APARTMENT AND OFFICE BUILDING ASSOCIATION OF METROPOLITAN WASHINGTON

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Assessing the Effect of Montgomery County's Rent Stabilization Law on Multifamily Development

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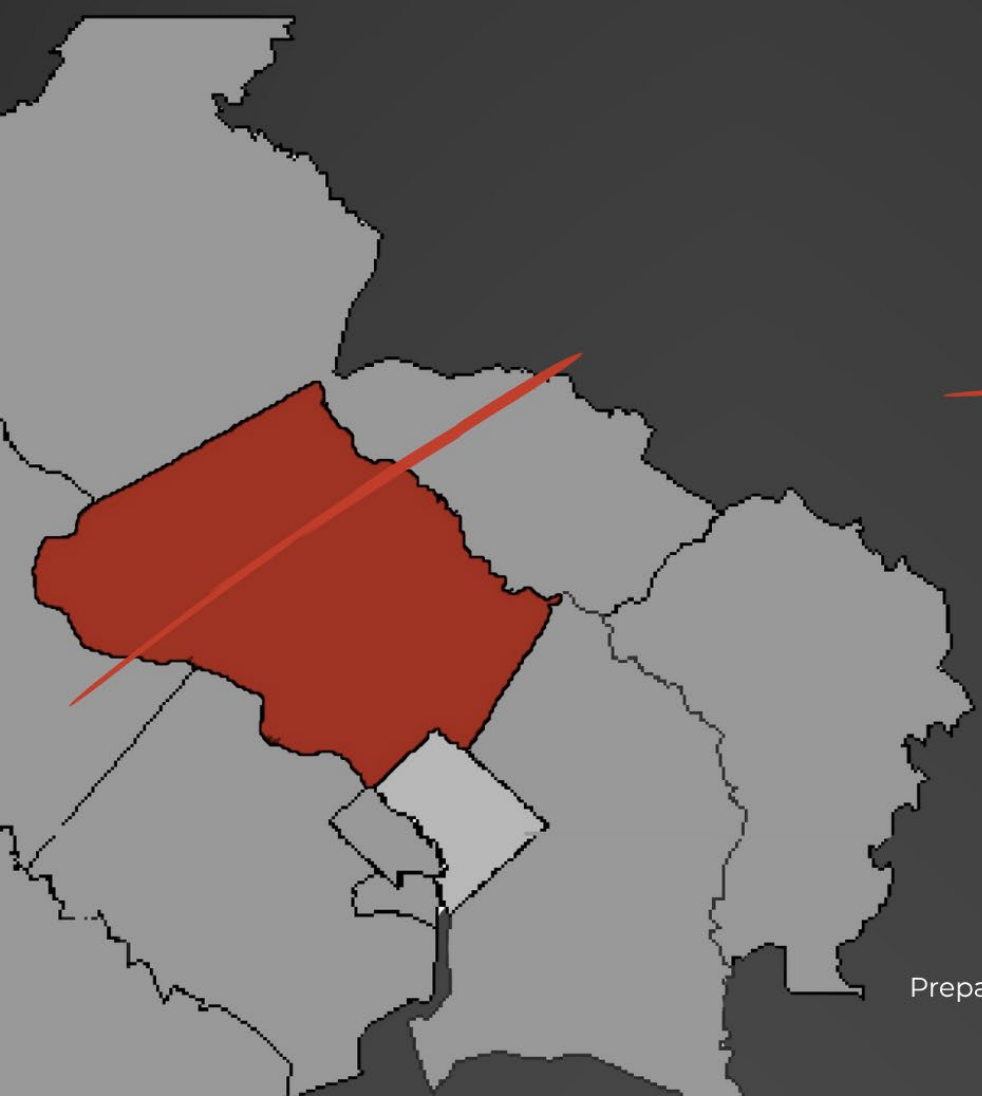
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Prepared by the Apartment and Office Building Association of Metropolitan Washington

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EXECUTIVE SUMMARY

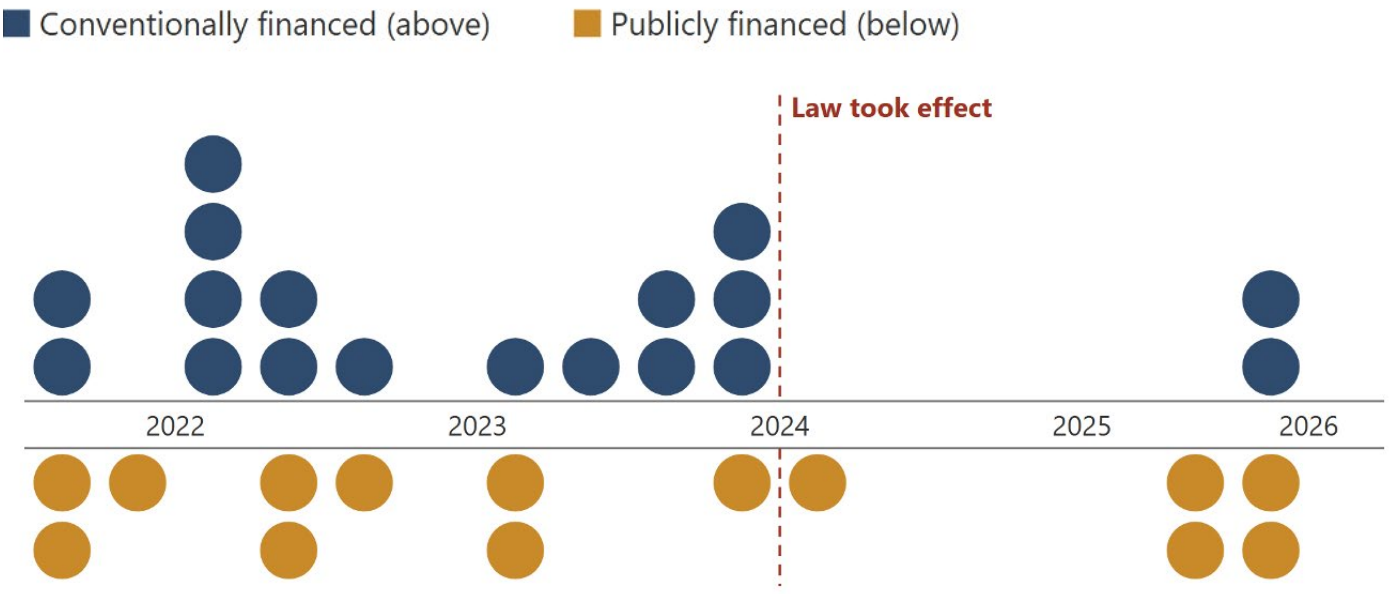
Three years ago, Montgomery County adopted rent stabilization, which County leaders argued would protect tenants without discouraging new housing construction. The results suggest otherwise.

AOBA's Redlined by Regulation paints a troubling picture of multifamily development activity since Rent Stabilization took effect in Montgomery County and what it means for the County's housing supply and fiscal future. Below are the key takeaways:

1. Rent stabilization coincided with a collapse in privately financed apartment development. In the two years before the Rent Stabilization Law (RSL) was became effective, developers secured permits for 13 privately financed general occupancy multifamily projects in Montgomery County. In the two years since, only one such project has moved forward. Investors consider the County a bad bet for rental housing investment, and they point to the rent stabilization law as the primary driver of that sentiment. Publicly financed and subsidized multifamily developments, which have access to taxpayer-funded public financing programs, have continued to advance. The sharp decline is occurring among privately financed apartment projects.

