NAIOP
MARYLAND CHAPTERS
THE ASSOCIATION FOR COMMERCIAL REAL ESTATE

February 24, 2025

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

Unfavorable: HB 1178 – Baltimore City – Authority to Set Special Rates

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 1178 which would authorize Baltimore City to set differential tax rates to subclasses of real estate.

NAIOP believes that tax increases and special tax rates authorized by HB 1178 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 Baltimore's economic position relative to surrounding jurisdictions. We request the committee consider the following points:

- **Increased commercial property taxes put downward pressure on assessed values and shrink the commercial tax base** - 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.

- **Higher taxes impact financing and loan underwriting** – 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.

- **Because of its high assessments and lower demand for services, commercial real estate already generates more net tax revenue for City services than any other land use.** Property taxes, for non-owner-occupied property in the City of Baltimore are $2.248 per $100 of assessed value. Commercial property in the central business district pays an additional surcharge of $0.2239 per $100 of assessed value tax to the Downtown Management Authority special taxing district for a total of $2.47 per $100 of assessed value.

- **Increased taxes will pass through to small businesses.** - 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 1178 will be

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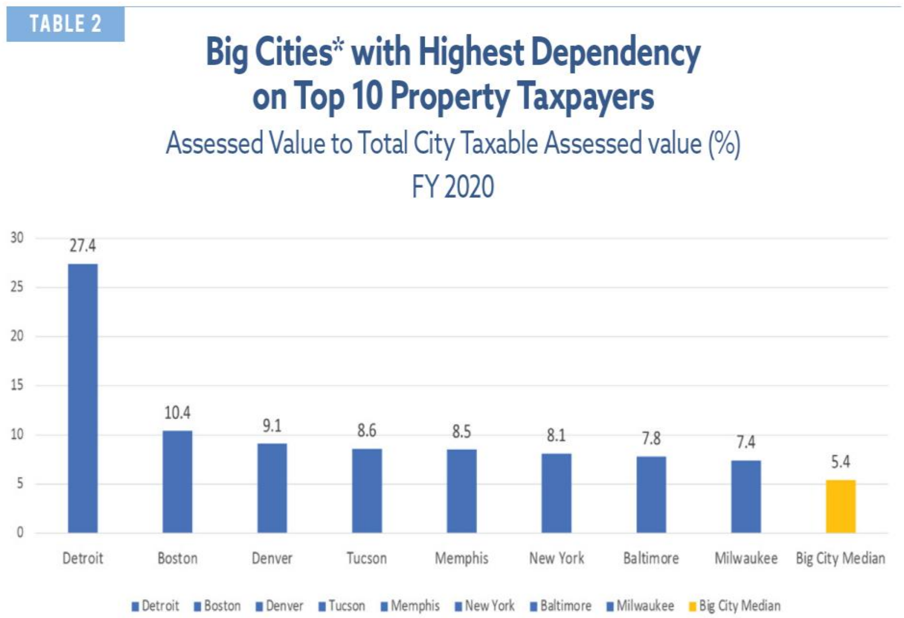
passthrough expenses. If taxes sharply increase, tenants may struggle to afford rent or seek alternatives in lower-tax areas.



*Source: **Merritt Research Services, an Investortools Company**. *Big cities include those with populations of 500,000 or more. Compiled from Annual Comprehensive Financial Reports.*

- **<u>Breaks with the principle of uniform taxation</u>** - The bill would break the long-standing principle that all property owners should pay uniform tax rates.

- **<u>Overreliance on top taxpayers is seen as a risk factor when assessing municipal credit quality.</u>** A 2022 report from municipal credit research company, Merritt Research, explored the reliance on commercial real estate tax revenues in 33 major U.S. Cities. The report found that Baltimore's dependency on the top 10 property taxpayers was 7th among U.S. cities with populations of 500,000 or more. (Please see table above)

<u>For these reasons, NAIOP respectfully requests your unfavorable report on HB 1178.</u>

Sincerely,

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.