

## New York City Enacts Annual 'Pied-à-Terre Tax' on Second Homes

June 11, 2026

New York City has enacted a new annual tax (being referred to in the press as the "pied-à-terre tax") on certain residential properties that are not used as primary residences, either by the owner of the property or a tenant of the property. This new tax was included in New York's fiscal year 2027 budget and is intended to raise revenue from owners of luxury second homes who benefit from city services but do not live in New York City full-time or pay city resident income tax (although such owners do, in fact, pay New York City property taxes assessed against their properties). Property owners should be aware that this surcharge is layered on top of existing property tax obligations and is calculated on a tiered basis tied to assessed market value. Owners should also know that a residential property that is unoccupied and not the primary residence of the owner of such property will likely remain subject to the tax, and that the owner of such property will be permitted to claim an exemption from the new tax only if the property is leased at arm's length to a tenant who uses the property as the tenant's primary residence for a minimum of 12 months.

The new tax will be implemented on July 1, 2026, and is scheduled to remain in effect through June 30, 2031, unless extended. The newly enacted annual tax applies in addition to regular property taxes. Accordingly, the owner will be required to pay both regular property taxes and the new "pied-à-terre tax" on an annual basis.

With respect to one- to three-family homes, the new tax applies once the property's "market value," as determined by the New York City Department of Finance (Department of Finance), exceeds \$5 million. For such homes, the market value is based on comparable sales, and the legislation uses the Department of Finance estimates to calculate a five-year average based on sales during the immediately preceding five years. The pied-à-terre tax is based on that five-year average and is tiered as follows: the first \$5 million of valuation is not subject to the tax; the portion of the valuation above \$5 million and up to and including \$15 million is taxed at 0.8 percent; the portion of the valuation above \$15 million and up to and including \$25 million is taxed at 1.05 percent; and the portion of the valuation above \$25 million is taxed at 1.3 percent. For example, a taxable \$20 million

home would owe an annual tax comprised of both (i) 0.8 percent on the \$10 million valuation between \$5 million and \$15 million, and (ii) 1.05 percent on the \$5 million valuation between \$15 million and \$20 million.

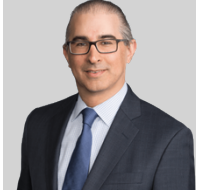
Unlike one- to three-family homes, condos and co-ops will be subject to a two-phase system. During the initial phase, which will occur during fiscal year 2026-2027 (July 1, 2026 – June 30, 2027) and fiscal year 2027-2028 (July 1, 2027 – June 30, 2028), the Department of Finance will establish each property's "market value" to determine the valuation upon which the new tax is levied. Current state law requires the Department of Finance to value condos and co-ops as if they were rental buildings. As such, the current Department of Finance methodology is based on comparable rental buildings rather than actual unit sale prices. For example, for a condominium building, the Department of Finance will determine the building's market value by applying a capitalization rate to an estimate of the building's net operating income as if the building were a rental building of comparable location, age, size and number of units, and then allocating such market value among the condominium units, usually by the size of the units. During the initial period, the first \$1 million of valuation will not be subject to the tax. The portion of the valuation from \$1 to \$3 million will be taxed at 4 percent, the portion of the valuation from \$3 to \$5 million will be taxed at 5.25 percent and the portion of the valuation above \$5 million will be taxed at 6.5 percent. After 2028, New York City is expected to implement a new comparable-sales valuation system for condos and co-ops, and apply the same \$5 million threshold with the 0.8 percent to 1.3 percent rate schedule used for one- to three-family homes.

A property is not subject to the new tax if it is occupied as the primary residence of the owner or as the primary residence of an immediate family member of the owner. The law also exempts properties that are subject to bona fide long-term rental arrangements from the surcharge. If the owner rents the property under an arm's-length lease for at least one year and the tenant uses the property as the tenant's primary residence, then the property will not be subject to the tax. The legislation is silent on the implications of a property remaining vacant while the owner searches for a tenant; however, a property that remains empty will most likely be subject to the tax, as the exemption from the tax is focused on the existence of an actual qualifying lease for a tenant that uses the property as the tenant's primary residence, rather than the mere intent of the owner to lease the unit. Further, a key distinction is not simply whether a tenant is a New York resident; the property would not enjoy an exemption if it is leased to a resident who rents the property as the tenant's second home.

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## CONTACTS

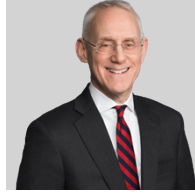
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