Figure 1

Multifamily Rental Projects by Financing, Q1 2022-Q2 2026

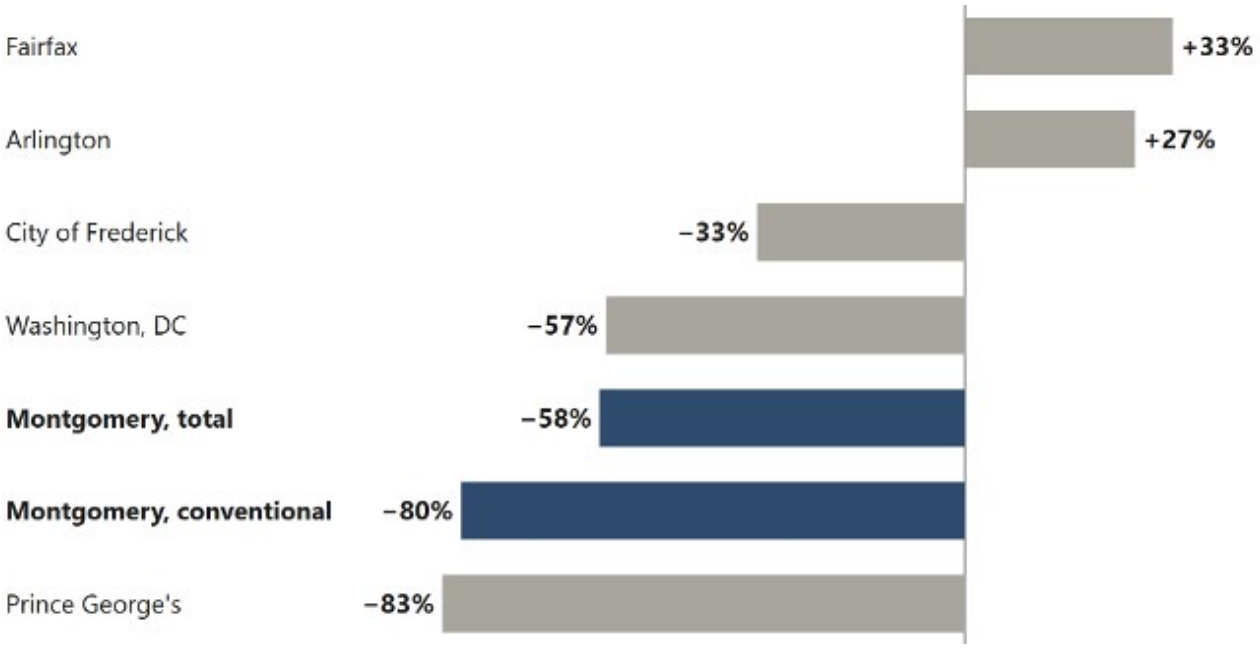


Source: Montgomery County DPS, AOBA analysis. Distinct rental projects, counted at first permit. The two in Q1 2026: Democracy Center and 6736 Rock Spring (senior).

2. Montgomery County's experience differs from neighboring jurisdictions.
While multifamily development activity has weakened significantly in Montgomery County, nearby jurisdictions including Fairfax County and Arlington County continue to attract apartment investment and development activity.

Figure 2

Change in Average Multifamily Permits Per Quarter, Before vs. After July 2024



Source: U.S. Census BPS; DPS for Montgomery (gross units). Buildings of 3+ units. Average permits a quarter, Q3 2022–Q2 2024 vs Q3 2024–Q2 2026.

3. The fiscal consequences are substantial.
Reduced multifamily construction translates into lower impact tax collections, reduced recordation tax revenue, and slower growth in the property tax base. These losses affect the County's ability to fund public services and infrastructure.

4. Montgomery County Public Schools (MCPS) could lose tens of millions in future funding.
AOBA estimates that, if current development trends continue, the County will forgo $135 million in tax revenue, $54 million to $57 million of which would have been earmarked for or appropriated to MCPS.

5. The evidence raises questions about whether the rent stabilization law should be amended.
While the rent stabilization law was intended to improve housing affordability without discouraging construction, permitting data show the County is failing to attract investor interest in much-needed apartment projects. Mounting evidence suggests the law should be amended to reverse this dynamic.

Bottom Line
Whether one supports or opposes rent stabilization, the development trends that have emerged since its enactment deserve serious attention. The report that follows examines the data and asks a fundamental question: **Can Montgomery County afford to let this trend continue?**

INTRODUCTION

When Montgomery County passed its Rent Stabilization Law in 2023 (RSL), County Executive Marc Elrich called it a "compromise bill" that balances the interests of renters and housing providers. His administration testified to the County Council that a rolling new-construction exemption "provides adequate time for lenders and investors to receive their return and set the rents to encourage continued investment in rental housing." The Council set that exemption at 23 years, and County leaders have argued the provision should assuage investor concerns about deploying capital into multifamily development projects.

Three years on, enough quantitative data from County sources is now available to assess the law's effect on development so far, whether these trends will hold, and its impact on County finances and programs. A proper evaluation matters because real estate activity is both a major revenue driver for the County and critical to addressing housing affordability.

The data paints a clear picture: the rent stabilization law is significantly harming Montgomery County. The law has proven to be flawed, leading capital investors to redline the County, and this report will show how those flaws have created serious issues County leaders will have to confront moving forward.



SETTING THE STAGE

Back in February, County Executive Marc Elrich held a press conference to defend the County's Rent Stabilization Law, flanked by Council President Natali Fani-González and Scott Bruton, the County's Director of Housing and Community Affairs (DHCA). While the stated purpose was to present the results of DHCA's first progress report on the RSL, the remarks at times focused intensely on defending the law against claims it has negatively impacted housing development in the County.

The reason for that was twofold. First, real estate industry experts have been sounding the alarm for years that the law is driving away investment in multifamily development. Second, data from the County's Planning Department on building construction permits published since the law took effect in Q2 of 2024 supports these claims, showing a massive reduction in permits issued.

Let's start with the industry's criticism. Developers rely on a mix of investor equity and loans from financial institutions to fund apartment-community construction. They contend that equity investors will not invest in multifamily projects in the County because of the RSL, especially when new construction becomes rent-controlled after 23 years. Josh Wooldridge, NRP Group Vice President of Development, explained why this is the case back in September of 2024 on the I Hate Politics Podcast (4:08-6:25):

> *"When I finance a project, I go to the capital markets to borrow money for those projects, to find investors for those projects. And the thing that I've been most frustrated with is that those investors have a choice. And investing in Montgomery County has not been at the top of their list.…The way our projects typically work is I build the project and I'll own the project for, say, five years. I am most often selling our project to an institutional investor or say a state pension fund. They're going to own it for 10 years. They would expect at the end of 10 years to sell that to another institutional investor. It could be another pension fund.*
>
> *We're talking about what we call Class A multi-family apartments, and they're considered Class A for about 20 years. That means that until about 20 years, they don't need major renovations. They're institutional. They're high quality. The problem is that third owner is not going to buy the property because they're going to be facing the exemption running out at 23 years.* ***Then they're not going to buy it from the second guy. My investors aren't going to believe that we could ever exit the project and sell to one of those pension funds. That's the challenge with the rolling exemption."***

While other factors are at play, including economic conditions and other County-related policies, industry practitioners argue that the RSL introduces a whole new level of risk. Equity has choices about where to invest capital in multifamily projects, and it is choosing to invest in other jurisdictions in the region or elsewhere in the country, effectively redlining Montgomery County.

Now let's look at the second driver of the press conference: Planning Department data showing a collapse in multifamily development since the RSL took effect in July 2024.

The first batch of data comes from the Planning Department's October 2025 Pipeline Analysis, which aimed to better understand the County's development landscape by assessing why many approved housing projects remain unbuilt. That analysis, which compared the number of building permits issued by the County with those of its regional neighbors, showed the County was outperformed by orders of magnitude.

Figure 3

Multifamily Building Permits* (January - August 2025)

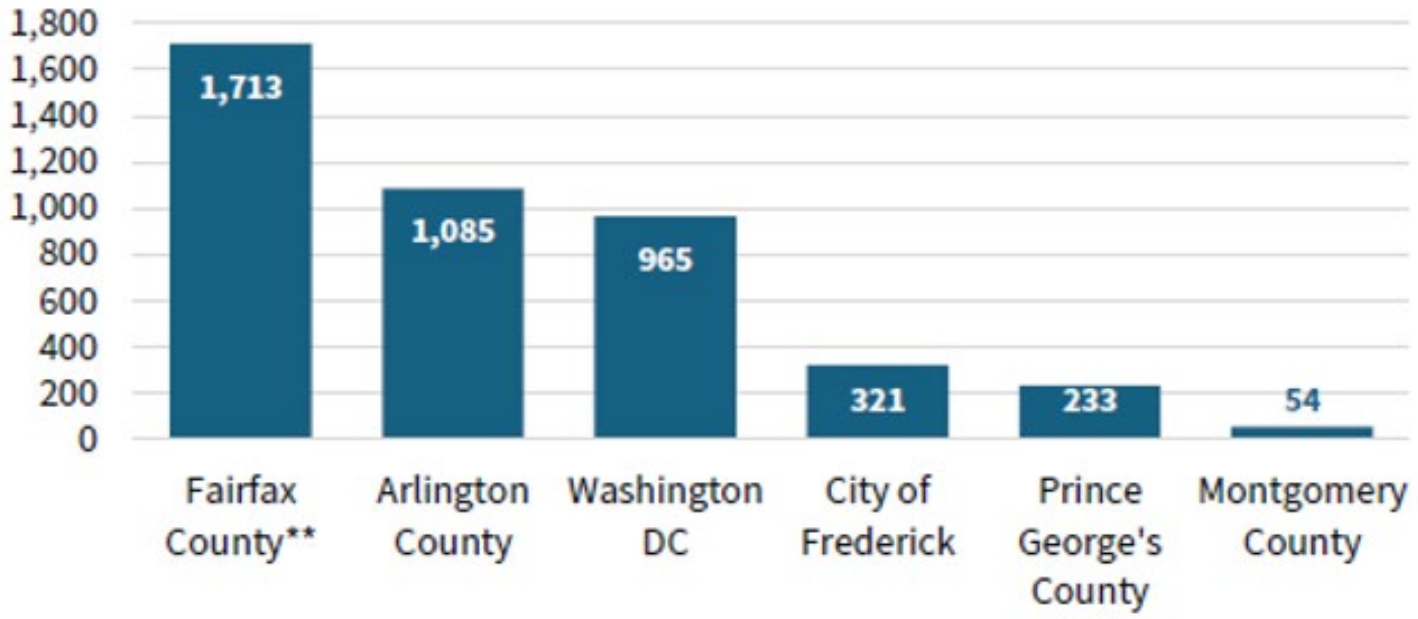


Figure 3: Multifamily Building Permits Across Neighboring Jurisdictions, January – August 2025.
** Multifamily buildings include structures with three or more units in a single property.*
*** Includes Fairfax City and Falls Church City.*
***Source:** U.S. Census Building Permits Survey, January – August 2025; Reported records.*

