Bill No: **House Bill 919 – Property Tax – County Authority to Set Special Rates**

Committee: **Ways and Means**

Date: **February 23, 2024**

Position: **Unfavorable**

The Apartment and Office Building Association of Metropolitan Washington (AOBA) submits this testimony is opposition to House Bill 919. AOBA represents members that own or manage more than 23 million square feet of commercial office space and 133,000 apartment rental units in Montgomery and Prince George's counties.

HB 919 would allow counties to set special taxing districts to finance the cost of State or County transportation improvements or fund the county school systems as required under the State's maintenance of effort law. The bill allows the counties to set a special rate up to 12.5 cents per $100 of assessed value for the class of property to which the rate applies. The classes of property subject to the special tax rates include commercial or industrial; multifamily residential; condominiums; mixed-use residential and commercial properties; and vacant lots. Single-family detached residential properties are notably excluded from the bill.

AOBA understands the need to raise additional revenue for transportation and education, given the State's transportation revenue shortfalls. However, now is not the time to raise revenues on the commercial and multifamily industries. Delinquency rates for commercial office loans are approaching 7-year highs[1] and office building owners are increasingly turning to deed-in-lieu of foreclosure to surrender properties rather than face foreclosure[2].

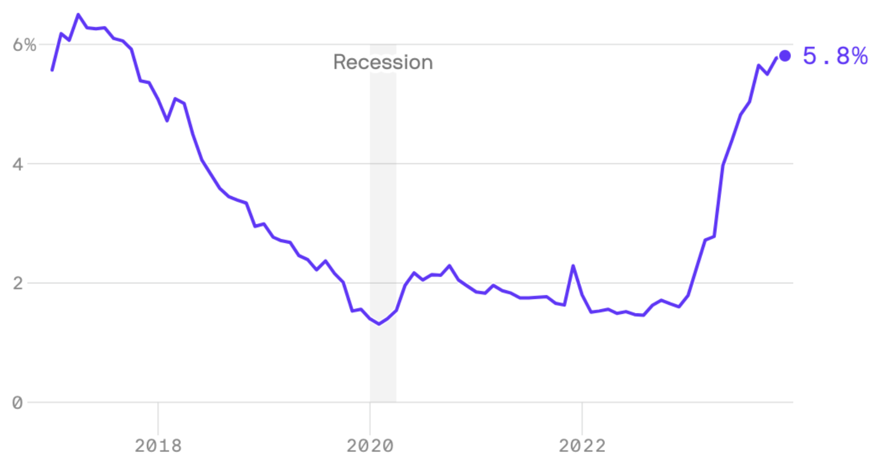
---

[1] https://www.axios.com/2024/01/19/office-buildings-loan-deliquencies

[2] https://www.costar.com/article/1384869720/more-office-building-landlords-are-giving-properties-back-to-lenders

Delinquency rates on loans backed by U.S. office buildings

Monthly; January 2017 to December 2023



Data: S&P Global Ratings; Chart: Axios Visuals

Other office building owners are instead taking massive losses on the sale of their properties. Attached to this testimony is an article highlighting an AOBA member property that recently sold in Bethesda for 22% of its pre-pandemic value. This more than $100 million loss occurred despite the owner's capital investments in major renovations in 2022.

These losses, high delinquency rates, and increasing deeds-in-lieu are being driven by a combination of high interest rates and changing demand for office space. As the value of these buildings continues to decline, the County and State's property tax revenues will be materially impacted. According to a Montgomery County study by RCLCO, a 30% decline in commercial property values would correspond with a $47 million loss in annual property tax revenue[3]. This decline represents a best-case scenario, given that vacancy rates continue to rise as employers cut costs and downsize due to employee shifts to telework and hybrid work schedules

On the multifamily side, corporate mortgage-backed security data for multifamily properties in Maryland shows that housing providers are generating an average return of just 5%[4] on their investment. This is half the historical rate of return of the stock market and much of this profit gets reinvested into the property or is leveraged to produce new housing. These profits are also increasingly being squeezed by legislative mandates, such as Building Energy Performance Standards.

