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America's Office Slump Is Gutting City Budgets and Taxpayers Are Paying the Price.

Across major U.S. cities, the long tail of the pandemic continues to reshape commercial property values and the budgets that depend on them. Nowhere is this more visible than in the offices that once served as the backbone of urban tax bases. The sharp decline in valuations has left municipal finance directors juggling budget forecasts, property owners challenging assessments, and homeowners increasingly shouldering the difference.

In New York, office buildings have lost roughly $29 billion in assessed value between 2021 and 2025, a plunge of around 16 percent when adjusted for inflation. That slide has translated into a $1.16 billion shortfall in property tax receipts, with more than 90 percent of the hit coming from office properties. Vacancy levels remain about twice what they were before the pandemic. Even so, the impact on the city's $112 billion budget has been muted. Property taxes now make up a smaller share of revenue while personal and business income taxes, which have grown more quickly than inflation, fill the gap. The trade-off is volatility: those revenue streams rise and fall faster with market cycles than stable property taxes. Budget officials acknowledge the shift leaves the city more exposed to downturns, though rating agencies point to the city's still-healthy reserves and the possibility of new levies under a future administration as cushions against deeper fiscal pain.

Washington, D.C. illustrates what happens when federal belt-tightening collides with a shaky office market. Local budget projections already anticipate office property tax receipts falling by nearly 10 percent in 2025 and another 12 percent in 2026. Officials warn that the rising tide of vacancies could weaken finances further as the city absorbs spending cuts triggered by federal tax reforms and other policy changes. To plug the gap, the Bowser administration is weighing sales tax hikes and new gambling levies. Economists at the city's Office of the Chief Financial Officer are blunt: real estate taxes will no longer be the primary driver of local revenue, meaning more reliance on sales and income taxes and, with it, more volatility. Programs will have to compete more directly for scarce dollars as the revenue mix shifts.

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