Figure 4

Multifamily Building Permits* (2022 - August 2025)

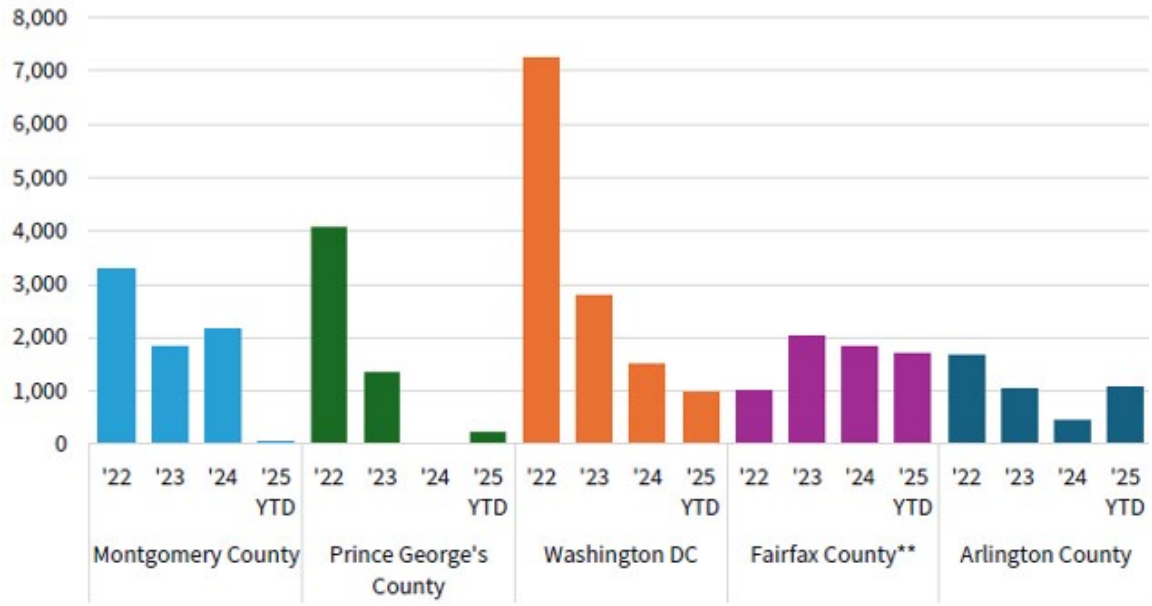
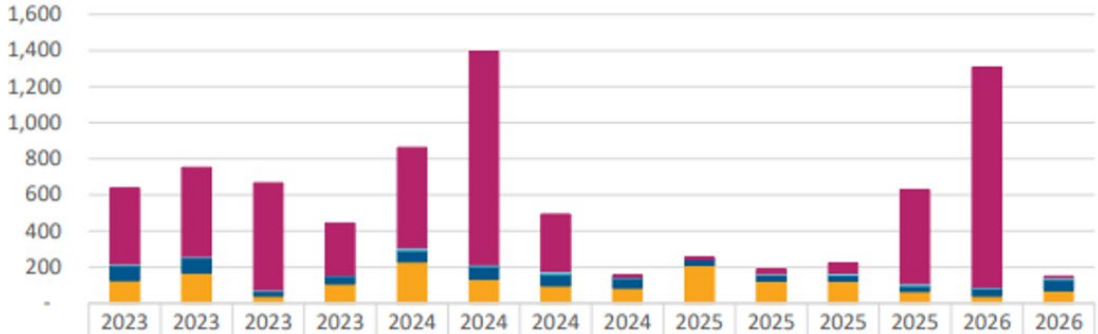


Figure 4: Trends in Multifamily Building Permits, 2022 – August 2025.
**Multifamily buildings include structures with three or more units in a single property.*
***Includes Fairfax City and Falls Church City.*
***Source**: U.S. Census Building Permits Survey, January 2022 – August 2025; Reported records.*

The second batch comes from the Planning Department's Economic Indicators Reports, beginning with the Q2 2025 report. From October 1, 2024, to August 31, 2025, the County issued one permit for a 55+ senior housing community with 54 units (updated number) and 38 permits for for-sale townhomes. Permitting then rebounded, with 518 units in Q4 2025 and 1,215 in Q1 2026.

Figure 5

Multifamily Residential Building Permits, 2023 through Q2, 2026



	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
Multifamily	419	490	591	284	555	1,180	313	8	7	23	54	518	1,215	4
Accessory Dwelling Unit	8	8	7	5	13	9	17	6	1	8	10	12	6	11
Single Family Detached	83	83	26	45	64	71	64	55	35	33	35	32	43	61
Townhouse	127	170	41	108	230	135	98	86	211	124	123	66	42	72

Source: Q2 2026 Economic Indicators Report, Page 12

The industry criticism was easier to dismiss on its own, but the Planning Department data forced County leaders to respond, and they used the press conference as the venue. Elrich and Director Bruton tried to reframe the data, arguing that the permit dip wasn't caused by the RSL but by a poor environment for real estate development across the region. They also argued that the RSL is designed not to affect new multifamily development, pointing to the Q4 2025 rebound (the Q1 2026 numbers were not yet available) as proof.

Elrich has doubled down on these arguments since the press conference. A letter sent in March to the Maryland General Assembly's Judicial Proceedings Committee, signed by Elrich and six of the seven Councilmembers who voted yes on the bill, summarizes his argument. The relevant portion has been placed below.

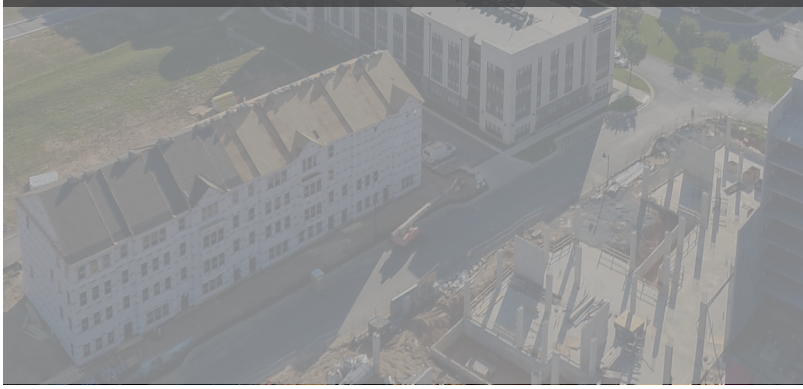
Research consistently shows that rent stabilization laws, including ones with vacancy control, do not stymie development.

- The "supply-reduction claim alleging rent control's negative effect on new housing development is supported by little evidence. Virtually all existing rent regulations, including the new statewide laws, exempt new construction. Indeed, empirical studies in New Jersey and Washington, DC, found no relationship between rent control and new housing development.
- "Some experts theorize that rent control negatively affects new housing construction because it could lower the rent of a neighborhood and, in turn, lower developers' incentives to build there. But even when rent control suppresses rent and property values, it has a negligible effect on new construction. This is likely because housing construction responds more to broader macroeconomic factors."[5]
- "[E]xternal economic cycles and local housing market landscapes are more clearly tied to housing production and market-rate supply trends than is rent control"[6]
- "On balance, rent regulations do not impact new housing construction. On balance, new housing supply is more influenced by cyclicality in the local economy and other local conditions than rent restrictions."[7]

Translation: There is little evidence that rent control substantially impacts development. Broader market forces, external economic cycles, and local housing markets drive development activity. Such a strong stance leaves little room for equivocation.