For these reasons, AOBA urges an unfavorable report on House Bill 919. For more information, please contact Brian Anleu, Vice President of Government Affairs for Maryland, at banleu@aoba-metro.org.

---

[3] https://moco360.media/2023/11/29/developers-pressure-moco-leaders-to-address-declining-commercial-office-market/

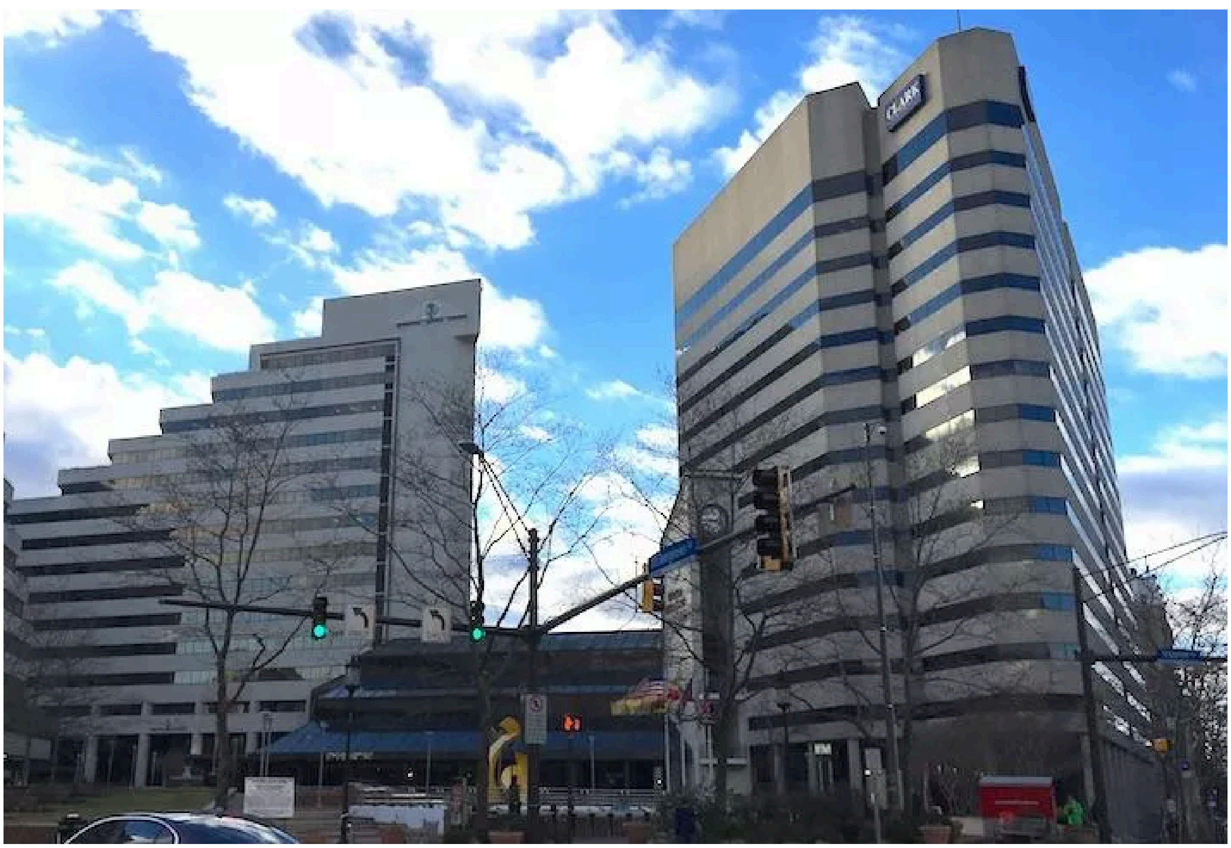
[4] https://www.naahq.org/maryland-where-does-1-rent-go

Bethesda's Clark Building Sells For $30M, 22% Of Its 2019 Price

January 2, 2024 | Emily Wishingrad, Washington, D.C. (https://www.bisnow.com/author/emily-wishingrad-664704) (mailto:emily.wishingrad@bisnow.com)

One of Bethesda (https://www.bisnow.com/tags/bethesda)'s most prominent office towers has sold for a fraction of its prior price after Clark Construction (https://www.bisnow.com/tags/clark-construction) vacated most of its space.

