

# Economic Impact Statement

Montgomery County, Maryland

## Bill 11-24

## Finance – Economic Development Fund – Make Office Vacancy Extinct (MOVE) Grant Program – Established

### SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 11-24 would have an overall positive impact on economic conditions in the County in terms of the Council’s priority economic indicators. By codifying and expanding the Make Office Vacancy Extinct (MOVE) program, the Bill would benefit certain existing businesses in the County that receive the grant for office space expansion for which they otherwise would be ineligible in the absence of the policy change. It would also benefit certain new businesses and businesses seeking to relocate to the County that receive higher grant awards than they otherwise would in its absence. The grant would lower the cost of rent for these businesses, which would reduce their operating expenses and increase business income (holding all else equal).

Also, if the change in law reduces office building vacancy in the County, then it would prevent certain property owners from experiencing loss of rent revenues. Importantly, OLO cannot predict the extent to which the Bill would reduce vacancy, nor whether it would cause businesses to relocate to the County that otherwise would not. For these reasons, it is uncertain whether the policy would affect other indicators prioritized by the Council, namely property values, economic development, and competitiveness.

### BACKGROUND AND PURPOSE OF BILL 11-24

The Make Office Vacancy Extinct (MOVE) program was introduced as a pilot program in March 2014. The program aims to decrease office vacancies by providing relocation grants that alleviate costs for businesses moving to the County. Through the MOVE program, businesses can receive a grant of \$8 per square foot, which is capped at \$80,000 for businesses that lease up to 20,000 square feet of office space. From FY14 through FY23, the MOVE program disbursed over five million dollars to 85 businesses for new office space.<sup>1</sup>

As of 2024, office vacancy rates in the County are at a record high – over 20%.<sup>2</sup> Bill 11-24 is intended to decrease office vacancies by proposing the following changes to the MOVE program:

- Codify the MOVE program under the Economic Development Fund;
- Expand program eligibility to businesses already located in the County that want to increase their office space;
- Remove the 20,000 square footage cap for renting office space to qualify for the program; and

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<sup>1</sup> See memo from the County Executive included in the “Introduction Staff Report on Bill 11-24.”

<sup>2</sup> See memo from the Economic Development Committee included in the “Introduction Staff Report on Bill 11-24.”

- Increase the maximum funding award to qualifying businesses from \$80,000 to \$150,000.<sup>3</sup>

The County Executive would be required to adopt method 1 regulations to implement the MOVE program. The Department of Finance would also be required to provide an annual report on the program.<sup>4</sup>

The Council introduced Bill 11-24, Finance – Economic Development Fund – Make Office Vacancy Extinct (MOVE) Grant Program – Established, on April 16, 2024.

## INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Bill 11-24 on residents and private organizations in terms of the Council’s priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.<sup>5</sup>

**Assumption:** The core assumptions made in this analysis are that certain County-based businesses would receive the grant and certain new businesses and businesses based outside the County would receive higher grant awards than they otherwise would in the absence of the policy change.

**Information Sources:** To assess the Bill’s economic impacts, the analysis primarily relies on the following information sources:

- Consultations with County personnel; and
- Data on the MOVE program provided to OLO by the Montgomery County Business Center.

**Scope of Analysis:** The County would use tax revenue to fund the MOVE program. Importantly, funding the program would entail an internal transfer from the County to business recipients. For this reason, the Bill’s total economic impact would depend on: (a) the per year economic impacts to County residents and businesses from policy change; and (b) the per year economic opportunity cost of the forgone County revenues. Because OLO does not know how the forgone property tax revenues would otherwise be used in the absence of enacting Bill 11-24, this analysis does not account for the economic impacts of alternative government spending with the forgone revenue.

Also, while it is possible the changes to the MOVE program may induce certain businesses to relocate to the County that otherwise would not, it is beyond the scope of this analysis to assess the likelihood of this outcome.

## VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 11-24 are the following:

- Average award amount; and
- Number of business grant recipients.

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<sup>3</sup> “Introduction Staff Report on Bill 11-24.”

<sup>4</sup> Ibid.

<sup>5</sup> Montgomery County Code, Sec. 2-81B.

