

MALCOLM AUGUSTINE
Legislative District 47
Prince George's County

PRESIDENT PRO TEMPORE

Executive Nominations Committee

Education, Energy and the
Environment Committee



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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,

A handwritten signature in cursive script that reads "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