Montgomery County's experience tells a different story. The collapse of private investment in multifamily projects in the County is not a temporary phenomenon driven by poor market conditions; it is a persistent reality shaped by the negative investor sentiment largely driven by the RSL.

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PUTTING THE DATA INTO CONTEXT

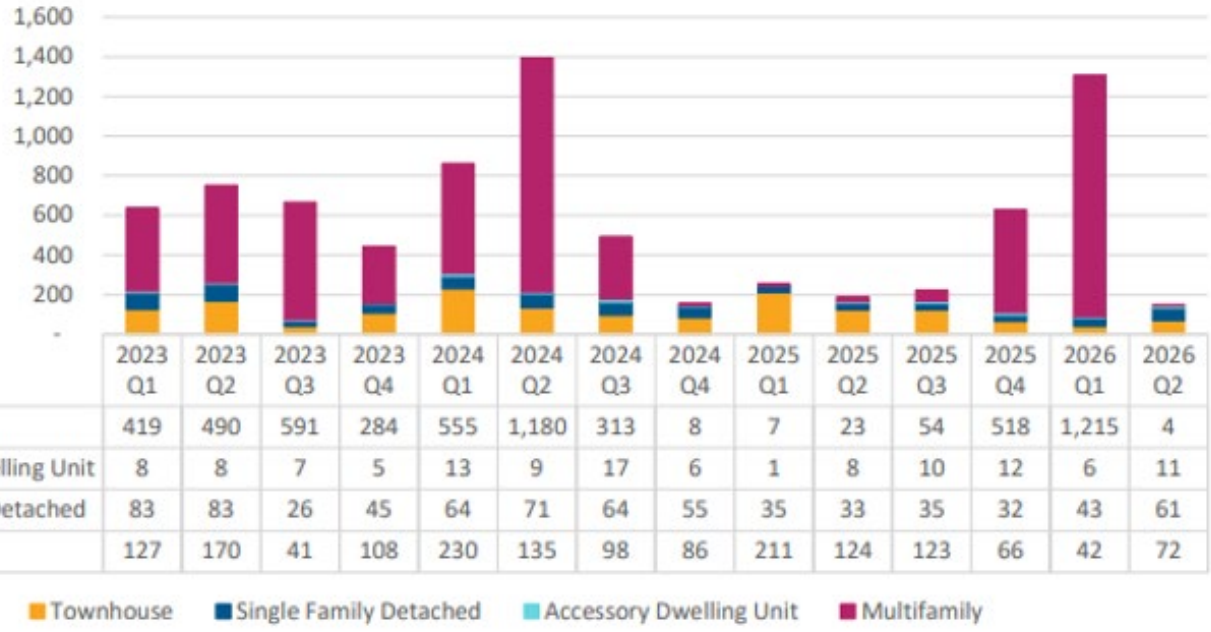
To recap, Elrich made two arguments in defense of the RSL:

1. The permitting drop was caused by broader market forces.
2. The RSL is designed not to affect new construction, and the permitting rebound in Q4 2025 and Q1 2026 is evidence that this is true.

Let's start with the second argument, which the data clearly refutes upon closer inspection. Below is the construction permitting data the Planning Department has published in its Economic Indicators reports since Q2 2025.

Figure 6

Multifamily Residential Building Permits, 2023 through Q2, 2026



	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
Multifamily	419	490	591	284	555	1,180	313	8	7	23	54	518	1,215	4
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Townhouse	127	170	41	108	230	135	98	86	211	124	123	66	42	72

Source: Q2 2026 Economic Indicators Report, Page 12

What appears to be a partial rebound of private investment in rental housing in the County following the four-quarter collapse is an illusion.

From a financing perspective, multifamily real estate projects fall into two general types: affordable projects and market-rate projects. Developers finance market-rate projects with a mix of equity from capital markets and private debt from traditional commercial banks, credit unions, debt funds, or pension funds. This is the conventional way of financing an apartment project. In the affordable market, developers access unconventional capital

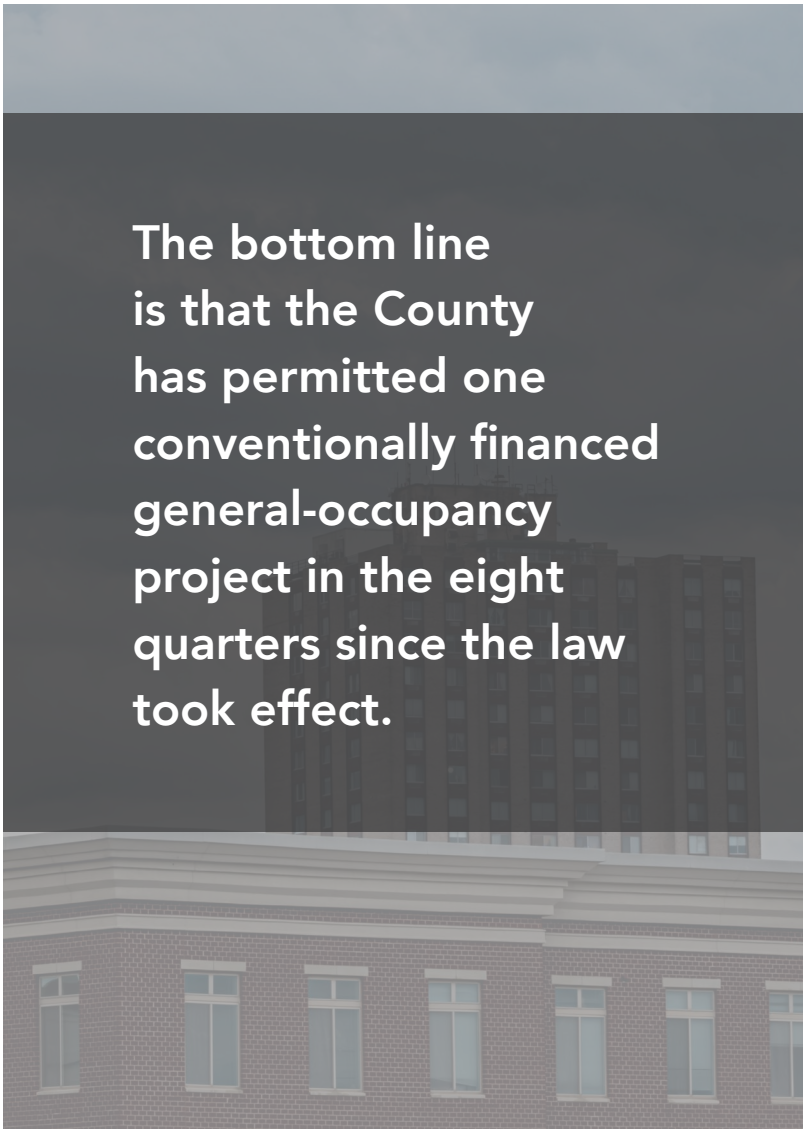
sources from public institutions, such as government-backed loans, subsidies, revolving loan funds from government agencies, or other government programs not available to the private market, to help cover development costs in exchange for keeping rents for a portion or all of the units in a project below market rate. These financing mechanisms make it possible to construct and operate such projects.

Importantly, in Montgomery County, even conventionally financed projects must include a portion of units as income-restricted affordable housing through the Moderately Priced Dwelling Unit (MPDU) program, the County's version of inclusionary zoning requirements.

The Planning Department provides a helpful breakdown of the project financing behind the two-quarter "rebound," finding it was driven almost exclusively by publicly financed projects. In other words, the taxpayers helped finance nearly all new multifamily projects the County permitted during this period. 495 of the 518 units the County permitted in Q4 of 2025 come from two projects: North Bethesda Market (NOBE) II and the conversion of the former Hotel Silver Spring. These apartment communities "offer high levels of affordability by accessing unconventional sources of capital not available to traditional market-rate projects." Both utilized the County's affordable housing Payment in Lieu of Taxes (PILOT) program. NOBE II utilized the County's Housing Initiative Fund, and the conversion project is accessing social impact capital from Erie Insurance.

Q1 2026 saw the first conventionally financed general occupancy (not age-restricted) project permitted since Q2 2024, the last quarter before the RSL went into effect: 386 units at Democracy Center in the Rockledge area. The remaining for-rent projects accessed similar unconventional financing structures as the two Q4 2025 projects. The Sage is a Housing Opportunities Commission (the County's housing authority and financing agency) project with 413 units that secured a sizable $35 million construction loan and $145 million in tax-exempt bonds from the Housing Production Fund. The Seabury at Springvale Terrace, an expanded redevelopment of an existing senior housing facility, will have 236 units, a net increase of 90 units. This project received a $32.4 million Housing Initiative Fund loan.