# IMPACTS

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

## Businesses, Non-Profits, Other Private Organizations

OLO anticipates that Bill 11-24 would have a positive impact on certain private organizations in the County in terms of the Council's priority economic indicators.

The Bill would primarily impact certain business recipients of grants. By expanding program eligibility to businesses already located in the County, the Bill would impact existing businesses in the County that receive the grant for office space expansion.

Also, by increasing the maximum funding award to qualifying businesses from \$80,000 to \$150,000 and removing the 20,000 square footage cap for renting office space to qualify for the program, the Bill would impact certain new businesses and businesses located outside the County seeking to relocate to the County. In particular, the Bill would impact businesses that receive higher grant awards than they otherwise would in its absence.

For all impacted businesses, the grant would lower the cost of rent which would reduce operating expenses and increase business income (holding all else equal). The Bill may also benefit businesses in ways other than lowering their rent. For example, it may help certain businesses afford office space more conducive to their business operations or acquire office space sooner than they otherwise would.

It is worth noting the MOVE program has typically provided smaller awards to businesses with smaller office footprints. Indeed, the average award amount per recipient is \$27,692 and the average square footage is 3,889. However, as shown in **Figures 1** and **2** below, the program has provided grants at the upper bounds of the total amount and square footage limits. If past trends continue, OLO expects the County to be able to make use of the changes to the program conditions.

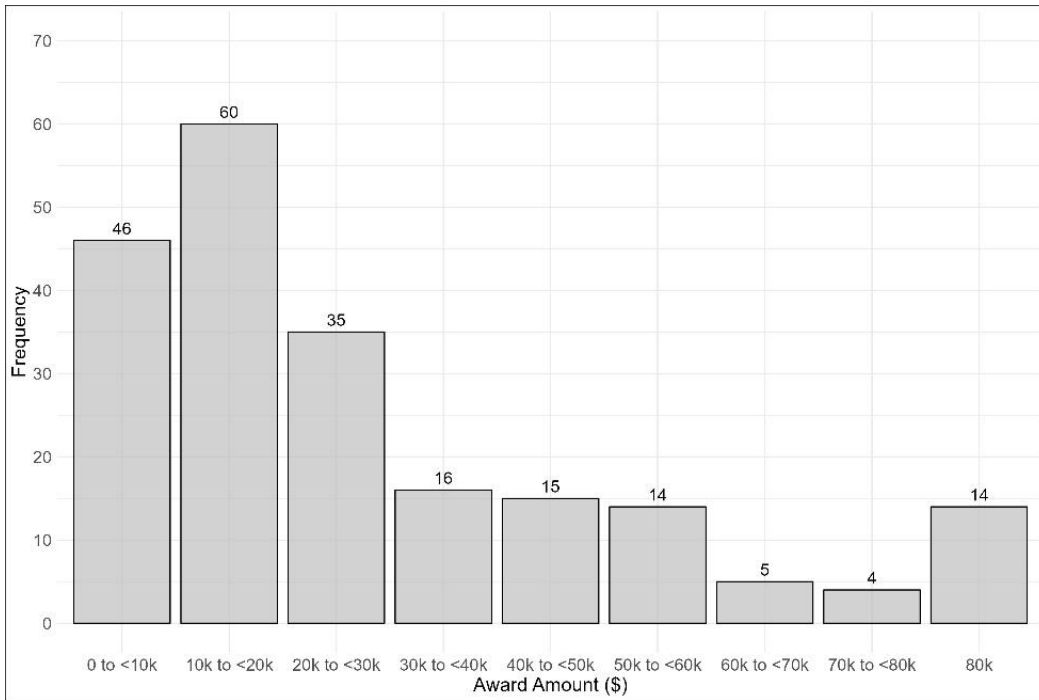
In addition, the Bill would impact certain owners of office buildings in the County. The vacancy rate for office buildings in the County increased from 12.3 percent in the fourth quarter of 2019 to 17.8 percent in the fourth quarter of 2023, which amounts to approximately 13.6 million square feet of unused space.<sup>6</sup> If the change in law lowers vacancy rates in the County, then it would prevent certain property owners from experience loss of rent revenues.

