GO Item 2
June 22, 2017
Worksession 2

MEMORANDUM

June 20, 2017

TO: Government Operations and Fiscal Policy Committee

FROM: Robert H. Drummer, Senior Legislative Attorney

SUBJECT: **Worksession 2:** Bill 10-17, Recordation Tax – Rates — Amendments

Bill 10-17, Recordation Tax – Rates — Amendments, by Lead Sponsor Councilmember Elrich and Co-sponsor Councilmember Leventhal, was introduced on April 4. A public hearing was held on April 25 and a Government Operations and Fiscal Policy Committee worksession was held on May 4.

Bill 10-17 would modify the recordation tax rates levied under state law for certain transactions.

Background

The "Recordation Tax Premium" went into effect in 2008. Bill 15-16, enacted on May 18, 2016, increased the Premium rate from $1.55 to $2.30/$500. Unlike the two elements of the base rate paid on all transactions, the Premium applies only to the cost of a property or a refinancing that is more than $500,000. Half of the proceeds from the Premium are allocated to County Government capital projects (i.e., capital projects of departments in the Executive Branch); the other half is for rent assistance for low and moderate income households.

Bill 10-17 would reduce the Premium for transactions that are more than $500,000 but less than $1,000,000 from 2.30 to $1.55/$500. The Bill would increase the Premium for transactions that are more than $1,000,000 but less than $2,000,000 from $2.30 to $2.55/$500. The Bill would also increase the Premium for transactions that are more than $2,000,000 from $2.30 to $3.55/$500.

Public Hearing

The lone speaker, Peg Mancuso, representing the Greater Capital Area Association of Realtors, supported the Bill to the extent it lowers the premium recordation tax rate on transactions greater than $500,000 and less than $1 million. See ©5-6. Ms. Mancuso also recommended that the Bill be amended to lower all recordation tax rates. The Apartment and Office Building Association of Metropolitan Washington (AOBA) submitted written testimony opposing an increase in the recordation tax rates for commercial transactions greater than $1,000,000.

May 4 GO Worksession

Councilmember Elrich also attended the worksession. Alex Espinosa, David Platt, and Mike Coveyou, Department of Finance, represented the Executive Branch. Jacob Sesker, Senior Legislative Analyst and Robert Drummer, Senior Legislative Attorney, represented the Council staff. The Committee discussed the need to have a fiscal impact statement for the Bill before acting. Finance representatives said they expect to have an estimate for the fiscal impact in 1 month. Mr. Elrich indicated that his intent was to make the Bill revenue neutral on the overall recordation tax collected. The Committee agreed to wait for the fiscal impact before acting on the Bill.

Issues

1. What is the fiscal and economic impact of the Bill?

The goal of the Lead Sponsor, Councilmember Elrich, is to change the premium rates so that transactions valued at more than $1 million would be charged a higher tax rate than transactions valued at less than $1 million. The intent of the Bill is to make this change without changing the total amount of recordation tax revenue received by the County. However, the tax rates in the Bill, as introduced, were not verified to be revenue neutral.

Since the May 4 worksession, Finance analyzed State assessment records for multiple years to determine an estimate of the total revenue. Finance determined that the rates in the Bill, as introduced, would result in additional revenue of $9,700,000. Representatives from the Department of Finance are expected to attend the worksession to explain their work to date. They will be able to suggest optional rates that would be revenue neutral while still reducing the premium rate charged for transactions between $500,000 and $1,000,000.

If we receive the Fiscal and Economic Impact Statement before the worksession, we will publish it as an addendum.

2. Would the Bill increase the volatility of recordation tax revenue received each year?

Recordation tax is charged on real property transactions. The total revenue depends upon the total number of transactions completed in each fiscal year. Historically, the number of transactions between $500,000 and $1,000,000 each year varies less than the number of larger transactions. The table below details the historical percentages for the Bill's proposed divisions based on sales data from FY09-16. To the extent that more revenue is derived from fewer, larger commercial transactions, the total revenue received each fiscal year is likely to vary more.

	Percentage of Total Transactions	**Percentage of Total Premium Tax Revenue**
$500,000 to $1,000,000	78%	20%
$1,000,000 to $2,000,000	18%	20%
$2,000,000 and greater	4%	60%

Finance concluded that 60% of the premium tax revenue comes from only 4% of the transactions.

