

Market Analyst Day 2021

Fritz Kaegi
Cook County Assessor



Today's Agenda

Assessments and their Effects: 2018, 2019, and 2020

Fritz Kaegi, Cook County Assessor

City of Chicago's 2021 Budget, Levy, and Financial Outlook

Jennie Bennett, CFO, City of Chicago

Commercial Property and the 2021 Chicago Reassessment

Marty Paulson, Chief Valuations Officer, CCAO
Andy Miller, Director of Commercial Valuation, CCAO

How RPIE Improves Transparency and Predictability in Assessments

Robert Ross, Chief Data Officer, CCAO

Summary of 2020

Four significant events

- Launch of Real Property Income and Expense tool
- Released International Association of Assessing Officers study
- Reduced some residential and commercial assessments due market effects of COVID-19
- Finalized north suburban reassessment report

Real Property Income and Expense (RPIE)

RPIE collects data to create commercial assessments that better reflect local conditions.

What data we look for

Income from real property

- IRS Schedule E
- IRS Form 8825
- Income & Expense statement
- Motel/Hotel income & expense
- Lease document
- Or: manual entry

Physical building characteristics

- Size, parking spaces
- Elevators and other building amenities
- Ramp-up period?
- Obsolete?

Inventory of spaces in a building

- Rooms, bedrooms, and other features.
- Lease dates and amounts
- Vacancy
- Concessions
- Rent forgiveness
- Owner occupancy

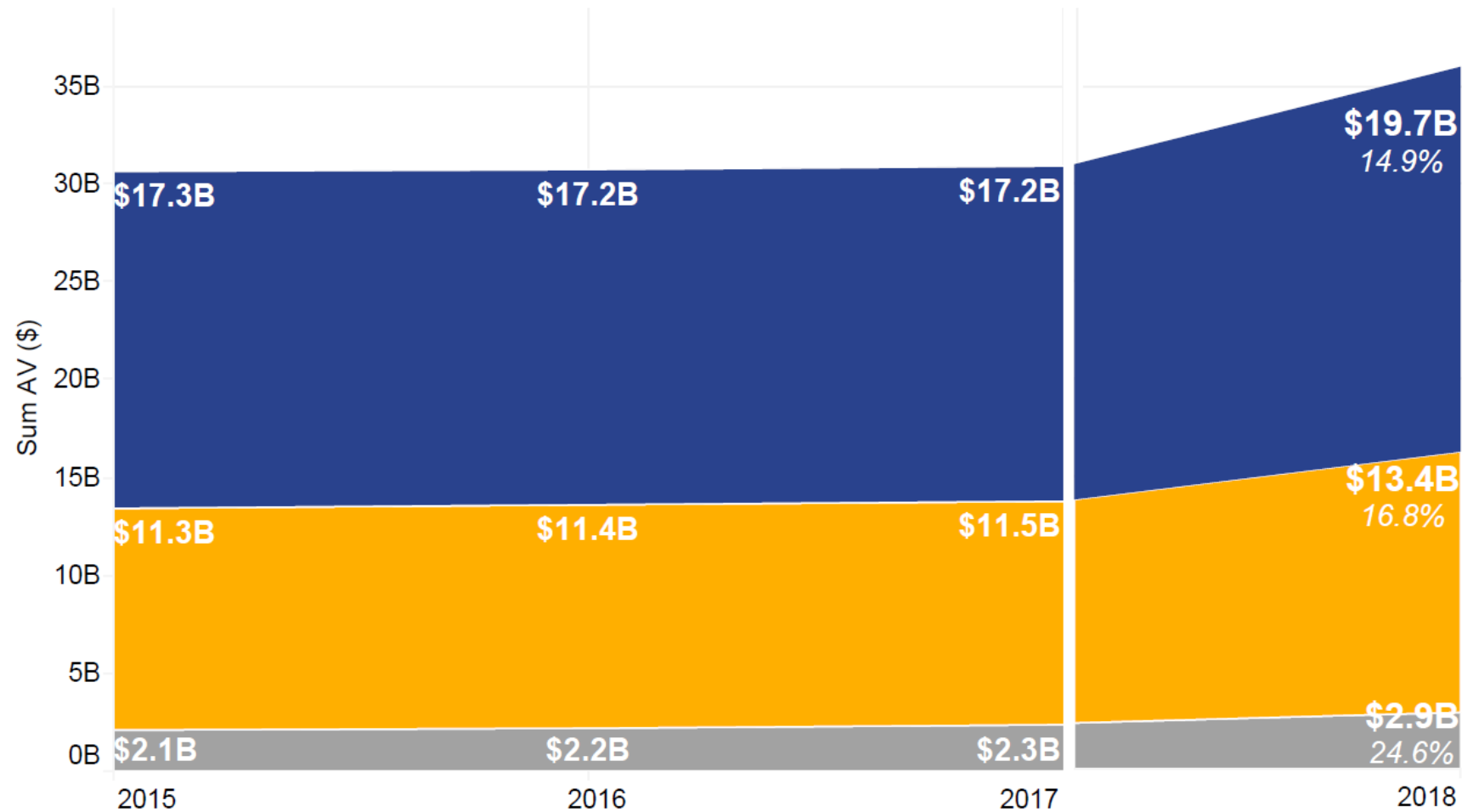
Good data = transparency and predictability

- Assessments based on high-quality market data are **more predictable** and **fair**.
- The CCAO is committed to producing the most accurate, fair, transparent assessments possible.
- We need your help to compile market data and produce those assessments.
- Significant outreach before Chicago 2021 reassessment
- More on this in Rob's presentation

IAAO Study of 2018 Commercial Sales Ratios

Chicago's 2018 reassessment

Residential (Class 2) Commercial (Class 5) Other (All Others)



IAAO Sales Ratio Study: Process

- Examined arm's length commercial transaction and compared them to the system's estimates of value
- Sales of commercial properties in the City of Chicago and Cook County during 2018 compared with estimated market values
- Assessments determined by the previous Cook County Assessor and certified by the Cook County Board of Review
- Estimated market values, not assessed values

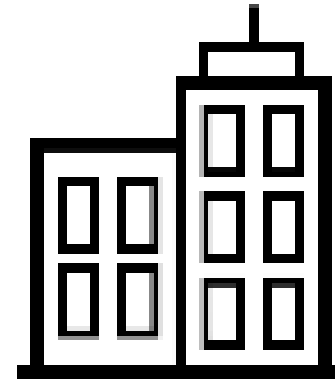
According to the IAAO, in 2018, Chicago's commercial assessments were...

too low.