Beyond these potential impacts, OLO cannot anticipate if the Bill would affect private organizations in terms of the Council's other priority indicators.

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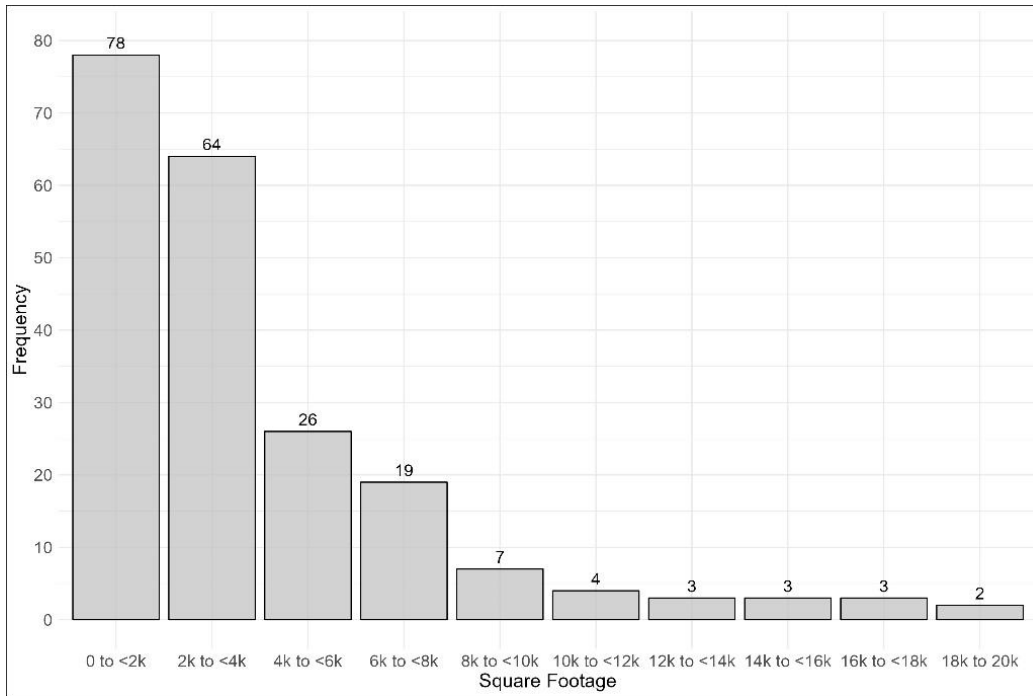
<sup>6</sup> CoStar data provided to OLO by Council staff.

**Figure 1. Frequency of Grants by Award Amounts (2014-2024)**



Source: OLO; Montgomery County Business Center

**Figure 2. Frequency of Grants by Square Footage (2014-2024)**



Source: OLO; Montgomery County Business Center

## Residents

OLO anticipates that Bill 11-24 would have insignificant direct impacts on residents in the County in terms of the Council's priority economic indicators.

## Net Impact

OLO anticipates that Bill 11-24 would have an overall positive impact on economic conditions in the County in terms of the Council's priority economic indicators. By codifying and expanding the Make Office Vacancy Extinct (MOVE) program, the Bill would benefit certain existing businesses in the County that receive the grant for office space expansion which they otherwise would be ineligible to receive in the absence of the policy change. It would also benefit certain new businesses and businesses seeking to relocate to the County that receive higher grant awards than they otherwise would in its absence. The grant would lower the cost of rent for these businesses, which would reduce their operating expenses and increase business income (holding all else equal).

Also, if the change in law reduces office building vacancy in the County, then it would prevent certain property owners from experiencing loss of rent revenues. Importantly, OLO cannot predict the extent to which the Bill would reduce vacancy. For this reason, it is uncertain whether the policy would affect other indicators prioritized by the Council, namely property values, economic development, and competitiveness.

## DISCUSSION ITEMS

Not applicable

## WORKS CITED

["Introduction Staff Report on Bill 11-24, Finance – Economic Development Fund – Make Office Vacancy Extinct \(MOVE\) Grant Program -Established."](#) Montgomery County Council, April 16, 2024.

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

## CAVEATS

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

## AUTHOR

Stephen Roblin (OLO) prepared this report.