Stonebridge (https://www.bisnow.com/tags/stonebridge) and Rockwood Capital (https://www.bisnow.com/tags/rockwood-capital) sold the 16-story office property at 7500 Old Georgetown Road for $29.9M, roughly 22% of what they paid for it in 2019. The buyer, South Florida-based In-Rel Properties, announced the sale in a press release and confirmed the price to *Bisnow*.



The building is 40% leased, and In-Rel plans to maintain it as an office property, In-Rel senior adviser Jackson Siegal told *Bisnow* Tuesday. Commercial Observer first reported (https://commercialobserver.com/2024/01/in-rel-buys-bethesda-office-in-30m-distress-sale/) the sale.

The sellers had acquired (https://www.bisnow.com/washington-dc/news/office/stonebridge-rockwood-buy-clark-building-in-downtown-bethesda-100646) the 335K SF property in 2019 for $133M. Invesco provided Stonebridge and Rockwood with a $103M loan in 2019 along with the acquisition, and Wells Fargo acquired the loan in 2020 and still held it as of June, deed records show.

Stonebridge and Rockwood also invested $21M to renovate the building last year, according to a Cushman & Wakefield brochure (https://platform.reverecre.com/api/project-file/b4ea1336-d55b-439b-a1cf-09287b32513f/7500%20Old%20Georgetown%20Road_Flyer.pdf) marketing the building for sale.

The deal represented a "short sale," Siegal told *Bisnow*, meaning the lender took a loss. The buyer obtained a new loan from EagleBank (https://www.bisnow.com/tags/eagle-bank) along with the deal, Siegal said.

The building sits next to the Bethesda Metro station at the main intersection of Old Georgetown Road and Wisconsin Avenue.

The building's prior anchor tenant, Clark Construction (https://www.bisnow.com/tags/clark-construction), reportedly vacated the vast majority of its 120K SF at the property when it moved its headquarters to Tysons in 2022, the Washington Business Journal reported (https://www.bizjournals.com/washington/news/2022/04/07/clark-construction-tysons-silverline-center.html) at the time. The company was emptying more than 90K SF, according to the WBJ, citing a CBRE report. Clark still maintains some office space at the property, Siegal confirmed.

"We're really planning on trying to aggressively get tenants back in," Siegal told *Bisnow*.

"We want to bring it back to its former glory," he said. "It has the potential to be a very dynamic workplace."

The purchase marks the first D.C.-area acquisition for office and retail investment firm In-Rel, which owns properties in Kentucky, Tennessee, Alabama, Georgia, Florida and Oklahoma. But the firm is looking to do more deals in the region.

“We think D.C. is one of those places that has been hit really, really hard by Covid — like particularly hard,” Siegal said. “And we think that in the long term, D.C. is going to come back from this.”

The firm also closed on an acquisition (https://www.linkedin.com/feed/update/urn:li:activity:7146522848403099649/) of a 119K SF office property in Memphis, Tennessee, within 48 hours of the Bethesda deal. That property, the Lipscomb & Pitts Building, is 91% occupied and sold for $6.8M, In-Rel Vice President of Finance Paul Catalano told *Bisnow* in an email.

CORRECTION, JAN. 3, 8 A.M. ET: *A prior version of this article misspelled Jackson Siegal's name and misstated the term "short sale." This story has been updated.*

Contact Emily Wishingrad at emily.wishingrad@bisnow.com (mailto:emily.wishingrad@bisnow.com)