Estimated market
values were

52%

of their sale prices.



\$1,000,000 

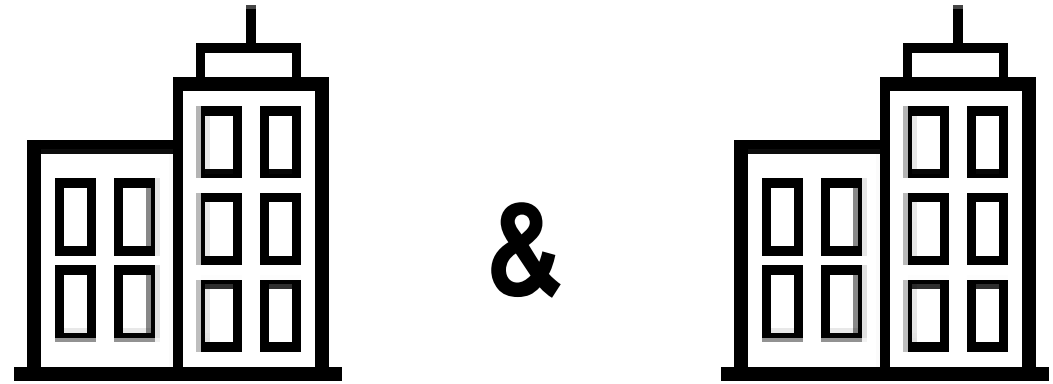
taxed as if it was worth

\$520,000

According to the IAAO, in 2018, Chicago's commercial assessments were...

too low.

not uniform.



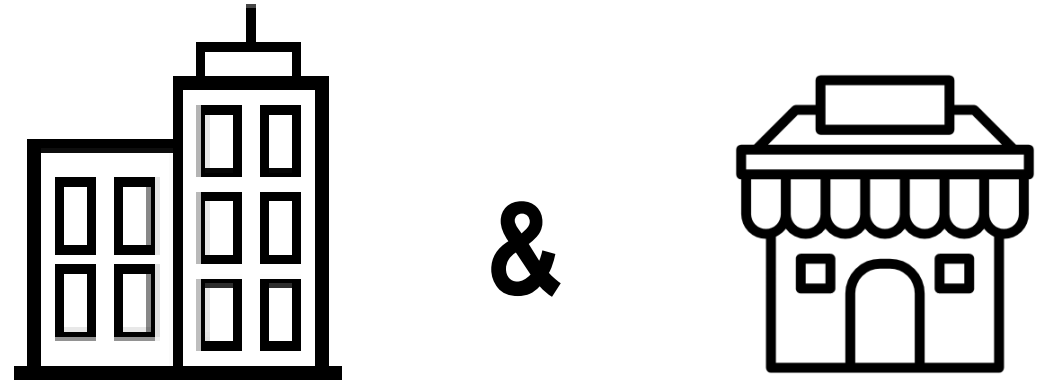
Similar properties
did not have similar
assessed values.

According to the IAAO, in 2018, Chicago's commercial assessments were...

too low.

not uniform.

regressive.



Properties with higher sale prices were more underassessed than properties with modest sale prices.

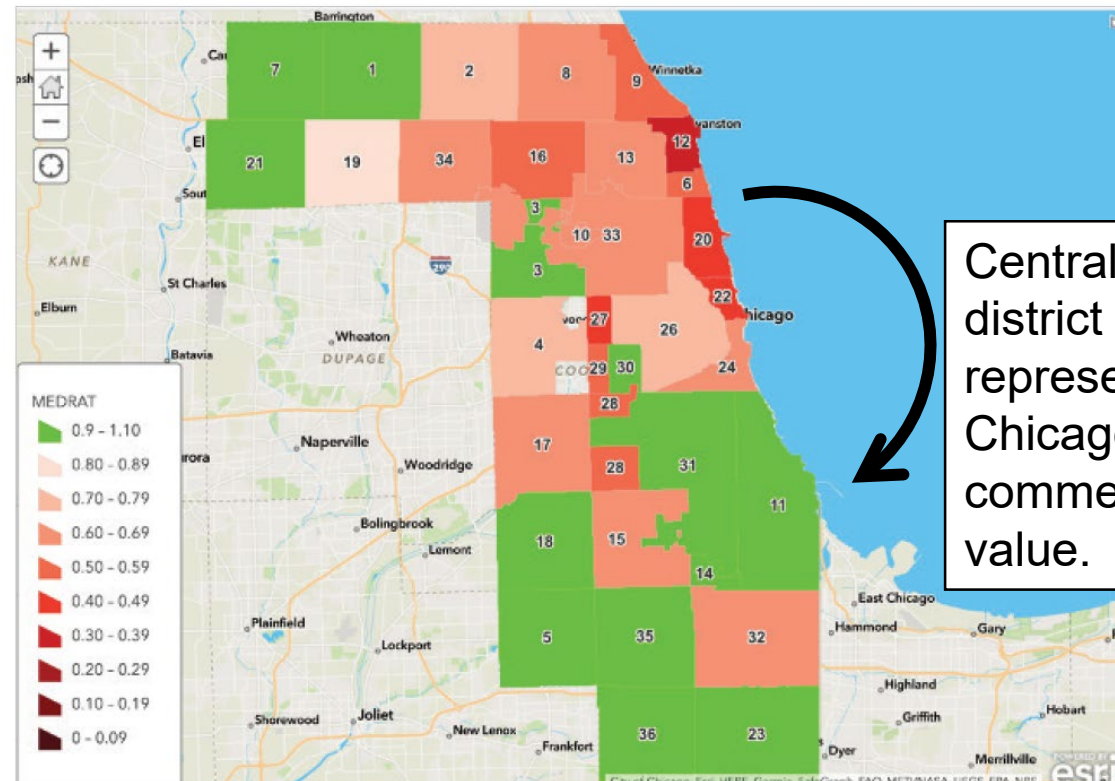
According to the IAAO, in 2018, Chicago's commercial assessments were...