3. Technical amendment.

The Bill, as introduced, inadvertently left no premium tax for transactions valued at $1,000,000 or at $2,000,000. Council staff recommends the following technical amendment to implement the intent of the Bill:

Amend lines 13-20 as follows:

(2) if the consideration payable or principal amount of debt secured exceeds $500,000[,]:

(A) an additional [$2.30] $1.55 for each $500 or fraction of $500 of the amount over $500,000 but less than $1,000,000[,];

(B) an additional $2.55 for each $500 or fraction of $500 of the amount equal to or more than [[over]] $1,000,000 but less than $2,000,000; and

(C) an additional $3.55 for each $500 or fraction of $500 of the amount equal to or more than [[over]] $2,000,000.

4. What are the policy issues for the Committee?

a. Should the premium tax rates be split into divisions that create a higher premium tax for larger transactions?

b. If yes:
   (1) how should the divisions be split; and
   (2) what should the tax rate be for each division?

c. If enacted, what should the effective date be?

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Bill No. 10-17
Concerning: Recordation Tax – Rates – Amendments
Revised: April 7, 2017 Draft No. 3
Introduced: April 4, 2017
Expires: October 4, 2018
Enacted:
Executive:
Effective:
Sunset Date: None
Ch. [#], Laws of Mont. Co. [year]

COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Councilmember Elrich
Co-sponsor: Councilmember Leventhal

AN ACT to:
(1) modify the recordation tax rates levied under state law for certain transactions; and
(2) generally amend the law governing the recordation tax

By amending
Montgomery County Code
Chapter 52, Taxation
Section 52-16B

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

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

Sec. 1. Section 52-16B is amended as follows:

52-16B. Recordation Tax.

(a) *Rates*. The rates and the allocations of the recordation tax, levied under Md. Tax-Property Code §§12-101 to 12-118, as amended, are:

(1) for each $500 or fraction of $500 of consideration payable or of the principal amount of the debt secured for an instrument of writing, including the amount of any mortgage or deed of trust assumed by a grantee;

(A) $2.08, of which the net revenue must be reserved for and allocated to the County general fund; and

(B) $2.37, of which the net revenue must be reserved for and allocated to the cost of capital improvements to schools; and

(2) if the consideration payable or principal amount of debt secured exceeds $500,000**[,]**:

(A) an additional **[$2.30]** $1.55 for each $500 or fraction of $500 of the amount over $500,000 but less than $1,000,000[,];

(B) an additional $2.55 for each $500 or fraction of $500 of the amount over $1,000,000 but less than $2,000,000; and

(C) an additional $3.55 for each $500 or fraction of $500 of the amount over $2,000,000.

(3) The net revenue from the premiums payable under paragraph (2) [of which the net revenue] must be reserved for and allocated equally to:

(A) the cost of County government capital improvements; and

(B) rent assistance for low and moderate income households, which must not be used to supplant any otherwise available funds.

(b) *Exemption.* The first $100,000 of the consideration payable on the conveyance of any owner-occupied residential property is exempt from the recordation tax if the buyer of that property is an individual and intends to use the property as the buyer's principal residence by actually occupying the residence for at least 7 months of the 12-month period immediately after the property is conveyed.

Sec. 2. Effective Date.

This Act must apply to any transaction which occurs on or after September 1, 2017.

Approved:

Roger Berliner, President, County Council Date

Approved:

Isiah Leggett, County Executive Date

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council Date

LEGISLATIVE REQUEST REPORT

Bill 10-17
Recordation Tax – Rates –- Amendments

DESCRIPTION:	Bill 10-17 would modify the recordation tax rates levied under state law for transactions that are more than $500,000.
PROBLEM:	The premium rate for transactions that are more than $500,000 but less than $1,000,000 is high. The revenue loss from lowering this premium rate can be made up by increasing the premium rate for transactions that are more than $1,000,000.
GOALS AND OBJECTIVES:	The goal is to lower the premium rate for transactions that are less than $1,000,000.
COORDINATION:	
FISCAL IMPACT:	Office of Management and Budget, Finance
ECONOMIC IMPACT:	To be determined.
EVALUATION:	N/A
EXPERIENCE ELSEWHERE:	N/A
SOURCE OF INFORMATION:	Robert H. Drummer, Senior Legislative Attorney
APPLICATION WITHIN MUNICIPALITIES:	applicable
PENALTIES:	N/A

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GCAAR

TESTIMONY OF *THE GREATER CAPITAL AREA ASSOCIATION OF REALTORS®*
BEFORE THE MONTGOMERY COUNTY COUNCIL ON
Bill 10-17, "Recordation Tax—Rates and Amendments"
April 25, 2017

