MTA Operating/Expenses	\$166.2 Million
MRT-1 (Applies to All Mortgages)	Borrower	0.30%		MTA Capital Lockbox	\$410.3 Million
MRT-2 (Mortgages on Multi-family up to 9 units)	Lender	0.25%		MTA Capital Lockbox	\$237.3 Million
Total RERT to MTA					\$1.38 Billion