# Memorandum

**To:** Devin McNally, Housing Manager
City of Takoma Park

**From:** Mary Burkholder, Principal
Lauren Beduhn, Associate

**Date:** October 11, 2024

**Re:** Takoma Park MD New Rental Housing Tax Credit Fiscal Analysis

## Introduction

BAE Urban Economics, Inc., an award-winning national urban economics and real estate consultancy established in 1986, was retained by the City of Takoma Park Maryland to conduct an independent fiscal analysis of a proposed new rental housing tax credit. The proposed tax credit, presented at a Takoma Park City Council work session in February 2024 and reworked in July 2024, is designed to encourage moderate and higher density development and redevelopment and incentivize the creation of new rental housing. The proposed new rental housing tax credit program would provide developers of new rental housing in Takoma Park a credit on the incremental difference between the current tax bill on a property on which 10 or more new multifamily units are proposed, and the reassessment amount with the new multifamily units.

The proposed rental housing tax credit would provide an incremental tax credit on rental housing projects with 10 net new residential units for 10 years, with a five-year scale up after ten years. In year 11, the City of Takoma Park would collect 10 percent of the incremental property tax resulting from construction of the new multifamily units in the housing development. Then, in years 12, 13, 14, and 15, the City would collect 20, 40, 60 and 80 percent respectively of the incremental property tax. In year 16 onward, the City would collect 100 percent of the full assessed real property tax resulting from the new multifamily rental units in the housing development.

According to the City of Takoma Park, the goal of the new rental housing tax credit is to encourage new residential construction in the City. The City believes the benefits of the tax credit include providing additional housing for local workers and families, as well as more revenue for City services. Further, the new rental housing tax credit implements a key objective of the City of Takoma Park's *FY2019-2030 Housing and Economic Development Strategic Plan* adopted in 2019. Objective 2.2.B of the plan is as follows:

Encourage moderate and higher density development and redevelopment through means such as supporting applications during the development review process and providing or encouraging financial assistance for projects.

### *Purpose*

The purpose of this analysis is to estimate the fiscal impact of the implementation of the new rental housing tax credit on the City of Takoma Park. After developing housing production scenarios and assumptions about new housing production in the scenarios, BAE prepared a model to compare projected tax revenues, identifying the changes that could be expected under the scenarios. The model covers a 30-year period, including 10 years of housing absorption under the baseline and alternative scenarios and 20 additional years to capture the impacts of the tax abatement and then reversion to full tax assessment after a given housing development has received 15 years of full or partial tax abatement on the incremental difference in the tax assessment.

### *Methodology*

This fiscal analysis was completed through information collection, conversations with city and county staff, research, data analysis, and fiscal modeling. First, the project team collected county permit and property tax data, as well as zoning information from Takoma Park's Department of Housing and Community Development (HCD). The project team also collected data from public and private data sources, including CoStar and the U.S. Census Bureau. The project team used these datasets to better understand housing market conditions and trends in Takoma Park and compared these conditions to the overall Montgomery County housing market. Additionally, the project team joined CoStar property data with geospatial property tax data to gain a wholistic perspective of the existing multifamily housing stock in Takoma Park.

Through conversations with Takoma Park and Montgomery County staff, as well as a review of available data, the project team evaluated local housing development capacity and opportunities for multifamily housing production. Next, the project team established two scenarios for future multifamily housing production in Takoma Park. The first scenario consists of a status quo projection, assuming Takoma Park does not implement any housing stimulus programs. The second scenario projects future housing production, assuming Takoma Park implements the new rental housing tax credit. Finally, with the results from the housing production scenarios, the project team generated a model of foregone tax revenues, incorporating the proposed tax credit structure into the model. This model estimates future land assessments and future property tax revenues from projected multifamily housing production with and without the proposed tax abatement over a 30-year period.

## Housing Market Conditions

### *Housing Demand*

Population growth drives housing demand, especially when it results in more households. The project team evaluated population and household trends in Takoma Park and Montgomery

County to evaluate present and future housing demand. Table 1 shows population and household characteristics for the City of Takoma Park and Montgomery County in 2010 and 2024. In 2024, Takoma Park had a population of 17,298, making up about 1.6 percent of Montgomery County's population of 1,072,300. Between 2010 and 2024, Takoma Park's population increased by 583 or 3.5 percent, growing at a rate slower than Montgomery County as a whole, which experienced a 9.3 percent increase in population during the same time period.

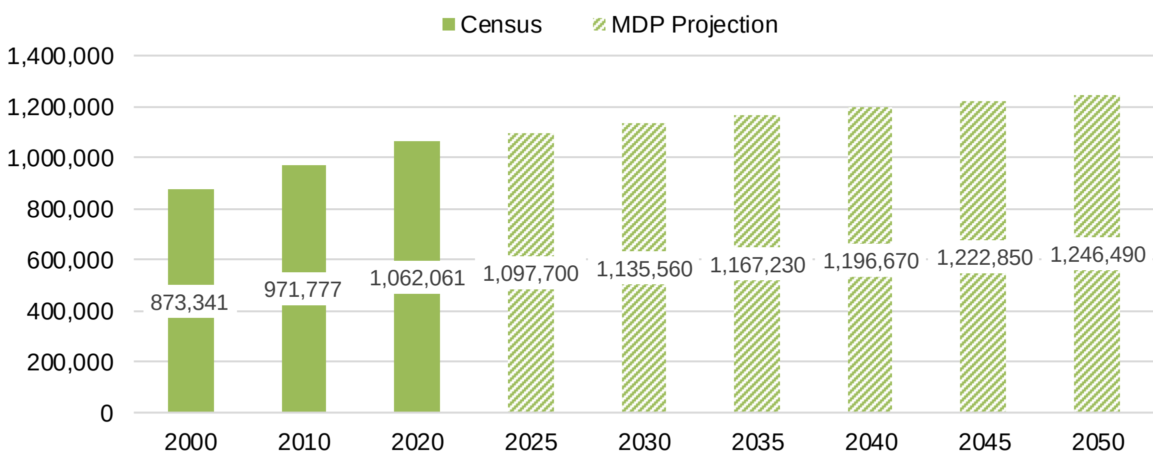
Population growth in Takoma Park and Montgomery County has contributed to both an increase in households and an increase in average household size. Between 2010 and 2024, the city gained 205 households and experienced an increase in average household size from 2.49 to 2.54. Population projections from the Maryland Department of Planning (MDP), as shown in Figure 1, indicate that growth trends for the area will continue. Montgomery County is expected to gain 148,790 people between 2025 and 2050, and housing demand will continue to grow during this timeframe.

**Table 1. Population and Households, Montgomery County and City of Takoma Park, 2010-2024**

| | | | Change, 2010-2024 | | |
|---|---|---|---|---|---|
| **Population** | **2010** | **2024** | **Number** | **Percent** | **Avg. Annual Rate** |
| City of Takoma Park | 16,715 | 17,298 | 583 | 3.5% | 0.2% |
| Montgomery County | 971,777 | 1,072,300 | 100,523 | 10.3% | |
| | | | **Change, 2010-2024** | | |
| **Households** | **2010** | **2024** | **Number** | **Percent** | |
| City of Takoma Park | 6,569 | 6,774 | 205 | 3.1% | |
| Montgomery County | 357,086 | 390,413 | 33,327 | 9.3% | |
| **Average Household Size** | **2010** | **2024** | | | |
| City of Takoma Park | 2.49 | 2.54 | | | |
| Montgomery County | 2.70 | 2.72 | | | |

Sources: U.S. Census, 2010; Esri Business Analyst, 2024; BAE, 2024.

