

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1500 (Delegate Hixson)
Environmental Matters and Ways and Means

**Condominiums - Conversion of Rental Facilities - Extended Leases - Property
Tax Credit**

This bill increases from three to five years the minimum period of an extended lease that a developer converting a rental facility to a condominium is required to offer specified households. The bill also authorizes local governments to grant, by law, a property tax credit against the county or municipal property tax imposed on residential real property owned by a developer that (1) converts a residential rental facility to a condominium and (2) offers extended leases to tenants of the residential rental facility. Local governments are authorized to provide, by law, for the amount and duration of the tax credit, the criteria and qualifications for granting the credit, and any other provisions necessary.

The bill takes effect June 1, 2006 and the tax credit is applicable to taxable years beginning after June 30, 2006.

Fiscal Summary

State Effect: None. The bill would not materially affect State operations of finances.

Local Effect: County and municipal property tax revenues could decrease to the extent that the property tax credit is granted. The amount of the decrease depends on the amount and duration of the credit and the number of residential rental facilities that are converted to condominiums.

Small Business Effect: Minimal.

Analysis

Current Law: Before a residential rental facility is subjected to a condominium regime, the owner, and the landlord of each tenant in possession of any portion of the residential rental facility, if not the owner, must give the tenant a required notice of the conversion. The notice must be delivered after registering the condominium with the Secretary of State and sent together with an offer to allow the tenant to exercise the tenant's right of first refusal to purchase the property. A tenant leasing any portion of the residential rental facility as a residence may not be required to vacate the premises, with limited exceptions, prior to the expiration of 180 days from the notice.

An owner required to give notice of the conversion must offer to each tenant entitled to receive the notice a right to purchase the tenant's leased residence. The offer must be at a price and on terms and conditions at least as favorable as the price, terms, and conditions offered for that portion of the property to any other person during the 180-day period following giving notice to the tenant of the conversion. Settlement cannot be required any earlier than 120 days after the offer is accepted by the tenant. The offer must be made concurrently with the required notice about the conversion and must make specified statements about the tenant's rights. After an offer terminates, the owner may not offer to sell the unit at a price or on terms and conditions more favorable to the offeree than the price, terms, and conditions offered to the tenant during the 180-day period.

A developer may not grant a unit in a rental facility occupied by a "designated household" (a household that includes a senior citizen or handicapped citizen) without offering the tenant of the unit a lease extension for a period of at least three years if the household meets the following criteria: (1) has an annual income that does not exceed the income eligibility figure developed by the Secretary of State; (2) is current in its rent payment and has not violated any other material term of the lease; or (3) has provided the developer an affidavit containing specified information about its eligibility for an extended lease.

The Secretary of State must prepare an income eligibility figure for each county and standard metropolitan statistical area of the State. The eligibility figure must reasonably approximate 80% of the median income for each county and standard metropolitan statistical area. A county or municipality that is in a standard metropolitan statistical area may by ordinance or resolution adopt the income eligibility figure applicable to the county or standard metropolitan statistical area.

A developer must grant extended leases to up to 20% of the total number of units within a condominium to designated households. If the number of units occupied by qualifying designated households exceeds 20%, the number of units available for extended leases

must be allocated as determined by the local governing body. If the local governing body does not provide for the allocation, the units must be allocated by the developer based on continuous length of residence.

The developer must pay designated households that meet income qualifications \$375 when the household vacates the unit and for moving expenses in excess of \$375 that are actually and reasonably incurred, up to \$750. The household must make a written request for reimbursement. If a designated household does not meet income qualifications, the developer must reimburse moving expenses actually and reasonably incurred, up to \$750. The household must make a written request for reimbursement.

A county or incorporated municipality may provide, by local law or ordinance, that a rental facility may not be granted to a purchaser for the purpose of subjecting it to a condominium regime unless the county, municipality, or housing agency has first been offered in writing the right to purchase the rental facility on substantially the same terms and conditions. If the county, municipality, or housing agency purchases the rental facility it must retain or provide for the retention of the property for at least three years.

Also, a county or incorporated municipality may declare a rental housing emergency caused by the conversion of rental housing to condominiums. After declaring a rental housing emergency, the county or municipality may grant a designated family a right to an extended lease for a period in addition to the three-year period mentioned above. The county or municipality may also extend any other provision governing units leased by designated households, including those requiring the payment of moving expenses incurred by designated households. However, the developer is still not required to set aside more than 20% of the total number of units. The term of an extended lease for a family made a designated family by a county or municipality may not exceed three years.

Background: The Secretary of State advises that there are over 2,000 condominiums in Maryland. Of the 194 applications for a condominium regime received by the Secretary of State in 2005, approximately 33 were for conversions of rental facilities. Of the 21 applications received to date in 2006, 5 have been for conversions.

Local Fiscal Effect: County and municipal property tax revenues could decrease to the extent that the property tax credit is granted. The amount of the decrease depends on the amount and duration of the credit and the number of residential rental facilities that are converted to condominiums. **Exhibit 1** shows the number of accounts, by county, that the State Department of Assessments of Taxation (SDAT) has classified as apartments (buildings with four or more living units).

Exhibit 1
Number of Apartment Accounts and Assessed Value

<u>County</u>	<u>Number of Improved Accounts</u>	<u>Total Assessed Value</u>	<u>Value Per Account</u>
Allegany	34	\$15,361,326	\$451,804
Anne Arundel	144	1,216,417,359	8,447,343
Baltimore City	1,801	1,238,935,776	687,915
Baltimore	2,249	3,047,223,455	1,354,924
Calvert	21	38,157,459	1,817,022
Caroline	42	17,965,477	427,749
Carroll	132	94,644,053	717,000
Cecil	104	120,822,104	1,161,751
Charles	58	169,593,461	2,924,025
Dorchester	26	12,499,493	480,750
Frederick	452	322,225,911	712,889
Garrett	39	16,428,818	421,252
Harford	186	232,769,580	1,251,449
Howard	101	939,987,940	9,306,811
Kent	23	32,410,362	1,409,146
Montgomery	1,043	5,476,907,920	5,251,110
Prince George's	922	3,526,591,280	3,824,936
Queen Anne's	19	8,032,191	422,747
St. Mary's	121	162,078,744	1,339,494
Somerset	25	19,681,029	787,241
Talbot	88	50,736,718	576,554
Washington	483	260,549,685	539,440
Wicomico	141	99,883,223	708,392
Worcester	147	74,566,708	507,257
Total	8,401	\$17,194,470,072	\$2,046,717

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Secretary of State, Prince George's County, Garrett County, Department of Legislative Services

Fiscal Note History: First Reader - March 14, 2006
nas/hlb

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