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regressive.

2018 Median Ratio by Township



IAAO Study: Impact on decision-making

2019 North Suburban reassessment

Verified our internal findings and assessment increases

2020 COVID-19 adjustments

Data about potential reductions in commercial properties

2021 Chicago reassessment

A look at where things stood after the last reassessment

2020 COVID-19 Adjustments throughout Cook County

COVID-19 Adjustments: Considerations

- Statute allows consideration of factors after lien date due to disaster declaration
- Reflecting market value shouldn't be dependent on appeals; equity was our prime concern
- Uniformity: When do we make a decision?
- REITs and other real-time data in February - April
- Avoiding predictions: Risk was values could rebound later

COVID adjustments: Commercial

Analysis

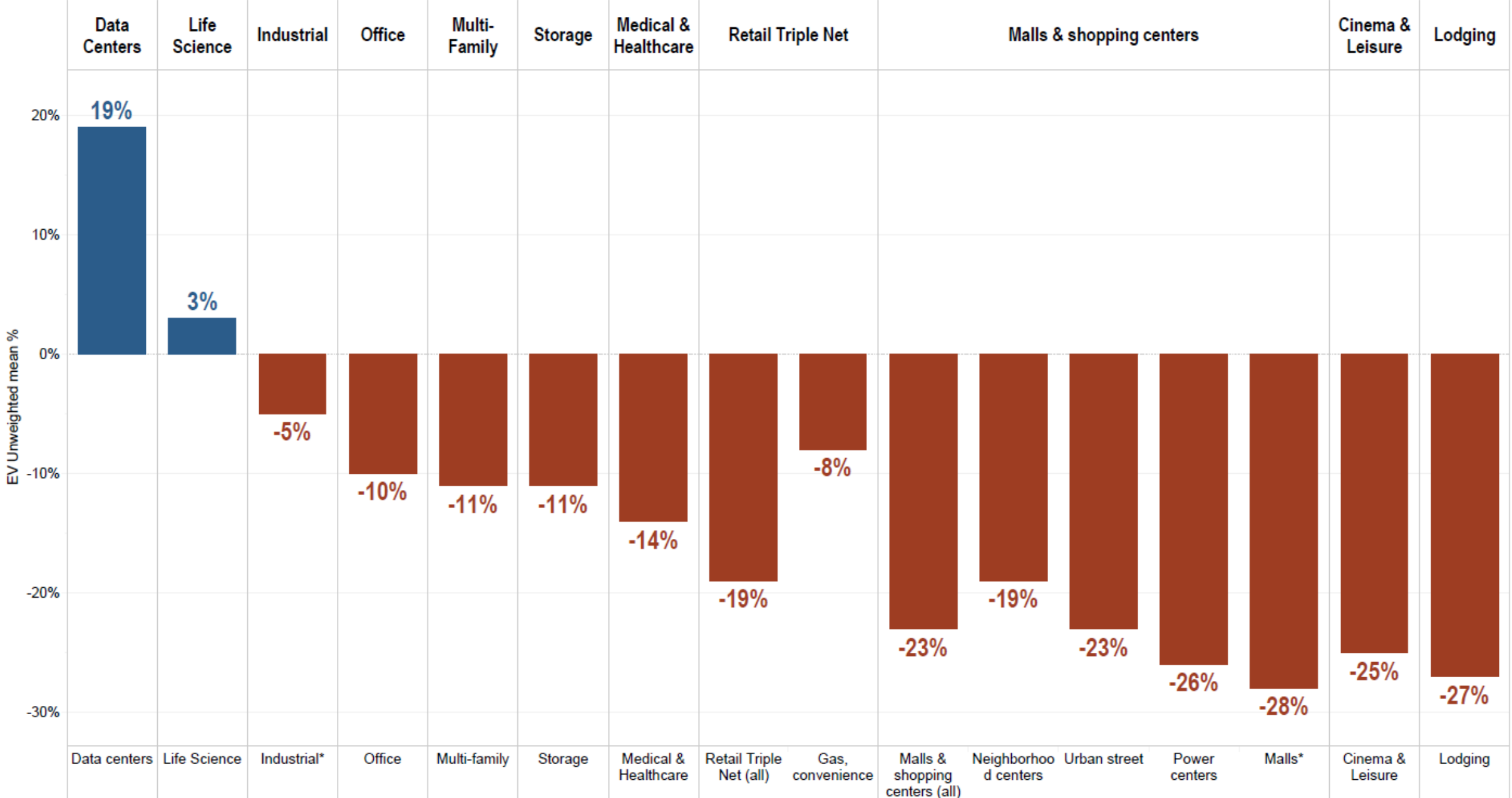
COVID-19's market effects were felt significantly by:

- Hotels and theaters
- Retail properties
- Office
- Some industrial properties

Other properties, such as grocery stores, data centers, medical use/office, banks, and self-storage were not directly impacted.

IAAO Sales Ratio Study showed significant underassessment of commercial properties.

