Bill:	**House Bill 1554 - Sales and Use Tax - Taxable Business Services – Alterations**
Committee:	**Ways and Means Committee**
Date:	**March 12, 2025**
Position:	**Unfavorable**

The Apartment and Office Building Association (AOBA) of Metropolitan Washington is a non-profit trade association representing the owners and managers of more than 23 million square feet of commercial office space and 133,000 apartment rental units in Montgomery and Prince George's counties. AOBA also represents members that provide affiliated services to owners and operators. AOBA submits the following testimony in opposition to House Bill 1554.

AOBA members rely heavily on contracted business services to manage operations efficiently, and this proposed 2.5% tax on business-to-business (B2B) services will have a detrimental effect on rental housing providers, commercial real estate, and ultimately, Maryland residents. This proposed 2.5% tax is not just a policy misstep; it is a direct economic threat to Maryland's housing affordability, business climate, and overall economic competitiveness. Multifamily housing providers and commercial property owners contract accounting, IT support, payroll, legal, and consulting companies. This tax directly increases operating costs, which will inevitably lead to higher rents for both residential and commercial tenants.

According to the National Apartment Association's annual income and expense survey, 95 cents of every dollar of rent collected in Maryland goes toward operating expenses and debt service.[1] These expenses include mortgage payments, property insurance, payroll, utility costs, property taxes, repair and maintenance, and capital expenditure reserves, which help cover large scale property-wide upgrades. Only five cents of every dollar remain after these costs are covered, with most of it reinvested into the property or leveraged to produce new housing. This rate of return is half the historical return of the stock market, making housing a far less attractive investment for new capital. At a time when housing affordability is a major concern, imposing new taxes that will drive up rental prices is

[1] https://www.aoba-metro.org/advocacy/at-issue-md---breaking-down-one-dollar-of-rent

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counterproductive.

This tax burden comes at a particularly challenging time when multifamily property owners are already facing significant operating cost increases from other regulatory mandates, including rent stabilization, vacancy control, and Building Energy Performance Standards (BEPS). According to case studies completed for AOBA by Steven Winters Associates, state BEPS will cost upwards of $20,000 - $40,000 per unit. This does not include the heavy up costs, which are required to increase electrical capacity to the building; the cost of financing the energy efficiency measures; or the loss of tenant income due to tenant displacement while the improvements are completed.

While the commercial office market does not suffer directly from rent stabilization, it is not immune to rising operating costs. At the same time, the commercial office market continues to grapple with rising vacancy rates, due to increased telework and hybrid work schedules. Despite Montgomery County being a desirable, amenity-rich area with transit, properties in the county continue to see their values decline from pre-pandemic highs. The reduction of net operating income is leading to a lower capitalization rate, and, consequently, a decrease in property values. The federal government's reduction in workforce, cancelled leases, and listing of federal properties for sale will only worsen this trend.

In addition to the market challenge, this bill would create additional competitive disadvantage for Maryland properties. Neighboring states such as Virginia and Delaware do not impose similar B2B service taxes. Commercial tenants that are already scrutinizing costs will bypass Maryland in favor of lower-tax states. These decisions will further drain our economy and weaken the commercial real estate sector. This bill does not just increase costs, the policy actively erodes our tax base and long-term economic stability by pushing businesses out of Maryland.

Maryland should be fostering economic growth, attracting businesses, and strengthening its housing market; not crippling them with unnecessary financial burdens. House Bill 1554 is a short-sighted revenue measure that will drive up costs, force businesses to cut jobs or relocate, and make housing less affordable for Maryland residents.

The most effective way to generate revenue is through a thriving, competitive economy—not by punishing businesses for utilizing essential services. House Bill 1554 is a direct threat to the state's economic stability and competitiveness, and its consequences will reverberate through every sector, harming businesses, property owners, and consumers alike.

For these reasons, AOBA strongly urges an unfavorable report on House Bill 1554. For more information, please contact Hugo Cantu at hcantu@aoba-metro.org.