**Figure 1. Population Projections, Montgomery County, 2000-2050**




Sources: Maryland Department of Planning, 2022; BAE, 2024.

Housing demand can vary by housing market segment. Table 2 displays the number of owner- and renter-occupied housing units in Takoma Park and Montgomery County between 2010 and 2024. According to ESRI Business Analyst, just over 44 percent of Takoma Park's housing units are currently occupied by renters, a higher share than in Montgomery County, where approximately 35 percent of units by renters. Both Takoma Park and Montgomery County have a higher share of renter-occupied housing units compared to the State of Maryland, which has approximately 30 percent of housing units occupied by renters in 2024. Between 2010 and 2024, Takoma Park experienced a decrease in renter-occupied housing units, losing 138 such units.

Compared to Montgomery County, Takoma Park has a higher share of multifamily housing units. Table 3 shows housing unit characteristics by type of residence in Takoma Park and Montgomery County over a 2018-2022 five-year sample period. Multifamily housing units make up 51 and 35 percent of housing stock in Takoma Park and Montgomery County, respectively. In Takoma Park, 28 percent of housing units are located in multifamily properties with 20 or more units.

**Table 2. Housing Units by Tenure, City of Takoma Park and Montgomery County, 2010-2024**

| City of Takoma Park | 2010 Number | 2010 Percent | 2024 Number | 2024 Percent | Change, 2010-2024 Number | Change, 2010-2024 Percent |
|---|---|---|---|---|---|---|
| Owner-Occupied | 3,445 | 52.5% | 3,784 | 55.9% | 339 | 9.8% |
| Renter-Occupied | 3,123 | 47.5% | 2,985 | 44.1% | (138) | -4.4% |
| **Total Occupied Housing Units** | **6,568** | **100.0%** | **6,769** | **100.0%** | **201** | **3.1%** |

| Montgomery County | 2010 Number | 2010 Percent | 2024 Number | 2024 Percent | Change, 2010-2017 Number | Change, 2010-2017 Percent |
|---|---|---|---|---|---|---|
| Owner-Occupied | 241,331 | 67.6% | 254,183 | 65.1% | 12,852 | 5.3% |
| Renter-Occupied | 115,779 | 32.4% | 136,111 | 34.9% | 20,332 | 17.6% |
| **Total Occupied Housing Units** | **357,110** | **100.0%** | **390,294** | **100.0%** | **33,185** | **9.3%** |

Sources: U.S. Census Bureau, 2010; Esri Business Analyst, 2024; BAE, 2024.

**Table 3. Housing Unit Characteristics, City of Takoma Park and Montgomery County, 2018-2022 Five-Year Sample Period**

| Type of Residence | City of Takoma Park Number | City of Takoma Park Percent | Montgomery County Number | Montgomery County Percent |
|---|---|---|---|---|
| Single Family Detached | 3,349 | 46.6% | 189,445 | 46.9% |
| Single Family Attached | 146 | 2.0% | 71,876 | 17.8% |
| Multifamily 2 Units | 146 | 2.0% | 2,197 | 0.5% |
| Multifamily 3 or 4 Units | 302 | 4.2% | 6,083 | 1.5% |
| Multifamily 5 to 9 Units | 645 | 9.0% | 18,994 | 4.7% |
| Multifamily 10 to 19 Units | 569 | 7.9% | 35,768 | 8.9% |
| Multifamily 20 or More Units | 2,016 | 28.0% | 78,537 | 19.5% |
| Mobile Home/Other (a) | 16 | 0.2% | 693 | 0.2% |
| **Total Housing Units** | **7,189** | **100.0%** | **403,593** | **100.0%** |
| | | | | |
| **Single Family Housing Units** | **3,495** | **48.6%** | **261,321** | **64.7%** |
| **Multifamily Housing Units** | **3,678** | **51.2%** | **141,579** | **35.1%** |

Note:
(a) Includes boats, RVs, vans, or any other non-traditional residences.

Sources: U.S. Census Bureau, American Community Survey 2018-2022 five-year sample period, BAE, 2024.

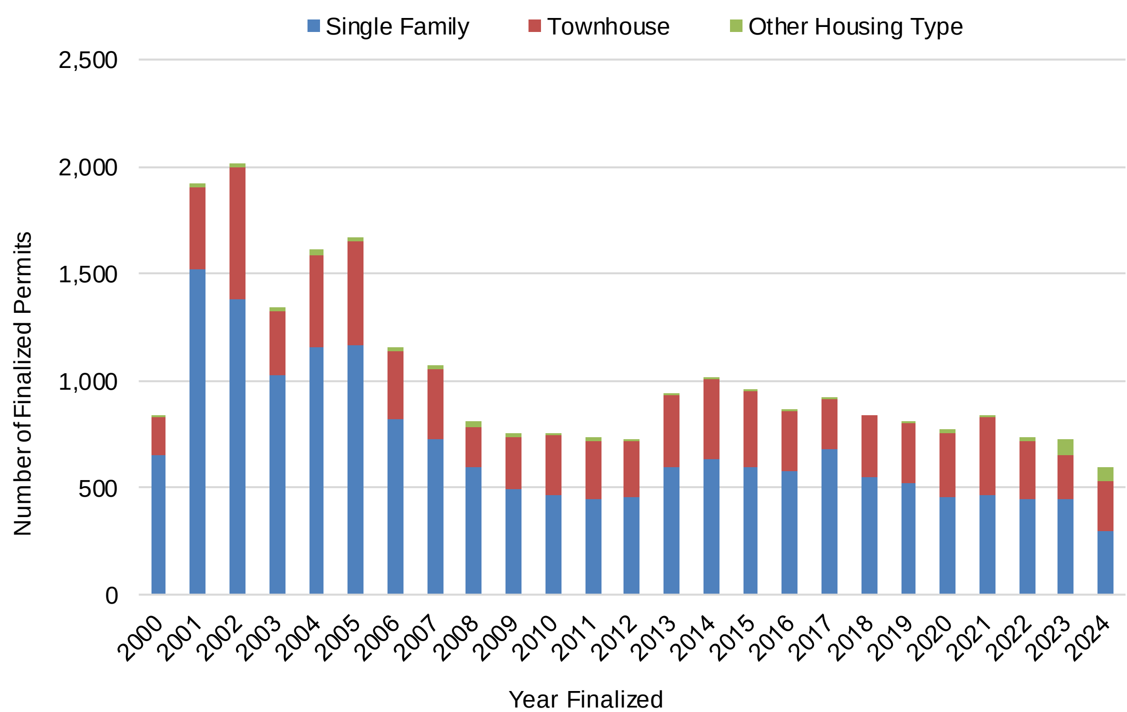
### *Housing Production Trends*

To evaluate housing production trends in Takoma Park the project team analyzed county-wide construction permit data and CoStar commercial real estate data. Montgomery County Department of Permitting Services (DPS) issues permits to developers and landowners for the modification or new construction of residential and commercial structures in the county. Modification or new construction of residential homes and buildings with less than four housing units requires a residential permit. The County classifies multifamily residential buildings with four or more housing units as commercial properties and thus, requires a commercial permit for modification of or new construction of these buildings.

Finalized residential permits for construction by permit use code are shown in Figure 2 and Figure 3 in Montgomery County and Takoma Park, respectively. Residential permits are considered finalized after DPS completes a final inspection of a given permitted activity. The permit use code refers to the type of building the permit applicant requested to construct. The number of finalized county-wide residential permits generally has trended downwards since 2001. A majority of these permits are for the construction of single-family homes and townhouses. Other housing types include duplexes, farm labor housing units, modular homes, and senior housing.