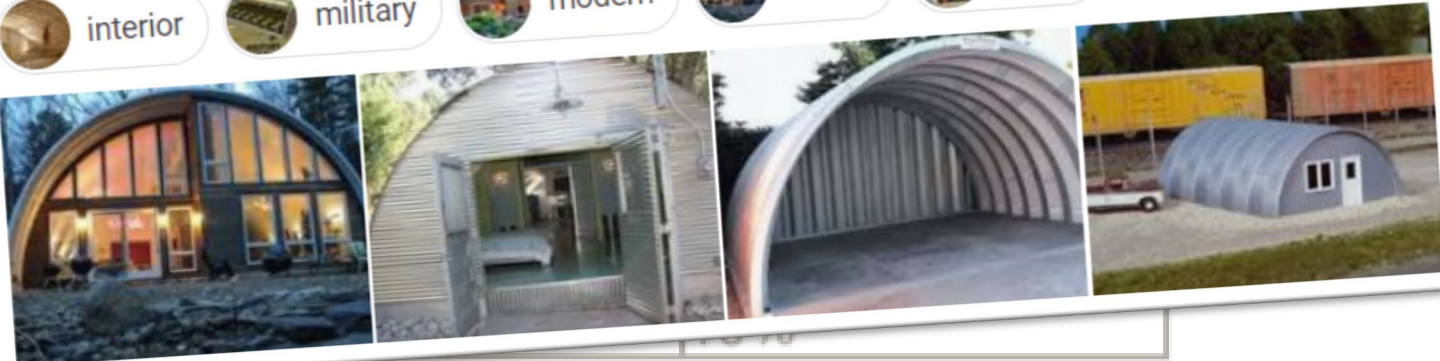
REIT Analysis: Unweighted mean % change in EV



COVID adjustments: Commercial

Class Code	Class Description	Estimated COVID Reduction
5-17	Commercial: retail/office	20%
5-29	Hotel	25%
5-31	Shopping Center	20%
5-27/5-32	Theater/Bowling alley	25%
5-33	Quonset hut	15%
5-89	Industrial condo	10%
5-91/5-92	Office	12%
5-81/5-83/5-87/5-93	Industrial	5%
5-97	Special use structure	12%
5-99	Commercial condo	10%

COVID adjustments: Commercial

Class Code	Class Description	Estimated COVID
5-17	<p>https://en.wikipedia.org/wiki/Quonset_hut</p> <h3>Quonset hut - Wikipedia</h3> <p>A Quonset hut /'kwɒnsɪt/ is a lightweight prefabricated structure of corrugated galvanized steel having a semi cylindrical cross-section. The design was ...</p> <p>Nissen hut · Romney hut · Jamesway hut · Iris hut</p> <h4>Images for quonset hut</h4> <p>interior military modern house metal</p> 	
5-29		
5-31		
5-27/5-32		
5-33		
5-89		
5-91/5-92		
5-81/5-83/5-87/5-93		
5-97		
5-99		

COVID adjustments: Residential

South and western suburbs; Northern suburbs, City of Chicago

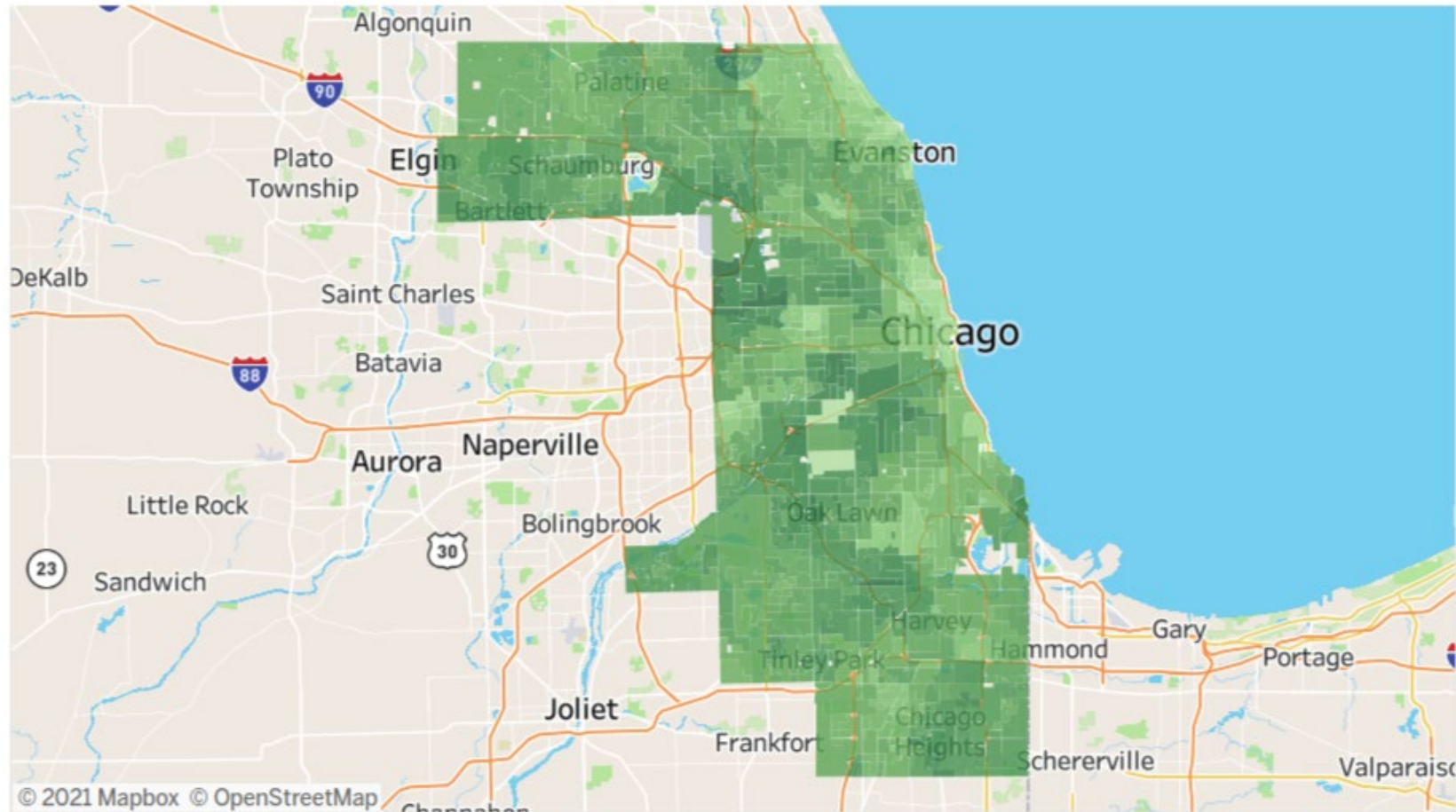
All residential properties received a COVID-19 reduction.