This testimony is on behalf of the Greater Capital Area Association of REALTORS®. GCAAR represents nearly 10,000 REALTORS® and real estate professionals. We are also the voice for *thousands* of buyers, sellers and homeowners. GCAAR appreciates the Council revisiting the issue of possible ways to lower recordation taxes, and we support lowering recordation taxes from $500k to under $1m within Bill 10-17.[1]

Overall, GCAAR maintains a commitment to the inherent value of homeownership and the consistent positive force it has in our communities. We believe homeownership is the best opportunity for people to securely plant their roots into Montgomery County, maintain stability and gain financial freedom. In the long term, homeowners across the economic spectrum will contribute immensely to Montgomery County's revenue streams via the taxes they pay and local businesses they support. This leads to greater resources for social services, transportation and schools– to name a few.

Unfortunately, the rising cost of housing in the County have made it unaffordable for most residents to purchase a home, especially in comparison to other local jurisdictions. GCAAR has been seriously concerned that instead making homeownership viable, all we have seen over the past few years are initiatives that move us further from this goal.

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[1] **GCAAR must emphasize, if the recordation tax rate structure has more than the current number of tiers, this may pose certain technical necessities that would need to be put in place by our industry to properly administer the rates. GCAAR would like to have a more detailed conversation about ensuring accurate implementation of a multi-tiered system with the Council and members of the real estate community on these technical issues such as a later implementation date to allow the industry to make any necessary changes.**

Specifically, I came before you last when this Council pushed through a nearly $200 million recordation tax increase on homeownership in less than a month's time. To make matters worse, the County's recordation taxes were already amongst the **highest in the country**. That surge in tax rates presented immediate challenges to residents across the County, particularly those first-time homebuyers who already found themselves having immense difficulty putting together their final closing costs.

Today, we find ourselves evaluating a Bill whose effect would be to nominally reduce and return the recordation tax rate to its' previous level prior to last year's increase for transactions more than $500,000 but less than $1,000,000. We approximate this group the measure would reduce their recordation tax costs by a couple hundred dollars.

As we often stress, while a few hundred dollars may not seem like much for lawmakers dealing with millions of tax dollars, this adds up very quickly for working families. In fact, the down payment is often the greatest impediment for homeownership. GCAAR is supportive of the part of Bill 10-17 that lowers recordation taxes from $500k to under $1m because we firmly believe this relatively small benefit could have a worthy impact. The folks who are now tapping into the last of their savings could find relief in saving even a small amount of additional dollars.

Further, we recommend lowering recordation taxes for future homeowners across the board. GCAAR is able and willing to sit down and work with you and any another other interested school stakeholders on finding funding mechanisms for our most critical priorities such as MCPS. If the County needs more revenue, we can all work together on broader solutions.

In conclusion, GCAAR respectfully asks you to lower the high cost of the Montgomery County's recordation taxes to make homeownership more attainable. Specifically, we believe returning the rate to what it was previously for recordation taxes at the $500k to under $1m price point is a positive start.

TO: **Councilmember Nancy Navarro, Chair,**
Committee on Government Operations and Fiscal Policy

Councilmember Sidney Katz, Member
Committee on Government Operations and Fiscal Policy

Councilmember Hans Riemer, Member
Committee on Government Operations and Fiscal Policy

FROM: **Nicola Y. Whiteman, Senior Vice President of Government Affairs**
Apartment and Office Building Association of Metropolitan Washington

DATE: **May 2, 2017**

RE: **Oppose Bill 10-17 Recordation Tax - Rates – Amendments**

The Apartment and Office Building Association of Metropolitan Washington (AOBA) is a non-profit trade association whose members include owners and managers of more than 112,000 apartment units and over 33 million square feet of office space in suburban Maryland, of which more than **57,000 apartment units and over 24 million square feet of office space are located in Montgomery County.**

AOBA strongly opposes Bill 10-17 Recordation Tax - Rates – Amendments, which proposes to increase the recordation tax premium component of the recordation tax. ***This measure will almost triple the recordation tax premium for commercial and multifamily properties*** as most are valued at more than $1 million. Property owners could thus face, for example, a staggering increase from $1.55 (2015 rate) to an additional $3.55 for each $500 or fraction of $500 of the amount over $2,000,000 in a just a few years.