Between 2000 and 2024, Takoma Park's annual number of finalized residential permits has ranged from one to seven. All of Takoma Park's residential construction permits are for single-family homes except for three modular home permits, in 2004, 2005, and 2009.

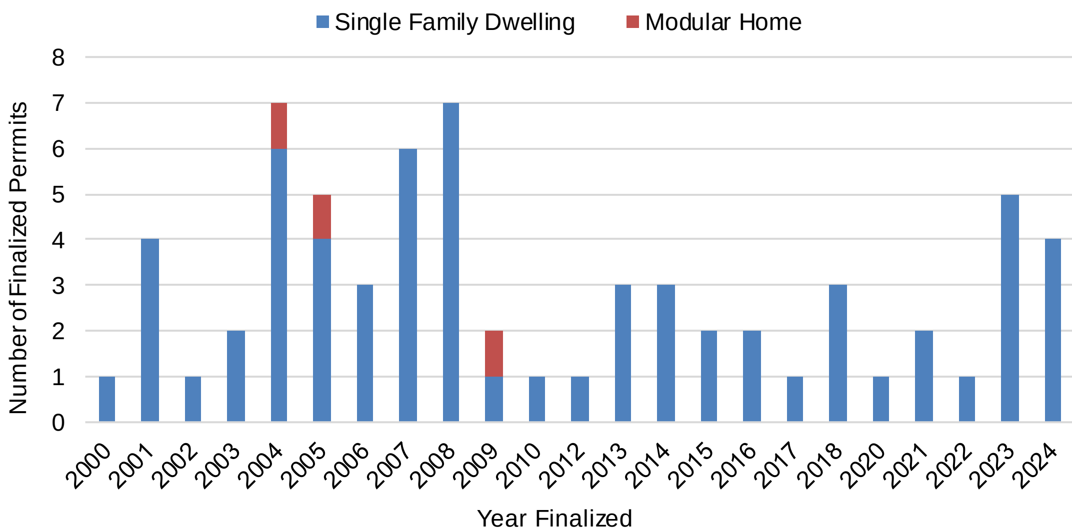
**Figure 2. Finalized Residential Permits for Construction, Montgomery County, 2000-2024[(a)]**




Notes:
(a) 2024 permit data is inclusive of permits issued between January 1st, 2024, to September 25th, 2024.

Sources: Montgomery County, BAE, 2024.

**Figure 3. Finalized Residential Permits for Construction, Takoma Park, 2000-2024[(a)]**

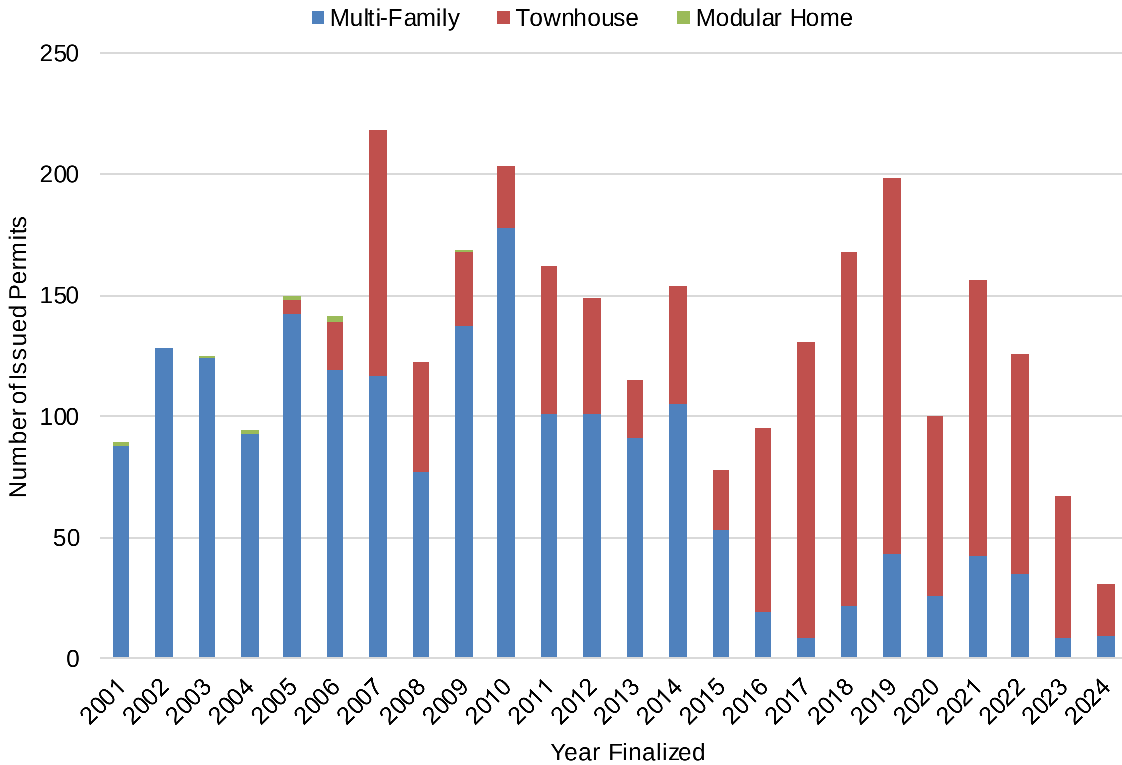



Notes:
(a) 2024 permit data is inclusive of permits issued between January 1st, 2024, to September 25th, 2024.

Sources: Montgomery County, BAE, 2024.

Figure 4. displays finalized commercial permits for construction in the county between 2000 and 2004. This figure only includes commercial permits with use codes related to housing. Since 2000, Montgomery County has generally experienced a decrease in multifamily construction permits and an increase in townhouse construction permits. Most recently, in 2023, the county issued 59 townhouse permits and nine multifamily permits. There have been zero finalized commercial permits for new construction within the permit data timeframe, 2000 to 2024, in Takoma Park.

**Figure 4. Finalized Commercial Permits for Construction, Montgomery County, 2000–2024[(a)]**




Notes:
(a) 2024 permit data is inclusive of permits issued between January 1st, 2024, to September 25th, 2024.

Sources: Montgomery County, BAE, 2024.

Overall, county permit data reflects no multifamily housing production in Takoma Park within the past two decades. To further evaluate housing market conditions in Takoma Park and Montgomery County, the project team used CoStar real estate data, including figures for multifamily inventory, rent, and vacancy rates. A market summary of multifamily residential properties, excluding condominiums, in Takoma Park and Montgomery County is shown in Table 4. Since the proposed new rental housing tax credit targets multifamily projects with over 10 units, the project team also investigated market conditions for this market segment, as shown in Table 5. Takoma Park has 2,817 multifamily housing units with 2,446 units located in properties with 10 or more units.

As reflected in county permit data, Takoma Park's multifamily housing inventory has not grown since 2000, the earliest available data record for Takoma Park in CoStar. Furthermore, Takoma Park's low vacancy rate is an indicator of strong demand for multifamily rental housing in the area. As of the third quarter of 2024, Takoma Park had a multifamily vacancy rate of 3.1 percent, nearly half of the vacancy rate of Montgomery County, 6.1 percent.

Takoma Park's vacancy rate for multifamily properties with 10 or more units, 2.5 percent, is lower than the average across all multifamily properties.

