DC
Fiscal Policy Institute

December 9, 2009

A Proposed Tax Break to Recruit CoStar into the District: High Costs, Questionable Benefits, Bad Tax Policy

On December 15th, the DC Council is expected to hold a vote on a bill that would give a 10-year, 100-percent property tax abatement to CoStar, a Bethesda-based real estate information company, if it moves into the District. While the bill (the High Technology Commercial Real Estate Database and Service Providers Tax Abatement Act of 2009) does not list a beneficiary, it is widely understood that CoStar is the company intended to benefit.

The bill raises several concerns.

The District does not need to offer tax incentives for downtown office space. Even in the midst of the economic downturn, the District has a very competitive office market. DC's office vacancy rate is the second lowest in the nation — and far lower than in the DC suburbs.[1] While office vacancies have risen in the past year, this is due entirely to the economic downturn and a recent delivery of many new office buildings. Luring one business into the District will not improve the long-term prospects of DC's already-strong office market. Moreover, under the proposed bill Co-Star could leave the District as soon as the tax break expires.

Bringing CoStar into the District will not improve employment for DC residents. CoStar would receive a tax break simply for moving its current employees into the District. It would not be required to hire any new employees.

It is unfair to target one business for tax reductions. CoStar would pay no property taxes to the District for 10 years, while most other businesses would continue to pay their full property tax bills.

There is no evidence that CoStar needs a tax incentive to succeed in the District. The Washington Business Journal notes Costar is a successful company that has performed well in recent years, despite the real estate downturn, and is considered a leading small business.[2]

The CoStar tax break would reduce DC revenues in the midst of DC's fiscal crisis. CoStar would qualify for a tax break of up to $700,000 per year, or $7 million over 10 years. The bill proposes to pay for the tax break by repealing a property tax abatement for an Urban Institute project that may not be moving forward, though the Urban Institute, although this is not clear. Whether or not the Urban Institute project moves forward, approving a tax break for CoStar would reduce DC revenues by $700,000 from what it otherwise would collect.

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1 "D.C. office vacancies second lowest in the nation," *Washington Business Journal,* October 7, 2009.
2 "CoStar may move to D.C. if incentives become available," *Washington Business Journal,* November 20, 2009.

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