



Committee: Joint
Committee Review: Completed
Staff: Jim Ogorzalek, Legislative Attorney
Purpose: Final action – vote expected

AGENDA ITEM #2A
April 8, 2025
Action
REVISED

SUBJECT

Expedited Bill 2-25, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments

Lead Sponsors: Councilmembers Fani-González and Friedson

Co-Sponsors: Councilmember Luedtke, Council President Stewart, and Councilmembers Balcombe and Sayles

EXPECTED ATTENDEES

- Scott Bruton, Director, Department of Housing and Community Affairs
- Dennis Hetman, Manager, Department of Finance
- Anita Aryeetey, Senior Fiscal and Policy Analyst, Office of Management and Budget
- Jason Sartori, Director, Planning Department
- Rabbiah Sabbakan, Director, Department of Permitting Services

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- The Joint Government Operations & Fiscal Policy (GO) and Economic Development (ECON) Committee recommends (6-0) the enactment of Expedited Bill 2-25, with amendments.
- The Council will hold a roll call vote on the GO/ECON recommendation to enact Expedited Bill 2-25, with amendments.

DESCRIPTION/ISSUE

Expedited Bill 2-25 would:

- (1) establish a minimum payment in lieu of taxes for certain conversions of high-vacancy commercial properties to residential use;
- (2) establish the amount of the payment in lieu of taxes; and
- (3) generally amend the law governing payments in lieu of taxes.

SUMMARY OF KEY DISCUSSION POINTS

- The Committee adopted an amendment to increase the required percentage of affordable units from fifteen to seventeen-and-a-half percent.
- The Committee adopted an amendment to decrease the length of the PILOT from twenty-five to twenty years.
- The Committee adopted an amendment to include a sunset provision so that the PILOT has no further effect after ten years from its effective date, except that any agreements remain in place.

- The Committee adopted an amendment to include a transition provision so that properties that have already applied to either the Planning Department or Department of Permitting Services (as appropriate) may be eligible for the PILOT without reapplying under the new expedited process.
- The Committee adopted an amendment to clarify that property developments that do not require Planning Department review may still be eligible for the PILOT if they otherwise meet the same requirements, and that the relevant time for the vacancy requirement is at the time of application to the Planning Board or, when application to the Planning Department is not required, at the time of application to the Department of Permitting Services.
- Councilmembers offered amendments following the Committee Worksession.

This report contains:

| | |
|---|------------|
| Staff Report | Pages 1–16 |
| Expedited Bill 2-25 | © 1 |
| Lead Sponsors’ Letter to Colleagues | © 6 |
| Racial Equity and Social Justice Impact Statement | © 11 |
| Climate Assessment | © 16 |
| Economic Impact Statement | © 20 |
| Fiscal Impact Statement | © 24 |
| Council Staff Memorandum (Fiscal Impact) | © 28 |
| Council Staff Memorandum (Retail) | © 36 |
| County Executive Letter | © 40 |

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MEMORANDUM

April 3, 2025

TO: County Council

FROM: Jim Ogorzalek, Legislative Attorney

SUBJECT: Expedited Bill 2-25, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments

PURPOSE: Action – roll call vote expected

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| <p>Committee Recommendation: The Joint Government Operations & Fiscal Policy (GO) and Economic Development (ECON) Committee voted (6-0) to recommend the enactment of Expedited Bill 2-25, with amendments.</p> |
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Invited Attendees:

Scott Bruton, Director, Department of Housing and Community Affairs
Dennis Hetman, Manager, Department of Finance
Anita Aryeetey, Senior Fiscal and Policy Analyst, Office of Management and Budget
Jason Sartori, Director, Planning Department
Rabbiah Sabbakan, Director, Department of Permitting Services

Introduction

Expedited Bill 2-25, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments, was introduced on February 4, 2025. The Lead Sponsors are Councilmembers Fani-González and Friedson. The bill's co-sponsors are Councilmember Luedtke, Council President Stewart, Councilmembers Balcombe and Sayles. Public hearings occurred on March 11, 2025, at 1:30 p.m. and 7:00 p.m. The Joint Government Operations & Fiscal Policy (GO) and Economic Development (ECON) Committee considered the bill on March 27, 2025, and recommended (6-0) the enactment of the bill, with amendments.

As introduced, Expedited Bill 2-25 would:

- (1) establish a minimum payment in lieu of taxes for certain conversions of high-vacancy commercial properties to residential use;
- (2) establish the amount of the payment in lieu of taxes; and
- (3) generally amend the law governing payments in lieu of taxes.

Background

Currently, the County Code authorizes three mechanisms by which an owner may receive the benefit of a Payment in Lieu of Taxes (“PILOT”). Montgomery County Code § 52-24(b) contains the “Standard PILOT,” which permits the Finance Director to negotiate a PILOT for any qualifying housing development eligible under state law, functionally serving as local authorizing language to provide any PILOT allowed under state law. M.C.C. § 52-24(c) contains the “By Right Pilot,” which requires the Finance Director to grant a minimum PILOT for certain housing developments based upon ownership or enumerated affordability requirements. M.C.C. § 52-24A allows for a PILOT for properties leased from the Washington Metropolitan Area Transit Authority.

The purpose of this bill is to expand the By Right Pilot to include an extended tax exemption period and reduced affordability requirements when the property developed is a conversion from a high-vacancy commercial use to a residential use that achieves timely approval as set forth in Sections 3.3.2.B and 7.3.5 of Chapter 59 (Zoning).

Bill Specifics

Expedited Bill 2-25 would require the Director of Finance to offer a PILOT for a residential development resulting from the conversion of a property that was designated for commercial use but had at least a 50% vacancy rate at the time of the development application to the Planning Department or Department of Permitting Services. To be eligible for the PILOT, the conversion of the property must comply with the requirements set forth in Section 3.3.2.B of Chapter 59 (Zoning)—which allows for demolition or adaptive reuse, contemplates multifamily or townhouse developments depending upon the context, and sets applicable timelines for approval—and provide that at least 15% of units be affordable to households earning 60% or less of the area median income for a period of 25 years. The Bill would require a PILOT that would exempt 100% of the real property tax that would otherwise be levied for a period of 25 years.

The Bill contains an effective date of 20 days after the date on which it becomes law, which aligns with the anticipated effective dates of companion Zoning Text Amendment 25-03 and Subdivision Regulation Amendment 25-01.¹

¹ Expedited Bill 2-25 was introduced as part of the “More Housing N.O.W. (New Options for Workers)” package. The package includes: ZTA 25-02, Workforce Housing - Development Standards; ZTA 25-03, Expedited Approvals – Commercial to Residential Reconstruction; SRA 25-01, Administrative Subdivision – Expedited Approval Plan; and Expedited Bill 2-25, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments.

Summary of Impact Statements

Fiscal impact.² According to the Office of Management and Budget, “real property tax revenues could decrease by approximately \$5.8 million in the first year, increasing by further annual reductions of an additional \$6–7 million as more properties utilize the PILOT, resulting in a loss of \$130 million in real estate tax revenue in the six-year analysis period.” Additionally, “the annual decrease in property tax revenues will continue to grow for 25 years from the time the initial projects received the PILOT, after which new PILOTs may replace expired PILOTs and the revenue decrease stabilizes with annual loss of around \$230 million in property tax revenue per year, with total loss over that 25-year period of approximately \$2.6 billion.” Separately, the Fiscal Impact Statement “adds 1.0 FTE for a Senior Planning Specialist and \$134,600 in personnel costs” and increased operating expenses of \$7,500 in FY26 and \$1,700 in subsequent years.

Racial equity and social justice. “The Office of Legislative Oversight (OLO) anticipates Expedited Bill 2-25 could have a negative impact on racial equity and social justice (RESJ) in the County” by “benefit[ing] landlords and residents who can afford market-rate housing more than residents in need of affordable housing” and forgoing property tax revenue, which might have been used for the provision of public goods and services. OLO also proposed creating additional incentives to provide a higher percentage of affordable housing units.

Economic impact. “The Office of Legislative Oversight (OLO) anticipates that Expedited Bill 2-25 would have a positive impact on economic conditions in the County” by “reduc[ing] operating expenses for office buildings that are converted to residential buildings” and, thereby, “yield[ing] higher business incomes.”

Climate assessment. “The Office of Legislative Oversight (OLO) anticipates Expedited Bill 2-25 could have a small, positive impact on the County’s community climate resilience and the County’s contribution to greenhouse gas emissions as the proposed change is intended to expand a County program that supports the construction and preservation of affordable multifamily rental housing.”

Summary of Public Testimony

Public hearings were held on March 11, 2025, at 1:30 p.m. and 7:00 p.m. Speakers testified both in support and in opposition to Expedited Bill 2-25. The Council also received written testimony.³ Testimony was from civic associations, homeowners’ associations, individuals, industry associations, and developers.

Testimony in support noted that Expedited Bill 2-25 would incentivize development of attainable housing. Developers and land use attorneys in support argued that the tax benefits of the bill would cause projects that are not currently financially viable to proceed to construction. Residents testified that it would create more housing availability in the County. Industry groups,

² Council Staff transmitted to all Councilmembers the memorandum analysis included at © 27 regarding Council Staff Comments and Questions on Bill 2-25E Fiscal Impact Statement.

³ Written testimony may be found here:

<https://www.montgomerycountymd.gov/COUNCIL/OnDemand/testimony/20250311/item7.html>.

such as the Maryland Building Industry Association (MBIA), National Association for Industrial and Office Parks DC/MD Chapter (NAIOP), the Greater Capital Area Association of Realtors (GCAAR) and the Apartment and Office Building Association of Metropolitan Washington (AOBA), stated that the bill would meaningfully impact the region's economy by addressing vacant commercial space. Organizations associated with construction and development indicated that current regional instability associated with the federal government had made securing financing particularly challenging, which would make the bill's impact more significant.

Testimony in opposition stated that Expedited Bill 2-25 amounted to an unnecessary tax break for developers, which would not benefit County residents. Testimony expressed concerns that the bill's affordability requirement was too low and ought to be higher than the legal minimum. Residents testified that the current fiscal and economic uncertainty at the federal and State levels made the present a particularly inappropriate time to provide a tax break for developers. Additionally, residents were concerned about the bill's racial equity impact, as they suggested the bill would primarily benefit developers and individuals able to purchase additional market-rate housing. These concerns were echoed by numerous civic and homeowners' associations, as well as by UFCW Local 1994 MCGEO, which echoed residents' concerns that the affordability requirements were too low and that the tax incentive would significantly reduce revenues used for critical public services.

Summary of the Committee Worksession

The Joint Government Operations & Fiscal Policy (GO) and Economic Development (ECON) Committee recommended (6-0) the enactment of Expedited Bill 2-25, with amendments.

1. Amendment to Increase Required Percentage of Affordable Units

As introduced, Expedited Bill 2-25 required that fifteen percent of units in a property's development be affordable for the property to be eligible for the PILOT. The Committee adopted an amendment offered by Councilmember Friedson to increase the required percentage of affordable units from fifteen to seventeen-and-a-half percent.⁴

GO/ECON Amendment #1

Amend lines 41 to 53 as follows:

- (C) at least ~~[[15]] 17.5 percent of the dwelling units located on the property are built under a government regulation or binding agreement with the County limiting the rent~~

⁴ An amendment to increase the requirement to thirty percent was also offered at Committee but did not receive a second.

charged for the unit for at least 25 years to make the unit affordable to households earning 60 percent or less of the area median income.

The offer must exempt 100 percent of the real property tax that would otherwise be levied for a period of at least 25 years beginning in the year a use and occupancy permit is issued for the qualifying development, but no more than the number of years that rents charged for ~~[[15]]~~ 17.5 percent of the dwelling units must remain restricted to households earning 60 percent or less of the area median income.

2. PILOT Length

As introduced, for eligible properties, the PILOT provides tax exemption for twenty-five years from the year in which use and occupancy is issued. The Committee adopted an amendment offered by Councilmember Fani-González to decrease the length of the PILOT from twenty-five to twenty years.⁵

GO/ECON Amendment #2

Amend lines 47 to 53 as follows:

The offer must exempt 100 percent of the real property tax that would otherwise be levied for a period of at least ~~[[25]]~~ 20 years beginning in the year a use and occupancy permit is issued for the qualifying development, but no more than the number of years that rents charged for 15 percent of the dwelling units must remain restricted to households earning 60 percent or less of the area median income.

⁵ An amendment to reduce the PILOT length to ten years was also offered at Committee but did not receive a second.

3. Sunset

The Committee adopted an amendment offered by Councilmember Sayles to include a sunset provision so that the PILOT contemplated in Expedited Bill 2-25 has no further effect after ten years from its effective date, except that any agreements remain in place.

GO/ECON Amendment #3

Add lines 70–72 as follows:

Sec. 5. Sunset. This Act must sunset and must have no further force and effect after 10 years from the effective date of this legislation, except that any agreements entered into prior to the sunset must remain in full force and effect.