**Table 4. Multifamily Residential Market Summary, City of Takoma Park and Montgomery County, All Unit Sizes, Q3 2024**

| Multifamily Residential, All Unit Sizes | City of Takoma Park | Montgomery County |
|---|---|---|
| **Inventory (units), Q3 2024** | 2,817 | 108,468 |
| Inventory (% of County) | 2.6% | 100.0% |
| Occupied Units | 2,739 | 101,581 |
| Vacant Units | 78 | 6,646 |
| Vacancy Rate | 3.1% | 6.1% |
| **Avg. Asking Rents, Q4 2023 - Q3 2024** | | |
| Avg. Asking Rent, Q4 2023 | $1,416 | $2,093 |
| Avg. Asking Rent, Q3 2024 | $1,403 | $2,134 |
| % Change Q4 2023 - Q3 2024 | -0.9% | 2.0% |
| **New Deliveries (units), Q4 2023 - Q3 2024** | 0 | 2,565 |
| New Deliveries (% of County) | 0.0% | 100.0% |
| **Under Construction (units), Q3 2024** | 0 | 4,204 |
| Under Construction (% of County) | 0.0% | 100.0% |

Sources: CoStar, BAE, 2024.

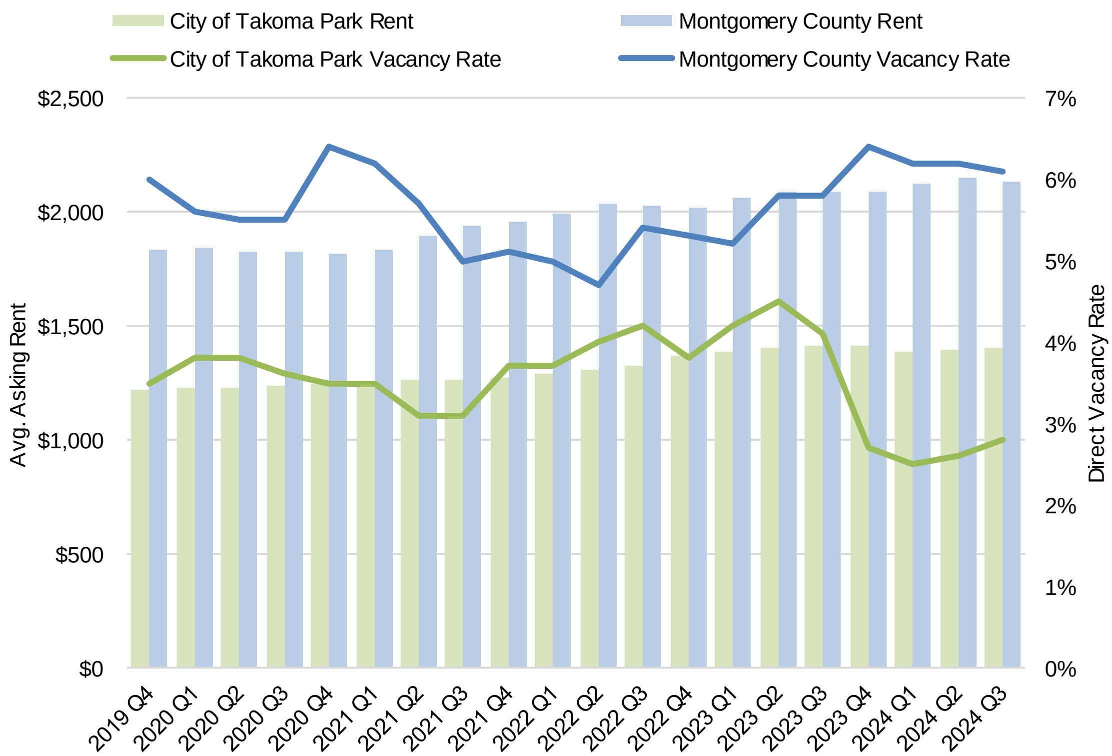
**Table 5. Multifamily Residential Market Summary, Properties with 10 or More Units, City of Takoma Park and Montgomery County, All Unit Sizes, Q3 2024**

| Multifamily Residential, 10 or More Units | City of Takoma Park | Montgomery County |
|---|---|---|
| **Inventory (units), Q3 2024** | 2,446 | 107,335 |
| Inventory (% of County) | 2.3% | 100.0% |
| Occupied Units | 2,385 | 100,518 |
| Vacant Units | 61 | 6,576 |
| Vacancy Rate | 2.5% | 6.1% |
| **Avg. Asking Rents, Q4 2023 - Q3 2024** | | |
| Avg. Asking Rent, Q4 2023 | $1,428 | $2,095 |
| Avg. Asking Rent, Q3 2024 | $1,415 | $2,135 |
| % Change Q4 2023 - Q3 2024 | -0.9% | 1.9% |
| **New Deliveries (units), Q4 2023 - Q3 2024** | 0 | 2,565 |
| New Deliveries (% of County) | 0.0% | 100.0% |
| **Under Construction (units), Q3 2024** | 0 | 4,204 |
| Under Construction (% of County) | 0.0% | 100.0% |

Sources: CoStar; BAE, 2024.

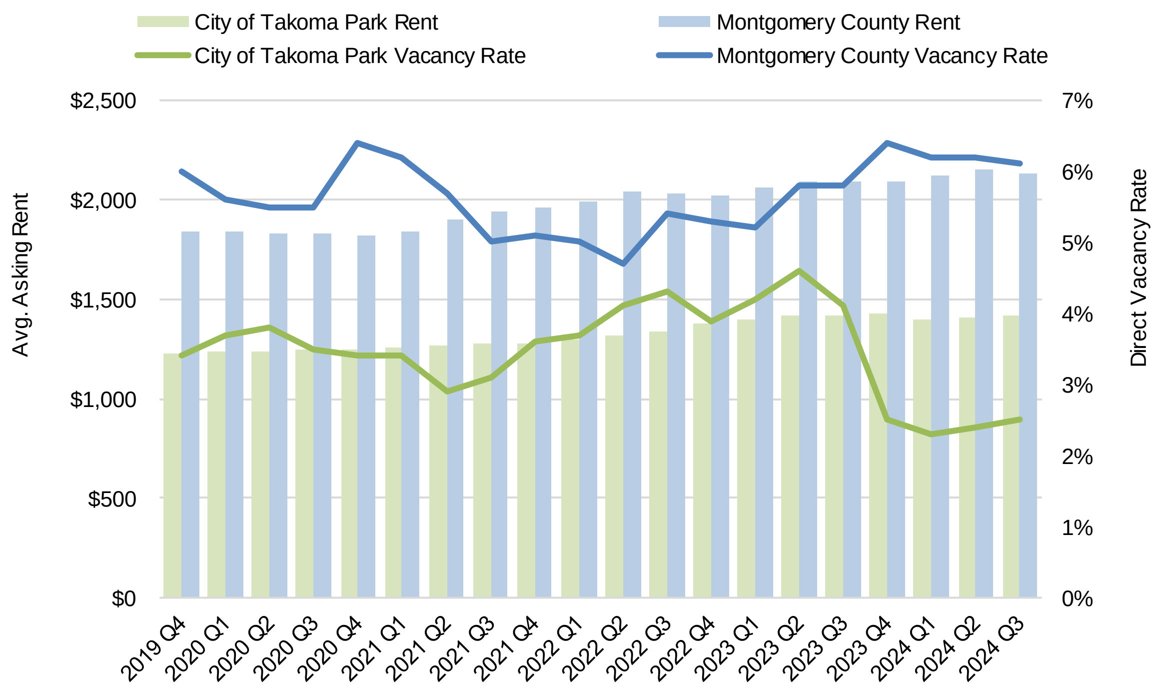
Figure 5 and Figure 6 show rent and vacancy trends for multifamily properties and multifamily properties with over 10 units, excluding condominiums, over the past five years in Takoma Park and Montgomery County. During this period, Takoma Park has consistently experienced lower average asking rent than Montgomery County. This is likely the result of Takoma Park's rent stabilization ordinance adopted in 1981, which sets allowances for rent increases on an annual basis. As of the third quarter of 2024, the average asking rent for multifamily properties was $1,415 in Takoma Park and $2,135 in Montgomery County. This year, Montgomery County's Council voted to approve a rent stabilization law which permits the Department of Housing and Community Affairs to set annual rent increase allowances effective July 23, 2024. Over the past five years, Takoma Park's multifamily vacancy rate has decreased from 3.5 percent in 2019 to 2.8 percent in the third quarter of 2024.