As the Planning Department explains, "While these projects will provide significant and much-needed additions to the County's affordable housing supply, they do not indicate a strengthening multi-family market." ***The bottom line is that the County has permitted one conventionally financed general-occupancy project in the eight quarters since the law took effect.***

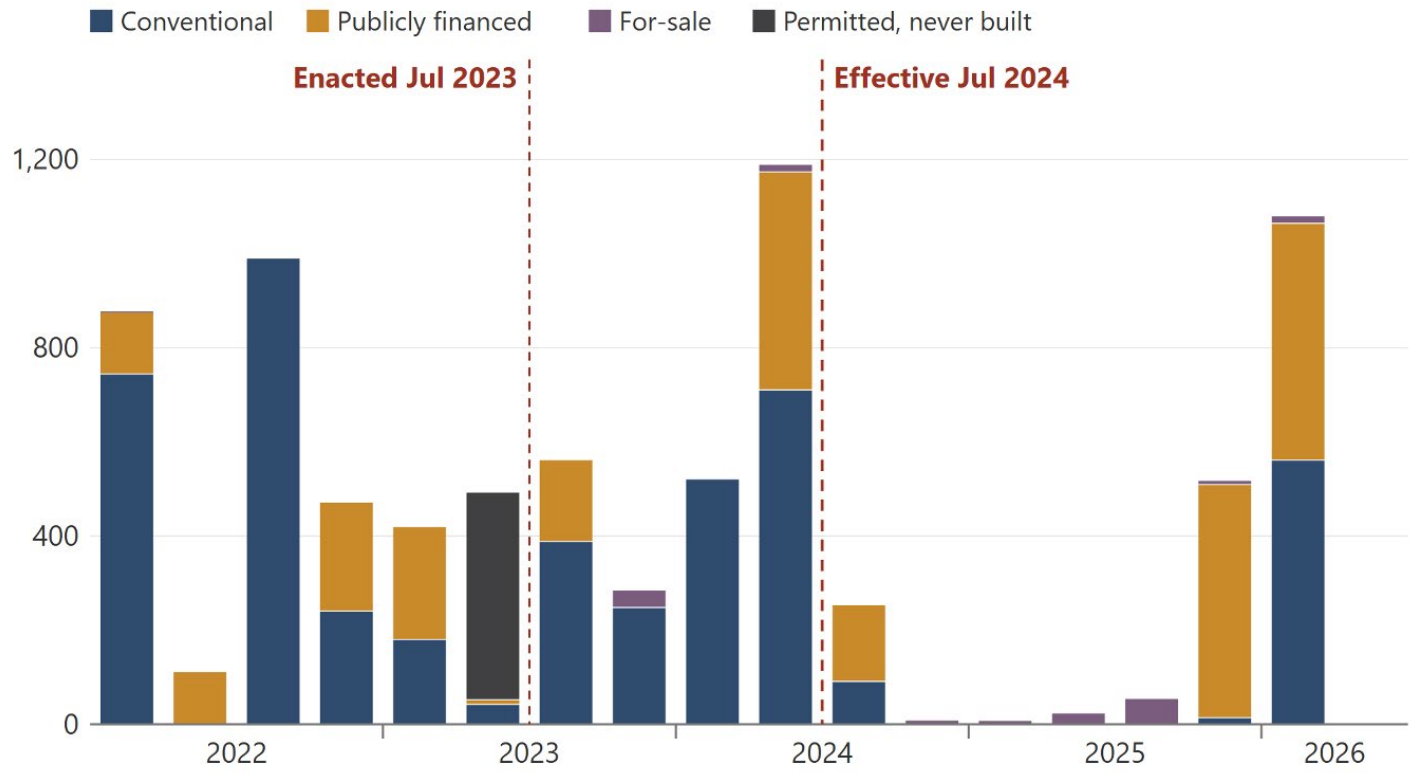


ESTABLISHING A BASELINE FOR CONVENTIONALLY FINANCED PROJECT DEVELOPMENT

Unfortunately, the Planning Department did not indicate which projects permitted before Q4 2025 accessed public financing. AOBA analyzed County permitting data from the County's Department of Permitting Services Commercial Permits Dataset, DHCA Affordable Housing Pipeline Reports, and Planning Department Quarterly economic indicators reports, among other sources, to fill this gap and establish a baseline for conventionally financed development. The findings are stark.

Figure 7

Multifamily Units Permitted by Financing, Q1 2022-Q1 2026



Multifamily units only. Net new units permitted, DPS. Townhouse and single-family series are in the full chart.

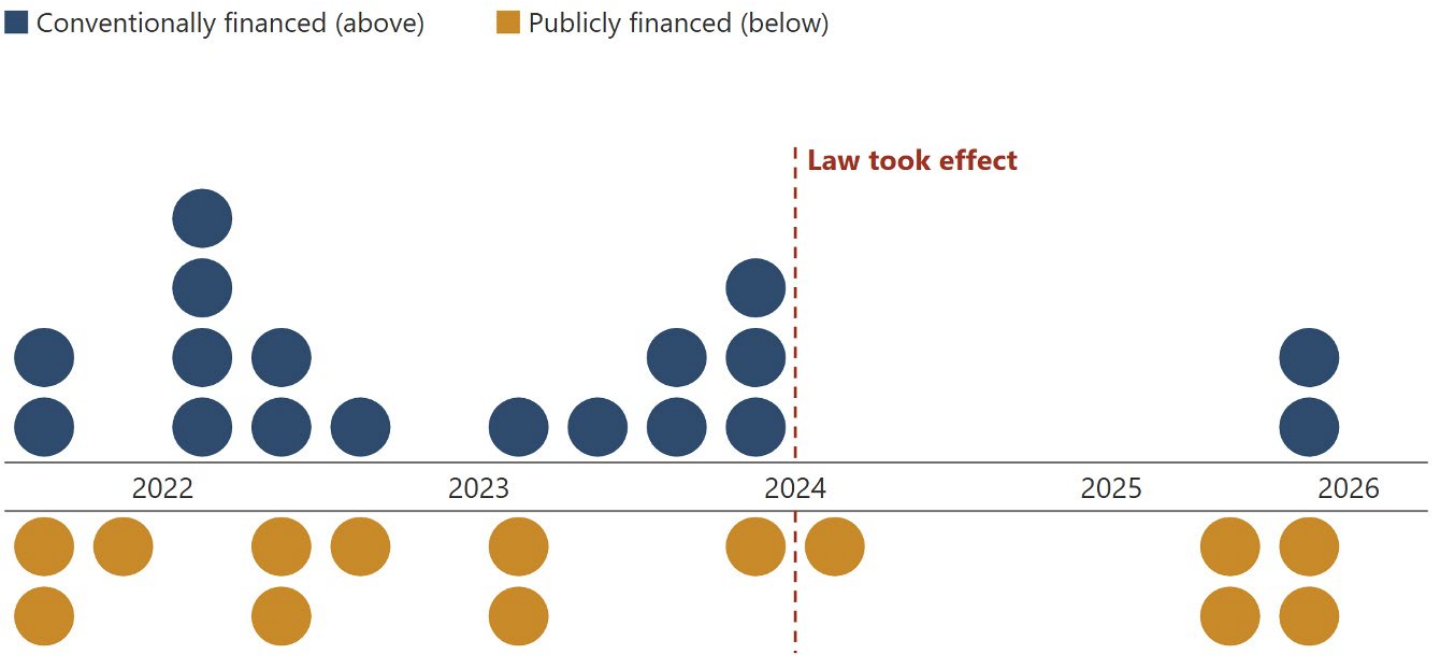
Private investment in apartment projects was far higher before the RSL. In the 10 quarters through Q2 2024, the last full quarter before the law took effect, the County permitted about 405 units in conventionally financed projects per quarter (4,054 total) and about 136 units in publicly financed projects per quarter (1,362 total). In the eight quarters since, conventionally financed permitting has fallen about 80 percent, to about 83 units per quarter (663 total), while publicly financed permitting has edged up to about 145 units per quarter (1,161 total).

This becomes even clearer when you look at the data from a different angle. So far, permitting data has been shown by unit count per quarter. But apartment homes are not built one at a time; they are built as part of a building or series of buildings in a community. When you break down permitting by project, the difference between pre-RSL and post-RSL permitting activity becomes much harder to miss.

The County permitted 16 conventionally financed projects and 9 publicly financed projects in the 10 quarters before the RSL became effective. Of the 16 conventionally financed projects, 13 were general-occupancy, and three were senior housing. Since the law took effect, the County has permitted only one conventionally financed general-occupancy project in eight quarters, along with five publicly financed projects.

