February 7, 2025

The Honorable Vanessa E. Atterbeary, Chair
130 Taylor House Office Building
Annapolis, Maryland 21401

<u>Oppose: HB 641 – State Property Tax – Special Rates – Transportation Funding</u>

Dear Chair, Atterbeary and Committee Members:

The NAIOP Maryland Chapters represent approximately seven hundred companies involved in all aspects of commercial, industrial, and mixed-use real estate. On behalf of our member companies, I am writing in opposition to HB 641 which would increase the state property tax and authorize it to be applied at differential rates to subclasses of real estate.

NAIOP believes that tax increases and special tax rates authorized by HB 641 - and all of the other special tax rate bills currently being considered by the General Assembly -will erode the commercial - industrial tax base, create year-to-year tax rate uncertainty for property owners, increase overreliance on commercial real estate taxes and further deteriorate Maryland's economic position relative to other states. We request the committee consider the following points:

- **<u>Increased Commercial Property Taxes Put Downward Pressure on Assessed Values and Shrink the Commercial Tax Base</u>** - Commercial real estate values are largely determined by their ability to generate income, which is measured through Net Operating Income. Higher property taxes increase operating expenses, which directly reduces Net Operating Income and lowers property values.
- **<u>Higher Taxes Impact Financing and Loan Underwriting</u>** – Debt Service Coverage Ratio measures the extent to which commercial rents cover a building's operating costs. When taxes rise lower operating incomes can weaken the debt coverage ratio to below minimum levels set by banks and lending institutions. Lenders may require higher downpayments or impose stricter loan terms making financing more difficult to obtain or more expensive.
- **<u>Commercial Development is Subject to Transportation Impact Fees, and Excise Taxes that Generate Funding and Adequate Public Facilities Regulations that Generate In-Kind Construction of State and Local Transportation Facilities</u>** – In many jurisdictions NAIOP members pay impact fees to fund expansion of transportation facilities and provide in-kind services in the form of upgraded intersections and road improvements as a condition of development approval. These taxes and road improvements are development costs embedded in the sales prices of new buildings. HB 641 would "double tax" property owners for some of the same purposes and would do so without regard for the adequacy of transportation infrastructure serving the buildings that pay the increased taxes or whether the class of

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property paying the increased tax is generating demand for expanded transportation infrastructure.

- **<u>Increased Taxes Will Pass Through to Small Businesses Under Common Lease Provisions</u>** - The common commercial real estate lease for many small service and retail businesses is a lease where the tenant pays for regular expenses like utilities and property taxes. The increased taxes resulting from HB 641 will be passthrough expenses. If taxes sharply increase, tenants may struggle to afford rent or seek alternatives in lower-tax areas.

- **<u>Breaks with Principle of Uniform Taxation</u>** - The bill would break the long-standing principle that all property owners should pay uniform tax rates. The annual reevaluation of transportation capital and operating costs and resetting of rates exposes building owners and their tenants to unpredictable increases in taxes. Most commercial leases are 5 to 10 years or longer. The leases anticipate gradual increases in taxes based on property appreciation. There is no opportunity to renegotiate sharply increased tax bills and few borrowing options to respond to volatile or unpredictable tax rates.

- **<u>Commercial Real Estate is Already Heavily Taxed, Generating Higher Net Tax Benefits Than Other Classes of Property</u>** – There is very little doubt that the authority would result in narrowly drawn and disproportionately high commercial real estate taxes. Commercial real estate already pays state and local property taxes, transfer and recordation taxes on leases, sales and mortgages. These existing commercial real estate taxes generate significantly more revenue than the cost of public services provided to commercial real estate.

- **<u>The Bill Would Result in Higher Taxes for Buildings Struggling with the Lingering Effects of COVID 19 and the Slow Return to Office</u>** - Transportation funding deficits are in part due to lower motor fuel taxes and reduced transit ridership. Both trends can be traced to post COVID-19 hybrid and remote work that have also resulted in high office vacancy rates and reduced cash flow for businesses located in employment districts. The taxes enabled by HB 641 would put additional financial pressure on already distressed properties, slow the recovery of business districts and make new developments harder to stabilize.

- **<u>Geographically Focused Higher Taxes Near Transit Will Add Higher Tax Rates to Existing Higher Assessed Values</u>** - Financially viable transit districts should already generate higher tax revenues as a result of higher assessed valuations for property within the designated transit areas. HB 641 authorizes higher tax rates be applied to those valuations.

<u>For these reasons, NAIOP respectfully requests your unfavorable report on HB 641.</u>

Sincerely,

T.M. Ballentine

Tom Ballentine, Vice President for Policy
NAIOP – Maryland Chapters, *The Association for Commercial Real Estate*

cc: Ways and Means Committee Members
Nick Manis – Manis, Canning Assoc.