**Figure 5. Multifamily Rent and Vacancy Rate Trends, All Unit Sizes, 2019 Q4 - 2024 Q3**




Sources: CoStar, BAE, 2024.

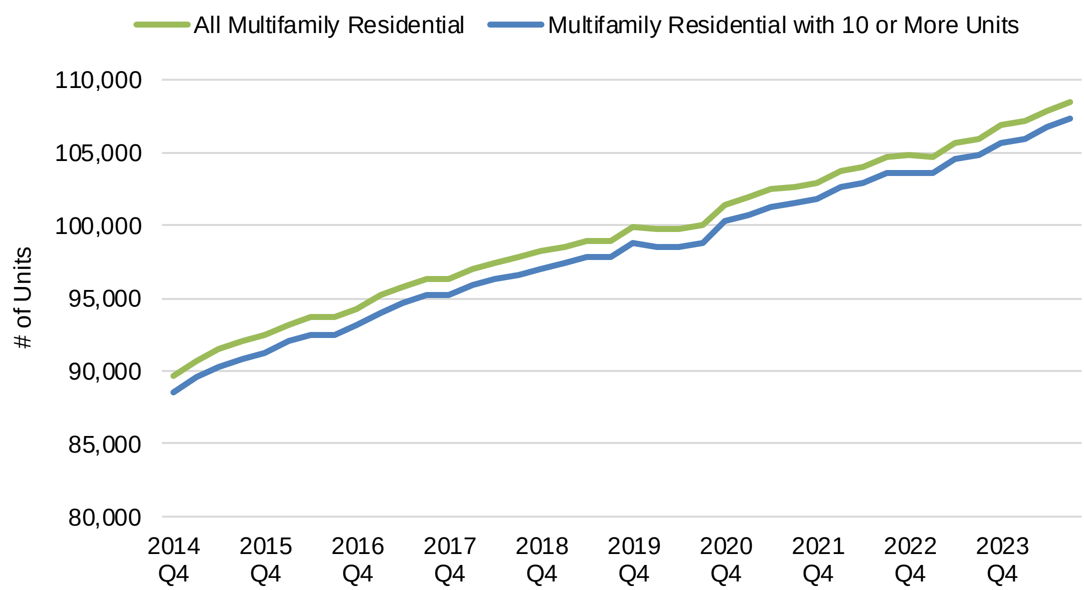
**Figure 6. Multifamily Rent and Vacancy Rate Trends, Properties with 10 or More Units, All Unit Sizes, 2019 Q4 - 2024 Q3**




Sources: CoStar; BAE, 2024.

Although Takoma Park has absorbed no new multifamily housing units in the past two decades, this trend has not been reflected throughout the county. Figure 7 and Figure 8 show multifamily housing inventory and annual net change in inventory, respectively, for Montgomery County. In the past decade, Montgomery County's multifamily inventory for properties with over 10 units has increased by a total of 20,673 units.

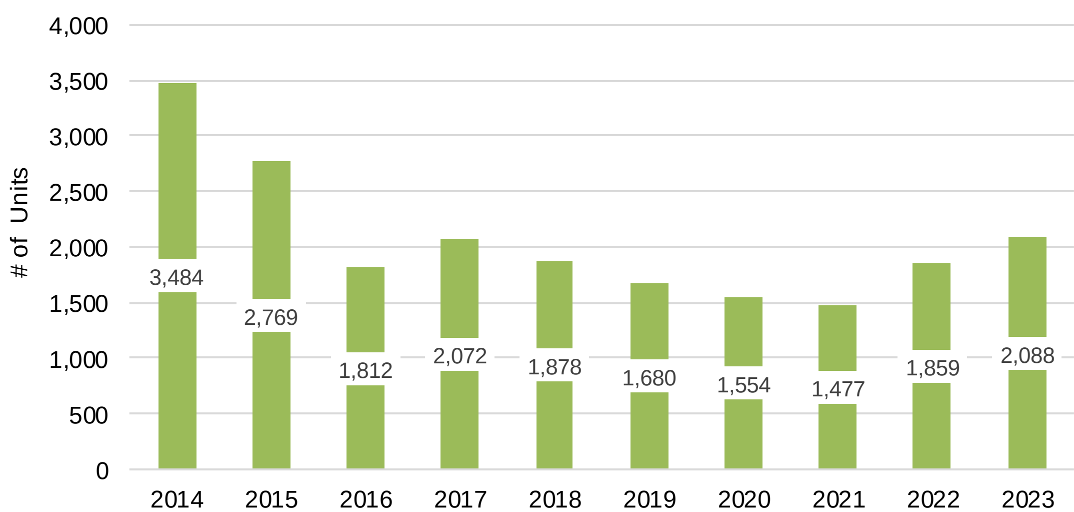
**Figure 7. Multifamily Residential Units[(a)] Inventory, Montgomery County, 2014 Q4 – 2024 Q3**




Notes:
(a) Does not include condominiums and housing cooperatives.

Sources: CoStar; BAE, 2024.

**Figure 8. Multifamily Residential Properties with 10 or More Units[(a)], Annual Net Change in Inventory, Montgomery County, 2014-2023**