4. PILOT Retroactivity

As introduced, to be eligible for the payment in lieu of taxes, Expedited Bill 2-25 requires any property to reapply under the expedited process set forth in ZTA 25-03, even if it has already received Planning Board resolution. The Committee adopted an amendment offered by Councilmember Glass to include a transition provision so that properties that have already applied to either the Planning Department or Department of Permitting Services (as required) may be eligible for the PILOT without having to reapply under the new expedited process set forth in ZTA 25-03. The amendment: (1) only extends to properties that have a certified site plan as of the bill's effective date; (2) requires the property to have fully met the requirements of Section 3.3.2.B of Chapter 59; and (3) requires the property to otherwise comply with Section 7.3.5.H.4 of Chapter 59 that (a) the applicant must have a building permit application, accepted by DPS, that includes the core and shell of the principal building within two years of the bill's effective date, and (b) within two years after DPS accepts the building permit application that includes the core and shell of the principal building, the applicant must obtain that building permit.

GO/ECON Amendment #4

Add lines 60–69

Sec. 4. Transition. If a property has obtained site plan approval from the Planning Board by the effective date of this legislation, then the property is eligible for a payment in lieu of taxes under Section 52-24(c)(4), as amended by this Act, if it otherwise complies with subparagraphs (4)(A) and (4)(C) of Section 52-24(c), as amended by this Act, and an applicant for the property: (i) applies for a building permit, which is accepted by the Department of Permitting Services and includes the

core and shell of the principal building, within 2 years of the earlier of the date of the Planning Board’s resolution or the effective date of this legislation; and (ii) obtains the building permit within 2 years of DPS’s acceptance of the building permit application that includes the core and shell of the principal building.

5. Staff Clarifying Amendment

The Committee adopted Council Staff’s proposed amendment to revise certain language in the introduced bill to clarify that the relevant time for the vacancy requirement is ordinarily at the time of application to the Planning Board or, when application to the Planning Department is not required, at the time of application to the Department of Permitting Services. Relatedly, the Staff Amendment clarifies that property developments that do not require Planning Department review may still be eligible for the PILOT if they otherwise meet the same requirements.

GO/ECON Amendment #5

Amend lines 31–54 to read:

- (4) owned or controlled by a person engaged in constructing or operating housing structures or projects if:
 - (A) the property receiving the payment in lieu of taxes is converted to residential use from a commercial use with at least a 50 percent vacancy rate at the date of application to either the [[Department of Permitting Services or]] Planning Department or, if the property’s development does not require site plan approval from the Planning Department, Department of Permitting Services pursuant to Section 3.3.2.B of Chapter 59;
 - (B) the property’s development meets all the requirements of an expedited approval plan under Section 7.3.5 of Chapter 59, except that if a property’s development does not require site plan approval from the Planning Department it is not

required to meet the requirements of an expedited approval plan but must obtain the building permit within 2 years of acceptance by the Department of Permitting Services of the building permit application that includes the core and shell of the principal building; and

- (C) at least 15 percent of the dwelling units located on the property are built under a government regulation or binding agreement with the County limiting the rent charged for the unit for at least 25 years to make the unit affordable to households earning 60 percent or less of the area median income.

Issues for the Council’s Consideration

1. Competitive PILOT with Annual Cap

Council Vice President Jawando offers the following amendment:⁶

Amend lines 30–53 and add lines 54–97 as follows:

contract is in effect[[[.]; or]].

[[(4) owned or controlled by a person engaged in constructing or operating housing structures or projects if:

- (A) the property receiving the payment in lieu of taxes is converted to residential use from a commercial use with at least a 50 percent vacancy rate at the date of application to

⁶ This amendment is modeled on the Housing in Downtown Program in the District of Columbia. Factors the District of Columbia uses in evaluating the benefits of competitive applications include: applications with accelerated project delivery times; applications with affordability requirements in excess of the minimum requirements; applications including family-sized units; and applications including critical neighborhood amenities.

either the Department of Permitting Services or Planning Department pursuant to Section 3.3.2.B of Chapter 59;

(B) the property's development meets all the requirements of an expedited approval plan under Section 7.3.5 of Chapter 59; and

(C) at least 15 percent of the dwelling units located on the property are built under a government regulation or binding agreement with the County limiting the rent charged for the unit for at least 25 years to make the unit affordable to households earning 60 percent or less of the area median income.

The offer must exempt 100 percent of the real property tax that would otherwise be levied for a period of at least 25 years beginning in the year a use and occupancy permit is issued for the qualifying development, but no more than the number of years that rents charged for 15 percent of the dwelling units must remain restricted to households earning 60 percent or less of the area median income.]]

(d) When authorized by state law, the Director may offer through a competitive process a payment in lieu of taxes for a qualifying housing development owned or controlled by a person engaged in constructing or operating housing structures or projects.

(1) To be eligible:

(A) the property receiving the payment in lieu of taxes must be converted to residential use from a commercial use with at least a 50 percent vacancy rate at the date of application to

- either the Department of Permitting Services or Planning Department pursuant to Section 3.3.2.B of Chapter 59;
- (B) the property's development must meet all the requirements of an expedited approval plan under Section 7.3.5 of Chapter 59; and
- (C) at least 25 percent of the dwelling units located on the property must be built under a government regulation or binding agreement with the County limiting the rent charged for the unit for at least 20 years to make the unit affordable to households earning 60 percent or less of the area median income.
- (2) The Director must review requests for eligibility in the order in which each completed application is received and evaluate each application, giving preference to applications based upon the benefit of the proposed development to the area surrounding the property and to the County.
- (3) At the discretion of the Director, the amount of tax abatement offered must be based upon a development's financial feasibility and need, as evidenced by pro formas or other financial analyses submitted as part of the application.
- (4) The Director must deny an application if:
- (A) the Director determines the benefits of the Development to the surrounding area and the County, as evaluated under Section 52-24(d)(2), are inadequate or that other competitive applications received by the Director provide greater benefit or

(B) the amount of tax abatement offered would place the total approved abatements in excess of the following annual caps:

(i) For Fiscal Year 2026, up to \$5.8 million;

(ii) For Fiscal Year 2027, up to \$11.8 million;

iii) For Fiscal Year 2028, up to \$17.8 million;

(iv) For Fiscal Year 2029, up to \$20 million; and

(v) For each succeeding fiscal year after Fiscal Year 2029, up to an amount equal to 103 percent of the preceding year's cap.

2. Required Percentage of Affordable Units

Council Vice President Jawando offers the following amendment:

Amend lines 41–53 as follows:

(C) at least ~~[[15]]~~ 25 percent of the dwelling units located on the property are built under a government regulation or binding agreement with the County limiting the rent charged for the unit for at least 25 years to make the unit affordable to households earning 60 percent or less of the area median income.

The offer must exempt 100 percent of the real property tax that would otherwise be levied for a period of at least 25 years beginning in the year a use and occupancy permit is issued for the qualifying development, but no more than the number of years that rents charged for ~~[[15]]~~ 25 percent of the dwelling

units must remain restricted to households earning 60 percent or less of the area median income.

Councilmember Sayles offers the following amendment:

Amend lines 41–53 as follows:

(c) at least ~~[[15]] 30~~ percent of the dwelling units located on the property are built under a government regulation or binding agreement with the County limiting the rent charged for the unit for at least 25 years to make the unit affordable to households earning 60 percent or less of the area median income.

The offer must exempt 100 percent of the real property tax that would otherwise be levied for a period of at least 25 years beginning in the year a use and occupancy permit is issued for the qualifying development, but no more than the number of years that rents charged for ~~[[15]] 30~~ percent of the dwelling units must remain restricted to households earning 60 percent or less of the area median income.

3. Prevailing Wage Requirement

Council Vice President Jawando offers the following amendment:

Amend lines 38–46 as follows:

(B) the property's development meets all the requirements of an expedited approval plan under Section 7.3.5 of Chapter 59; ~~[[and]]~~

(C) at least 15 percent of the dwelling units located on the property are built under a government regulation or

binding agreement with the County limiting the rent charged for the unit for at least 25 years to make the unit affordable to households earning 60 percent or less of the area median income[.]; and

(D) any contractor or subcontractor that performs direct and measurable construction work on the property's development pays each employee at a rate equal to or more than the prevailing wage.

4. **Five-Year Sunset**

Council Vice President Jawando offers the following amendment:

Add lines 70–72 as follows:

Sec. 5. Sunset. This Act must sunset and must have no further force and effect after 5 years from the effective date of this legislation, except that any agreements entered into prior to the sunset must remain in full force and effect.

5. **PILOT Applicability to Retail⁷**

Council Vice President Jawando offers the following amendment:

Amend lines 33–37 as follows:

(A) the property receiving the payment in lieu of taxes is converted to residential use from a commercial use with at least a 50 percent vacancy rate at the date of application to either the Department of Permitting Services or Planning Department pursuant to Section 3.3.2.B of Chapter 59; except that no property may receive a payment in lieu of

⁷ Council Staff transmitted to all Councilmembers the memorandum analysis included at © 35 regarding Summary of Retail Inventory in the CR-family of Zones.

taxes under Section 52-24(c)(4) if it is converted to residential use from commercial use as a retail building unless it is in the RSC Overlay Zone;

Councilmember Sayles offers the following amendment:

Amend lines 33–37 as follows:

(A) the property receiving the payment in lieu of taxes is converted to residential use from a commercial use with at least a 50 percent vacancy rate at the date of application to either the Department of Permitting Services or Planning Department pursuant to Section 3.3.2.B of Chapter 59; except that no property in a GR, NR, CRN, CR, or CRT zone under Chapter 59 may receive a payment in lieu of taxes under Section 52-24(c)(4) if it is converted to residential use from commercial use as a retail building;

6. For Sale Option

Councilmember Sayles offers the following amendment:⁸

Amend lines 41–53 as follows:

(c) at least ~~[[15]]~~ 30 percent of the dwelling units located on the property are built under a government regulation or binding agreement with the County limiting the rent charged for the unit for at least 25 years to make the unit affordable to households earning 60 percent or less of the

⁸ This amendment was offered at Committee, but the consideration thereof included some confusion about the intent and scope of the offered amendment. As such, the discussion at Committee did not fully address the amendment offered at full Council.

area median income[[.]], or at least 30 percent of the dwelling units located on the property are built under a government regulation or binding agreement with the County limiting the sales price charged for the unit for at least 25 years to make 50 percent of those units affordable to households earning 60 percent or less of the area median income and 50 percent of those units affordable to households earning 120 percent or less of the area median income.

[[The]] For properties built under a government regulation or binding agreement with the County limiting the rent charged, the offer must exempt 100 percent of the real property tax that would otherwise be levied for a period of at least [[25]] 20 years beginning in the year a use and occupancy permit is issued for the qualifying development, but no more than the number of years that rents charged for [[15]] 30 percent of the dwelling units must remain restricted to households earning 60 percent or less of the area median income. For properties built under a government regulation or binding agreement with the County limiting the sales price charged, the offer must exempt 100 percent of the real property tax that would otherwise be levied for a period of at least 25 years beginning in the year a use and occupancy permit is issued for the qualifying development, but no more than the number of years that sales price charged for 30 percent of the dwelling units remains restricted with 50 percent of those units affordable to households earning 60 percent or less of the area median income and 50 percent of those units

affordable to households earning 120 percent or less of the area median income.

Next Step:⁹ Roll call vote on whether to enact Expedited Bill 2-25.

| <u>This packet contains:</u> | <u>Circle #</u> |
|---|-----------------|
| Expedited Bill 2-25 | 1 |
| Lead Sponsor’s Letter to Colleagues | 6 |
| Racial Equity and Social Justice Impact Statement | 11 |
| Climate Assessment | 16 |
| Economic Impact Statement | 20 |
| Fiscal Impact Statement | 24 |
| Council Staff Memorandum (Fiscal Impact) | 28 |
| Council Staff Memorandum (Retail) | 36 |
| County Executive Letter | 40 |

⁹ The Council authorizes Council Legislative Attorneys to make non-substantive technical corrections necessary to fix any typographical, stylistic, formatting, or grammatical errors in Bill 2-25E.

Expedited Bill No. 2-25
Concerning: Taxation – Payments in Lieu
of Taxes – Affordable Housing –
Amendments
Revised: 3/27/2025 Draft No. 6
Introduced: February 4, 2025
Enacted: _____
Executive: _____
Effective: _____
Sunset Date: None
Ch. _____, Laws of Mont. Co. _____

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsors: Councilmembers Fani-González and Friedson
Co-sponsors: Councilmember Luedtke, Council President Stewart, and Councilmembers Balcombe
and Sayles

AN EXPEDITED ACT to:

- (1) establish a minimum payment in lieu of taxes for certain conversions of high-vacancy commercial properties to residential use;
- (2) establish the amount of the payment in lieu of taxes; and
- (3) generally amend the law governing payments in lieu of taxes.