The proposal will ***unfairly*** impose a second, significant increase to the recordation tax rate on AOBA members and other businesses that already bear a disproportionate share of the County's tax burden. The non-residential sector, for example, accounts for approximately ***67.1%*** of energy tax revenues. AOBA supports across the board tax enhancements that are universally applicable but cannot support a proposed structure that intentionally targets businesses.

The 2017 proposed tax hike follows the Council's 2016 decision to significantly raise both the school increment and recordation tax premium ***in addition*** to a record increase to the property tax rate. The 2016 increase was a shock to the real estate market, especially a weak commercial office market, and the 2017 proposal is pending as the market continues to struggle.

A second recordation tax increase will undermine the County's economic development goals and serve as a disincentive to needed investment in the County. Annual tax increases primarily borne by businesses sends the wrong signal that MONTGOMERY COUNTY IS CLOSED FOR BUSINESS.

TAX INCREASES UNDERMINE THE COUNTY'S AFFORDABLE HOUSING GOALS

The proposal will increase the costs associated with the purchase and sale of rental housing.

Rising interest rates and higher transaction costs: AOBA cautions the Council that the impact of this misguided proposal must also be considered along with other changing market conditions. Notably, the loan period for many multifamily properties averages 7 to 10 years, making refinancing a frequent, and if this proposal passes, more expensive occurrence. Higher recordation rates, in addition to projected increases to interest rates and rising operating expenses (i.e. increases to electric and water rates in addition to numerous surcharges, among others) should raise alarms about the ability to preserve and operate the County's existing rental housing stock.

Draft Rental Housing Study Policy Recommendations – Tax *Incentives*: At the same time a tax increase is before the Council, the same government is also considering real property tax abatement and exemptions as a tool for preserving and incentivizing affordable rental housing. (See Policy Recommendation, page 32.) Real property taxes can account for 22% of operating expenses so real property tax ***credits*** not increases can serve to preserve existing and incentivize the development of new rental housing.

Tax proposal paints bull's eye on real estate investment trusts ("REITs"): Many of the apartment communities in Montgomery County are owned by REITs and other investment ventures that rely on stable markets so that they can buy and sell properties quickly. REITs are already hesitant to invest in this County, given the high taxes and uncertainty regarding the future of the County's rental housing laws. An increase to recordation taxes could further dissuade REITs from investing in the County.

Government regulation and policies, such as the current proposal can limit access to housing by increasing the costs of producing new and preserving existing housing. See 14 Million Households "Priced Out" By Government Regulation, "NAHBV Economics estimates that 14 million American households are priced out of the market for a new home by government regulations that, on average, increase the new home price by 24.3%." This does not include, for example, costs such as the impact fee here in the County. **For multifamily properties, the percentage can be as much as 30%.**

TAX HIKE PUNISHES NOT HELPS ALREADY FRAGILE OFFICE MARKET

The struggling office market is already facing high vacancy rates that create the risk of ***declining property values and tax revenues***. Another proposed recordation tax increase will thus do little to address the challenges plaguing the office market sector and may in fact result in a net decrease in projected revenue. For example, the proposal could scare away potential purchasers already skittish about acquiring challenged properties. Adopting a second recordation tax increase will encourage many to instead look to neighboring jurisdictions where the tax burden is more reasonable, making development and reposition deals more attractive.

Montgomery County is not an island. Consider, for example, that Prince George's County is aggressively working to attract new residents and businesses through a variety of regulatory policies and incentives. The County is also an increasingly attractive market due to a number of factors including, for example, cheaper land and the availability of jobs for persons choosing to relocate to the County. Prince George's County is indeed "Primed for Business." See, for example, Five Key Takeaways from DC's Q1 Office Market, Banister, April 4, 2017. https://www.bisnow.com/washington-dc/news/office/five-takeaways-from-dcs-q1-office-market-72927. **"The relative lack of affordable metro-centric developments in other locations may be a catalyst for Prince George's County** ...," JLL director of U.S. office research Scott Homa said. "**Natural economic forces are driving government tenants to Prince George's** and will likely continue to do so over the long term, especially with this [Trump] administration focused on reining in the cost of government."

How will the fairly new Montgomery County Economic Development Corporation, whose mission includes business retention and expansion and removing barriers, respond to existing and prospective businesses concerned about seemingly annual tax increases in the County?[1] Will businesses continue to "Choose Montgomery?" Will they be able to afford to "Choose Montgomery?"