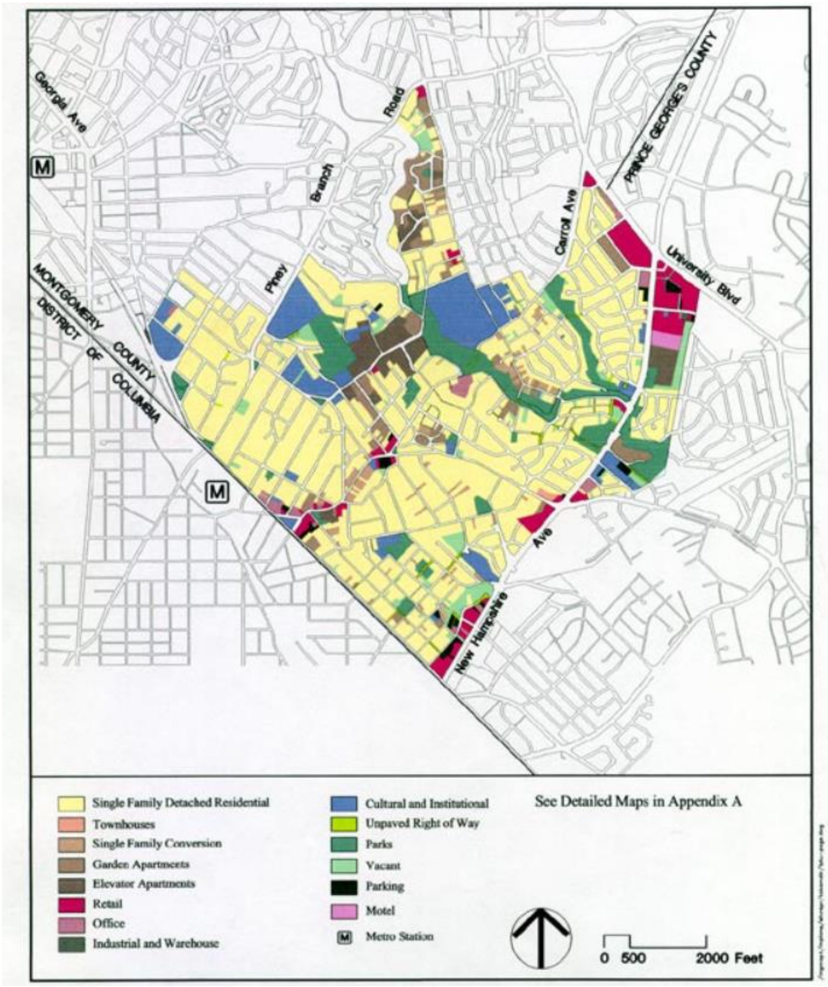

Notes:
(b) Does not include condominiums and housing cooperatives.

Sources: CoStar, BAE, 2024.

## Housing Development Capacity

Zoning regulations, land use patterns, land availability, and local housing programs drive local housing development capacity. Takoma Park, located on the border of the District of Columbia, has approximately 2.4 square miles of fully developed land. Figure 9 shows Takoma Park's existing land use, as depicted in the 2000 Takoma Park Master Plan. A majority of the City's land use consists of detached single-family residences. Takoma Park's existing multifamily properties, consisting of mid- and high-rise buildings, are concentrated along Maple and Lee Avenue. The Montgomery County Planning Department exercises zoning authority in Takoma Park. According to Montgomery County's zoning ordinance, multifamily properties with 10 or more units are currently permitted in the following zones: commercial/residential, residential-10, residential-20, and residential-30. These zones, consisting of approximately 154 acres and 10 percent of Takoma Park's land area, are shown in Figure 10.

**Figure 9. Existing Land Use(a), Takoma Park, 2000**

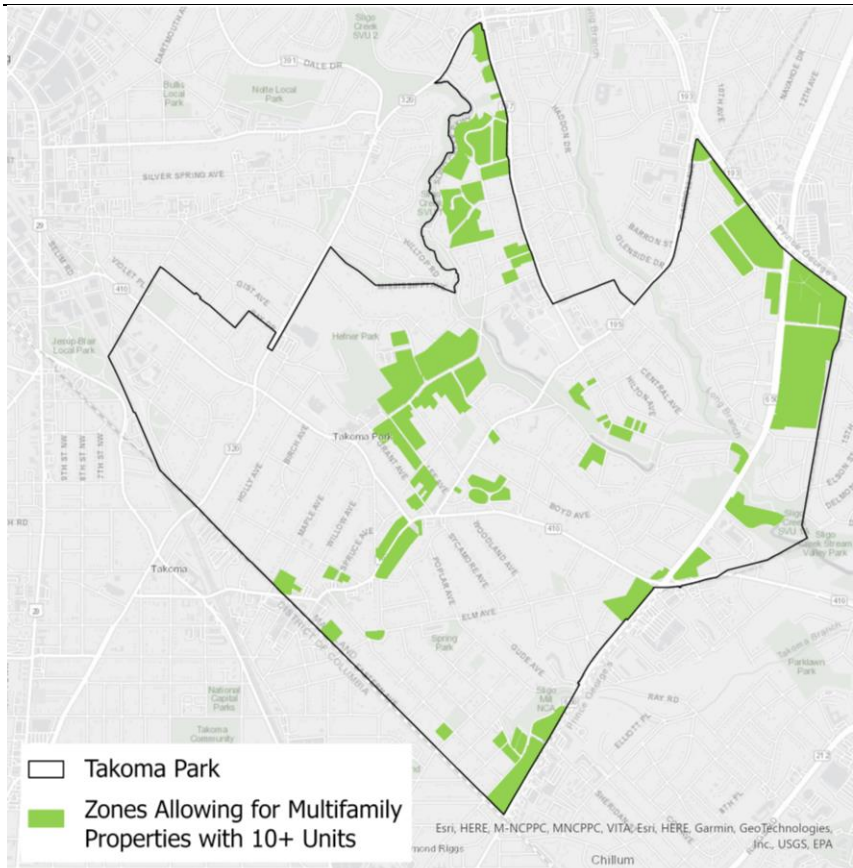



Notes:

(a) Existing land use does not include proposed changes in the Minor Master Plan Amendment.

Sources: Takoma Park Master Plan, 2000.

**Figure 10. Zoning Districts Allowing Multifamily Properties with 10 or More Units[(a)], Takoma Park, 2024**




Notes:

(a) The map does not include changes reflected in the Minor Master Plan Amendment.

Sources: City of Takoma Park, BAE, 2024.

In 2021, Montgomery County and Takoma Park began the planning process for the Takoma Park Minor Master Plan Amendment to address various land use, transportation, environment, and housing objectives for areas near and along Maple and Lee Avenues, the Erie Center, and the Washington Adventist Hospital and University campuses. The proposed plan amendment includes updates to zoning regulations that would allow for greater housing density in parts of the plan area. More specifically, the plan rezones the former Washington Adventist Hospital site from single-family residential to commercial/residential. In general, the CR zone allows for a mix of residential and nonresidential uses, as well as pedestrian areas proximate to public transit. Additionally, the commercial/residential zone allows for multifamily residential development, including properties with 10 or more units.

The Minor Master Plan Amendment also rezones sites throughout the Maple Avenue District to commercial/residential town (CRT) to allow for increased flexibility for future development and improve existing building conformance with zoning regulations. The proposed zoning increases floor area ratio and building height standards, which can accommodate greater housing density than currently exists in this area.

The multifamily housing market in Takoma Park is impacted by two primary housing policies that promote housing affordability for renters. Since 1981, Takoma Park's Rent Stabilization Law has set standards for the frequency and quantity of rent increases imposed by landlords. HCD sets annual allowances on rent increases, which are updated to reflect annual growth in the Consumer Price Index. Additionally, Montgomery County has an inclusionary zoning program, which requires that a certain percentage of housing units in residential development are made affordable. While Takoma Park and Montgomery County's policies promote affordable rents, they can make housing projects riskier and more difficult to finance, resulting in fewer housing developments than might occur otherwise. Overall, due to existing land use conditions and existing housing policies, Takoma Park's multifamily housing development experiences various constraints that contribute to the area's absence of multifamily housing production.