Based on: REITs, Case-Shiller analysis of previous crises, unemployment data.

Most initial reassessments had COVID-19 adjustments built in; early townships received post-appeal adjustments.

COVID adjustments: Residential

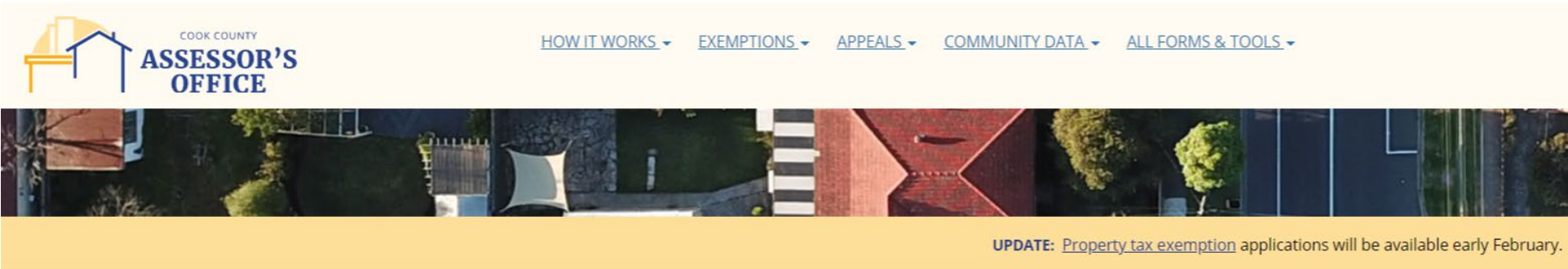
Assessor's COVID **Adjustments** to 2020 Property Values
(Single-Family Homes and Condos)



COVID Adjustment (%) to 2020 Property Values



cookcountyassessor.com/covid19



COVID-19

To account for the COVID-19 pandemic's impact on real estate values throughout Cook County's neighborhoods and communities, the Cook County Assessor determined that it is appropriate to apply COVID-19 Adjustments to property values in 2020, where applicable. The extent of these adjustments will depend on each property's use, type, and location.

Summary Reports



[ADJUSTMENTS IN SOUTH & WEST SUBURBS](#)

[ADJUSTMENTS IN CHICAGO AND THE NORTH SUBURBS](#)

[FAQS AND INFORMATION](#)

Code and Data



[COVID-19 ADJUSTMENT CODE](#)

[VIDEO: HOW VALUES WERE CALCULATED](#)

[MAP OF ADJUSTMENTS](#)

News and Updates



[VALUATION REPORTS](#)

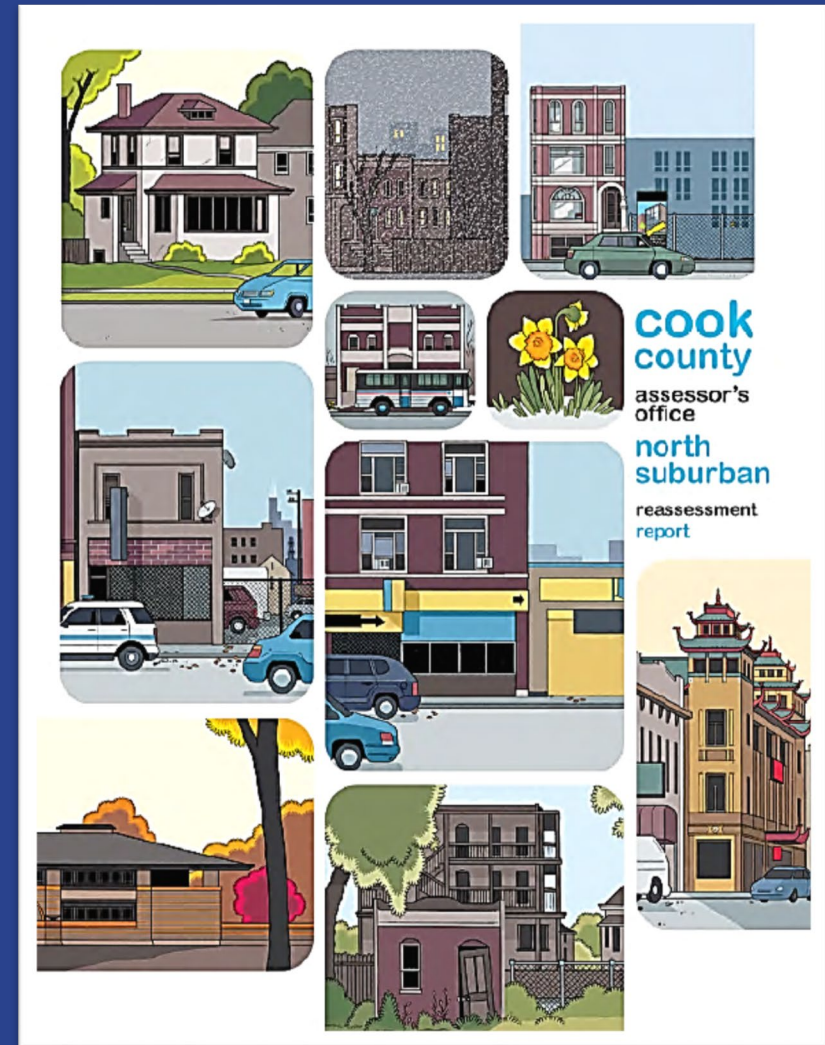
[APRIL 14: CHANGES TO ASSESSMENTS AND APPEALS](#)

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North Suburban Reassessment Report