By amending

Montgomery County Code
Chapter 52, Taxation
Section 52-24

| | |
|------------------------------|--|
| Boldface | <i>Heading or defined term.</i> |
| <u>Underlining</u> | <i>Added to existing law by original bill.</i> |
| [Single boldface brackets] | <i>Deleted from existing law by original bill.</i> |
| <u>Double underlining</u> | <i>Added by amendment.</i> |
| [[Double boldface brackets]] | <i>Deleted from existing law or the bill by amendment.</i> |
| * * * | <i>Existing law unaffected by bill.</i> |

The County Council for Montgomery County, Maryland approves the following Act:

28 percent of the real property tax that would otherwise be levied as
 29 long as the Section 8 Project-Based Rental Assistance Payment
 30 contract is in effect[.]; or

31 (4) owned or controlled by a person engaged in constructing or
 32 operating housing structures or projects if:

33 (A) the property receiving the payment in lieu of taxes is
 34 converted to residential use from a commercial use with at
 35 least a 50 percent vacancy rate at the date of application to
 36 either the ~~[[Department of Permitting Services or]] Planning~~
 37 Department or, if the property's development does not
 38 require site plan approval from the Planning Department,
 39 Department of Permitting Services under ~~[[pursuant to]]~~
 40 Section 3.3.2.B of Chapter 59;

41 (B) the property's development meets all the requirements of an
 42 expedited approval plan under Section 7.3.5 of Chapter 59,
 43 except that if a property's development does not require site
 44 plan approval from the Planning Department it is not
 45 required to meet the requirements of an expedited approval
 46 plan but must obtain the building permit within 2 years of
 47 acceptance by the Department of Permitting Services of the
 48 building permit application that includes the core and shell
 49 of the principal building; and

50 (C) at least ~~[[15]] 17.5~~ percent of the dwelling units located on
 51 the property are built under a government regulation or
 52 binding agreement with the County limiting the rent
 53 charged for the unit for at least 25 years to make the unit

54 affordable to households earning 60 percent or less of the
 55 area median income.

56 The offer must exempt 100 percent of the real property tax that
 57 would otherwise be levied for a period of at least ~~[[25]] 20~~ years
 58 beginning in the year a use and occupancy permit is issued for the
 59 qualifying development, but no more than the number of years that
 60 rents charged for ~~[[15]] 17.5~~ percent of the dwelling units must
 61 remain restricted to households earning 60 percent or less of the
 62 area median income.

63 * * *

64 **Sec. 2. Effective date.** The Council declares that this legislation is necessary for
 65 the immediate protection of the public interest. This Act takes effect 20 days after the
 66 date on which it becomes law.

67 **Sec. 3. Short title.** This expedited bill may be cited as part of the “More Housing
 68 N.O.W. (New Options for Workers)” package.

69 **Sec. 4. Transition.** If a property has obtained site plan approval from the
 70 Planning Board by the effective date of this legislation, then the property is eligible for
 71 a payment in lieu of taxes under Section 52-24(c)(4), as amended by this Act, if it
 72 otherwise complies with subparagraphs (4)(A) and (4)(C) of Section 52-24(c), as
 73 amended by this Act, and an applicant for the property: (i) applies for a building permit,
 74 which is accepted by the Department of Permitting Services and includes the core and
 75 shell of the principal building, within 2 years of the earlier of the date of the Planning
 76 Board’s resolution or the effective date of this legislation; and (ii) obtains the building
 77 permit within 2 years of DPS’s acceptance of the building permit application that
 78 includes the core and shell of the principal building.

79 **Sec. 5. Sunset.** This Act must sunset and must have no further force and effect
80 after 10 years from the effective date of this legislation, except that any agreements
81 entered into prior to the sunset must remain in full force and effect.



MONTGOMERY COUNTY COUNCIL

ROCKVILLE, MARYLAND

January 28, 2025

Colleagues:

For your consideration, we are enclosing the details of an ambitious workforce housing package which takes five steps to increase the supply of housing, drive down costs, and increase pathways to homeownership for the hard-working residents of Montgomery County.

With the high cost of housing squeezing families and holding back our economy, the **More Housing N.O.W. (*New Options for Workers*)** package helps build more homes that are affordable to teachers, firefighters, police officers, biotech and healthcare workers, and everyone in, or striving to be in, the middle class.

Homes are too expensive in Montgomery County. We all know it. Consider the following figures:

- Not only are we starting from a high level, but it's getting increasingly expensive. Housing price increases have outpaced inflation and income growth since the mid-1990s.
- Between 2023 and 2024, the average sold price across all unit types increased by 6.5%, while wages have only increased by 1.5%
- In 2024, the average sale price for a single family detached home was \$1.02 million. To afford this house, a couple would need a combined income of approximately \$340,000, far exceeding Montgomery County's area median income for a couple at \$123,800. Townhomes, which are on average smaller than detached units, sold for an average of \$583,000. A couple would need a combined income of \$197,000 to afford this house.

Working families and young professionals are feeling the squeeze. According to the [Comptroller of Maryland's 2024 State of the Economy Report](#), housing affordability and availability is hurting efforts to attract new residents who could fill job vacancies, noting “prospective businesses turning down potential location plans to Maryland due to insufficient workforce housing.” Similarly, a recent supply/demand analysis by the Montgomery Planning Department, we are facing a deficit of over 12,000 rental units that are affordable to incomes at 70-120% of area median income (AMI). This forces these workers to swallow exorbitant housing costs *or* compete with residents at lower income bands for less expensive options. Both are bad outcomes.

The status quo is unsustainable and makes our County less attractive to families, workers, entrepreneurs, and businesses.

To address this crisis, we must act boldly. Now.

The More Housing N.O.W. package takes five bold steps to increase housing supply, reduce costs, and expand pathways to homeownership for hardworking Montgomery County residents:

Building More Workforce Housing

1. **Workforce Housing ZTA:** Allow more residential building types along corridors with a workforce housing requirement
 - a. Allow more residential building types through optional method development along corridors with a 15% workforce housing requirement in the R-200, R-90, R-60, and R-40 zones.
 - b. Corridors included are Boulevards, Downtown Boulevards, Downtown Streets, Controlled Major Highways, and Town Center Boulevards that have a master planned width greater than 100 feet and 3+ existing travel lanes
 - c. Density capped at 1.25 FAR
 - d. Maximum height is 40 feet
 - e. Require 15% of units satisfy the definition of workforce housing, with a minimum of 1 workforce housing unit for structures that have 3 or more units
 - f. Maintain existing workforce housing definition of 120% AMI, which is currently approximately \$148,000 for 2 persons or \$185,000 for a family of four
2. **Workforce Housing Opportunity Fund:** New countywide fund to incentivize the construction of workforce units
 - a. \$4 million in initial funding

- b. Eligible projects must provide at least 30% workforce units
- c. Workforce units must be affordable to 80% AMI (area median income), on average

Converting Highly Vacant Office to Housing

- 3. **Office to Housing ZTA:** Create an expedited approval process for projects that convert high-vacancy commercial properties to residential use
 - a. Applies to the Commercial-Residential, NR, and EOF zones
 - b. Retail or office building that is at least 50% vacant
 - c. Remove residential restriction on FAR, so that total commercial-residential FAR can be used for residential
 - d. In red policy areas, must be for the apartment-building type; may include townhomes outside of the red policy area
 - e. Must pull a building permit within 2 years of approval
- 4. **Office to Housing PILOT Bill:** Establish a payment in lieu of taxes (PILOT) for conversion of high-vacancy commercial properties to residential use
 - a. Retail or office building that is at least 50% vacant
 - b. 100% tax abatement for 25 years for qualifying projects
 - c. Minimum 15% MPDU requirement

Pathways to Homeownership

- 5. **Budget:** Double the County's investment in the Homeowner Assistance Program from \$4 million to \$8 million in the FY26 Housing Initiative Fund (HIF)
 - a. Funds may be used in partnership with the State's Maryland Mortgage Program (which allows the household to receive both down payment assistance and lower rate mortgage) and through the Housing Opportunities Commission's Montgomery County Homeownership Assistance Fund (McHAF).
 - b. Up to \$25,000 may be granted to a first-time buyer thus providing support for up to 160 qualified applicants. Up to \$1.0 million is reserved for County and MCPS employees under the Montgomery Employee Down Payment Assistance Loan (MEDPAL)

Many thanks to Council President Kate Stewart, Councilmembers Dawn Luedtke, Marilyn Balcombe, and Laurie-Anne Sayles who have already signed on as co-sponsors as well as the many community advocates and housing experts for their strong support of this package which we will be unveiling today at noon. We would welcome additional

cosponsors prior to introduction of the legislative aspects of the package, scheduled for February 4.

We have appended the zoning text amendments, legislation, and some supporting materials to assist your review of the proposal. We appreciate your thoughtful consideration of this package and hope to earn your support for it in the coming weeks and months.

Our housing crisis is a serious and urgent matter. There is no time to wait.

Sincerely,

The image shows two handwritten signatures in black ink. The signature on the left is for Andrew Friedson, and the signature on the right is for Natali Fani-González. Both signatures are written in a cursive, flowing style.

Andrew Friedson
Councilmember, District 1

Natali Fani-González
Councilmember, District 6

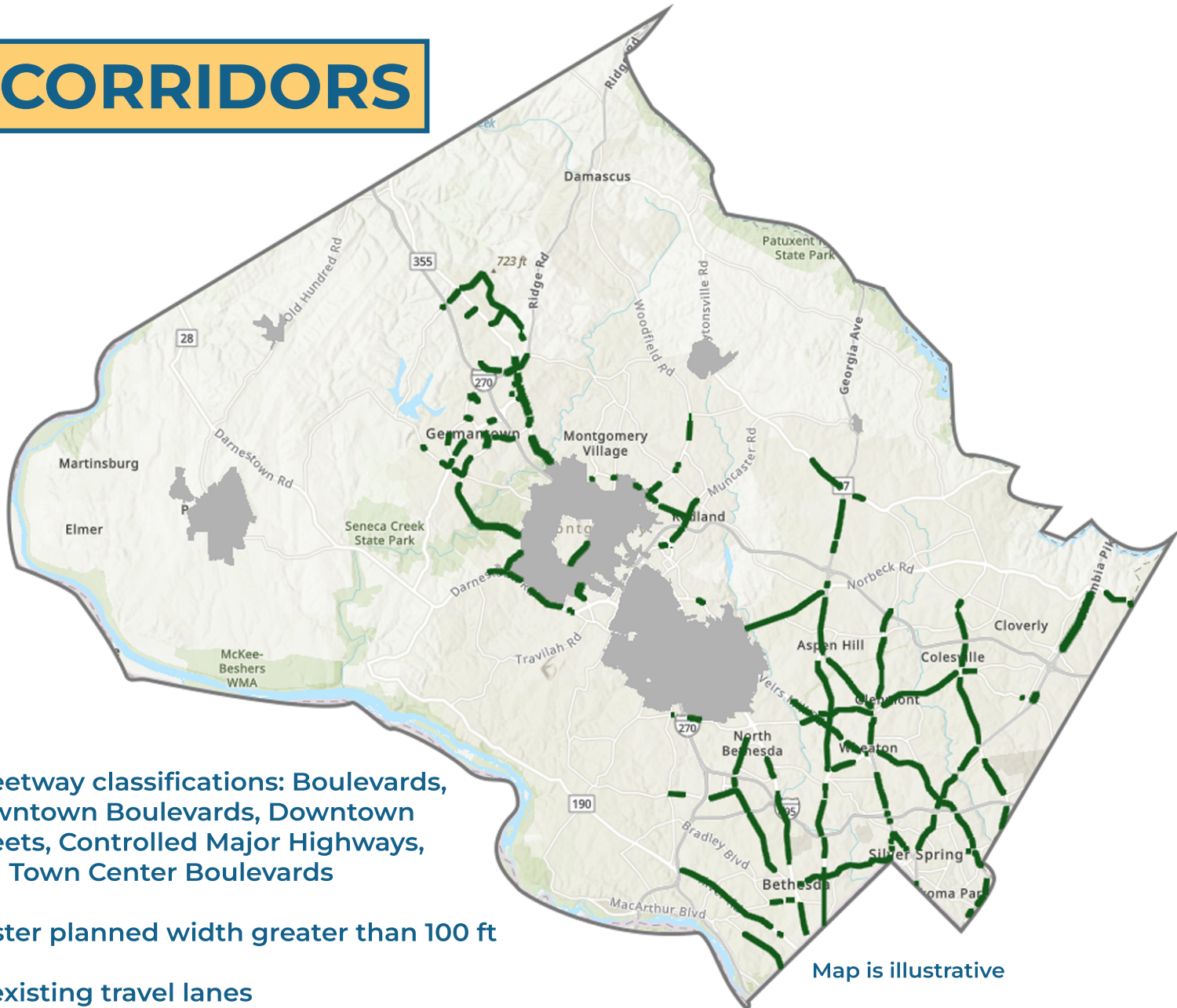
Attachments:

1. Workforce Housing ZTA Corridors Map
2. Workforce Housing ZTA
3. Office to Housing ZTA
4. Office to Housing Pilot Bill

More Housing N.O.W.

