SB908 - Testimony-2.pdf
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Executive Nominations Committee

Education, Energy and the
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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

February 28, 2024

Senate Bill 908 - Tax – Corporate Ownership of Residential Housing – Federal Benefits

Dear Colleagues,

I am pleased to present **Senate Bill 908 - Tax – Corporate Ownership of Residential Housing – Federal Benefits**, which aims to address issues with predatory investments by prohibiting investors acquiring 25 or more new single-family rental homes after the date of enactment from deducting interest or depreciation on those properties.

We are currently grappling with a pressing housing shortage of 3.8 million homes, leaving countless aspiring homeowners nationwide unable to find affordable housing options. Amidst this critical housing shortage, we've witnessed a notable trend where large investors, such as private equity firms, Real Estate Investment Trusts, and publicly traded companies, have been rapidly acquiring an increasing number of single-family homes.

According to the National Association of Realtors, institutional buyers accounted for over 13% of homes sold in 2021, reaching staggering rates of 28% in Texas and 19% in Georgia. Small investors have traditionally owned a significant number of rental homes, but the surge in large institutional investors' purchases, particularly during the peak of the pandemic, has persisted. Notably, the share of investor purchases by those with portfolios of 100 properties or more surged from 14% in September 2020 to 26% in September 2021. The competition for homes is intensified by the technological prowess, lower cost of funds, and all-cash purchasing capabilities of these large investors, who primarily target smaller, more affordable homes. This trend deprives first-time homebuyers of critical starter homes.

This legislation mirrors proposed federal laws, aiming to curtail interest and depreciation deductions for certain disqualified single-family property owners. The focus is on "single-family residential rental property," defined as such if 80% or more of the gross rental income is derived from dwelling units within a building or structure containing four or fewer dwelling units, along with related improvements to real property directly linked to those dwelling units.

It is important to emphasize the exclusion criteria for residential real property under this definition. The legislation does not apply to properties with a low-income housing credit under § 42 of the Internal Revenue Code (IRC) for the tax year, properties constructed by the taxpayer, or properties acquired by the taxpayer after the construction of the residential rental property but before the first acquisition of any dwelling unit by a resident.

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Additionally, the legislation recognizes the significance of "qualified nonprofit organizations" dedicated to the creation, development, or preservation of affordable housing. This category encompasses community development corporations, community housing development organizations, qualified community-based development organizations, land banks, resident-owned cooperatives or community land trusts, and subsidiaries of public housing agencies.

To further encourage the development of affordable rental housing and the construction of new housing supply, the bill allows owners to continue deductions on properties financed using Low-Income Housing Tax Credits (LIHTC) that are still within their affordability period. Additionally, deductions are permitted for build-for-rent single-family housing. Importantly, the bill ensures that deductions for single-family rental homes purchased before enactment remain unaffected, safeguarding the rights of renters in existing housing.

Senate Bill 908, by restricting interest and depreciation deductions for specific property owners, aims to protect the citizens of Maryland. It addresses critical issues in our housing market, ensuring fairness, affordability, and sustainability. I believe this legislative initiative will contribute positively to safeguarding the interests of our constituents and fostering a more equitable housing environment in our state.

Thank you for your attention to this critical matter. I urge the committee to give a **favorable** report for **Senate Bill 908 - Tax – Corporate Ownership of Residential Housing – Federal Benefits.**

Sincerely,

Malcolm Augustine

Senator Malcolm Augustine

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1 https://www.nar.realtor/sites/default/files/documents/2022-impact-of-institutional-buyers-on-home-sales-and- single-family-rentals-05-12-2022.pdf

2 https://www.corelogic.com/intelligence/total-investor-home-purchases-are-unlikely-to-dip-due-to-rising-interest- rates/

3 https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2022.pdf, page 12

4 https://www.washingtonpost.com/business/interactive/2022/housing-market-investors/

5 Id.

6 Id.

7 https://www.banking.senate.gov/imo/media/doc/Brunner%20Testimony%208-2-222.pdf, page 3

MMHA - 2024 - SB908 - UNF.pdf

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Position: UNF

MARYLAND MULTI-HOUSING ASSOCIATION, INC.

Senate Bill 908

Committee: Budget and Taxation
Bill: Senate Bill 908 Income Tax – Addition Modification – Interest for and Depreciation of Residential Rental Property
Date: February 27, 2024
Position: Unfavorable

The Maryland Multi-Housing Association (MMHA) is a professional trade association established in 1996, whose members house more than 538,000 residents of the State of Maryland. MMHA's membership consists of owners and managers of more than 210,000 rental housing homes in over 958 apartment communities and more than 250 associate member companies who supply goods and services to the multi-housing industry.

Senate Bill 908 ("SB 908") stands to increase the Maryland taxable income on taxpayers that own at least 25 single-family residential rental properties (such taxpayers are referred to as "Disqualified Single-Family Property Owners" in the legislation). The bill seeks to do this by requiring Disqualified Single-Family Property Owners to add back to their federal adjusted gross income deductions for interest and depreciation related to the rental properties. This bill takes effect July 1, 2024, and applies to tax year 2024 and beyond.

MMHA would respectfully request an unfavorable report on SB 908. Effectively raising taxes on those who own and operate these rental housing properties will only exacerbate the housing affordability crisis that has gripped Maryland. These housing providers often rely on rent as a sole income stream to fund the operations of the properties. These operations and associated costs include, but are not limited to, mortgage payments and interest, payroll, utilities, business licenses, property and other taxes, hazard and liability insurance, routine repair and maintenance, and contracted services. Additionally, there are other indirect costs associated with tenant turnover, such as repairing units in between tenants and marketing units for occupancy.

This legislation will disincentivize investment in housing by diminishing returns, adding to the financial stress stemming from mounting operating costs, thus pressuring providers to raise rental rates on tenants. Now is the time that we work to find solutions to help stabilize the housing crisis by encouraging more investment into the market.

Please contact Matthew Pipkin, Jr. at (443) 995-4342 or mpipkin@mmhaonline.org with any questions.