THE PERFECT STORM:
Higher Recordation Tax and Troubled Financial Markets

Understanding the full impact of the proposed increase requires the Council to first carefully consider how many commercial loans are structured as well as anticipated developments in the financial market. First as noted, many of these loans are for 7 to 10-year terms, thus making refinancing and exposure to a high recordation tax rate a frequent occurrence. Secondly, the proposed increase comes at a time when financial markets are predicting additional challenges ahead due to the storm brewing around commercial mortgage backed securities (CMBS) loans.[2]

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[1] https://thinkmoco.com/about-mcedc/who-we-are/ "Business retention and expansion efforts continue to be our priority. We are engaging with businesses across the county to add value and remove barriers as needed, knowing that the greatest job growth will be generated by those businesses already located in the region."

[2] Real estate's ticking bomb: Who gets hurt, CNBC, Olick, Diana, March 10 2016 ("Commercial mortgage backed securities (CMBS) are bonds sold to investors"); US Commercial Mortgage Backed Securities FAQs ("CMBS are bonds, which are backed by commercial real estate collateral."); Refinancing CMBS loans could prove difficult, Greater Fort Wayne Business Weekly, Lipp, Linda, March 30, 2017 ("While $6.7 billion in maturing CMBS debt is

The Council should be mindful that many of these CMBS loans, which were hugely popular in 2007 and many of which are 10-year balloon mortgages, were due in the fourth quarter of 2016 and 2017 for refinancing.[3] Given the strict defeasance and prepayment penalties, the only time to refinance is within the narrow 6-month period before maturation. A second, substantial increase to the County's recordation taxes could stand in the way of, or change the structure of, refinances for these commercial loans, and lead to catastrophic default. If unable to refinance these properties, building owners may be forced to sell properties and at prices far below the loan amount. ***This will result in lower recordation tax collections and revenues earmarked for the various capital projects and rental assistance programs.***

AOBA also cautions the Council that owners planning to refinance CBMS loans already face a challenged financial market. CMBS loans are essentially bonds and some industry analysts are questioning whether there will be sufficient investor demand for these loans.[4] Additionally, the ability to refinance assumes an owner has sufficient equity in a property. Those properties which have not been able to sufficiently increase rents and income and thus increase property values will find refinancing much more challenging.[5] We know, given the current state of the

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coming due this month, the figure is minuscule compared to what's coming. ***Over the next six months alone, about $61.1 billion in debt will come due***. But almost 6 percent of the maturing debt is past due on payment and 10.5 percent is in special servicing, according to data from market research firm Trepp. Difficulty in refinancing is the key culprit. ***Tighter regulations in the financial markets have made it more difficult and more expensive to refinance these loans***, said attorney Daniel Martin, a partner in McDermott Will & Emery in New York. Loans that were originated more than 10 years ago may have been at 75 percent to 80 percent, loan to value. It's much harder to borrow that much today.")

[3]Projected CMBS Issuance for 2017 Under $80 Billion, Bell, Diana, Jan 19, 2017 ("While 2016 brought choppiness to the CMBS market, rising interest rates and risk retention rules in 2017 may pose headwinds to the sector this year, sources say. ...Rising interest rates will be a concern for CMBS financiers watching their bottom line... Approximately 30 percent of $47 billion in Fitch-rated CMBS loans maturing this year could default. ... The firm says expects "significant delinquencies" in those loans, citing high leverage levels. ... About $112 billion in CMBS loans is scheduled to come due in 2017, according to research firm Trepp, with another $17.6 billion slated to mature in 2018. Office and retail loans account for the bulk of the balances, Trepp analysts say"); Banks to Fed: We've Tightened Commercial Real Estate Lending, Drake, Martin, May 6, 2016 ("CMBS is also facing a looming maturity wall - i.e. the wave of securitized loans that will need refinancing over the next six months."); Real estate's ticking bomb: Who gets hurt ("CMBS tends to have a 10-year life span, at which point the debt matures and real estate owners ***have*** to refinance the loans.")

[4]Real estate's ticking bomb: Who gets hurt ("CMBS tend to have a 10-year life span, at which point the debt matures and real estate owners have to refinance the loans. These maturities are expected to surpass $400 billion annually this year and in 2017, according to CBRE, a real estate services firm. That is $100 billion more than last year. *CBRE "conservatively" estimates that 18 percent of loans this year and 29 percent of loans next year could have problems refinancing, due to lack of investor demand for the bonds. This translates into about $43 billion in potentially troubled loans over these two years*." "We think some of these are going to be remonetized through asset sales, but some will certainly hit the foreclosure list ...""); Coming Due: How CMBS Market Will Handle $300B Maturing 2015-2017, January 7, 2015, Colomer, Nora ("The amount of commercial mortgage debt maturing is set to spike this year, when loans taken out during the height of the real estate bubble start coming due. *Between 2015 and 2017, more than $300 billion will need to be refinanced*.")