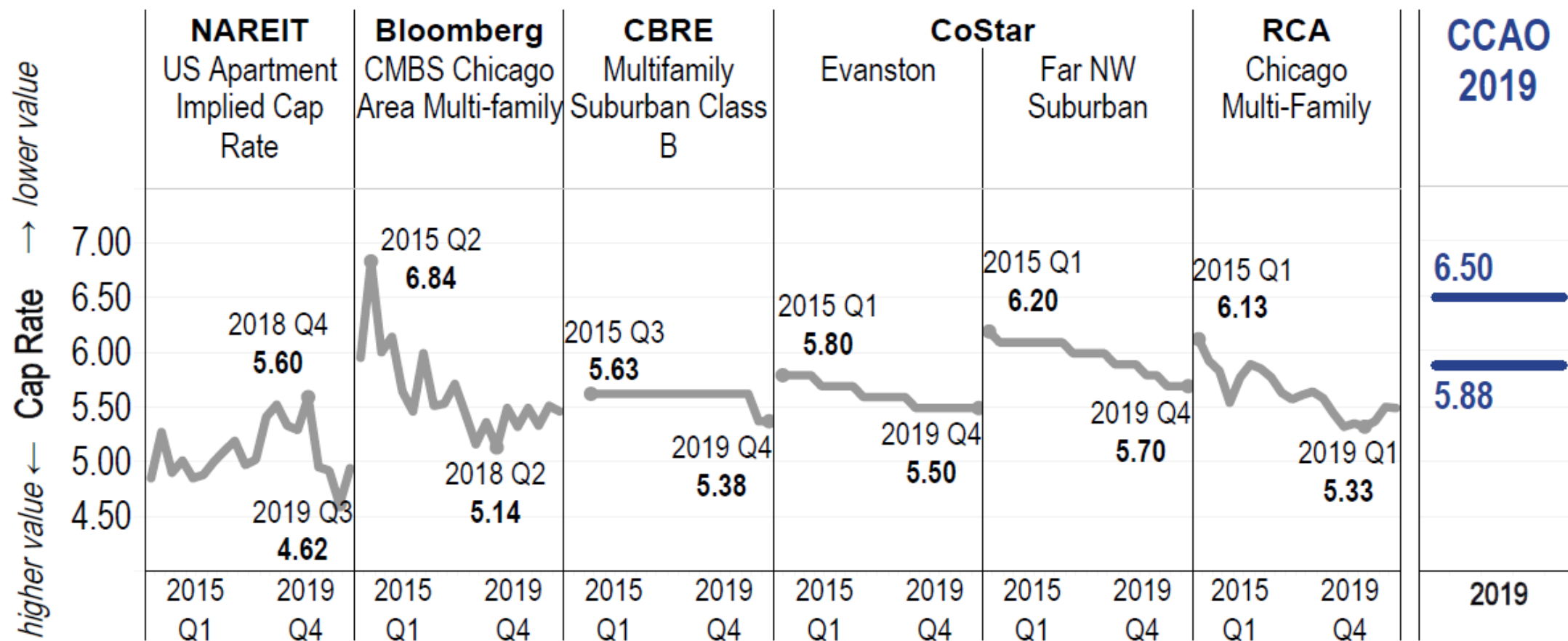
Highlights:

- Cap rate comparisons
- The tax base: CCAO and post-CCAO



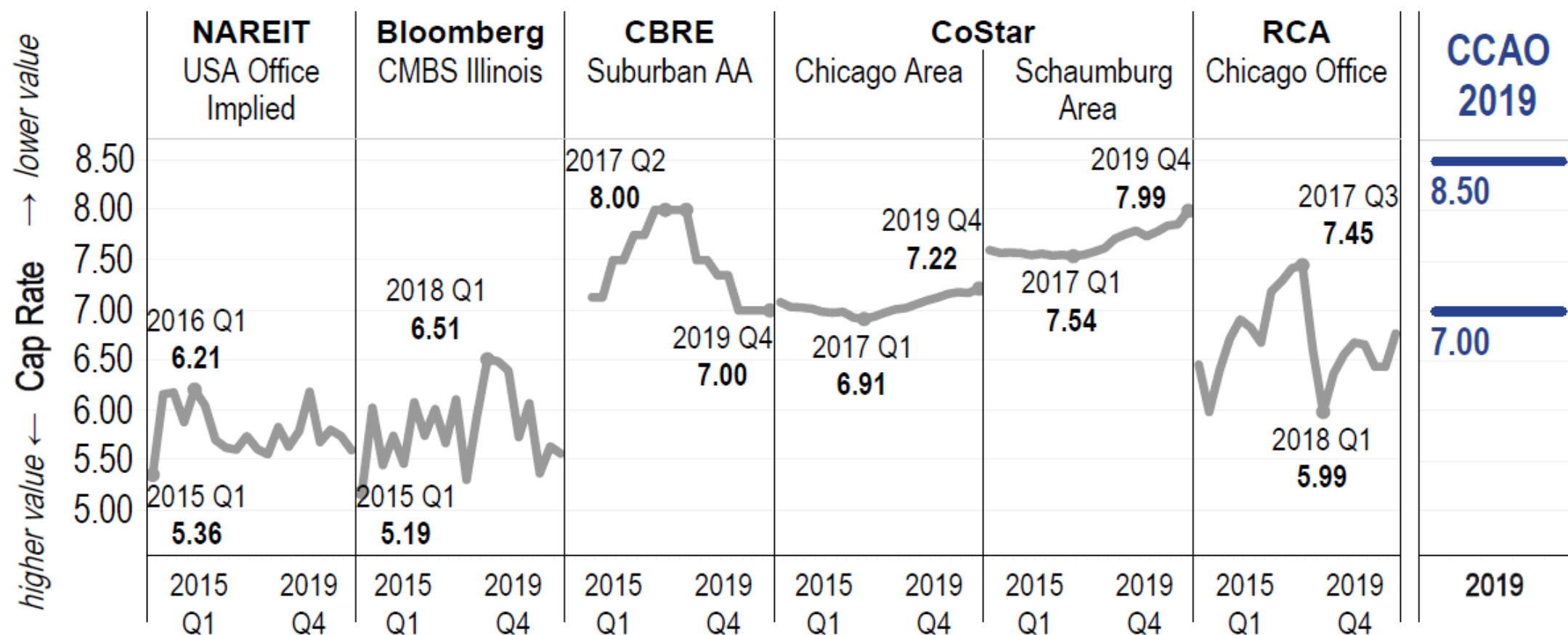
Multi-family cap rate trends from third-party data (2015-2019) & CCAO's (2019)

US multi-family cap rates as reflected in the NAREIT index have remained relatively steady at about 5%. Meanwhile, county apartment cap rates have generally declined, steadily compressing the spread over national rates such that it now below 100 bp in the main Chicago-area indices. Suburban apartment indices have followed this trend. The sources quoted here largely fall within a narrow range, more closely bunched than we see with other property classes.