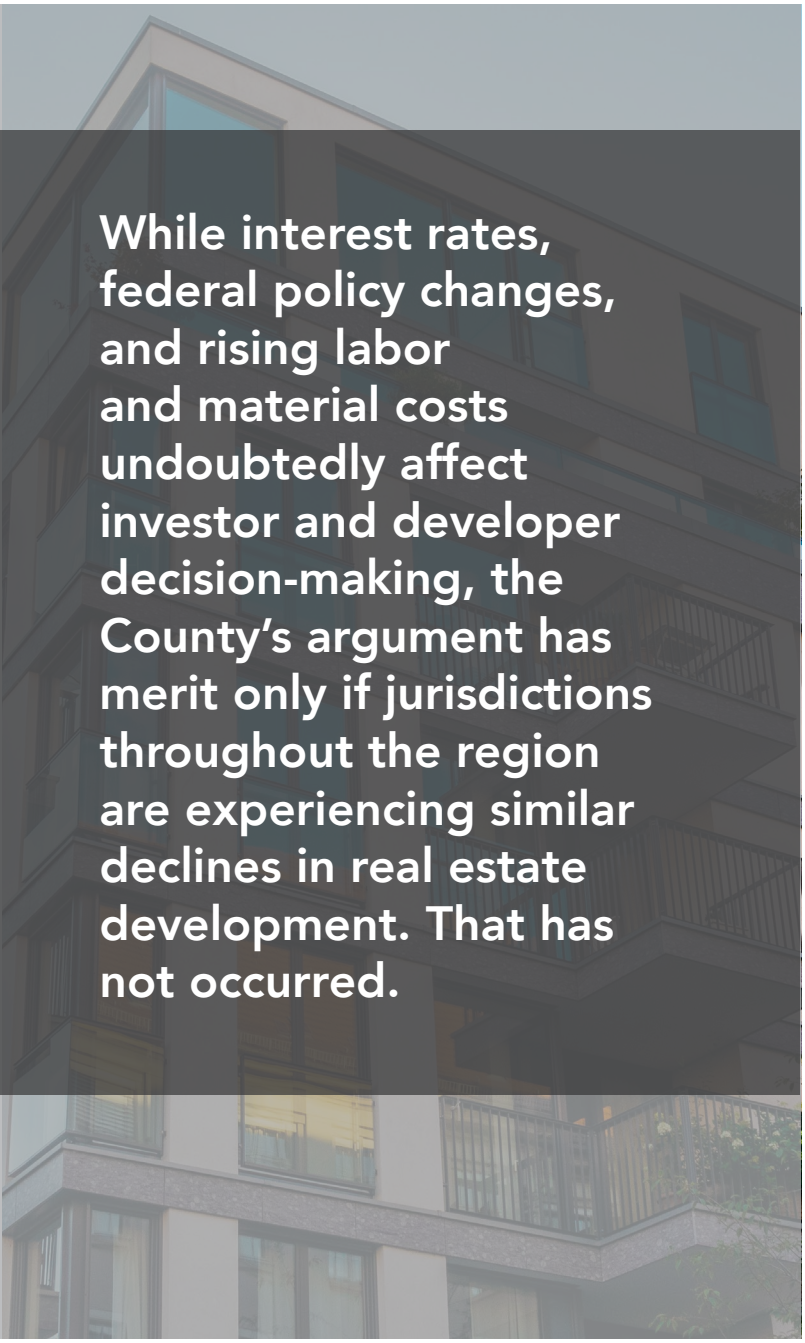
Figure 8

Multifamily Units Permitted by Financing, Q1 2022-Q1 2026



Source: Montgomery County DPS, AOBA analysis. Distinct rental projects, counted at first permit. The two in Q1 2026: Democracy Center and 6736 Rock Spring (senior).

THE MAGNITUDE OF THE PERMITTING COLLAPSE IS DRIVEN BY MONTGOMERY COUNTY'S RENT STABILIZATION LAW



While interest rates, federal policy changes, and rising labor and material costs undoubtedly affect investor and developer decision-making, the County's argument has merit only if jurisdictions throughout the region are experiencing similar declines in real estate development. That has not occurred.

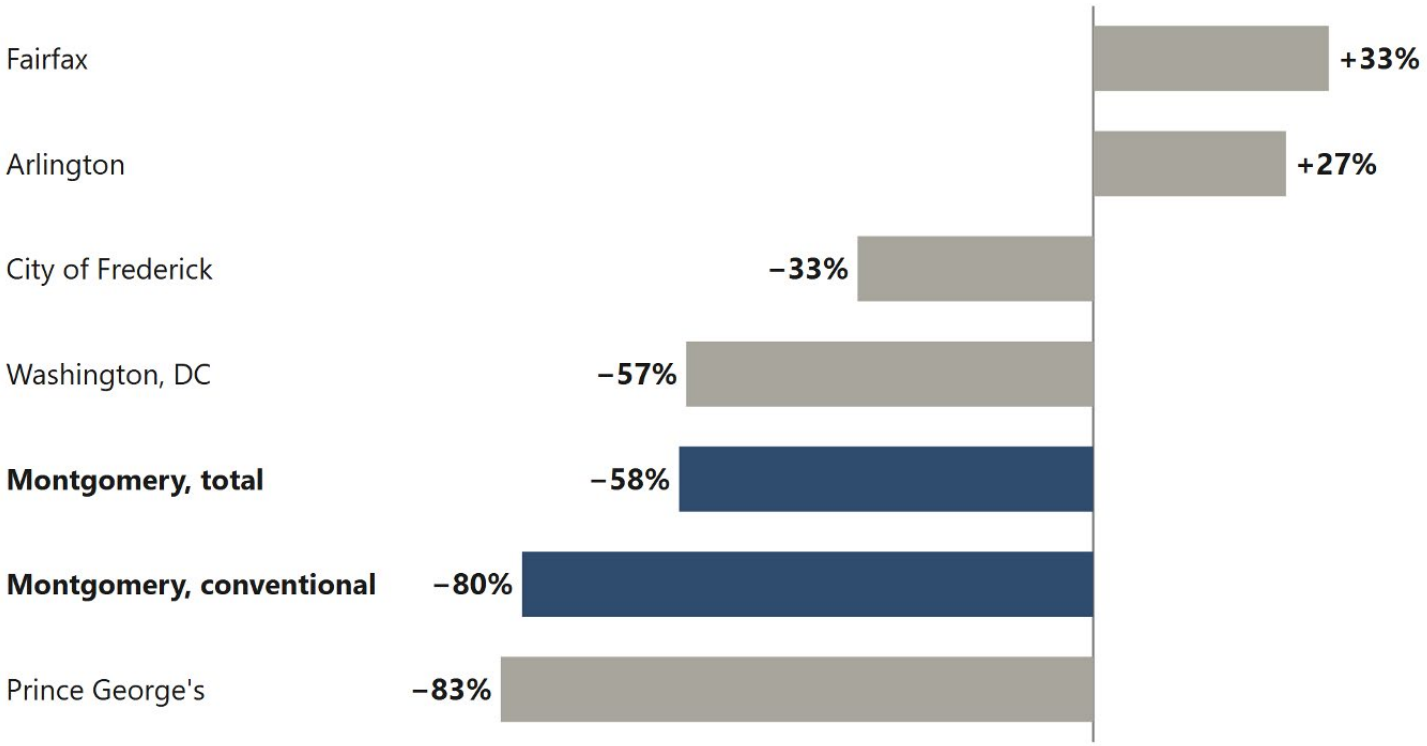
Elrich and Bruton's stronger argument in defense of the RSL is that broader economic forces have driven the collapse in permitting activity, specifically high financing costs and interest rates, rising labor and materials costs, tariffs, immigration enforcement worsening labor supply, and the region's outsized exposure to federal workforce downsizing. Developers are hesitating because of an uncertain market, not the RSL.

While interest rates, federal policy changes, and rising labor and material costs undoubtedly affect investor and developer decision-making, the County's argument has merit only if jurisdictions throughout the region are experiencing similar declines in real estate development. That has not occurred.

To evaluate this claim, we pulled data from the Census Building Permits survey for Montgomery County's regional neighbors. The chart below examines the subset of regional jurisdictions Montgomery Planning used in its 2025 Pipeline Analysis, comparing average apartment units permitted per quarter for the eight quarters before and after the RSL took effect in Montgomery County. While Washington, DC, Prince George's County, and the City of Frederick saw declines of varying magnitudes, the Northern Virginia Counties of Fairfax and Arlington saw substantial increases in permitting.

Figure 9

Change in average multifamily permits per quarter, before vs. after July 2024



Source: U.S. Census BPS; DPS for Montgomery (gross units). Buildings of 3+ units. Average permits a quarter, Q3 2022–Q2 2024 vs Q3 2024–Q2 2026.