New Options for Workers

CORRIDORS



Streetway classifications: Boulevards, Downtown Boulevards, Downtown Streets, Controlled Major Highways, and Town Center Boulevards

Master planned width greater than 100 ft

3+ existing travel lanes

Map is illustrative



Racial Equity and Social Justice (RESJ) Impact Statement

Office of Legislative Oversight

EXPEDITED TAXATION – PAYMENTS IN LIEU OF TAXES – AFFORDABLE BILL 2-25: HOUSING – AMENDMENTS

SUMMARY

The Office of Legislative Oversight (OLO) anticipates Expedited Bill 2-25 could have a negative impact on racial equity and social justice (RESJ) in the County. Bill 2-25 would likely benefit landlords and residents who can afford market-rate housing more than residents in need of affordable housing. Therefore, OLO anticipates this Bill could widen disparities in housing by race and ethnicity. Further, the forgone property tax revenue from this Bill could undermine the County's ability to provide future public goods and services, which could particularly harm BIPOC community members. OLO offers one policy option for Council consideration.

PURPOSE OF RESJ IMPACT STATEMENTS

RESJ impact statements (RESJIS) evaluate the anticipated impact of legislation on racial equity and social justice in the County. RESJ is a **process** that focuses on centering the needs, leadership, and power of Black, Indigenous, and other people of color (BIPOC) and communities with low incomes. RESJ is also a **goal** of eliminating racial and social inequities. Applying a RESJ lens is important to achieve RESJ.¹ This involves seeing, thinking, and working differently to address the racial and social inequities that cause racial and social disparities.²

PURPOSE OF EXPEDITED BILL 2-25

The County's Payment in Lieu of Taxes (PILOT) program aims "to support the construction and preservation of affordable multifamily rental housing" in the County.³ A PILOT lowers or completely abates County real property taxes on affordable rental housing projects for a set period of time. The County offers three PILOT options. Specifically, the By Right PILOT option abates all County real property taxes for at least 15 years if:⁴

- A rental property is owned or controlled by a non-profit; and
- At least 50 percent of the units in the property are rented to households making up to 60 percent of the area median income (AMI).

The purpose of Bill 2-25 is to expand the By Right PILOT option to provide tax abatements to commercial buildings that are converted to residential buildings primarily comprised of market-rate units. A property owner could qualify for a By Right PILOT if:⁵

- The commercial building has at least a 50 percent vacancy rate;
- The conversion of the property complies with certain zoning requirements; and
- At least 15 percent of the units in the property are affordable to households making up to 60 percent of the AMI for 25 years.

Property owners who qualify for this PILOT program would be exempt from 100 percent of County real property taxes for 25 years.⁶

RESJ Impact Statement

Expedited Bill 2-25

The Council introduced Expedited Bill 2-25, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments, on February 4, 2025. The Bill was introduced along with Zoning Text Amendments (ZTA) 25-02 and 25-03 and Subdivision Regulation Amendment (SRA) 25-01 as part of the “More Housing N.O.W. (New Options for Workers)” package.

In October 2024, OLO previously published a RESJIS for Bill 18-24, Housing Policy – Standards and Procedures – Amendments.⁷ Please refer to this RESJIS for background on housing affordability and racial equity.

ANTICIPATED RESJ IMPACTS

Affordable housing development. As described in the RESJIS for Bill 18-24, historical and contemporary racial inequities drive increased demand in affordable housing among Black and Latinx families in the County.⁸ As shown in Table B (Appendix), the median incomes of Black and Latinx households are each more than \$30,000 less than the median income of all households in the County. Further, Black community members are largely overrepresented among families who live in properties owned by the County’s largest affordable housing provider, the Housing Opportunities Commission (HOC).⁹

To qualify for the By Right PILOT, Bill 2-25 requires property owners to comply with certain zoning requirements. These zoning requirements were recently introduced with ZTA 25-03. If enacted, ZTA 25-03 would create an expedited approval process for property owners to convert vacant commercial buildings into residential buildings.¹⁰ Commercial-to-residential conversion projects enabled by ZTA 25-03 would be subject to the County’s Moderately Priced Dwelling Units (MPDUs) requirements. MPDUs are housing units that are affordable to renters and first-time home buyers making up to 70 percent of the AMI.¹¹ In housing developments with more than 20 units, between 12.5 to 15 percent of the units must be MPDUs.¹² The percentage of required MPDUs depends on where the housing development is located.

In terms of affordable housing, ZTA 25-03 and Bill 2-25 create two options for property owners who want to convert vacant commercial buildings into residential buildings:

- **Convert without a By Right PILOT:** At least 12.5 percent of the units in the building must be affordable to households making up to 70 percent of the AMI.
- **Convert with a By Right PILOT:** At least 15 percent of the units in the building must be affordable to households making up to 60 percent of the AMI.

Thus, the By Right PILOT created by Bill 2-25 would encourage property owners to provide a slightly larger percentage of MPDUs that are slightly more affordable. Of note, researchers have recognized that office conversion projects are “economically challenging and often not possible without significant public funding.”¹³ Thus, the By Right PILOT could also incentivize the development of housing and accompanying MPDUs that would otherwise not occur.

Additional impacts by race and ethnicity. To consider the anticipated impact of Bill 2-25 on RESJ in the County, OLO recommends further consideration of two related questions:

- Who would primarily benefit or be burdened by this bill?
- What racial and social inequities could passage of this bill weaken or strengthen?

Several stakeholders could benefit from the By Right PILOT – the 25-year property tax exemption – created through Bill 2-25:

RESJ Impact Statement

Expedited Bill 2-25

- **Landlords who rent out units in converted buildings** would benefit from decreased operating costs and increased profits from owing no property taxes. Table A (Appendix) shows data on business ownership in the local real estate and rental and leasing sector by race and ethnicity. The data suggests White people are largely overrepresented among landlords and other real estate business owners in the County. Meanwhile, Black, Latinx, and to a lesser extent, Asian people, are underrepresented.
- **Community members who rent units in converted buildings** could also benefit from decreased rents charged by landlords. This would likely benefit community members who rent market rate units. Landlords are unlikely to lower rents further than the required guidelines for community members living in affordable units. According to Zillow, the average rent in the County is \$2,273.¹⁴ Considering the cost burden threshold (spending more than 30 percent of income on housing costs), this rent would be affordable to households making at least \$90,920 per year. Table B (Appendix) shows data on median household income in the County by race and ethnicity. The data shows the median income of Black households is lower than this threshold, while the median income of Latinx households is slightly above this threshold. Conversely, the median incomes of White and Asian households is well above this threshold. Thus, White and Asian households in the County are better positioned to afford market rate units.
- **Homeowners who purchase units in converted buildings** would benefit from decreased housing costs from owing no property taxes. This would benefit homeowners of affordable and market rate units. Table C (Appendix) shows homeownership rates in the County by race and ethnicity. The data suggests White and Asian community members in the County are more likely to be homeowners. Meanwhile, Black and Latinx community members are less likely to be homeowners.

Conversely, **County constituents at large** would be burdened by 25 years of forgone property tax revenue from the converted buildings. Property taxes are the largest source of tax revenue for the County government.¹⁵ The forgone revenue would undermine the County's ability to provide public goods and services, especially with the increased demand from community members who are moving into the converted buildings. The resource limitations could particularly harm BIPOC community members, especially as they continue to become a larger part of the population.

Conclusion. OLO anticipates Bill 2-25 could have a negative impact on RESJ in the County. Bill 2-25 could incentivize the development of housing and MPDUs that may not otherwise occur without public funding. However, OLO anticipates this incentive will primarily benefit landlords and residents who can afford market-rate housing rather than residents in need of affordable housing. Given the demographics of households who can afford market-rate housing units compared to affordable units, OLO anticipates this Bill could widen housing disparities by race and ethnicity. Further, the forgone property tax revenue from tax abatements that primarily subsidize the development of market rate units could undermine the County's ability to provide future public goods and services. This could particularly harm BIPOC community members.

RECOMMENDED AMENDMENTS

The Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements.¹⁶ OLO anticipates Expedited Bill 2-25 could have a negative impact on RESJ in the County. Should the Council seek to improve the RESJ impact of this Bill, OLO offers one policy option for Council consideration:

RESJ Impact Statement

Expedited Bill 2-25

- **Consider financial incentives for commercial-to-residential conversion projects that increase the yield of affordable housing units.** Tax abatements that increase the supply of market-rate units primarily benefit White-owned businesses and higher income White and Asian community members. Encouraging the development of more affordable housing that benefits lower-income Black and Latinx community members increasingly helps to offset this impact and narrow disparities in housing by race and ethnicity. Communities throughout the U.S. are experimenting with different financial incentives that can provide more affordable housing through office-to-residential conversions.¹⁷ For instance, incentive programs in Pittsburgh and Chicago are aiming for 20 to 30 percent of units in publicly supported conversion projects to be affordable.¹⁸ The Council could consider programs such as these or amendments to the proposed By Right PILOT that would provide a higher percentage of affordable housing units.

CAVEATS

Two caveats to this racial equity and social justice impact statement should be noted. First, predicting the impact of legislation on racial equity and social justice is a challenging analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ impact statement is intended to inform the legislative process rather than determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

OLO staffer Janmarie Peña, Performance Management and Data Analyst, drafted this RESJ impact statement.

APPENDIX

Table A: Percent of Real Estate and Rental and Leasing Business Owners by Race and Ethnicity, Montgomery County

| Race and ethnicity ¹⁹ | Real Estate and Rental and Leasing Business Owners (NAICS 53) ^{20,21} | Population |
|----------------------------------|--|------------|
| Asian | 12.4 | 15.3 |
| Black | 5.1 | 18.5 |
| White | 82.3 | 46.6 |
| Latinx | 3.9 | 20.0 |

Source: 2022 American Business Survey ([Table AB2200CSA01](#)) and 2022 American Community Survey 5-Year Estimates ([Table DP05](#)), Census Bureau.

Table B: Median Household Income by Race and Ethnicity, Montgomery County

| Race and ethnicity | Median Household Income |
|--------------------|-------------------------|
| County | \$125,371 |
| Asian | \$143,911 |
| Black | \$86,359 |
| White | \$160,756 |
| Latinx | \$92,050 |

Source: 2023 American Community Survey 1-Year Estimates ([Table S0201](#)), Census Bureau.

RESJ Impact Statement

Expedited Bill 2-25

Table C: Homeownership Rate by Race and Ethnicity, Montgomery County

| Race and ethnicity | Homeownership Rate |
|--------------------|--------------------|
| County | 64.4 |
| Asian | 75.1 |
| Black | 43.9 |
| White | 74.4 |
| Latinx | 48.8 |

Source: 2023 American Community Survey 1-Year Estimates ([Table S0201](#)), Census Bureau.

¹ Definition of racial equity and social justice adopted from Marlysa Gamblin et al., "[Applying Racial Equity to U.S. Federal Nutrition Programs](#)," Bread for the World and [Racial Equity Tools](#).

² Ibid.

³ [Payment in Lieu of Taxes \(PILOT\)](#), Department of Housing and Community Affairs.

⁴ Ibid.

⁵ [Introduction Staff Report for Expedited Bill 2-25](#), Montgomery County Council, introduced February 4, 2025.

⁶ Ibid.

⁷ [RESJIS for Bill 18-24](#), Office of Legislative Oversight, October 3, 2024.

⁸ Ibid.

⁹ Ibid.

¹⁰ [Introduction Staff Report for Zoning Text Amendment 25-03](#), Montgomery County Council, Introduced February 4, 2025.

¹¹ [MPDU Program – General](#), Department of Housing and Community Affairs.

¹² [MPDU Developers](#), Department of Housing and Community Affairs.

¹³ Tracey Hadden Loh et al., "[Myths about converting offices into housing—and what can really revitalize downtowns](#)," Brookings, April 27, 2023.

¹⁴ [Montgomery County, MD Housing Market](#), Zillow.

¹⁵ [FY25 Approved Taxes](#), Revenues, Montgomery County Operating Budget.

¹⁶ Bill 27-19, Administration – Human Rights – Office of Racial Equity and Social Justice – Racial Equity and Social Justice Advisory Committee – Established, Montgomery County Council

¹⁷ Michela Zonta et. al, "[Converting Vacant Office Space Into Housing](#)," Center for American Progress, July 30, 2024.

¹⁸ Ibid and [LaSalle Corridor Revitalization](#), City of Chicago.

¹⁹ Estimates for Native American and Pacific Islander community members were not available for data points in this RESJIS.

²⁰ The Real Estate and Rental and Leasing Sector includes establishments that rent, lease, or otherwise allow the use of their own real estate or other assets by others. This sector also includes establishments primarily engaged in managing real estate for others, selling, renting, and/or buying real estate for others, and appraising real estate.

²¹ Margins of error for these data points may be large.

