Bill: **SB 735 - Property Tax - Petition to Review Value of Commercial Real Property**

Committee: **Budget and Taxation**

Date: **March 3, 2026**

Position: **Unfavorable**

The Apartment and Office Building Association (AOBA) of Metropolitan Washington is a nonprofit trade association representing the owners and managers of more than 23 million square feet of commercial office space and 167,000 apartment rental units in Montgomery and Prince George's counties. AOBA submits the following testimony in opposition to Senate Bill 735.

SB 735 would authorize a county or municipal corporation to petition for review of the value of commercial real property when it is sold to a new owner at a price at least 20% higher than the previous sale price. This proposal effectively enables mid-cycle reassessments triggered by sales price increases, which undermines predictability in the state's triennial assessment system and may have a negative impact on commercial property financing. Commercial real estate underwriting depends on reliable forward projections of operating expenses with real estate taxes being the single largest line item after debt service. When tax liabilities change mid-cycle based on sales price, investors and lenders must assume higher risk, leading to more conservative underwriting.

Take a Montgomery County multifamily property, for example, with a $100 million assessed value that is phased in over a three-year cycle. If the property sells for $130 million in year two of the three-year assessment period, a mid-cycle assessment would result in an increase in real estate tax expense of $460,000. This decrease in net operating income (NOI) would reduce the underwritten property value by $9.2 million.[1] This would decrease the debt capacity by nearly $6 million, which the buyer would need to pay in cash or raise in equity from investors.

When property taxes go up permanently, buyers adjust the amount theu are willing to pay. Over time, this means sellers receive less, buyers need more equity, and fewer transactions occur. Montgomery and Prince George's Counties are already seeing large declines in the number of multifamily and

[1] The formula for calculating commercial property values is NOI/Cap Rate = Value. This example assumes a 5% cap rate, which is a reasonable stabilized cap rate for institutional-quality commercial property in Montgomery County under normal market conditions. Therefore, the reduction is (-$460,000)/5% = =$9.2M.

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commercial office building transactions due to the regulatory environment in both counties.[2] Attached to this testimony is the CoStar for combined multifamily and office building sales in both counties. This decline in sales has resulted in millions of dollars of less transfer and recordation taxes.

SB 735 may appear to simply "update" property values after a sale, but in practice it introduces instability into Maryland's property tax system. That instability reduces investment, reduces lending, and ultimately slows economic activity. At a time when Maryland is working to attract capital and revitalize commercial corridors, this proposal moves in the opposite direction.

For these reasons, AOBA urges an unfavorable report on Senate Bill 735. For more information, please contact Brian Anleu at banleu@aoba-metro.org.

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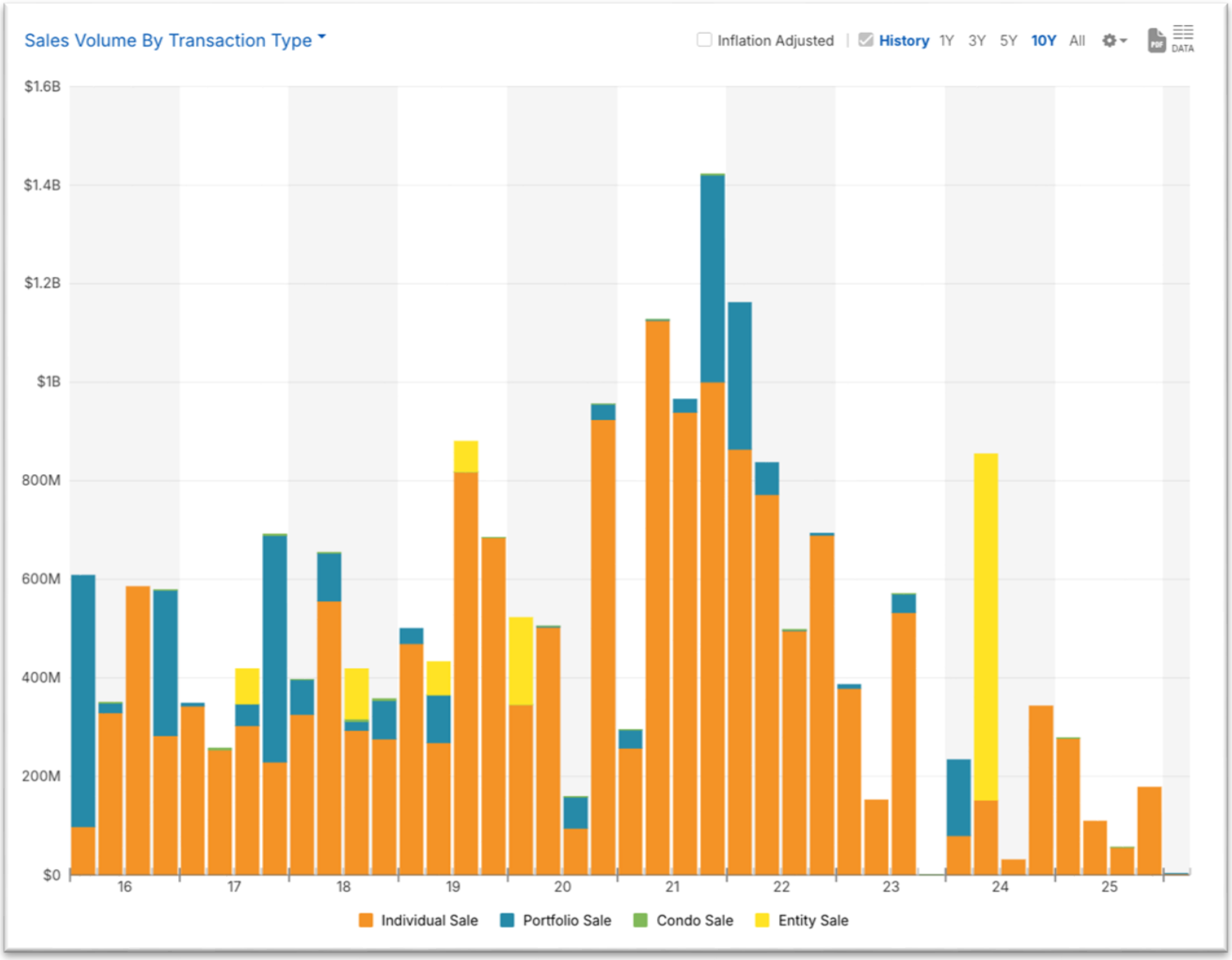
[2] https://www.wsj.com/real-estate/wall-street-landlords-loved-these-d-c-suburbs-rent-control-ended-that-a8f166cb?reflink=desktopwebshare_permalink

10-Year Multifamily Property Sales Montgomery & Prince George's Counties



10-Year Office Building Sales in Montgomery & Prince George's Counties