

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 641 (Senator Raskin)
Judicial Proceedings and Budget and Taxation

**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, 2007 and the tax credit is applicable to taxable years beginning after June 30, 2007.

Fiscal Summary

State Effect: None. The bill would not materially affect State operations or 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 an individual with a specified disability) 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. Except in Baltimore City, Chapter 370 of 2006 authorizes a county or incorporated municipality to select, by law, ordinance, or resolution, which income eligibility figure prepared by the Secretary of State to use in the county or municipality for purposes of determining eligibility for an extended lease when rental housing is being converted to a condominium. Chapter 370 also added an option to the figures that a county or municipality may select from – the uncapped low income limits as adjusted for family size calculated by the U.S. Department of Housing and Urban Development for assisted housing programs. If a county or municipality does not select a figure, the income eligibility is 80% of the median household income for the

county. In Baltimore City the figure must approximate 100% of the median household income for the Baltimore Metropolitan Statistical Area. Chapter 370 made conforming changes to the notice that must be sent to tenants of a converting property.

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. Chapter 370 provides that when a county or municipality exercises its right to purchase a rental housing facility before conversion to a condominium, the county, municipality, or housing agency making the purchase may, as an alternative to retaining the entire property as a rental facility for at least three years, retain or provide for the retention of at least 20% of the units in the facility as rental units for 15 years for income-eligible households.

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: There are 2,245 registered condominiums in Maryland. Since July 2005, 76 rental units have been converted to condominiums as discussed below. Of the 194

applications for a condominium regime received by the Secretary of State in 2005, approximately 23 were for conversions of rental facilities. In 2006, of the 151 condominium applications received, 51 were conversion applications. Of the 8 applications received to date in 2007, 2 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 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	\$12,282,548	\$361,251
Anne Arundel	144	1,386,615,943	9,629,277
Baltimore City	1,818	1,262,566,051	694,481
Baltimore	2,252	3,231,624,123	1,436,002
Calvert	18	30,406,328	1,689,240
Caroline	49	21,023,053	429,042
Carroll	177	108,783,441	614,596
Cecil	106	126,199,697	1,190,563
Charles	57	177,396,086	3,112,212
Dorchester	26	13,397,454	515,287
Frederick	449	335,186,242	746,517
Garrett	39	14,281,049	366,181
Harford	184	245,216,789	1,332,700
Howard	100	945,925,678	9,459,257
Kent	23	30,529,029	1,327,349
Montgomery	1,037	6,213,195,466	5,991,510
Prince George's	863	3,860,633,145	4,473,503
Queen Anne's	19	7,997,528	420,923
St. Mary's	122	198,885,916	1,630,212
Somerset	24	22,498,425	937,434
Talbot	88	53,575,362	608,811
Washington	501	274,084,243	547,074
Wicomico	142	101,096,231	711,945
Worcester	141	84,755,614	601,104
Total	8,413	\$18,758,155,441	\$2,229,663

Additional Information

Prior Introductions: This bill was introduced as HB 1500 in the 2006 session. The House Environmental Matters and Ways and Means committees took no action on the legislation.

Cross File: HB 96 (Delegate Hixson, *et al.*) – Environmental Matters and Ways and Means.

Information Source(s): State Department of Assessments and Taxation, Secretary of State, Department of Legislative Services

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