



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