## Impacts to Property Owners

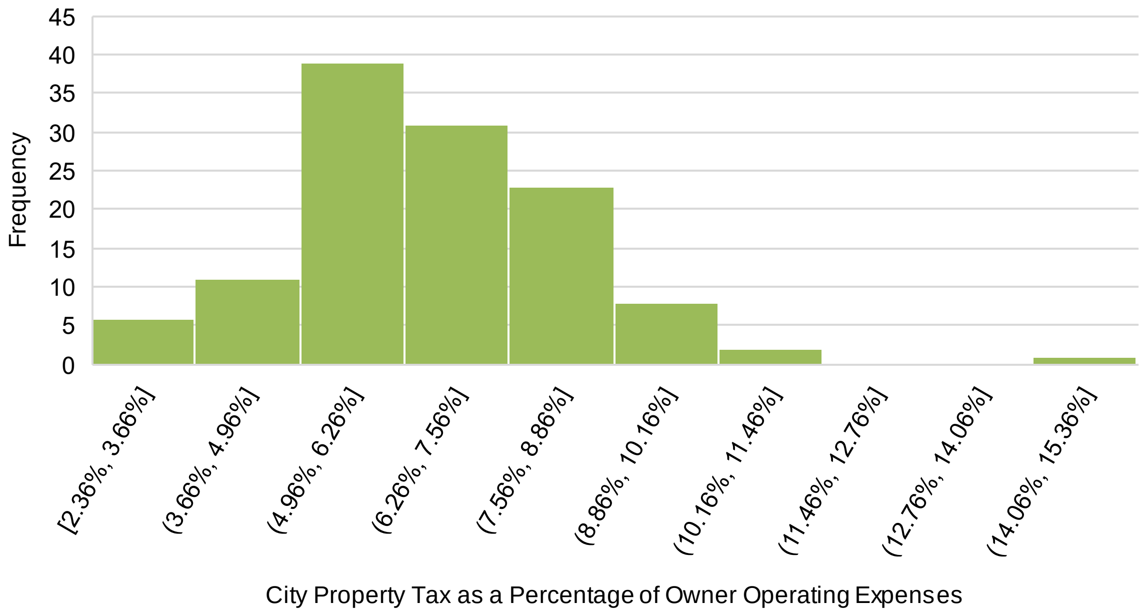
To provide perspective on the relative value of the new rental housing tax credit to affected property owners, the project team conducted an analysis to identify the impact of the proposed tax abatement relative to ongoing ownership costs. Affected property owners consist of multifamily rental property owners and developers, of properties with 10 or more units, which may benefit from the tax credit.

The project team used CoStar to estimate average owner operating costs for the local housing market. On average, in 2023, Takoma Park multifamily residential properties with 10 or more units, excluding condominiums, had an annual average owner operating cost of $9,483 per unit, slightly higher than the Washington D.C. metropolitan area owner average operating cost of $9,003 per unit.

Using Maryland Department of Assessments and Taxation's (SDAT's) property value assessment data and a city tax rate of 0.5522 percent, the project team calculated a city tax bill per unit for all multifamily rental properties in Takoma Park with a sample size of 121 properties. Figure 11 shows city property tax bills as a percentage of annual owner operating costs for multifamily rental properties in Takoma Park. City property tax bills range from 2.36 to 15.36 percent of owner operating costs, with plurality of property owners spending 4.96 to 6.26 percent of owner operating costs on city property tax bills.

On average in Takoma Park multifamily rental property owners have city property tax bills that make up 7.0 percent of total annual owner operating costs. Because the new rental housing tax credit would reduce city property taxes for 15 years, these results suggest that multifamily developers may be incentivized to produce new housing projects in pursuit of lower annual operating costs. However, if upfront housing development costs are large or new investment is deemed risky, the new rental housing tax credit may not present adequate cost savings to incentivize new housing development.

**Figure 11. City Property Tax as a Percentage of Annual Owner Operating Expenses for Multifamily Rental Properties, Takoma Park**




Sources: City of Takoma Park, CoStar, BAE, 2024.

## Multifamily Housing Growth Projections

Considering historical local housing production trends and the available residential development capacity of the city, the project team prepared housing growth projections for two different scenarios: a status quo residential growth scenario and alternative scenario that could occur with the implementation of the new rental housing tax credit.

### *Status Quo Residential Growth Projection Scenario*

The status quo residential growth scenario estimates future housing production that would be expected if current housing market conditions continue, and the city does not enact any proposed housing stimulus programs. In light of population and household growth in the city and low multifamily vacancy rates, Takoma Park has high demand for new multifamily rental housing. However, both county permit and CoStar real estate inventory data indicate there has been no multifamily rental development in the past two decades. Further, SDAT property tax data suggests that the newest multifamily residential building in Takoma Park was built in 1965, meaning that Takoma Park has not had any new multifamily housing projects in the past six decades. Takoma Park's housing development capacity is constrained by the limited availability of vacant land for multifamily residential developments. Additionally, while Takoma Park's rent stabilization policy and the County's inclusionary zoning program ensure housing affordability, these policies reduce profit margins for new multifamily housing projects and as a result, may disincentivize the development of new projects. Therefore, in the absence of any housing stimulus program, the project team estimates there will be no new multifamily housing units in Takoma Park.

### *Alternative Residential Growth Projection Scenario*

The implementation of a housing stimulus program, namely the new rental housing tax credit, will create an incentive for new multifamily housing, as housing developers will experience lower owner operating costs, stemming from reduced property taxes, for the first 15 years of a multifamily housing project's lifetime. Moreover, the proposed Takoma Park Minor Master Plan Amendment opens new opportunities for multifamily housing development that previously did not exist in the city. These policies, paired together, have the potential to stimulate new multifamily housing development in Takoma Park.

The project team consulted Takoma Park Housing and Community Development Department and Montgomery County Staff to locate properties that have the potential to host multifamily housing in the future. The former hospital site has the highest potential to attract future multifamily housing. The former hospital site, as shown in Figure 12, is located in Takoma Park's Flower Avenue District across the street from Washington Adventist University. In 2023, the Washington Adventist Hospital relocated elsewhere in the county, but the hospital campus buildings remain on the site. The zoning changes allow for new development on this site with a maximum floor area ratio of 1.25 and a maximum height of 120 feet. According to Montgomery County staff contacted for this study, if the property was redeveloped to accommodate only multifamily residential development, the property could yield a maximum of 1,285 housing units, assuming a gross unit size of 1,250 square feet.

**Figure 12.  Former Washinton Adventist Hospital Site, Takoma Park**


Source: City of Takoma Park, BAE, 2024.

As mentioned previously, the Minor Master Plan Amendment's zoning changes allow for higher housing density in the Maple Avenue District.  This area is currently home to a variety of rental and for-sale multifamily housing. The multifamily rental family housing units in this district consist of naturally occurring affordable units, deed restricted affordable units, and market rate units.  Considering the zoning housing density allowances, these properties hypothetically could accommodate more housing units than currently exist per property. However, given the size of most of these parcels, Montgomery County's inclusionary zoning requirements, and the fact that city property taxes on average make up only seven percent of owner operating costs, new multifamily housing developments in this area are unlikely to be financially feasible.  The project team anticipates that the new rental housing tax credit will not incentivize redevelopment and replacement of existing multifamily facilities with new multifamily housing projects, and no new housing units will be produced in this area.

## Foregone City Property Tax Revenue

The project team prepared a model of foregone property tax revenues to evaluate the fiscal impact of the new rental housing tax credit over a 30-year period. This model estimates city property tax revenue with and without the implementation of the new rental housing tax credit from a given housing production scenario. For this analysis, the project team selected the alternative housing production scenario. This scenario assumes that the former hospital site will be converted to multifamily housing. The project team assumed that multifamily housing on this site will be built to maximize housing unit density given the building and lot standards under the Takoma Park Minor Master Plan Amendment, adding a total of 1,285 new multifamily units to Takoma Park's housing inventory. Although it is likely that the former hospital site may accommodate a mixture of uses in the future as opposed to a 100 percent multifamily residential redevelopment, using this housing production assumption in the model estimates the maximum impact the new rental housing tax credit will have on city property tax revenue. The project team assumed that the 1,285 housing units will be absorbed over five years, with 257 units absorbed per year, provided that that multifamily build out will likely occur in phases. Housing absorption into Takoma Park's market begins in year two of the model, allowing for demolition of the hospital facility and construction of the first housing phase in year one.