Climate Assessment

Office of Legislative Oversight

Expedited Bill 2-25: Taxation – Payments in Lieu of Taxes – Affordable Housing - Amendments

SUMMARY

The Office of Legislative Oversight (OLO) anticipates Expedited Bill 2-25 could have a small, positive impact on the County’s community climate resilience and the County’s contribution to greenhouse gas emissions as the proposed change is intended to expand a County program that supports the construction and preservation of affordable multifamily rental housing. Further, the Bill encourages the conversion of existing commercial buildings to residential which is a more sustainable construction practice than demolishing and rebuilding. However, only a small number of existing County buildings would be eligible for conversion from commercial to residential, which the proposed tax abatement targets, therefore it is unlikely a significant number of affordable housing units would be created from the proposed change nor significantly decrease the amount of County greenhouse gas emissions associated with development.

BACKGROUND AND PURPOSE OF EXPEDITED BILL 2-25

The County’s Payment in Lieu of Taxes (PILOT) program aims “to support the construction and preservation of affordable multifamily rental housing” in the County.¹ A PILOT lowers or completely abates County real property taxes on affordable rental housing projects for a set period of time. The County offers three PILOT options. Specifically, the By Right PILOT option abates all County real property taxes for at least 15 years if:²

- A rental property is owned or controlled by a non-profit; and
- At least 50 percent of the units in the property are rented to households making up to 60 percent of the area median income (AMI).

The purpose of Bill 2-25 is to expand the By Right PILOT option to provide tax abatements to commercial buildings that are converted to residential buildings primarily comprised of market-rate units. A property owner could qualify for a By Right PILOT if:³

- The commercial building has at least a 50 percent vacancy rate;
- The conversion of the property complies with certain zoning requirements; and
- At least 15 percent of the units in the property are affordable to households making up to 60 percent of the AMI for 25 years.

Property owners who qualify for this PILOT program would be exempt from 100 percent of County real property taxes for 25 years.⁴

The Council introduced Expedited Bill 2-25, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments, on February 4, 2025. The Bill was introduced along with Zoning Text Amendments 25-02 and 25-03 and Subdivision Regulation Amendment (SRA) 25-01 as part of the “More Housing N.O.W. (New Options for Workers) package.

ANTICIPATED IMPACTS

This Bill is part of a package of proposed housing measures, called the More Housing N.O.W. (New Options for Workers)⁵. The ZTAs and SRAs are meant to increase access to affordable housing and targets the development of new affordable housing along transit corridors, which would allow more access to public transit options for more individuals living and working in the County.⁶ Further, for individuals who would elect to drive, living closer to work would cut down on both commute times and individual contributions to greenhouse gas emissions by driving fewer miles.⁷

Bill 2-25’s proposed actions are intended to incentivize developers and landlords to set aside units that are affordable to households making up to 60% of the area median income by abating all County real property taxes for up to 15 years. This would expand the existing By Right PILOT program to apply to commercial buildings with high vacancy (at least 50%) that would be converted into residential housing and would set aside at least 15% of the units for affordable housing.⁸

The affordability of a community’s housing stock has a direct correlation to the overall resilience of a community, and on its ability to prepare for current and future risks.⁹ It can do so through two ways:

- Increasing housing stability which can increase community resilience by building community ties and enabling residents to stay better connected during emergencies; and
- Alleviating cost-burdened households by providing more affordable housing options, which allows these households to have more cash on hand to weather shocks, such as extreme weather events.¹⁰

According to data presented on March 11, 2024 by the Montgomery County Economic Development Corporation (MCEDC), there is an estimated 1% of County buildings with high vacancies that would be feasible to convert from offices to housing. It was further noted that in a strong office market, office rents generally yield higher rents compared to residential so developers are hesitant to convert.¹¹ Another 6.5% of commercial office buildings would be good candidates for demolition, and depending on zoning, residential housing could be built on the previous site.¹² Due to the small percentage of currently eligible buildings for conversion and the uncertainty of the type of building that would be built following demolition, it is not likely that the proposed actions would significantly increase the amount of affordable housing units in the County.

Further, as the Bill would encourage the conversion of existing high vacancy office buildings to residential homes, the resulting construction would be less carbon intensive than demolishing and rebuilding on an existing site. This is due to embodied carbon, which represents the total carbon emissions released during the lifecycle of building materials and includes emissions associated with manufacturing building materials, transportation of materials, and disposal of materials.¹³ The building sector is responsible for at least 37% of global greenhouse gas emissions and sustainable building practices, such as renovating existing office buildings to residential buildings, saves the embodied carbon that was used for the initial build.¹⁴ However, as only an estimated 1% of County buildings are feasible to convert from offices to housing, it is unlikely the proposed actions would significantly decrease the amount of County greenhouse gas emissions associated with development.¹⁵

As Bill 2-25 proposes changes that could create a small number of affordable housing units and encourage more sustainable construction practices, OLO anticipates the Bill could have a small, positive impact on the County's community climate resilience and the County's contribution to greenhouse gas emissions.

RECOMMENDED AMENDMENTS

The Climate Assessment Act requires OLO to offer recommendations, such as amendments or other measures to mitigate any anticipated negative climate impacts.¹⁶ OLO does not offer recommendations or amendments as Bill 2-25 is likely to have a small positive impact on the County's contribution to addressing climate change, including the reduction and/or sequestration of greenhouse gas emissions, community resilience, and adaptative capacity.

CAVEATS

OLO notes two caveats to this climate assessment. First, predicting the impacts of legislation upon climate change is a challenging analytical endeavor due to data limitations, uncertainty, and the broad, global nature of climate change. Second, the analysis performed here is intended to inform the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

PURPOSE OF CLIMATE ASSESSMENTS

The purpose of the Climate Assessments is to evaluate the anticipated impact of legislation on the County's contribution to addressing climate change. These climate assessments will provide the Council with a more thorough understanding of the potential climate impacts and implications of proposed legislation, at the County level. The scope of the Climate Assessments is limited to the County's contribution to addressing climate change, specifically upon the County's contribution to greenhouse gas emissions and how actions suggested by legislation could help improve the County's adaptive capacity to climate change, and therefore, increase community resilience.

While co-benefits such as health and cost savings may be discussed, the focus is on how proposed County bills may impact GHG emissions and community resilience.

CONTRIBUTIONS

OLO staffer Kaitlyn Simmons drafted this assessment.

¹ [Payment in Lieu of Taxes \(PILOT\)](#), Department of Housing and Community Affairs.

² Ibid.

³ [Introduction Staff Report for Expedited Bill 2-25](#), Montgomery County Council, introduced February 4, 2025.

⁴ Ibid.

⁵ [Councilmembers Andrew Friedson and Natali Fani-González unveil More Housing N.O.W. package](#), Montgomery County Government, January 28, 2025.

⁶ [Legislation would allow duplexes, triplexes along MoCo transit corridors](#), Bethesda Magazine, January 28, 2025.

⁷ [What You Can Do to Reduce Pollution from Vehicles and Engines](#), U.S. EPA, Accessed 2/24/2025.

⁸ [Introduction Staff Report for Expedited Bill 2-25](#), Montgomery County Council, introduced February 4, 2025.

⁹ [The Community Resilience Benchmarks](#), Alliance for National and Community Resilience, Accessed 2/24/2025.

¹⁰ [Equitable Adaptation Legal & Policy Toolkit: Resilient Affordable Housing, Anti-Displacement, and Gentrification](#), Georgetown University Climate Center, Accessed 2/24/2025.

¹¹ [Economic Development Committee Worksession - Office Vacancy Follow-up](#), Montgomery County Government, March 6, 2024.

¹² [Economic Development Committee Worksession - Office Vacancy Follow-up](#), Montgomery County Government, March 6, 2024.

¹³ [C-MORE: Construction Material Opportunities to Reduce Emissions](#), U.S. EPA, Accessed 2/24/2025.

¹⁴ [Building Materials and the Climate: Constructing a New Future](#), UN Environment Programme, September 2023.; [Embodied Carbon and the Nuances in Office-to-Residential Conversions](#), Gavu, E.K. and Peiser, R.B., *Sustainability*, January 26, 2024.

¹⁵ [Economic Development Committee Worksession - Office Vacancy Follow-up](#), Montgomery County Government, March 6, 2024.

¹⁶ Bill 3-22, Legislative Branch – Climate Assessments – Required, Montgomery County Council, Effective date October 24, 2022

Economic Impact Statement

Montgomery County, Maryland

Expedited Bill 2-25

Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Expedited Bill 2-25 would have a positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By granting a 25-year property tax exemption, the Bill would reduce operating expenses for office buildings that are converted to residential buildings and meet certain zoning and affordability requirements. All else being equal, these properties would yield higher business incomes. However, due to the significant physical and financial barriers to office-to-residential conversions and data limitations, it is unclear whether the Bill would incentivize conversions that would not otherwise occur. If this occurs, certain residents could benefit from increased access to affordable housing, potentially lowering nondiscretionary household expenses.

BACKGROUND AND PURPOSE OF EXPEDITED BILL 2-25

The County's Payment in Lieu of Taxes (PILOT) program aims "to support the construction and preservation of affordable multifamily rental housing" in the County.¹ A PILOT lowers or completely abates County real property taxes on affordable rental housing projects for a set period of time. The County offers three PILOT options. Specifically, the By Right PILOT option abates all County real property taxes for at least 15 years if:²

- A rental property is owned or controlled by a non-profit; and
- At least 50 percent of the units in the property are rented to households making up to 60 percent of the area median income (AMI).

The purpose of Bill 2-25 is to expand the By Right PILOT option to include commercial buildings that are converted to residential buildings. A property owner could qualify for a By Right PILOT if:³

- The commercial building has at least a 50 percent vacancy rate;
- The conversion of the property complies with certain zoning requirements; and
- At least 15 percent of the units in the property are affordable to households making up to 60 percent of the AMI for 25 years.

Property owners who qualify for this PILOT would be exempt from 100 percent of County real property taxes for 25 years.⁴

The Council introduced Expedited Bill 2-25, Taxation – Payments in Lieu of Taxes – Affordable Housing – Amendments, on February 4, 2025. The Bill was introduced along with Zoning Text Amendments 25-02 and 25-03 and Subdivision Regulation Amendment 25-01 as part of the "More Housing N.O.W." (New Options for Workers) package.

¹ [Payment in Lieu of Taxes \(PILOT\)](#), Department of Housing and Community Affairs.

² Ibid.

³ [Introduction Staff Report for Expedited Bill 2-25](#), Montgomery County Council, introduced February 4, 2025.

⁴ Ibid.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

As required by 2-81B of the Montgomery County Code, this Economic Impact Statement evaluates the impacts of Expedited Bill 2-25 on residents and private organizations in relation to Council's priority economic indicators. In doing so, it examines whether the Bill would have a net positive or negative impact on overall economic conditions in the County.⁵

The County would fund the Bill's 25-year property tax exemption using tax revenue. Notably, this would constitute an internal transfer from the County to property owners rather than a net increase in economic activity. As a result, the Bill's overall economic impact would depend on: (a) the annual economic effects of the tax exemption on County residents and businesses, and (b) the economic opportunity cost of the forgone County revenue. Since OLO cannot determine how the lost tax revenue would otherwise be allocated, this analysis does not assess the economic impact of alternative government spending.

To assess the Bill's economic impact statements, this analysis relies on the following information sources:

- Analyses presented by personnel from the Montgomery County Economic Development Corporation (MCEDC) and Montgomery Planning Department before the Council's ECON Committee,⁶ and
- Reports on the feasibility of office-to-residential conversions by Goldman Sachs economists, Montgomery Planning analysts, and Bolan Smart Associates, a real estate consulting firm commissioned by Montgomery Planning.⁷

No formal methodologies or assumptions are used in this analysis.

VARIABLES

The primary variables that would affect the economic impacts of enacting Expedited Bill 2-25 are the following:

- Physical barriers to conversion
- Upfront costs to conversion (acquisition, conversion, financing)
- Difference between office and residential rents (per square foot)

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that Expedited Bill 2-25 would have a positive impact on certain private organizations in the County in terms of the Council's priority economic indicators.

⁵ ["Sec. 2-81B, Economic Impact Statements,"](#) Montgomery County Code.

⁶ Bilal Ali, "[Worksession – Office Vacancy Follow-Up](#)" (Economic Development Committee, Montgomery County Council, March 6, 2024).

⁷ Elsie Peng and Vinay Viswanathan, "[The Price Is Still Too High for Office-to-Multifamily Conversion](#)," Economic Research (Goldman Sachs, February 26, 2024); Rick Liu, "[Converting Office to Residential Is Complicated](#)," *Montgomery Planning* (blog), October 4, 2017; Bolan Smarts Associates, Inc., "[Adaptive Reuse: Executive Boulevard and Rock Spring Office Markets](#)" (Commissioned by Montgomery Planning, May 2016).

The Bill would likely impact a small portion of office properties in the County due to the physical and financial barriers to office-to-residential conversion.⁸ As of Q2 2023, the County had 1,512 office buildings, with a vacancy rate of 16.5 percent—up from 11.6 percent five years earlier.⁹ Based on interviews with local real estate leaders, a review of relevant literature, consultations with Montgomery County Planning, and research on local office vacancy trends, MCEDC estimated that 1 percent of office buildings, or roughly 15, are suitable for residential conversion.¹⁰ For this reason, MCEDC designated office-to-residential conversion as a “low feasibility” solution to office vacancy in the County.

