Bill No:	**HB23 - Property Taxes - Authority of Counties to Establish a Subclass and Set a Special Rate for Commercial and Industrial Property**
Committee:	**Budget & Taxation**
Date:	**March 27, 2025**
Position:	**Unfavorable**

The Apartment and Office Building Association (AOBA) of Metropolitan Washington is the leading 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 submits the following testimony in opposition to House Bill 23.

House Bill 23 allows counties to assess a special tax rate for commercial and industrial properties to fund transportation improvements and county school systems as required under the state's maintenance of effort law. The bill allows the counties to set a special rate up to 12.5 cents per $100 of assessed value for the class of property to which the rate applies.

AOBA understands the need to raise additional revenue for transportation and education, given state and county budget challenges. However, the additional taxing authority in HB23 is neither necessary nor prudent. There is no rational nexus between commercial properties and school funding, and counties have had the authority to create special taxing districts to fund transportation improvements since 2010 (SB 828).

Montgomery County established only one special taxing district located in the White Flint area of North Bethesda. Properties in the White Flint Special Taxing District have been charged 10-11 cents per $100 of assessed value since 2011. This tax was projected to bring in $45 million in revenue over 10 years. According to a 2021 Montgomery County Council staff memorandum, however, the District only generated about one-third of this expected revenue[1].

This revenue shortage is likely to persist if counties are granted the additional taxing authority outlined in HB23. The value of commercial office properties is linked to their capitalization rate, which is calculated by dividing the property's net operating income by its most recent purchase price. High office vacancy rates reduce net operating income, leading to a lower capitalization rate, and, consequently, a decrease in property values.

1https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2021/20210316/20210316_GOTE1.pdf

1025 Connecticut Avenue, NW Suite 1005 Washington, DC 20036
p: 202.296.3390 f: 202.296.3399
www.aoba-metro.org

The commercial office market in Maryland continues to grapple with rising vacancy rates, due to increased telework and hybrid work schedules. Attached to this testimony is a graphic illustrating the state of the office market in Montgomery County, which is the largest office market in the state. Despite being in desirable, amenity-rich areas near transit, these properties continue to see their values decline from pre-pandemic highs.

These properties are not outliers. The most recent Montgomery County Economic Indicators Report shows the county office vacancy rate has risen to 18.3%. This represents a two-percentage point increase year-over-year and six-percentage points above pre-pandemic levels[2]. Office vacancy rates are likely to continue climbing as long-term leases expire and employers continue to reduce their office space needs. Furthermore, the federal government's recent cancellation of millions of square feet of commercial leases and planned sale of federal office buildings will only add to the glut of vacant office space in Maryland.

Lastly, some have argued that this taxing authority would make Maryland counties more competitive with those in Northern Virginia. However, that is unlikely because Virginia counties have distinct advantages, including no income tax, a lower corporate tax rate, lower fuel energy taxes, and lower or no development impact taxes.

For these reasons, AOBA urges an unfavorable report on House Bill 23. For more information, please contact Hugo Cantu at hcantu@aoba-metro.org.

---

[2] https://thinkmoco.com/wp-content/uploads/2024/10/MoCo-Economic-Indicators-Briefing-Q2-2024_100724.pdf

STATE OF THE OFFICE MARKET
MONTGOMERY COUNTY, MD

APARTMENT AND OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

7500 Old Georgetown Road
Bethesda

Sold in 2024 for **$30 million**
Down 78% from its
high of $133.8M

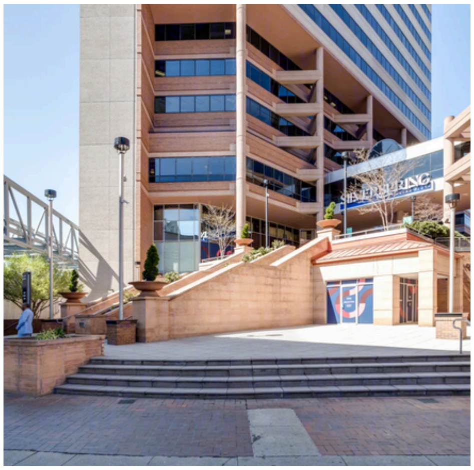
1801 Rockville Pike
Rockville

Sold in 2024 for **$14 million 30% below** its 2024 assessed value of **$22 million**

1 Inventa Place
Silver Spring

Sold in 2018 for **$70 million**
Assessed at **$51 million** in 2025

8403 Colesville Road
Silver Spring



Assessed at **$84 million** in 2025
Down from $98 million in 2022

8484 Georgia Ave, 1010 &
1100 Wayne Ave
Silver Spring

Assessed at **$25-$35 million** in 2025
Down $10 million from 2019

121 Rockville Pike
Rockville

Auctioned for **$10 million** in 2024
60% below its **$26 million** assessed value

Sources: CoStar & SDAT

Brian Anleu, Vice President of Government Affairs, MD | banleu@aoba-metro.org | 240-381-0494
Hugo Cantu, Government Affairs Manager, MD | hcantu@aoba-metro.org | 240-701-1990