To evaluate property tax revenue from the selected housing production scenario, the project team first estimated the improved assessed property value resulting from the absorption of 1,285 housing units. Improved assessed value is defined as the incremental difference between the assessed value before the project and the new assessment after the project was completed. The Maryland Department of Assessments and Taxation (SDAT) assesses the fair market value of properties once every three years. SDAT classifies multifamily rental properties as commercial establishments and thus assesses property value as a function of income producing potential, among other items. Therefore, the project team used growth in rent income to project improved assessed property value over 30 years.

Growth in rental income in Takoma Park is constrained by the City's rent stabilization allowance. The rent stabilization allowance is determined every year. Rent increases are limited to the annual percentage change in the Consumer Price Index (CPI) published by the Bureau of Labor Statistics (BLS). To estimate how the assessed value of multifamily rental properties will appreciate over the next 30 years under rent stabilization, the project team calculated the average annual change of the CPI for the Washington-Arlington-Alexandria Metropolitan and Nonmetropolitan Area over the previous 20 years (2005 to 2024) and found an annual average growth rate of 2.47 percent. Rent stabilization in Takoma Park goes into effect in the sixth year of a multifamily property's lifetime. Therefore, the annual average growth rate calculated from the CPI was applied to housing units 6 years after initial absorption into the market.

For the first five years, after initial housing absorption, when rent stabilization is not in effect, the project team assumed that the assessed property values appreciate at a market growth rate. An annual average market growth rate was developed by analyzing historical rent appreciation in similar housing markets. Since there have been no new multifamily housing developments in Takoma Park since the 1960s, the project team had to use other Montgomery County cities that had newer comparable multifamily developments in the mix to identify a more likely rent growth rate for the scenario. The project team found that market rate multifamily housing unit average asking rent, for properties with 10 or more units, grew at an average rate of 2.95 percent and 3.04 percent for the City of Gaithersburg and the City of Rockville, respectively, between 2005 and 2024. Therefore, a growth rate of 3.0 percent was used to estimate assessed property value in the absence of rent stabilization.

The annual average growth rates were applied to an average assessed multifamily unit valuation for every year in the model. The average assessed multifamily unit valuation was calculated from 2022 property assessments for multifamily properties in Montgomery County with 10 or more units, with all market rate units or a combination of market rate and affordable units, built in 2015 or later, and excluding for-sale condominiums. This resulted in an average valuation of approximately $281,414 per unit. The absorption of 257 units in year two, accounting for annual market appreciation, results in a total improved assessed value of $83,842,640. This calculation was repeated to account for the absorption all 1,285 housing units and improved assessed value appreciation over 30 years.

After estimating the total improved assessed value for the former hospital site, the project team determined city property tax revenue without the implementation of the new rental housing tax credit. Property tax collections in Maryland are divided between the State, the county, and the incorporated municipality in which the property is located. As of 2024, the City of Takoma Park collects 0.5522 percent of a property's assessed value. The project team assumed this tax rate is held constant over a 30-year period. In year two, the city property tax revenue from the absorption of 257 housing units is estimated to be $462,979. The property tax revenue from the former hospital site without the addition of housing units is $156,955. Therefore, in year two, the net increase in property tax revenue resulting from the absorption of 257 units is $305,984.

Next, the project team estimated city property tax revenue with the implementation of the new rental housing tax credit. The new rental housing tax credit offers a 100 percent credit on a property's improved assessed value for the first 10 years of a new multifamily project with over 10 units. In year 11 of a new housing project's lifetime, the credit is reduced to 90 percent. In years 12 to 16, the credit is reduced from 80 to 0 percent in annual increments of 20. Applying this tax credit structure to the absorption of 1,285 housing units, the city's tax revenue from the housing units will be zero for years one to 11, as reflected in the model. During this time period, the City will continue to collect property taxes on initial assessed value of the former hospital property, resulting in an annual city property tax revenue of $156,995.

Table 6 displays property tax revenue and tax abatement amount over the next 30 years, assuming the implementation of the new rental housing tax credit. In present day dollars, the project team estimates that the tax abatement will result in $24,194,382 in foregone property tax revenue over the next 30 years. This equates to approximately $18,828 in forgone property tax revenue per unit. The project team estimates the additional tax revenue collected would be $27,459,685 in present day dollars over the next 30 years, approximately $21,369 per unit.

**Table 6. Property Tax Revenue and Tax Abatement Amount with the Implementation of the New Rental Housing Tax Credit, 2025-2040**

| Years (1-15) | Property Tax Revenue ($) | Annual Tax Abatement Amount ($) | Years (16-0) | Property Tax Revenue ($) | Annual Tax Abatement Amount ($) |
|---|---|---|---|---|---|
| 1 | 156,995 | - | 16 | 2,036,628 | 1,361,114 |
| 2 | 156,995 | 305,984 | 17 | 2,149,471 | 1,328,318 |
| 3 | 156,995 | 796,742 | 18 | 2,334,798 | 1,225,014 |
| 4 | 156,995 | 1,316,529 | 19 | 2,667,539 | 976,323 |
| 5 | 156,995 | 1,866,644 | 20 | 3,158,309 | 571,679 |
| 6 | 156,995 | 2,448,440 | 21 | 3,818,240 | - |
| 7 | 156,995 | 2,510,244 | 22 | 3,908,673 | - |
| 8 | 156,995 | 2,567,896 | 23 | 4,001,340 | - |
| 9 | 156,995 | 2,620,969 | 24 | 4,096,295 | - |
| 10 | 156,995 | 2,669,012 | 25 | 4,193,596 | - |
| 11 | 156,995 | 2,711,549 | 26 | 4,293,300 | - |
| 12 | 686,086 | 2,410,305 | 27 | 4,395,466 | - |
| 13 | 1,181,075 | 1,987,920 | 28 | 4,500,157 | - |
| 14 | 1,576,737 | 1,666,654 | 29 | 4,607,433 | - |
| 15 | 1,864,815 | 1,454,810 | 30 | 4,717,359 | - |

Source: BAE, 2024.

The project team has provided the foregone city property tax revenue model to Takoma Park's Housing and Community Development Department. By adjusting the model inputs, the City can estimate foregone property tax revenue for different housing production scenarios.

## Conclusion

The project team has identified the following key findings resulting from this fiscal analysis:

- Takoma Park has high demand for multifamily rental housing, as evidenced by population growth and low vacancy rates. This demand has not been met with new multifamily rental housing production and no new units have been produced in over two decades.

- Takoma Park's multifamily rental housing development capacity is constrained by existing land use patterns and site availability, as well as local rent stabilization and inclusionary zoning policies.
- If current housing market conditions continue without housing policy intervention, the project team anticipates that no new multifamily rental housing units will be produced.
- The largest potential increase to Takoma Park's multifamily rental housing inventory consists of the redevelopment of the former Washington Adventist Hospital site.
- Assuming the absorption of 1,285 multifamily rental housing units, the project team estimates that the new rental housing tax credit will result in $24,194,382 (present day dollars) in foregone property tax revenue over the next 30 years, approximately $18,828 per unit.
- The project team estimates that the additional 1,285 multifamily rental housing units would generate $27,459,685 (present day dollars) in additional revenue over the next 30 years, approximately $21,369 per unit.