This finding aligns with analysis on the feasibility of conversions at the national level. In their February 2024 report, Goldman Sachs economists evaluated the conversion potential for “nonviable” office buildings—defined as those located in suburban areas or central business districts, built before 1990, unrenovated since 2000, and with a vacancy rate above 30 percent.¹¹ Their analysis found that converting these buildings to multifamily housing would likely result in net losses due to high acquisition, conversion, and financing costs, combined with the typically lower rents for residential units compared to commercial properties. They conclude that “only 0.8% of US office inventory is currently priced at a level that makes conversion to multifamily housing financially feasible.”

Of the approximately 15 office buildings in the County where conversion is deemed feasible, OLO cannot predict how many will pursue this option, given the significant financial barriers and risks. Some owners may instead choose lower-cost alternatives, such as renovating the property or lowering rents to attract tenants. For those who do proceed with conversion, the Bill would grant a 25-year property tax exemption if the project meets specified conditions, reducing the multifamily property’s operating expenses. All else being equal, lower operating costs would increase business income for property owners.

A key question regarding the Bill’s economic impact is whether it would incentivize conversions that would not otherwise occur. Addressing this question would require a case-by-case financial analysis of the buildings deemed feasible, which is beyond the scope of this report. However, OLO notes that the financial barriers to conversion may be too substantial for the tax exemption to overcome.

Beyond these potential impacts, OLO does not expect the Bill to affect private organizations in terms of the Council’s other priority indicators.

Residents

OLO anticipates that Expedited Bill 2-25 could have a positive impact on certain residents in the County in terms of the Council’s priority economic indicators.

As previously discussed, it is unclear whether the Bill would incentivize conversions that would not otherwise occur due to the significant physical and financial barriers to office-to-residential conversions and data limitations. If this occurs, certain residents could benefit from increased access to affordable housing, potentially lowering nondiscretionary expenses and increasing their net household income.

⁸ For discussions of the physical/architectural barriers to conversion, see Liu, “Converting Office to Residential Is Complicated”; Bolan Smarts Associates, Inc., “Adaptive Reuse.”

⁹ See Montgomery Planning’s presentation in Ali, “Worksession – Office Vacancy Follow-Up.”

¹⁰ Economic Development Committee Worksession - Office Vacancy Follow-up, Montgomery County Government, March 6, 2024.

¹¹ Peng and Viswanathan, “The Price Is Still Too High for Office-to-Multifamily Conversion.”

Beyond this potential impact, OLO does not expect the Bill to affect residents in terms of the Council's other priority indicators.

Net Impact

OLO anticipates that Expedited Bill 2-25 would have a positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By granting a 25-year property tax exemption, the Bill would reduce operating expenses for office buildings that are converted to residential buildings and meet certain zoning and affordability requirements. All else being equal, these properties would yield higher business incomes. However, due to the significant physical and financial barriers to office-to-residential conversions and data limitations, it is unclear whether the Bill would incentivize conversions that would not otherwise occur. If this occurs, certain residents could benefit from increased access to affordable housing, potentially lowering nondiscretionary household expenses.

DISCUSSION ITEMS

Not applicable

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the Bill under consideration.

AUTHOR

Stephen Roblin (OLO) prepared this report.



Fiscal Impact Statement

Office of Management and Budget

Bill 2-25E

Taxation - Payments in Lieu of Taxes - Affordable Housing - Amendments

Bill Summary

This bill expands payment in lieu of taxes (PILOT) to housing developments if the property meets the following criteria: the property has been converted from commercial use to residential use; the property has at least a 50 percent vacancy rate at the time of application; the property's development meets all the requirements of an expedited approval plan under County Code; and at least 15 percent of the units are built under a government regulation or binding agreement limiting the rent charged for the unit for at least 25 years, to ensure the unit is affordable for households earning 60 percent or less of the Area Median Income (AMI). The bill provides a real property tax exemption for at least 25 years from when the use and occupancy permit is issued, however the exemption ends if less than 15 percent of the units limit rent to ensure the unit is affordable for households earning 60 percent or less of the AMI.

Fiscal Impact Summary

The bill adds 1.0 FTE for a Senior Planning Specialist and \$134,600 in personnel costs to the Department of Housing and Community Affairs (DHCA) Multifamily Housing Program. Operating expenses needed to support the position increase by \$7,500 in FY26 and \$1,700 each year thereafter. The Department of Finance estimates real property tax revenues could decrease by approximately \$5.8 million in the first year, increasing by further annual reductions of an additional \$6-7 million as more properties utilize the PILOT, resulting in a loss of \$130 million in real estate tax revenue in the six-year analysis period. Assuming the PILOT is provided to qualifying properties for no more than 25 years, Finance estimates the annual decrease in property tax revenues will continue to grow for 25 years from the time the initial projects received the PILOT, after which new PILOTs may replace expired PILOTs and the revenue decrease stabilizes with annual loss of around \$230 million in property tax revenue per year, with total loss over that 25-year period of approximately \$2.6 billion.

| Fiscal Year | 26 | 27 | 28 | 29 | 30 | 31 | Total |
|--------------------|---------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| Personnel Costs | \$134,600 | \$134,600 | \$134,600 | \$134,600 | \$134,600 | \$134,600 | \$807,600 |
| Operating Expenses | \$7,500 | \$1,700 | \$1,700 | \$1,700 | \$1,700 | \$1,700 | \$16,000 |
| Total Expenditures | \$142,100 | \$136,300 | \$136,300 | \$136,300 | \$136,300 | \$136,300 | \$823,600 |
| Revenues | (\$5,795,200) | (\$11,822,300) | (\$18,088,100) | (\$24,599,800) | (\$31,364,700) | (\$38,390,400) | (\$130,060,500) |
| Total Impact | (\$5,937,300) | (\$11,958,600) | (\$18,224,400) | (\$24,736,100) | (\$31,501,000) | (\$38,526,700) | (\$130,884,100) |
| FTE | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | |

Fiscal Impact Analysis

Expenses

DHCA indicates that it will require 1.0 FTE for a Senior Planning Specialist, which creates \$134,600 in new personnel costs each year. The position also requires one-time operating expenses of \$5,900 for equipment and furniture, and ongoing operating expenses of \$1,700 for software licenses and basic supplies.



Revenues

This analysis estimates this bill will result in a \$5.8 million decrease in real property tax revenues from projected FY26 levels, with that reduction increasing by a further \$6-7 million annually as the number of properties utilizing the PILOT benefit increases over time. This analysis anticipates the revenue impact on projections assuming:

- a property tax rate of \$1.0255 per \$100 in taxable assessed value (should the rate increase, the amount of revenue lost would commensurately increase);
- new multifamily development adds \$5.5 million in new real property tax revenues annually;
- senior apartment developments add an additional \$300,000 in new real property tax revenue annually; and
- values of existing properties and the real property tax revenues from new construction increase at 2% annually.

Annual projections of new multifamily development and senior apartment development are based on the prior 10-year average. Multifamily development from 2015-2024 resulted in 58 market rate projects occupying 244 acres, providing 16,558 units, that will generate approximately \$55 million in property tax revenues in FY26 at a weighted rate of \$1.0255 per \$100 in value. In addition, there were another 11 senior apartment projects occupying 51 acres, providing 1,347 units, and generating approximately \$2.9 million in property tax revenues in FY26. This analysis assumes the future annual average rate of 30 acres of land consumed for development will continue and approximately \$5.8 million in increased property tax revenue would be generated absent the bill, with the value of existing properties and future construction increasing at 2% annually.

As discussed below, this revenue projection is based on many assumptions, any one of which could significantly affect the actual revenue impact.

Staff Impact

DHCA indicates that its Multifamily Housing Program staff are at capacity. Under previous expansions of PILOT, DHCA saw a significant increase in the number of applications annually. This analysis assumes a similar increase in applications would result from the bill. DHCA estimates that it will require an additional 1.0 FTE Senior Planning Specialist position to provide staff support for those applications. The position's full-year compensation will increase expenditures by \$134,600 annually. Without appropriate staffing support to review, negotiate, and process the expected increase in applications, transactions to create and preserve affordable housing units may be delayed.

Actuarial Analysis

The bill is not expected to impact retiree pension or group insurance costs.

Information Technology Impact

The bill is not expected to impact the County Information Technology (IT) or Enterprise Resource Planning (ERP) systems.

Other Information

Later actions that may impact revenue or expenditures if future spending is projected

The bill does not authorize future spending.

Ranges of revenue or expenditures that are uncertain or difficult to project

DHCA notes that this analysis is based on the expenditure impact of Bill 2-25. Additional potentially significant expenditures for additional staffing and associated operating expenses would be needed if Zoning Text Amendments 25-01 and 25-02 are also enacted.



The forecast of lost property tax revenue relies upon the following assumptions, detailed further in this section: recent development levels would continue unaffected by any recently approved and/or implemented Montgomery County policies; there is ample supply of properties eligible for the PILOT if redeveloped into rental residential; developers will be able to reduce the vacancy at properties they wish to redevelop to 50 percent; and the PILOT will be attractive to developers and that all future multifamily supply will make use of the PILOT.

This analysis assumes 10 years of rental and senior apartment multifamily properties built between 2015 and the end of 2024 proxy the future average level of multifamily development and related taxable assessed value in the County. It is not possible to accurately predict the level of development that will occur in any specific year or the future development of any specific property. Future forecasts of development levels depend upon the assumption that future development trends resemble recent observable and measurable development trends. While a forecast of development and resulting tax revenues has general accuracy across a six-year time frame, the estimate of those individual years is less accurate given considerable variance between this calculated average and the potential actuals.

Through evaluation of Montgomery County's land records, Finance assumes the supply of property potentially eligible for the PILOT if redeveloped into residential use (4,764 acres) far exceeds the demonstrated demand for multifamily development (300 acres over 10 years). Further, Finance estimates that properties potentially attractive for redevelopment (1,524 acres) also far exceeds the potential demand for multifamily development.

This analysis assumes properties with both (1) a low ratio of building value to land value (indicating the existing structure is worth relatively little compared to the potential use of the land); and (2) buildings that are older than 25 years are potentially attractive candidates for conversion from commercial use to residential use. In addition, this analysis assumes the PILOT substantially reduces property operation costs and thus will be highly utilized by multifamily builders, that there is an ample supply of properties that satisfy the criteria for the PILOT, and that as a result of the bill, most future multifamily rental properties will receive the PILOT and generate no real property tax revenue for at least 25 years.

This analysis assumes the existing weighted property tax rate of \$1.0255 per \$100 in taxable assessed value. Should the County Executive's proposed tax rate increase to \$1.0605 per \$100 of assessed value be approved, the amount of revenue lost would commensurately increase, with a \$6.0 million impact in FY26. This analysis assumes properties currently under construction or development that otherwise would have satisfied the requirements of the PILOT will be allowed to make use of the program, resulting in a reduction in tax revenue starting in FY26. If instead developers of prospective projects must resubmit their applications, the loss of tax revenue may not start until two years after adoption of the bill. Finance assumes it takes two years to take a project from conception through the development and construction process.

This analysis assumes that townhome development will not be significantly impacted by the bill. While townhome development is eligible for the PILOT outside of the red policy zone, Finance anticipates that there will be few such developments that utilize the PILOT due to the required 15% MPDUs that must be located on-site of the development, requiring the development is a rental property, and that there is a limited market for rental townhouse developments. Any level of townhome development that does occur and is eligible for the PILOT would increase the loss in



future real property tax revenue estimated in this analysis.

The actual revenue impact may vary if development occurs at a different level or pace than assumed; if more or less development occurs at assessed values that are more or less than assumed; or if land prices for eligible properties increase due to utilization of the PILOT among multifamily developers, resulting in less multifamily development utilizing the PILOT than assumed due to the high cost of eligible land. In addition, the actual revenue impact may vary if this bill results in changes to other tax revenues such as income, transfer, or recordation as a result of new multifamily development. The actual revenue impact may vary if actual property attributes differ from those recorded in the Planning Department land database, therefore affecting the estimated value of properties and acres potentially eligible for the PILOT.

Sources of information

The analysis utilizes data from the Department of Planning (Planning) land use database, the State Department of Assessment and Taxation (SDAT), and the commercial real estate data company CoStar. Finance used geographic information system (GIS) software to evaluate Planning's land use database to identify office and retail properties (Commercial Properties) that are greater than two stories and could possibly satisfy the criteria for PILOT. Finance also used GIS to identify adjacent Commercial Properties as many developments are the result of combining multiple existing parcels. Finance used CoStar data to identify rental and senior apartment multifamily properties built between 2015 and the end of 2024, using this ten year period of multifamily development as a proxy for the future average level of multifamily development and taxable assessed value. Finance used SDAT data to identify the existing assessed value of the land and improvements for all properties and to estimate future real property tax revenue from multifamily rental developments.