[5]Wall of CMBS Loan Maturities Shrinks, Remains Daunting, Commercial RealEstate Direct, January 19, 2016, ("Healthy real estate market fundamentals have enabled many owners to increase rents and income, which has contributed to an increase in property values and made refinancing easier than it otherwise would be. Borrowers have taken advantage of the strong market fundamentals, the availability of debt capital and relatively low interest rates to defease CMBS loans and refinance properties before their underlying loans mature.") While owners of challenged properties will still be able to refinance a property, they might face, for example, higher interest rates.

commercial office market in Montgomery County, that this is a reality for many property owners. In other words - the perfect storm.

BACKGROUND

Q1 2017 JLL REPORT – SUBURBAN, MD VACANCY RATES[6]				
"No office buildings were under construction in Montgomery County and only one office development was under construction in the Suburban Maryland region in the first quarter. No office buildings will be completed in 2017; the next office building isn't scheduled to deliver until the third quarter of 2018."[7]				
Submarket	**Total Vacancy**	**Class A**	**Class B**	**Class C**
Montgomery County	16.3%	17.3%	15.4%	16.3%
Bethesda CBD	9.5%	7.5%	11.4%	15.8%
Bethesda - Rock Spring	28.1%	26.4%	42.3%	N/A
Burtonsville	9.2%	N/A	9.2%	N/A
Chevy Chase	11.3%	3.9%	16.7%	N/A
Clarksburg	3.5%	N/A	3.5%	N/A
Gaithersburg	13.7%	13.7%	13.3%	20.6%
Germantown	15.8%	14.5%	15.8%	26.1%
Kensington	9.6%	N/A	2.5%	11.7%
North Rockville	9.9%	6.6%	15.3%	N/A
Shady Grove	18.6%	17.5%	21.9%	10.9%
Park Potomac/Tower Oaks	25.1%	27.4%	28.5%	3.4%
Rockville Pike Corridor	16.6%	21.9%	9.3%	20%
Downtown Silver Spring	14.6%	11.8%	20.7%	14.5%
North Silver Spring	16.5%	23.8%	14.9%	N/A
Wheaton	25.9%	N/A	N/A	25.9%

MONTGOMERY COUNTY COMPREHENSIVE ECONOMIC STRATEGY MARCH 2016

- "It is clear, however, that diversifying the County's business sector portfolio beyond those tied to the federal government while exploring new opportunities to better leverage federal institutions for private sector investments will strengthen the economy. For this to happen, a full commitment to private sector success is required. Businesses must not be seen as an afterthought; the County must wholeheartedly embrace the success of its private sector. <u>This must involve existing businesses, ensuring that they are satisfied with the County's commitment to them and to their expansion.")</u>

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[6]Q1 2017 JLL Report – Suburban, MD Vacancy Rates, http://www.us.jll.com/united-states/en-us/Research/US-Suburban%20Maryland-Office-Insight-Q1-2017-JLL.pdf?705bc663-0f4c-4170-8ce8-5a8d7b0cc94d
[7]Q1 2017 JLL Report – Suburban, MD Vacancy Rates, p. 1

- **STRATEGY 1.1.4. Tax and Regulatory Policies: Ensure County Tax and Regulatory Polices are Supportive of Business Attraction and Expansion, Especially as They Affect Targeted Markets.**

SOBERING NEWS
State of the Commercial Real Estate Market in Montgomery County
Excerpts: Montgomery County Planning Department's June 2015 Office Market Assessment

"**High vacancies also threaten the financial viability of individual buildings.** They pressure each landlord who has vacant space to lower rents or increase concession packages in order to lure tenants, undercutting the building's cashflow and thus its market value. **As more buildings are affected, these depressed values could have negative implications for the property tax base of the county, the City of Gaithersburg, and the City of Rockville."** Page 1.

'**Projected occupancy rates do not suggest any near-term relief in these problems.** Only significant increases in office-based employment, office building demolitions or conversions to other uses could make a dent in the county's nearly 11 million square-foot vacant office inventory." Page 2.