International Property Tax Institute

PRESIDENT'S MESSAGE

November 2023

Interestingly, there has been a number of recent articles - and approaches to IPTI for advice - on the topic of exemptions from property tax. In terms of articles, here are some selected extracts from one entitled "The Untouchables: How Columbia and N.Y.U. benefit from property tax breaks".

The author states: As Columbia University puts the last touches on its brand-new campus in Harlem, it has reached a milestone - the university is now the largest private landowner in New York City. In a city where land is more valuable than almost anywhere in the nation, the school now owns more than 320 properties, with a combined value of nearly $4 billion. The growth has helped it stay competitive within the Ivy League and meet its broader ambitions to become a global institution.

By many measures, those ambitions have also helped lift the city around it, attracting higher numbers of students, producing new jobs and boosting New York's reputation as an international center of knowledge. But as Columbia has expanded its footprint, it has also become more of a drain on the city budget because of a state law more than 200 years old that allows universities, museums and other nonprofits to pay almost no property taxes.

The law saves Columbia more than $182 million annually, according to an analysis by The New York Times. The amount has soared from $38 million just 15 years ago as the university has bought up more properties and their value has increased. Columbia's property tax savings, which are a fraction of its $14.3 billion endowment, far exceed the tax breaks granted to many high-profile commercial developments, including large-scale sites like Hudson Yards. They are 50 percent larger than those at Yankee Stadium and greater than the combined tax deals for Citi Field and Madison Square Garden.

Nearly every state has property tax exemptions for nonprofits, including universities, which are exempt from paying taxes on their academic buildings and dormitories.

Universities, including Columbia, pay tax on properties they own that are not used for educational purposes. But they are often contentious, and the seven other Ivy League universities pay some property taxes on those buildings or voluntarily pay millions of dollars every year to their local governments and school districts. Not one university in New York City does, including two of the nation's wealthiest institutions, Columbia and N.Y.U., which had property tax savings of $145 million this year.

The author continues by indicating that debate may have been muted in New York because the city has other major revenue streams, such as Wall Street. Columbia has also spent more than $2 million over the last five years to retain some of the city's most prominent lobbying firms, who meet with officials, including the mayor, on a number of issues, including its real estate interests. But with financial challenges looming, a growing number of city and state officials are re-examining the longstanding exemptions for private universities. Property tax revenue accounts for more than 40 percent of the city's total tax collections.

The state's tax breaks for nonprofits date back to 1799, long before Columbia and other higher education institutions became vast enterprises with billion-dollar endowments. At that time, the country's first universities were primarily connected to religious denominations and were deemed charitable enterprises.

Columbia opened in 1754 and moved in the early 20th century to its core Morningside Heights campus, where it confined itself for nearly a century. In the early 2000s, Columbia administrators said the university could no longer remain competitive without a larger campus. To help Columbia expand, New York State condemned land in 2008 in the West Harlem neighborhood of Manhattanville and used eminent domain to seize properties for the university. The university made promises to be a good neighbor and hire local workers.

A lawsuit briefly halted the plan because judges agreed it was not a "civic project." Nick Sprayregen owned self-storage warehouses in West Harlem and fought Columbia's efforts to buy his properties. "This is really nothing more than a land grab of the most extreme type," Sprayregen said in 2007. He died in 2016. A higher court allowed the project to go forward. Columbia moved several dozen residents to a 12-storey condominium building and gave them $7,000 each.

As it expanded, the university said that it spent at least $600 million with local firms, many of them owned by women and people of color, for construction, maintenance and repairs at its campuses - approximately 16 percent of the total it spent during that time period. The university has also paid out about $104 million of the $170 million it pledged to the community - to local organizations, an affordable housing fund and city agencies like the Parks Department.

Since the expansion, Columbia's new properties in West Harlem have more than doubled the market value of the neighborhood, and they are now valued at $644 million. The centerpiece of the campus is the Jerome L. Greene Science Center, a massive glass and steel structure. Additional buildings are under construction, including a 34-storey residential tower for graduate students and faculty.

Because Columbia took over properties that had been paying taxes, the city now collects half the annual property taxes that it collected on that land in 2008, The Times found.