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Council Staff Comments and Questions on Bill 2-25E Fiscal Impact Statement (prepared April 1, 2025)

OMB Submitted a Fiscal Impact Statement (FIS) for Bill 2-25E, Taxation - Payments in Lieu of Taxes - Affordable Housing Amendments on March 20th. Council staff shared questions regarding the analysis with OMB on March 26th. These questions are included below in the appendix, and staff has not yet received a response. It is possible that some analysis could change pending those responses¹.

Broadly, Council staff's questions relate to the selection of assumptions that ultimately generate just one scenario. While the choice of assumptions and analysis may be sound upon further investigation, OMB does not clearly explain the choice of assumptions, and the choice to not make other assumptions, in their memo. For this reason, Council staff have requested to engage in further discussions with OMB regarding their analysis.

There are two assumptions, in particular, that Council Staff are hoping to understand further. First, the FIS suggests that the increase in Assessed Value (AV) of new multifamily development compared to the vacant office buildings they replaced will not generate enough growth in property tax revenue by Year 26 (i.e., the first year after the abatement period is over) to replace the lost revenue of projects receiving the PILOT in Year 26.

A very high-level analysis suggests a nearly ten-fold increase in property value for a vacant office building that redevelops into multifamily housing. While this analysis is not intended to counter OMB's analysis, it does imply further investigation is needed to better understand the finding that by Year 26 there will be a stabilized annual loss in property taxes totaling \$230 million.

¹ This memo was updated on 4/2/2025 to reflect that Council Staff has had discussions with Finance Staff, who conducted the analysis in coordination with OMB. Finance Staff have confirmed Council Staff will not receive a written response and while the questions were discussed, given the complexity of analysis and because changes during Committee would have altered assumptions in the FIS, Finance and Council staff could not meaningfully resolve Council Staff's outstanding questions.

Table 1: High-Level Analysis to Demonstrate Potential Net Increase in AV of New Multifamily Development on Qualifying Office Properties

| Property Taxes | |
|---------------------------------------|---------------|
| 2025 Assessed Value | \$17,000,000 |
| Property Tax Rate | 1.15% |
| Property Taxes Paid | \$195,704 |
| | |
| Estimated Land Value Post-Development | \$207,000,000 |
| Property Tax Rate | 1.15% |
| Property Taxes Paid | \$2,382,984 |
| | |
| Multifamily Deliveries, 2015-2024 | 58 |
| | |
| Estimated Current Taxes Paid | \$11,350,832 |
| Estimated Future Taxes Post-Abatement | \$138,213,072 |

Table 2: High-Level Analysis to Demonstrate Potential Net Increase in Income Taxes

| Income Taxes | |
|--|--------------|
| Multifamily Deliveries, 2015-2024 | 58 |
| Total Units | 16,558 |
| Average Project Size (Units) | 285 |
| Assume New Project at Avg. Unit Size w/ 15% MPDU @ 60% AMI | |
| Total Units | 285 |
| Market Rate | 242 |
| MPDU | 43 |
| Monthly Rent | |
| Market Rate | \$3,250 |
| MPDU | \$1,805 |
| Income Required | |
| Market Rate (at 30% of Income) | \$130,000 |
| MPDU (at 25% of Income) | \$72,200 |
| Annual Income Taxes Paid per HH | |
| Market Rate | \$3,980 |
| MPDU | \$1,848 |
| Total Annual Income Taxes Paid | |
| Market Rate | \$963,160 |
| MPDU | \$79,464 |
| Total Annual Income Tax across 58 Projects | \$60,472,192 |

Second, OMB does not attempt to account for new income tax generated by housing growth and the net new residents that move into new housing units in the County. Income Tax can be difficult to forecast, and it is understandable that OMB does not want to undertake an unreliable analysis. However, the FIS does not acknowledge that there could be a significant income tax impact, which is relevant as a policy consideration. While not a forecast, a high-level analysis from Council Staff suggests a single multifamily building could generate over \$1 million in income taxes. Accounting for a margin of error as high as 50%, this would be equal to \$30 million across the 58 projects OMB assumes will be built over the next ten years.

Finally, in addition to the Council Staff’s questions and high-level analysis of net increases to AV and income taxes, Council Staff does not agree that multifamily development will continue at the same rate it has over the past ten years. OMB has stated it makes this assumption because forecasting development is unreliable, and often uses this assumption in analysis of development-related policy, including for impact taxes.

However, this does not imply OMB necessarily believes multifamily development can be feasibly built under today's market conditions, which is ultimately the policy question underpinning the need for the bill. Bill 2-25E attempts to fill a feasibility gap for multifamily development, which has been generated in part by worsening market conditions. Council staff's financial feasibility analysis of multifamily development today suggest the PILOT can indeed fill this gap. Whether it should fill this gap, or the extent of the gap it should fill, is also a policy question.

Council Staff are available to help answer questions and time-permitted, can conduct additional analysis as needed.

Appendix

A. Council Staff Questions for OMB

1. Why does this bill create the need for a new position if the analysis assumes "that future development trends resemble recent observable and measurable development trends".
2. How does the analysis conclude that the stabilized annual loss in property will equal \$230 million? By what year does the annual loss stabilize at this level?
3. Does this analysis assume that the property taxes based on the net increase in assessed value after the abatement period compared to the assessed value prior to redevelopment are outweighed by the forgone property tax revenue of new projects entering into an abatement?
 - a. Can you please show the findings from your modeling that show that foregone property tax revenue of new multifamily development will outweigh the property taxes paid by properties reassessed after their abatement period is over?
4. The FIS notes "the PILOT will be attractive to developers and that all future multifamily supply will make use of the PILOT". Why does the analysis assume forgone property taxes for projects that are already entitled on non-qualifying sites (i.e., not on sites with highly vacant commercial development)?
 - a. If there was evidence of which approved site plans/entitled projects can move forward to a building permit because they have secured financing, would the FIS reduce the fiscal impact by a corresponding amount?
5. Can you breakdown the acreage of eligible properties by retail and office properties?

6. Even under the assumption that any office or retail property can (and would) be made eligible for the PILOT, it would take time and resources for developers to make non-qualifying properties, qualify. Based on what evidence and data does the FIS find that there would be fiscal impacts in FY26 through FY28?
 - a. Do you a list of currently qualifying, highly vacant commercial properties?

Alternative Scenarios:

1. There is a lag between changes in market conditions and its effects on development trends. Market conditions have real, measurable impacts on development feasibility. How would this analysis change if it accounts for the feasibility of development under today's market conditions?
 - a. While it may not be possible to predict changes in market conditions, explaining trends like cap rate expansion (and all the factors it itself reflects) would help outline a scenario where development slows down.

B. High Level Summary of 2-25E Feasibility Analysis

Background

The market value of a rental product is determined by its cap rate. The market value of a project is its Net Operating Income (NOI) divided by its cap rate. Cap Rates are a simple metric tracked through observations of real estate transactions. The [average cap rate in a region](#) is just the average NOI of projects that were sold, divided by their average sale price.

Typically, for a project to pencil, a project's yield-on-cost (YOC), which is NOI divided by Total Development Costs, must exceed the cap rate by 1-1.5 percentage points (i.e., 100 to 150 basis points).

The reason a YOC must exceed the cap rate by a minimum amount is because the cap rate determines what someone *might* pay for a project; it's an estimate. The YOC measures NOI in relation to actual costs. Therefore, if the YOC is higher than the cap rate, investors and lenders know that even if their investment is not recouped by the sale of the project, the NOI will recover the development costs at a reliable rate.

This is important to note because while profit margins are inherent within a pro forma, the metrics developers use to test project feasibility do not necessarily involve increasing their own returns, but generating an output that meets the minimum criteria for investment and lending: the cap rate plus 100 to 150 basis points.

Development Prototype

This analysis is based on the feasibility of a 300-unit wood-over-podium multifamily mid-rise in a suburban part of the County.

| Development Assumptions | | Cost and Revenue Assumptions | | |
|---------------------------|---------|------------------------------|---------------|-----------------|
| MPDU Requirement | 15% | All-in Cost per sf | \$450 | |
| MPDU AMI | 70% | Total Development Costs | \$131,962,500 | |
| | | All-in Cost per Door | \$439,875 | |
| Total Units | 300 | | | |
| Market Rate | 255 | Avg. Monthly Rent | <u>per sf</u> | <u>per unit</u> |
| MPDU | 45 | Market Rate | \$3.25 | \$3,250 |
| | | MPDU | \$2.12 | \$1,805 |
| Gross Avg. Unit Size (sf) | 977.5 | | | |
| Market Rate | 1,000 | Cap Rate | 5.50% | |
| MPDU | 850 | Min. YOC | 6.50% | |
| | | Vacancy Rate | 5.0% | |
| Total Building Size | 293,250 | OpEx | 30% | |
| | | % Increase to NOI | 20% | |
| Site Size (acres) | 3.0 | | | |

Feasibility Analysis

- Under today's market conditions, projects do not pencil. For example, assuming a 5.5% cap rate, a 300-unit multifamily project generates a YOC of 5.4%, which is not only below the minimum 6.5% YOC for the project to pencil, but less than the cap rate itself. Based on council staff's analysis, not only does the market value of the project not exceed the cost of development by a sufficient margin, but it is also actually below the cost to build it.

| <u>Feasibility Analysis</u> | <u>Market Rate</u> | <u>MPDU</u> | <u>Total</u> |
|-----------------------------|--------------------|-----------------|-----------------|
| Gross Scheduled Rents | \$9,945,000 | \$974,700 | \$10,919,700 |
| Less Vacancy | (\$497,250) | (\$48,735) | (\$545,985) |
| Less Operating Expenses | (\$2,983,500) | (\$292,410) | (\$3,275,910) |
| Net Operating Income | \$6,464,250 | \$633,555 | \$7,097,805 |
| Total Development Costs | (\$114,750,000) | (\$17,212,500) | (\$131,962,500) |
| Market-Rate Project Value | \$117,531,818 | \$11,519,181.82 | \$129,051,000 |
| Min. Req'd Return | \$122,208,750 | \$18,331,313 | \$140,540,063 |
| Residual Land Value (RLV) | (\$4,676,932) | (\$6,812,131) | (\$11,489,063) |
| RLV per sf | | | (\$87.92) |
| YOC | 5.6% | 3.7% | 5.4% |

- Cap Rates in a region are a useful, general indicator of market conditions in the region, reflecting factors that affect real estate values like rent growth, job and wage growth, financing conditions, construction costs, and development policies in a jurisdiction. As of

2025, research suggests the cap rate in Montgomery County is approximately 5.5%. Compared to three to four years ago when cap rates were closer to 4% to 4.5%, the expansion in cap rates for a 300-unit multifamily project represents a loss in market value of between \$28 million and \$48 million.

3. With a 25-year tax abatement, the same 300-unit multifamily project is marginally feasible, generating a YOC of 6.5%.
4. Developers with a bearish attitude towards the market may not feel comfortable with a project generating less than a 7% YOC. Therefore, the tax abatement improves a project's feasibility from losing money compared to development costs, to generating enough return to cover the minimum buffer between market value and development costs that is required for projects to pencil.

In this particular example, the net increase in the project's market value is approximately \$25 million. Ultimately, worsening market conditions have rendered most multifamily projects infeasible under standard assumptions. The PILOT enables the feasibility of multifamily development and ensures that this development occurs on sites with underutilized buildings in highly-amenitized parts of the County that already have infrastructure to support housing growth.

| Feasibility Analysis w/ PILOT | Market Rate | MPDU | Total |
|--------------------------------------|--------------------|----------------|-----------------|
| PILOT-adjusted NOI | \$7,757,100 | \$760,266 | \$8,517,366 |
| Total Development Costs | (\$114,750,000) | (\$17,212,500) | (\$131,962,500) |
| Market-Rate Project Value | \$141,038,182 | \$13,823,018 | \$154,861,200 |
| Min. Req'd Return | \$122,208,750 | \$18,331,313 | \$140,540,063 |
| Residual Land Value (RLV) | \$18,829,432 | (\$4,508,294) | \$14,321,138 |
| RLV per sf | | | \$109.59 |
| ROC | 6.8% | 4.4% | 6.5% |

5. Changing the MPDU parameters of the PILOT changes the feasibility of development.

| MPDU Req. | MPDU AMI (a) | | | |
|-----------|--------------|---------|---------|---------|
| | 30% | 50% | 60% | 70% |
| | \$774 | \$1,290 | \$1,584 | \$1,805 |
| 15% | -33 | -16 | -7 | 0 |
| 17.5% | -44 | -25 | -14 | -6 |
| 20% | -55 | -33 | -20 | -11 |
| 22.5% | -66 | -41 | -27 | -16 |
| 25% | -77 | -49 | -33 | -21 |

Notes:

* This table shows the change from the baseline (15% MPDUs at 70% AMI) YOC when MPDU requirements and thresholds change.