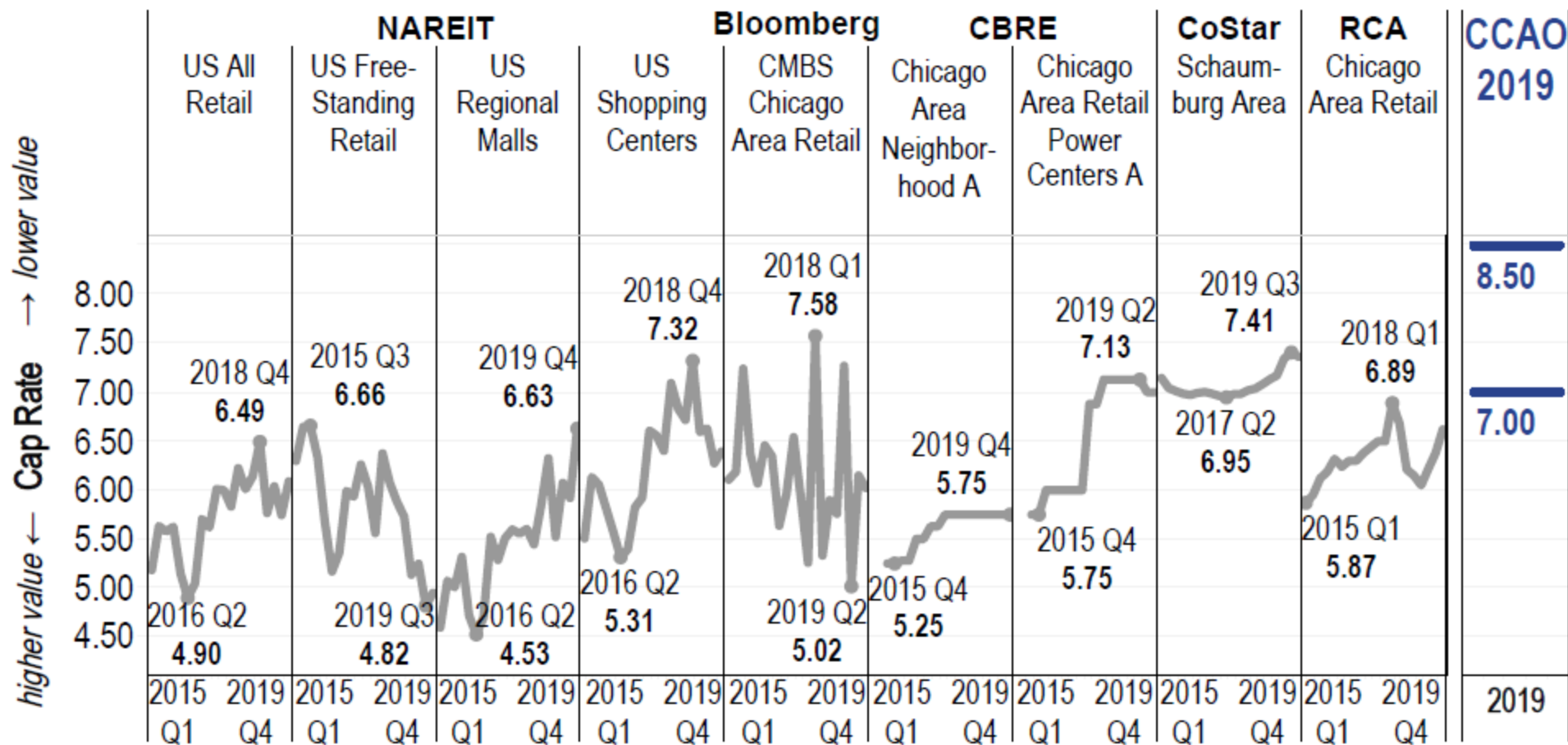
Office cap rate trends from third-party data (2015-2019) & CCAO's (2019)

Cap rates for office properties in the county have been relatively stable since 2015. The market for Office in Illinois CMBS closely tracks the overall US office cap rate implied in the NAREIT Office index. Downtown, higher quality office property in Chicago trades closer to these levels. Office property in the suburbs of comparable quality trades with a spread of an additional 100bp, with spreads widening with lower quality and discounted locations.