Local public schools have questioned Columbia's commitment to its surrounding community. As recently as 2010, a quarter of Columbia's undergraduate students came from New York City: 2,236 students. By 2022, that number had decreased to 1,416, or about 15 percent of the student body. Several administrators at local public schools said that the university, which has been vocal in supporting diversity and affirmative action, has shown minimal interest in recruiting local students, especially children from low-income families.

Other major universities in the city have a larger percentage of New Yorkers. At Fordham University in the Bronx, 23 percent of undergraduates come from New York City, a percentage that has been stable for the last decade. At N.Y.U., about 17 percent of undergraduate students are New York City residents.

New York is among 49 other states with property tax exemptions for private, nonprofit entities, which supporters say allow them to provide crucial social, economic and cultural benefits to their communities. In the case of universities, they conduct often costly research and public-policy studies and employ people who pay income taxes. But in other cities, officials have pressured universities to make voluntary payments, known as payments in lieu of taxes, or PILOTs, or similar annual donations. Even within New York State, other cities have charted a different course.

In upstate Ithaca, Cornell University started making annual payments decades ago that have now grown to $1.6 million and are expected to climb to $4 million in October. But forcing the universities to pay property taxes would require lawmakers in Albany to change state law. A state assemblyman who represents parts of Queens, has said he plans to try this year, with a bill that would end property tax exemptions for private higher education institutions with exemptions of more than $50 million in real estate. The only private universities that meet that threshold are Columbia and N.Y.U.

For anyone wanting more detail about this issue, the article can be found via the link below:

https://hechingerreport.org/nycs-biggest-landlord-columbia-university-pays-no-property-taxes-even-as-it-enrolls-fewer-and-fewer-city-students/

IPTI comment: the debate over property tax exemptions rumbles on as shown in this and other recent articles. In the "perfect" property tax system, there would be no exemptions, reliefs, abatements, etc. However, in the real world, that is not the case and many property tax systems continue to "muddle along" with a plethora of exemptions, etc., that often lead to distortions, inconsistency and unfairness; however, politically, they are hard to remove!

Moving on to IPTI activities, we have just completed work on a project that looked at how assessing agencies in selected jurisdictions around the world have dealt with the impact of natural disasters such as wildfires, flooding, hurricanes, etc., on property tax valuations. It is a fascinating topic and one that, unfortunately, is likely to affect many more jurisdictions as climate change generates more such natural disasters.

We recently presented another in the series of webinars we deliver jointly with the Institute of Municipal Assessors (IMA). This was on the topic of the cost approach and, in particular, the use of reproduction cost new or replacement cost new as the starting point for the valuation. Our two experts provided lots of useful information and advice. We will be returning to look at other aspects of the cost approach in forthcoming webinars.

I was invited to attend the recent Annual Conference of the Institute of Revenues, Rating and Valuation (IRRV) in the UK and, on behalf of IPTI, present an Award at their Performance Awards Dinner. The conference was very interesting, but the Awards Dinner was the most important part of the event as far as those short-listed for an award was concerned. I am pleased to say that the dinner was very enjoyable and all the Award winners were delighted.

Another interesting event I was invited to attend - along with two IPTI colleagues - was a property tax conference held in Bogota, Colombia. The issue of particular concern to the country is rural property tax and local officials were very interested to know from IPTI how other countries dealt with the challenges of operating a cost-effective property tax system outside the main urban centres. The conference organisers appeared pleased with the contributions IPTI was able to make to the event.

Our next in-person event will be the annual Caribbean Conference that we deliver in partnership with the Royal Institution of Chartered Surveyors (RICS). This conference is being held in Barbados on 9-10 November and is already well-supported by registered delegates. A little further ahead is our "Property Tax Conference - Policy and Practice" which will be held in The Hague on 6-7 December. The cooperating agency for this event is the Netherlands Council for Real Estate Assessment (NCREA) and we have a great line up of speakers from around the world, so please join us if you can.