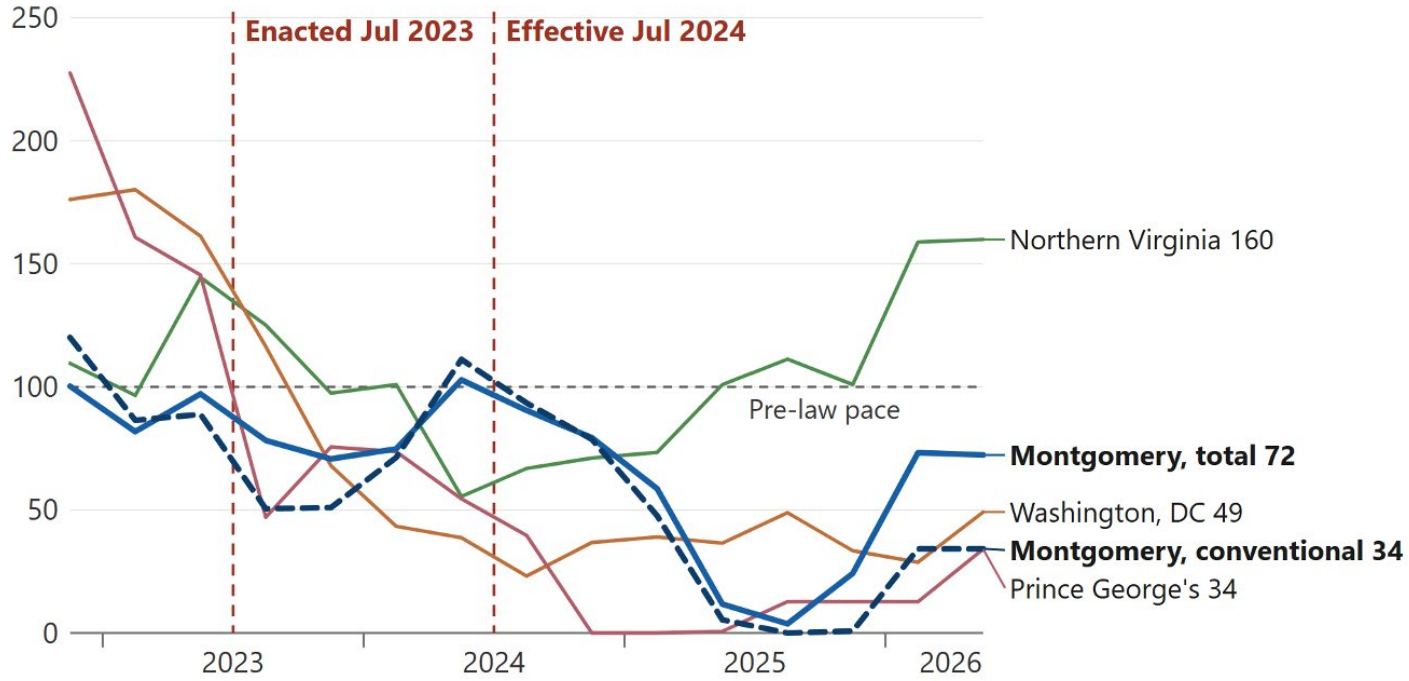
This chart shows that policy environment is a critical consideration for investors when deciding where to deploy capital. Jurisdictions within this group with policies that deter development have seen substantial decreases in permitting activity that borrowing costs alone cannot explain.

Two policies in particular are worth detailing here. Prince George's County also caps annual rent increases, and its permitting has fallen even further than Montgomery County. Its law differs from the RSL in one respect: it permanently exempts buildings built after 2000, while the RSL's exemption rolls forward. That fixed date has not blunted the impact on permitting activity in Prince George's, suggesting that including a fixed-date exemption in a rent control law may not be enough to assuage investor concerns. Washington, DC has its own regulatory issues related to landlord-tenant court operations and elevated nonpayment of rent stemming from pandemic-era policy, which are contributing to its poor development numbers. DC's rent control law also includes a date-certain exemption, so new apartment projects there never fall under it, unlike the RSL's 23-year rolling exemption. As a result, within this subset of jurisdictions, developers and investors are clearly pivoting to Arlington and Fairfax, which lack these regulatory challenges, at the expense of the others.

The following chart goes further, comparing the rolling one-year permit for Montgomery, Prince George's, Arlington, and Fairfax Counties, indexed to each jurisdiction's average annual units permitted in the eight quarters before the Montgomery County RSL took effect. The Northern Virginia counties exceeded their pre-law permitting average despite less-than-favorable market conditions, while the others saw declines.

Figure 10

Multifamily permits relative to pre-law pace, Q4 2022-Q2 2026



Source: U.S. Census BPS; DPS for Montgomery (gross units). Buildings of 3+ units. Each line is a rolling one-year permit total, indexed to that jurisdiction's average annual pace in the 8 quarters before the Jul 2024 effective date. Northern Virginia is Fairfax plus Arlington. City of Frederick not shown: its low volumes make the index erratic. Labels show Q2 2026.

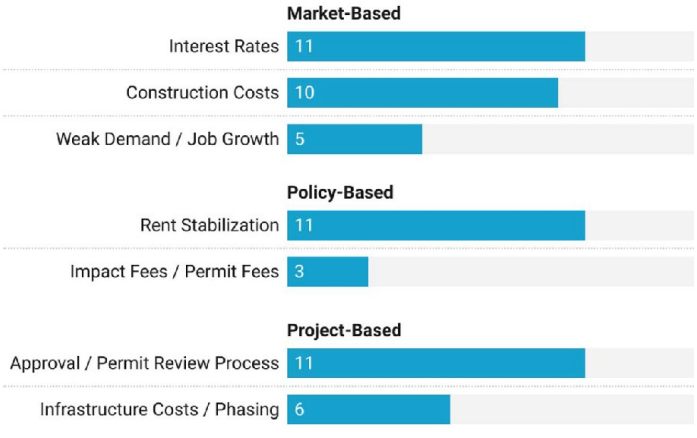
Montgomery County recovered to 72.3 percent of its pre-law average, but as we noted earlier, publicly financed apartment projects drove that rebound. The dashed line shows the one-year rolling average for units permitted in conventionally financed projects, which sit at 34 percent of the pre-law average.

The starkest policy difference between Montgomery County and Northern Virginia is rent control. As part of the Planning Department's 2025 Pipeline Analysis, staff conducted 16 developer interviews to understand impediments to project completion and organized them into three categories: market-based, policy-based, and project-based. Rent stabilization was cited 11 times.

Figure 11

Impediments to Pipeline Project Completion

based on sixteen (16) interviews with representatives of Pipeline projects



Totals represent the number of interviewees citing each impediment as a barrier to completion of their project(s). Some interviewees discussed multiple projects.

Staff characterized interviewees' responses about rent stabilization as follows (emphasis added).

> *"By far the most common policy barrier mentioned was the rent stabilization regulation passed in 2023, which became effective on July 23, 2024. While many projects with unbuilt units in the Pipeline predate the regulation, interviewees cite a* ***broader chilling effect on construction financing****. Additionally, financing is typically closed after all approvals are complete, so* ***some projects that entered the Pipeline prior to the regulation may now be impacted****. While several other local policies—including the cost and timing of impact fees and permit fees—were mentioned by interviewees as impediments, none received the near-unanimous attention given to the rent stabilization regulation."*

Interviewees further highlighted "a county-wide redlining by capital allocators due to perceptions of a hostile climate for investment and the potential for additional negative policies during the life of their investment."

Industry survey data from the National Multifamily Housing Council (NMHC), which represents the country's largest apartment firms and developers, supplements these findings. NMHC's January 2026 Quarterly Survey of Apartment Conditions, which featured responses from 98 CEOs and other senior executives of apartment-related firms nationwide, asked about investment decisions in jurisdictions with rent control or considering implementing rent control.

Ninety-one percent of respondents either don't operate in jurisdictions that have rent control, have cut back on investment or development in these markets, or are considering doing so. Equity Residential CEO Mark Parrell articulated this sentiment publicly in May of last year to the Washington Business Journal, saying "we are unlikely to invest further" in the County and calling the rent stabilization law "a disincentive to capital investing."

Figure 12

Question #5: Several jurisdictions have recently either imposed (or strengthened) rent control/limitation or are seriously considering doing so. We would like to know whether this has affected your investment or development decisions:	
We have cut back on investment or development in these markets.	35%
We have made no changes yet but are considering doing so in these markets.	15%
We do not plan any change in investment or development in these markets.	7%
We do not operate in these markets and would not consider doing so because of the threat of rent control.	41%
We do not operate in these markets but would consider doing so despite the threat of rent control.	2%

Source: NMHC Quarterly Survey of Apartment Conditions

In February 2025, Developer Tri Pointe Homes requested and received permission to switch its proposed North Bethesda Housing Project from 604 for-rent apartments to 138 for-sale townhomes, citing "market conditions in the greater White Flint area, overall financing challenges and the large backlog of approved but unbuilt multifamily projects in the area." Tri Pointe's citation of financing challenges points to the effects of the RSL at work.

