EMPIRE
VALUATION CONSULTANTS

Ready or Not! What to Expect from NYC's First Pied-à-Terre Tax

By: Holly Carlsberg, Manager



The time has come – after more than a decade of proposals, New York City has enacted its first pied-à-terre tax. The new measure imposes an annual surcharge on certain high-value residential properties that do not qualify as a primary residence. Similar proposals have circulated in Albany since 2014, but none passed until the surcharge was incorporated into New York State's FY 2026-27 budget, effective on New York City's next fiscal year commencing July 1, 2026.

The tax applies to qualifying one-, two-, and three-family residences, individual condominium units, and cooperative apartments, and excludes all commercial properties. All ownership types will be affected, including LLCs, corporations, partnerships, trusts, and sole proprietorships, based on majority-interest holders and beneficiaries. A qualifying property is generally exempt when it serves as the primary residence of the owner, an immediate family member, or a tenant. The Department of Finance (DOF) may require documentation such as federal or state tax returns, a driver's license, voter registration information, or a lease to confirm primary residence status.

What the Tax Is

- An annual surcharge imposed in addition to existing base real property taxes for residential properties that do not qualify as primary residences.
- A tax based on DOF market value, rather than the assessed value used to calculate base property taxes.
- A tax directed at qualifying high-value residential properties that do not serve as a primary residence.
- A recurring carrying cost that continues for each tax year in which the property meets the statutory requirements.

What the Tax Is Not

- A real estate transfer tax imposed only when a property is sold.
- An income tax on non-New York residents..
- A tax limited to foreign purchasers.
- A prorated amount based on months per year the property is occupied.
- A vacancy tax – in other words, a residence does not need to sit physically vacant for most of the year to qualify.
- A surcharge based on the property's ordinary assessed value.

The distinction between market and assessed value is particularly important in this instance. For ordinary property taxation, Class 1 properties (one-, two-, and three-family residences) have a statutory assessment ratio of approximately 6% of DOF market value, while Class 2 properties (condos and co-ops) generally have a 45% assessment ratio. **The pied-à-terre surcharge instead applies directly to the applicable DOF market value, rather than the assessed value.** However, the methodology used to establish that market value is a signification distinction: Class 1 homes are generally valued using comparable sales, while condos and co-ops are typically valued as if they were income-producing rental properties. For this reason, the new law establishes a two-phase transition.



Phase 1 - FY 2026-27 through FY 2027-28

- Class 1 properties with a DOF market value of at least $5, $15, or $25 million are subject to surcharge rates ranging from 0.80% to 1.30%.
- Class 2 properties with a DOF market value of at least $1, $3, or $5 million are subject to rates ranging from 4.00% to 6.50%.
- **Class 2 surcharge rates are generally five times the corresponding Class 1 rates, while their value thresholds are one-fifth as high.**
- Once a property crosses an applicable threshold, the surcharge is imposed on the entire applicable market value, rather than only the portion exceeding the threshold.

Phase 2 - FY 2028-29 through FY 2030-31

- The surcharge structure becomes more uniform across covered residential property types. All qualifying properties (both Class 1 and 2) will generally be subject to a $5 million minimum market value threshold.
- Applicable surcharge rates will be 0.80%, 1.05%, and 1.30% for both Class 1 and Class 2 properties.
- For Class 2 properties, DOF will establish a separate surcharge value using a methodology that considers comparable unit sales, similar to Class 1 property valuations.
- The key change between Phase 1 and Phase 2 is the shift of Class 2 property valuation to a conventional sales comparison approach, reducing the need for the Phase 1 rate and threshold adjustments.

The law currently applies through June 30, 2031, at which point it is scheduled to expire unless extended or replaced. **The Comptroller's initial analysis of the enacted Phase 1 structure identified over 13,000 potentially affected properties, about two-thirds of which are Class 2 properties.** For properties that do not qualify as primary residences in FY 2026-27, the first surcharge payment will be due in January 2027 in addition to base property taxes.

What the Pied-à-Terre Tax Means for NYC Real Estate Valuation

Beyond increasing the annual tax obligation of certain luxury residences, the new pied-à-terre surcharge creates several immediate and long-term implications for real estate valuation. For affected owners, independent valuation may become an increasingly important component of estate planning and broader ownership decisions. The NYC Tax Commission expressly identifies independent appraisals as acceptable supporting evidence to challenge a DOF market value, which may be particularly important for properties situated near the surcharge thresholds.

Class 2 condominium and co-op properties are likely to face the greatest valuation complexity during the initial Phase 1 rollout. Not only do they represent the majority of the expected affected properties and carry the highest surcharge rates, but their DOF market values rely on income capitalization approach using comparable rental properties rather than direct unit sales. This methodology introduces additional valuation inputs and assumptions that may warrant closer scrutiny when determining whether a property has been appropriately valued for surcharge purposes.

As the market adjusts to the new pied-à-terre tax, property values may also be affected over the longer term. The additional carrying cost imposed on qualifying second homes could shift the buyer pool, with marketability and demand increasingly influenced by a purchaser's willingness to absorb the surcharge.

At its core, the surcharge is driving property owners to understand the current market value of their real estate holdings. An independent appraisal can help inform strategic planning questions such as:

- Should the property be retained or sold given the additional tax obligation?
- Would long-term rental to a qualifying tenant be more economically advantageous?
- Should an ownership interest be transferred, distributed, or reallocated as part of an estate or trust strategy based on the property's current market value?

Appraisals do not determine the appropriate legal or tax structure, but instead provide the independent market values required by the DOF, attorneys, accountants, trustees, and owners evaluating those alternatives. As the pied-à-terre tax reshapes ownership costs and buyer behavior, independent appraisal analysis will be critical to understanding its evolving impact on ownership decisions and property values in New York City's luxury residential market.

Empire Valuation Consultants is one of the nation's leading and most respected independent valuation consulting firms, specializing in providing real estate valuation services based on our technical industry expertise, knowledge of local markets, and insight into market dynamics and commercial real estate values. We specialize in defensible, USPAP-compliant appraisals for estate and gift tax purposes. Our team combines decades of real estate and business valuation experience to achieve the analytical rigor required by the IRS. Each engagement is supported by clear documentation, transparent methodology, and a focus on compliance that gives fiduciaries and advisors confidence in their filings.



Holly Carlsberg
hcarlsberg@empireval.com

Holly is a Manager on the Real Estate Valuation team at Empire. She joined the firm in January 2023 after gaining appraisal experience with multi-national accounting and brokerage firms. She holds bachelor's degrees in Finance and International Business and is a Certified General Real Estate Appraiser as well as a General Candidate for Designation with the Appraisal Institute. Over the course of her career, Holly has valued a wide range of residential and commercial property types across both urban and rural markets throughout the United States. Her appraisal experience includes assignments for litigation, estate planning, eminent domain, financial reporting, and conventional financing purposes.