As usual, details of all our forthcoming events can be found on our website: www.ipti.org

Now it's time for a quick look at what is making headlines concerning property taxes in selected jurisdictions and countries around the world. For more information, and links to the original news articles, please refer to IPTI Xtracts which can be found on our website: https://www.ipti.org/ipti-xtracts

Just in case anyone was unaware of how politically sensitive property taxes can be, a fierce debate has started in Scotland over the Scottish Government's recent announcement about freezing council tax (the residential property tax in the UK). News reports say there is "real anger" about this announcement which was apparently made without reference to local authorities. As council tax is collected and spent by local authorities, their representative body is annoyed about what it sees as "interference" by the Scottish Government. The First Minister announced the freeze at the recent Scottish National Party (SNP) conference. At the same time, he scrapped plans set out in a consultation that could have increased council tax by between 7.5% and 22.5% for the highest valued properties. In response, the local government body issued a statement which read: "The announcement of a council tax freeze was made completely without reference to local government and there is no agreement to freeze council tax next year; the decision to freeze council tax is one which can only be made by councils. It has been shown that previous council tax freezes have been regressive, having no impact for the poorest in society and eroding the council tax base, compounding councils' ongoing underfunding." By way of a reply, a Scottish Government spokesman said: "The freeze announced yesterday, fully funded by the Scottish Government, will benefit every council taxpayer in Scotland at a time when rising prices are putting significant strain on household finances." No doubt the First Minister thought his announcement would play well with council taxpayers (i.e. voters), but it seems to have created a major political issue between the national government and local governments in Scotland.

Moving on to Hong Kong, a Member of IPTI's Board of Advisors drew my attention to a recent announcement contained in the Chief Executive's Policy Address headed "Adjust the Demand-side Management Measures for Residential Properties". The announcement said: "Against the backdrop of tight housing supply and solid demand for property purchase, the Government has, since 2010, introduced several rounds of demand-side management measures to curb short-term speculation activities and reduce external demand. This has been done to ensure the steady development of the property market and accord priority to the home ownership needs of the people of Hong Kong. Nonetheless, over the past year, interest rates have risen significantly, various economies have shown moderated growth, and transactions of the local residential property market have declined alongside a downward adjustment of property prices. With the increasing housing supply in Hong Kong in the coming years and having considered the overall situation, the Government has decided to, with immediate effect from today (25 October 2023), make the following adjustments to the demand-side management measures for residential properties:

- shorten the applicable period of the Special Stamp Duty (SSD) from three years to two years. In other words, if a property owner disposes of his/her property two years after acquisition, he/she will no longer need to pay the SSD, which amounts to 10% of the property price;
- reduce the respective rates of the Buyer's Stamp Duty (BSD) and the New Residential Stamp Duty (NRSD) by half, from 15% to 7.5%. This arrangement will help alleviate the financial burden on Hong Kong Permanent Residents (HKPRs) who have already owned residential properties in their acquisition of another residential property, as well as reduce the costs of non-HKPRs in their acquisition of residential properties; and
- introduce a stamp duty suspension arrangement for incoming talents' acquisition of residential properties. This is an enhancement of the stamp duty refund arrangement introduced last year for eligible incoming talents, whereby an incoming talent is required to pay the BSD and the NRSD at the time of property acquisition and will get a refund of the stamp duty paid when the talent concerned has resided in Hong Kong for seven years and become a HKPR. Under the suspension arrangement, the payment of stamp duty concerned is suspended at the time of property acquisition, but the talent is required to pay the relevant amount if he/she is subsequently unable to become a HKPR. This new arrangement applies to any sale and purchase agreement entered into from today onwards.

The Government will continue to closely monitor the property market to ensure its healthy and steady development."

And finally, it will not have escaped anyone's attention that there is a widely publicised dispute over the value of a well-known landmark property in Florida owned by a former President of the USA. In a deposition, the former President estimated that the property (Mar-a-Lago) is worth $1.5 billion. At the other end of the valuation spectrum, it is reported that the property has been assessed for property tax purposes by the Palm Beach County Property Appraiser at $28 million. Some commentators have suggested that if the former President's valuation is correct, it should be used as the basis for the property's assessed value which would result in a huge increase in the amount of property tax payable! Whilst IPTI remains entirely impartial and therefore offers no comment on the valuation issues, I think all in the property tax world will have some sympathy for the assessor whose valuation of the property is being scrutinised in such a public manner.

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