



Bill: **HB78 - Property Taxes - Authority of Counties to Establish Subclasses and Set Separate Rates for Land and Improvements to Land**

Committee: **Ways and Means**

Date: **January 27, 2026**

Position: **Unfavorable**

The Apartment and Office Building Association (AOBA) of Metropolitan Washington is a non-profit trade association representing the owners and managers of more than 23 million square feet of commercial office space and 133,000 multifamily units in Montgomery and Prince George's counties. AOBA submits the following testimony in opposition to House Bill 78.

HB 78 authorizes counties and Baltimore City to establish a split-rate tax system for subclasses of real property. Split-rate taxation allows local governments to charge land and buildings at different rates. Proponents of this tax scheme often call it this land value tax. The goal of a land value tax is to encourage the development of vacant or underutilized land. HB 78, however, is not strictly a land value tax because it also authorizes a higher rate for buildings than land. Meaning, HB78 has morphed from a land value tax to a property tax increase.

On the multifamily side, the evidence shows that split-rate taxation introduces instability, raises land costs, and risks worsening housing affordability. In Pennsylvania, for example, a 2017 study found that raising taxes on land while lowering taxes on buildings increases land value per acre.¹ Higher residential land values translate into higher housing development costs, rents, and sales prices. This is most acute in urban areas like Montgomery and Prince George's Counties where land already represents a large share of total project costs. Furthermore, there are already significant barriers to multifamily development in these counties that split-rate taxation is unlikely to address. These barriers include a challenging regulatory environment and other high taxes, such as rent control and fuel energy taxes, respectively.

On the commercial side, split-rate taxation is likely to result in higher taxes for office buildings as evidenced by the counties' support of House Bill 90, which allows counties to set a higher tax rate on the commercial office building subclass. Commercial properties are highly sensitive to increased

¹ <https://www.sciencedirect.com/science/article/abs/pii/S1051137716302868>

operating costs. Increasing property taxes results in reduced net operating income, lower property values, and increased financing risks. Given that commercial leases often pass through property taxes to tenants, these increases would also raise costs for businesses and further weaken the state's competitiveness with neighboring jurisdictions.

Lastly, this bill is unlikely to be *revenue neutral* because of the significant challenges assessing land and buildings. In November 2025, the Ways and Means Committee Baltimore City Property Tax Study concluded with estimates on the burden a transition from the current tax system to a land value taxation system. While the estimates stem from a Baltimore City specific bill from the 2025 legislative session, the State Department of Assessment and Taxation (SDAT) would be required to do a department wide overhaul.

These changes include changes to taxable portions of properties, recalculations of homestead credits, updating reports to separate land from improvements, and replacement of storage systems to accommodate the new data entries. The fiscal estimates for procuring new data storage, retraining of employees, and upgrading the maintenance & operations software would conservatively cost the Department upwards of \$35 million in upfront cost; about \$6 million in new annual cost. HB78 would exacerbate the budgetary constraints of the department.

Even with an overhaul of the Department, the very act of separating the value of the land from the improvements to that land will prove difficult and inaccurate. Since the land value tax will focus on the highest and best use of a given parcel of land, the department would need to do a parcel-by-parcel analysis of development limitations. These parcel-by-parcel analyses would be inaccurate, given the few current land sales available for market comparison. If this is executed inaccurately on a massive scale, the system would bear the full weight of the public's distrust and, in turn, hundreds of thousands of appeals.

For these reasons, AOBA urges an unfavorable report on House Bill 78. Please contact Hugo Cantu at hcantu@aoba-metro.org with any questions or concerns.