And in July, Saul Centers asked the Planning Board to delay construction of its planned 600-unit mixed-use White Flint project near the north Bethesda Metro by 5 years, citing shifting regulatory requirements and market conditions. The developer's top concern: the county's passage of the RSL in 2023. The project is effectively stalled.

If developers were only dealing with negative market forces like higher interest rates and construction costs, development activity would likely have dipped to some extent, reflecting the normal building cycle. However, layering the RSL on top of these factors is proving to be a widespread development killer for rental projects.

HOW HOUSING PRODUCTION IMPACTS FUNDING FOR MONTGOMERY COUNTY PUBLIC SCHOOLS

Throughout this paper, we have shown how the County's Rent Stabilization Law has eroded investor interest in Montgomery County, resulting in virtually no new construction of privately financed apartment communities. The capital markets have effectively redlined the County.

This matters greatly to everyone in the county, not just those looking for an apartment. The lack of private investment directly reduces tax revenues for education that fund both the everyday operations that support teachers and students and the capital costs needed to maintain or replace crumbling building infrastructure.

Let's start with capital costs, which are funded by County impact taxes. County Impact Tax collections (split between transportation and school projects) have come in lower than projected for three years in a row. In the most recent six-year capital budget the County approved in May, County staff stated that drop has translated to $30 million less in impact taxes revenue in Fiscal Year 25 compared to Fiscal Year 2014. Montgomery County Public Schools used to fund up to 15% of its capital budget with direct impact tax revenue from new construction. Now, it's projected to be 2.8%. This is one factor that has led the County to raise taxes and fees and use one-time pots of money to cover budget gaps that will only widen in future years.

With construction-related tax revenue declining, MCPS is weighing whether to close or consolidate elementary and middle schools, with the superintendent's recommendation due in February of 2027. For the first time in more than 40 years, enrollment is falling, and many buildings have more seats than children to fill them.

The RSL is not the direct cause of falling enrollment. But school closure decisions are not divorced from funding availability. As MCPS put it in October, "every school building, whether full or under-enrolled, requires significant investment in staffing, maintenance, HVAC, roofs, plumbing, security, utilities and other services." A school system with room in its budget could keep an under-enrolled school open while the County looks for solutions to boost enrollment. MCPS doesn't have that room. About three out of every four schools built or last renovated before 2000 need repairs or have unreliable building systems, leading to mold issues and crumbling auditorium ceilings during high school performances. Replacing a high school's HVAC system now costs $45-$55 million, up from $30-$35 million. In MCPS's own words, "resources are increasingly limited."

This is where the RSL comes in. The law isn't why MCPS is considering closures. But it has driven away investment needed to build new multifamily projects, a critical revenue source for schools, at the same time MCPS is deciding which schools it can afford to keep running.

Before the RSL took effect in July 2024, the County issued permits for an average of 6.5 conventionally financed apartment projects each year. For each year that pace doesn't return, the County gives up about $4.8 million in recordation taxes that County law reserves for capital improvements to public schools, the same pot of money that pays for replacing failing

HVAC systems, plus about $4.1 million in school impact taxes, which pay for new classroom space so children don't have to sit on the floor in overcrowded classrooms. That's about $9 million per year for school buildings that the County forgoes, and the loss recurs every year the slowdown continues.

AOBA estimates forgone tax revenue from projects that do not get constructed, including recurring property tax revenue, will reach $136 million by FY31, around $54-57 million of which would have been earmarked for MCPS by law or likely appropriated to MCPS from the general fund. This does not include forgone tax revenue from future refinancing or sales that would result from these forgone multifamily projects.

Figure 13

Forgone revenue for schools, FY27-FY31

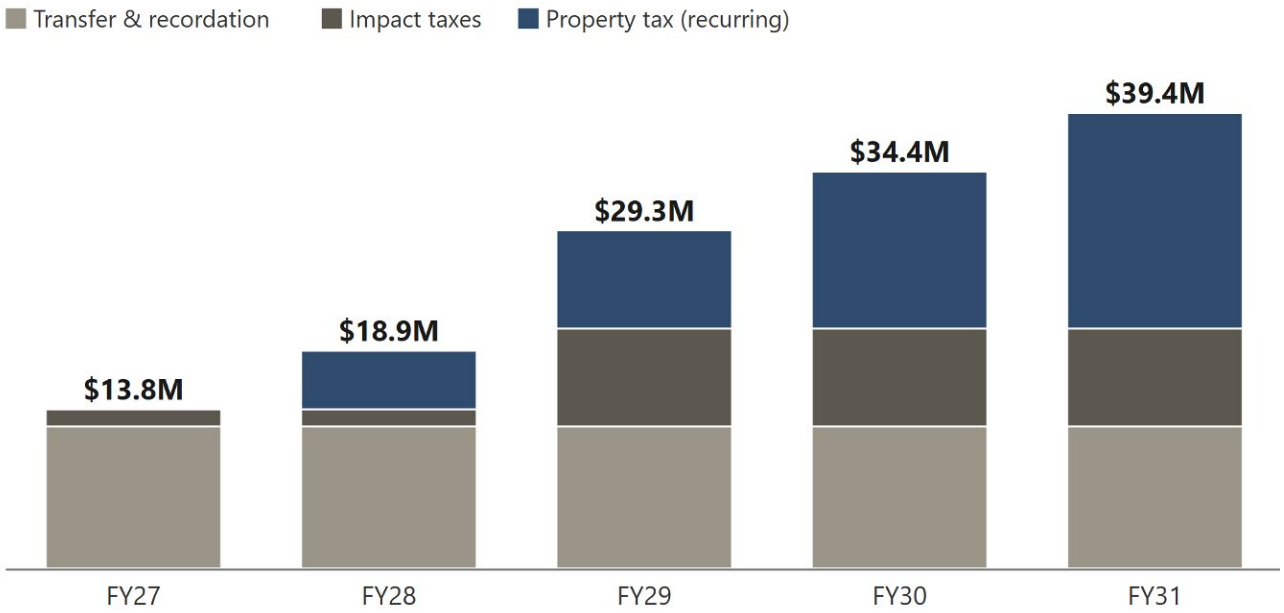


Earmarked: school share of recordation tax, school impact tax, 4.7¢ MCPS supplement.
Likely appropriated: MCPS's FY27 share of county-funded spending (34–40%), on General Fund revenue.

Sources: Montgomery County permit data, tax code, and FY27 budget and levy actions; Maryland property assessments; Montgomery Planning; state legislative testimony. AOBA estimate, middle case, county share only. Gross revenue against the pre-law pace (6.5 projects, 1,720 units a year), assuming no conventional starts after FY26. Excludes permit fees.

Figure 14

Projected county revenue forgone by fiscal year, FY27-FY31



Sources: Montgomery County permit data, tax code, and FY27 budget and levy actions; Maryland property assessments; Montgomery Planning; state legislative testimony. AOBA estimate, middle case, county share only. Gross revenue against the pre-law pace (6.5 projects, 1,720 units a year), assuming no conventional starts after FY26. Excludes permit fees.

This is bad news for MCPS, which is already facing tough operating budget decisions. Despite an overall operating budget increase this fiscal year, funded by another tax increase on residents, they had to lay off social workers, family engagement staff, and other specialists because operating costs are outpacing County revenues. Next year's budget may be worse, with additional layoffs on the table, no or minimal cost-of-living increases for teachers, and reduced health benefits. Meanwhile, the County's budget gap continues to widen due to across-the-board healthcare cost increases, and this fall, the Council is proposing increased tax credits for certain residents facing spiking tax bills.

The outlook for the County budget as a whole is no better. As local reporter Adam Pagnucco noted back in August, "despite a huge tax increase on most homeowners, county agencies are due for an absolute combined cut next year [of $134.4 million]. We're not talking about a reduced rate of spending, but less dollars period." The pressure to close the gap will be intense, with Pagnucco predicting the Council will likely raise taxes again.

This makes the collapse in housing investment critically important to address. Housing investment matters not just for those seeking more affordable housing, but to everyone already living in Montgomery County. It brings substantial tax revenue that helps fund critical projects, programs, and staff. ***The harder we make it to build, the more the burden of paying for Montgomery County's once world-class school system shifts to everyday residents who are already dealing with spiking costs in their daily lives.***