**Rent shown is affordable for two-person households at respective AMI, based on FY24 HUD Income Limits.

*** It is hard to imagine how projects pencil once the YOC falls below 6.3% (i.e., 20 basis points below the baseline 6.5% assumption for feasibility)

*** Numbers shown in terms of basis points.

Summary of Retail Inventory in the CR-family of Zones

4/2/2025

Bilal Ali, Legislative Analyst

As noted during in the staff packet for the Committee worksession on Bill 2-25E, “the purpose of this bill is to expand the By Right Pilot to include an extended tax exemption period and reduced affordability requirements when the property developed is a conversion from a high-vacancy commercial use to a residential use that achieves timely approval.”

The motivation for this bill stems in part from ECON Committee discussions about high office vacancy rates in Montgomery County. The growth in office vacancy increased after the pandemic but has been a long-standing trend. During an ECON worksession in 2023, stakeholders from the commercial real estate community noted there was ‘**permanently diminished demand**’ for **existing office stock in the County**.

As of Q1 2025, the **office vacancy rate is 19%**, according to CoStar. A healthy vacancy rate is between 8% and 10%, meaning there is nearly double the amount of vacant office space than in a healthy office market. **For these reasons, sites with highly vacant office buildings are considered ‘underutilized’**.

Two-story retail properties in the CR-family of zones, which are eligible for the PILOT under Bill 2-25E as recommended by the joint GO-ECON Committee, do not share these characteristics. The vacancy rate in two-story buildings in the CR-family zones is 4.8%, which is well below a healthy vacancy rate of 8% to 10%¹. This metric could in fact **suggest an undersupply of retail in the County in the CR-family of zones**, although the retail market should be evaluated more broadly to understand what policy issues exist.

Furthermore, the existing stock of currently eligible two-story retail properties in the CR-family of zones **represents just 16 buildings, with an average size of 9,300 square feet**. By comparison, the size of currently eligible office properties is nearly 100,000 square feet, meaning **highly vacant office buildings are on larger sites more likely to support higher density housing development. This is not the case for highly vacant retail space**.

Also, rents in highly vacant office buildings are in line with office rents overall. Given the oversupply of office space, to the extent any developer does manage leases to make currently non-qualifying properties qualify for the PILOT, there is inventory throughout the County businesses could move to at the same price. However, the rent in currently 50% vacant two-story retail buildings is just \$20 per square foot, compared to \$27 in two-story buildings in the CR-family of zones overall. **Unlike for office buildings, businesses in highly vacant retail buildings may be relying on the lower rents they pay. And, given the undersupply of retail spaces, displaced retail tenants could struggle to find new retail spaces.**

¹ These vacancy rates allow for turnover (i.e. allowing existing and new businesses to find a suitable space that suits without compromising on their needs or paying artificially elevated rents.)

Finally, a comparable definition of ‘underutilized sites’ for retail buildings could be large, highly vacant shopping centers, including regional malls, because they are on large sites that can likely support significantly more density. In some cases, properties perceived to be highly vacant are not considered part of the retail inventory. For example, **the White Flint mall is not a vacant retail site; it is not available to lease and because the mall has been demolished, would not qualify for the PILOT anyway.** Many completely vacant buildings on mall sites are not available for lease either.

Therefore, the two-story 50% vacant retail property in the CR-family of zones criteria would not apply to one of the largest underutilized retail sites in the County. **It may be worthwhile to further investigate the market conditions and economics of underutilized retail sites,** including those with demolished buildings, **to understand both the specific issues they face and what policy mechanisms resolve those issues,** as they are different to those facing office buildings.

Council staff prepared this memo based on a data analysis of all retail properties in the Cr-family of zones, as obtained by CoStar. This data was divided into subsets to understand metrics for two-story retail buildings, and of those, the properties that would currently qualify under the bill as recommended by GO-ECON. Below are four tables providing an overview of these properties.

Table 1: Summary of Eligible Retail in CR-Family of Zones

| <u>Eligible Retail in CR-Family of Zones</u> | <u>Buildings</u> | <u>RBA(sf)</u> | <u>Vacant (sf)</u> | <u>Vacancy Rate (%)</u> | <u>Avg. Asking Rent</u> |
|--|------------------|----------------|--------------------|-------------------------|-------------------------|
| Retail Buildings in CR-Family of Zones | 1,293 | 17,825,799 | 773,942 | 4.3% | \$26.33 |
| Retail Buildings with 2+ Stories | 335 | 7,095,126 | 342,359 | 4.8% | \$27.12 |
| 50% Vacant or More | 16 | 149,207 | 116,790 | 78.3% | \$20.75 |

Table 2: Retail Inventory in CR-Family of Zones by Submarket

| Submarket | Buildings | RBA(sf) | Vacant (sf) | Vacancy Rate (%) |
|----------------------------|--------------|-------------------|----------------|------------------|
| Bethesda/Chevy Chase | 264 | 2,999,610 | 85,477 | 2.8% |
| Germantown | 87 | 2,000,200 | 93,558 | 4.7% |
| Kensington/Wheaton | 231 | 1,856,699 | 103,805 | 5.6% |
| Rockville | 39 | 1,088,357 | 19,001 | 1.7% |
| Silver Spring | 256 | 2,439,983 | 105,939 | 4.3% |
| I-270 Corridor North | 11 | 448,816 | 4,000 | 0.9% |
| Outlying Montgomery Cnty E | 121 | 1,307,478 | 68,043 | 5.2% |
| North Bethesda/Potomac | 64 | 2,052,365 | 98,623 | 4.8% |
| Outlying Montgomery Cnty W | 23 | 216,141 | 1,184 | 0.5% |
| Gaithersburg | 36 | 618,121 | 30,954 | 5.0% |
| North Silver Spring/Rt 29 | 132 | 2,521,840 | 158,843 | 6.3% |
| North Rockville | 29 | 276,189 | 4,515 | 1.6% |
| Total | 1,293 | 17,825,799 | 773,942 | 4.3% |

Table 3: Retail Inventory in CR-Family of Zones by Range of Vacancy Rate

| Montgomery County Retail in CR-Family of Zones | | | | |
|--|--------------|-------------------|----------------|------------------|
| Vacancy Range | Buildings | RBA(sf) | Vacant (sf) | Vacancy Rate (%) |
| 0%-10% | 1,213 | 16,205,320 | 268,655 | 1.7% |
| 10%-20% | 22 | 781,524 | 95,833 | 12.3% |
| 20%-30% | 14 | 282,652 | 64,335 | 22.8% |
| 30%-40% | 8 | 193,161 | 62,114 | 32.2% |
| 40%-50% | 5 | 40,596 | 19,472 | 48.0% |
| 50%-60% | 5 | 58,795 | 31,272 | 53.2% |
| 60%-70% | 4 | 16,815 | 10,994 | 65.4% |
| 70%-80% | 4 | 63,651 | 46,650 | 73.3% |
| 80%-90% | 1 | 1,805 | 1,500 | 83.1% |
| 90%-100% | 17 | 181,480 | 173,117 | 95.4% |
| Total | 1,293 | 17,825,799 | 773,942 | 4.3% |

Table 4: Two-Story Retail Inventory in CR-Family of Zones by Range of Vacancy Rate

| Montgomery County Retail in CR-Family of Zones: 2+ Stories | | | | |
|--|-----------|-----------|-------------|------------------|
| Vacancy Range | Buildings | RBA(sf) | Vacant (sf) | Vacancy Rate (%) |
| 0%-10% | 294 | 5,934,763 | 47,577 | 0.8% |
| 10%-20% | 11 | 643,455 | 77,101 | 12.0% |
| 20%-30% | 8 | 188,207 | 42,289 | 22.5% |
| 30%-40% | 5 | 166,146 | 52,230 | 31.4% |
| 40%-50% | 2 | 24,448 | 11,922 | 48.8% |
| 50%-60% | 3 | 18,098 | 9,722 | 53.7% |
| 60%-70% | 1 | 8,352 | 5,617 | 67.3% |
| 70%-80% | 3 | 58,351 | 42,900 | 73.5% |
| 80%-90% | 1 | 1,805 | 1,500 | 83.1% |
| 90%-100% | 6 | 51,501 | 51,501 | 100.0% |
| Total | 334 | 7,095,126 | 342,359 | 4.8% |



OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

April 3, 2025

Kate Stewart, Council President
Montgomery County Council
100 Maryland Avenue, 6th Floor
Rockville, MD 20850

Dear Council President Stewart,

I write to urge you not to take a final vote next week on Expedited Bill 2-25 as amended at the session of the joint committees of Government Operations and Fiscal Policy and Economic Development.

As you know, Bill 2-25E would give an automatic abatement of property taxes to certain developers who convert or demolish a 50% vacant commercial building and turn it into a residential building. The developer would not pay any property taxes for 20 years via a Payment in Lieu of Taxes (PILOT). I want to be clear: I have no objection to conversion of office to residential properties, and no problem helping facilitate that within zoning and height regulations. I object to an automatic by-right exemption of 100% of property taxes for 20 years without regard to the details and financing of a particular project.

Here are the issues and questions that I am asking that you consider.

What is the need?

I understand that the Economic Development committee has reviewed the issue of office vacancies; I would ask that the packet include the links to the reports and analyses and any relevant summaries. It would be helpful to understand the existing problem and obstacles. Additionally, DHCA currently uses PILOTs successfully to negotiate for a higher percentage of affordable units or availability to a wider range of incomes. These negotiations have produced a much greater number of affordable units than otherwise would have been built.

Is the cost worth it?

The market takes care of some of these issues already. Here are examples of three different ways that the market is working – without county subsidies or tax exemption:

1. A building goes back to the bank. The bank then sells it at foreclosure for a greatly reduced price. This happened with the Discovery building in Silver Spring.
2. The owner/developer sells the building at a dramatically reduced price from where they bought it (likely because the loan is no longer worth it). This happened at a building in Bethesda at Wisconsin and Old Georgetown.

In both the above cases, the buyer has the property at a price that allows them to redevelop and charge the rents they want.

3. The market worked for a property owner to convert an office to residential in Silver Spring. The project, the Guardian, added 5 stories and 75,000 square feet, and it produced 178 new residential units were created. There was no county subsidy. The Bank would have only lent the money only if the project penciled out.

Which brings me to the next question:

Is this fair? For developers? For others?

The above example of the Guardian illustrates that an automatic (by-right) PILOT could disadvantage other property owners who have recently undergone a conversion. Additionally, property owners/developers who are producing housing but not eligible for a conversion PILOT are at a disadvantage for no public benefit. It does not make financial sense to authorize automatic payments to private developers that could potentially cost the county billions of dollars in lost revenues and disadvantage other developers and property owners.

Furthermore, this bill has a negative racial equity analysis. As has been noted by the Racial Equity and Social Justice analysis by the Council's Office of Legislative Oversight Office, Bill 2-25E could "widen disparities in housing by race and equity."

(<https://www.montgomerycountymd.gov/OLO/Resources/Files/resjis/2025/Bill2-25E.pdf> pg. 1)

Additionally, this bill does not prioritize homeownership or affordability. Only 17.5% of the new units would need to be designated affordable, and they would all be rental. Homeownership is the most important path to wealth accumulation, and homeownership levels are much lower for black and Hispanic households (42.5% and 49.1% respectively as compared to 73.2% and 74.3% for white and Asian households.¹).

And this is not good for county revenues. As the Fiscal Impact Statement pointed out, it represents a large loss of revenue. The fiscal impact statement estimated \$2.6 billion over 25

¹ "RACIAL EQUITY PROFILE MONTGOMERY COUNTY," Jupiter Independent Research Group, June 2019, pg. 29.
[Microsoft Word - Cover Page 2019-7.docx](#)

years - the actual amount is different given the changes made at committee, but it will still be substantial. Revenue not provided by development is paid by someone else, often residents.

Process: has this proposal been sufficiently vetted?

I have raised questions above that deserve a greater discussion. I understand that there has been a public hearing, but the public hearing was for the entire More Housing NOW package, which included two ZTAs as well as this Bill, and the time between the introduction of the housing package and the public hearing was quick: introduction was February 4, Planning review was March 6, and the public hearing was March 11 – for the entire package. Residents – and executive branch – did not have sufficient time to review all of the proposals thoroughly. People remained confused about the proposals and what they would do.

Conclusion

We are at moment of enormous uncertainty at the federal level; we do not know what the federal cuts will mean to the housing market here. There is no urgency to pass this bill immediately, but there is a necessity to pause and consider possible unintended consequences.

The actual best outcome for commercial buildings is to be re-tenanted with businesses – we need to grow our tax base. It is not clear that we want to prioritize reducing the number of places businesses could locate. That may not be in the county’s best economic interest, and it may not be necessary, which is why these situations need to be examined on a case-by-case basis.

There is no evidence that every eligible property needs 100% exemption from property taxes for 20 years. Consequently, I ask that Council continue to deliberate on this proposal and postpone a vote until after it is more thoroughly considered.

Sincerely,



Marc Elrich
County Executive

cc: Montgomery County Councilmembers
Craig Howard, Executive Director, Montgomery County Council
Livhu Ndou, Senior Legislative Attorney, Montgomery County
Jim Ogorzalek, Legislative Attorney, Montgomery County