



## **Making Vacant and Blighted Land Work for NYC: CPTR's Proposal for a 5th Property Tax Class**

**Proposal:** The Center for Property Tax Reform proposes the addition of a 5th class to New York City's property tax system, into which all ~27,000 currently vacant and blighted properties in the 5 boroughs will be classified. This 5th class would receive special tax treatment focused on the market value of the land. By applying a 3.5% tax to Class 5 properties, the City will generate approximately \$1B in new tax revenues annually to incentivize owners of these parcels to either put their properties into active use or sell them, allowing for beneficial reuse. This proposal is supportive of the City's revenue needs and land use aspirations and could be coupled with interventions to encourage the production of much-needed affordable housing.

**NYC Property Tax Today:** New York City's current property tax system relies on four classes - residential (up to three units), residential (greater than three units, co-ops, and condos), utilities, and commercial/industrial parcels. Each class carries its own tax rate, which is a very low percentage of assessed value<sup>1</sup>, and parcels are categorized into classes according to their zoning. Overall, up to 90% of a property owner's bill comes from taxes on the value of their buildings, and just 10% from the value of their land. The result is that parcels without buildings or buildings in disrepair receive very low tax bills. In this way, the City's current property tax approach encourages land speculation, creates artificial land scarcity, and drives up real estate prices in the City.

**Details of the 5th Class:** To remedy the perverse effects of New York City's current property tax system, CPTR proposes the addition of a 5th class, which would include vacant and blighted properties and tax them on the market value of their land alone. This approach creates a land value tax<sup>2</sup> on *just* the properties that are currently underutilized and can be expected to yield the same benefits to the City associated with this general approach to taxation<sup>3</sup>. Once returned to active use, these affected properties then revert to one of the four existing classes to reflect their new use.

To determine the on-the-ground effects of this policy proposal, Center staff analyzed New York City assessment data, which revealed some 27,000 parcels could currently be described as either vacant<sup>4</sup> or blighted<sup>5</sup> within the 5 boroughs. These properties are not evenly distributed across the City. In some districts (such as 6 and 23) less than 1% of the land consists of properties that would fall into this 5th Class, but others (such as Districts 50 and 51) will see about 7% of their land reclassified as Class 5.

The financial benefits to the City of creating a Class 5 depend on the tax rate selected by the Mayor and Council. CPTR determined that by levying a tax of just 3.5% against the market value of the land in this Class, New York City could realize about \$1B in new tax revenues annually - a higher rate would yield more revenue, a lower one less.

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<sup>1</sup> Assessed values are intentionally lower than market values.

<sup>2</sup> An approach to property taxation in which the value of land is taxed but improvements remain untaxed.

<sup>3</sup> Land Value Taxes have long been associated with infill development, reductions in land speculation, and decreased sprawl; as well as new business creation and reductions in residential property tax bills.

<sup>4</sup> Property tax data provided by the City of New York identify include a field identifying vacant parcels.

<sup>5</sup> Blighted properties are defined as those for which the assessed value of improvements is 15% or less of the land value.