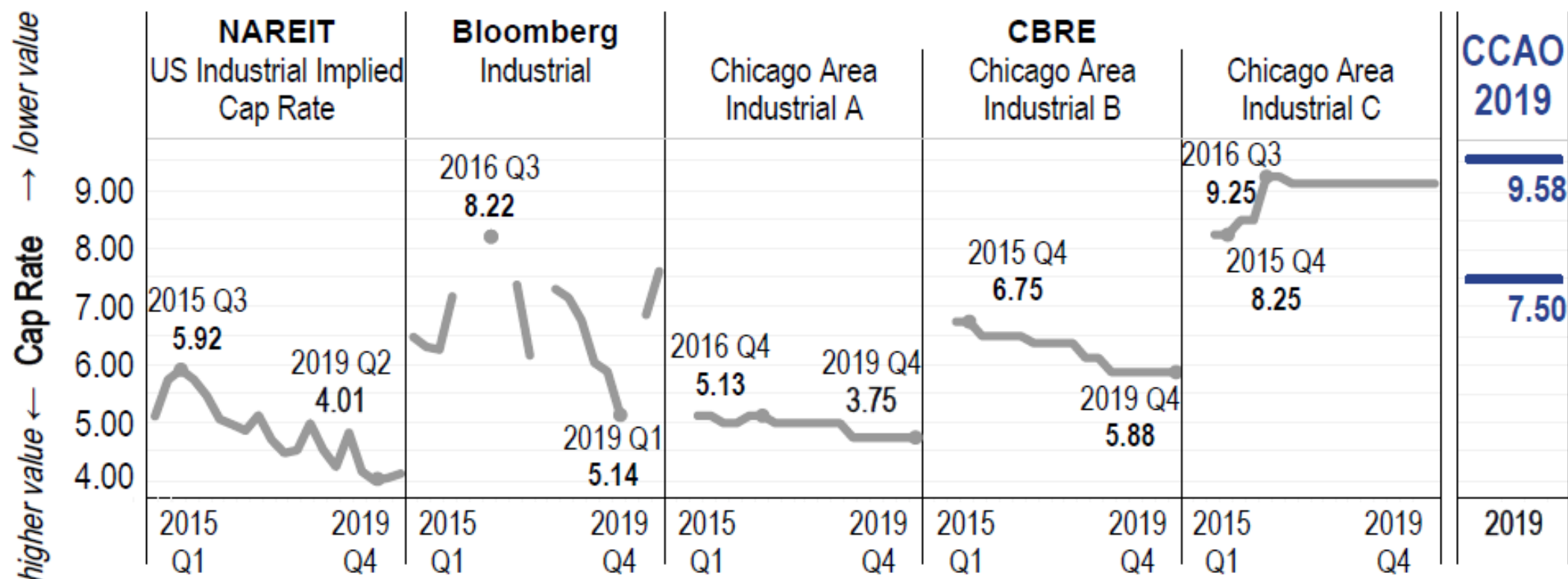
Retail cap rate trends from third-party data (2015-2019) & CCAO's (2019)

In contrast with other commercial classes, the NAREIT indices show US-wide retail cap rates have trended higher since 2015. This reflects pressure on brick-and-mortar retail from competition from e-commerce and the associated weakening financial health of building tenants, such as department stores and specialty retailers. The Bloomberg Illinois CMBS index, as well as survey indices pertaining to Chicago and the suburbs, show more stability and fall within a relatively narrow range. Although not fully reflected in the charts here, quality spreads in retail property are high, with cap rates on lower quality properties sometimes several hundred basis points over the highest-quality properties.



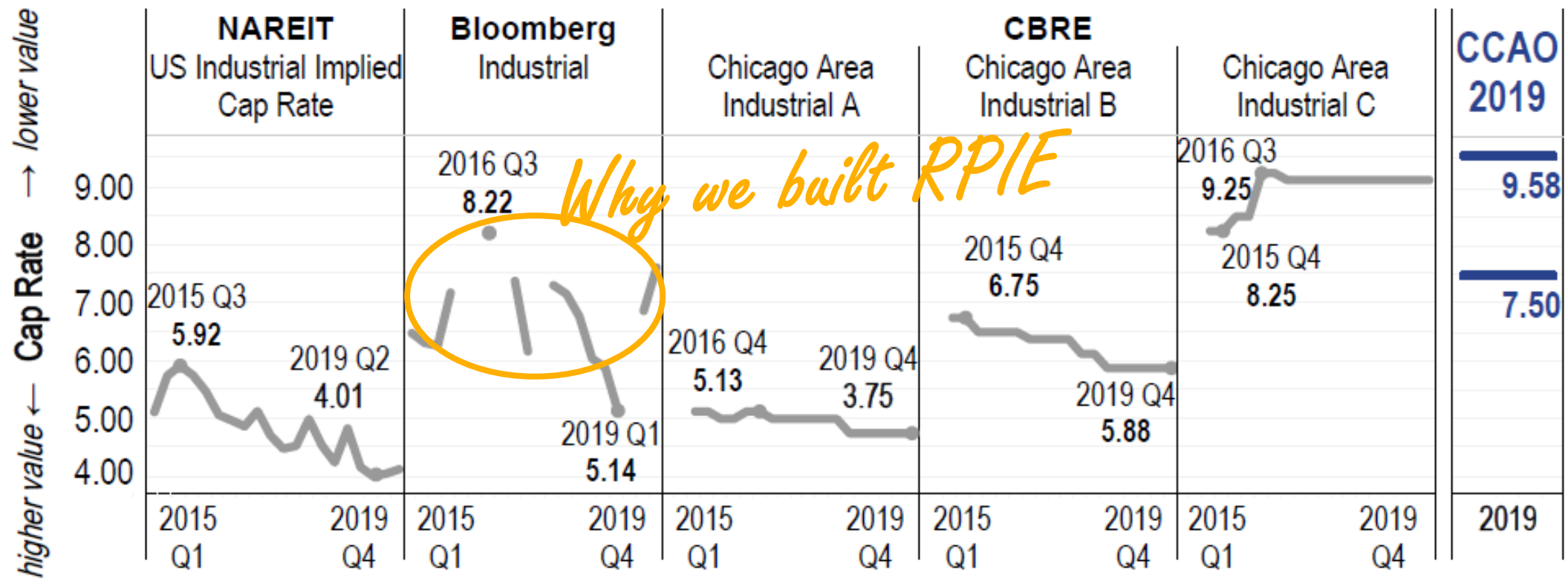
Industrial cap rate trends from third-party data (2015-2019) & CCAO's (2019)

Nationally, cap rates on industrial properties have declined in recent years to as low as 4%. County and Chicago indicators show more stability. Quality spreads are very high, with low-quality industrial space sometimes having more than double the cap rate of the highest-quality properties. The broken line of the Bloomberg Illinois CMBS series reminds us that transaction activity can be infrequent in this and other sectors.



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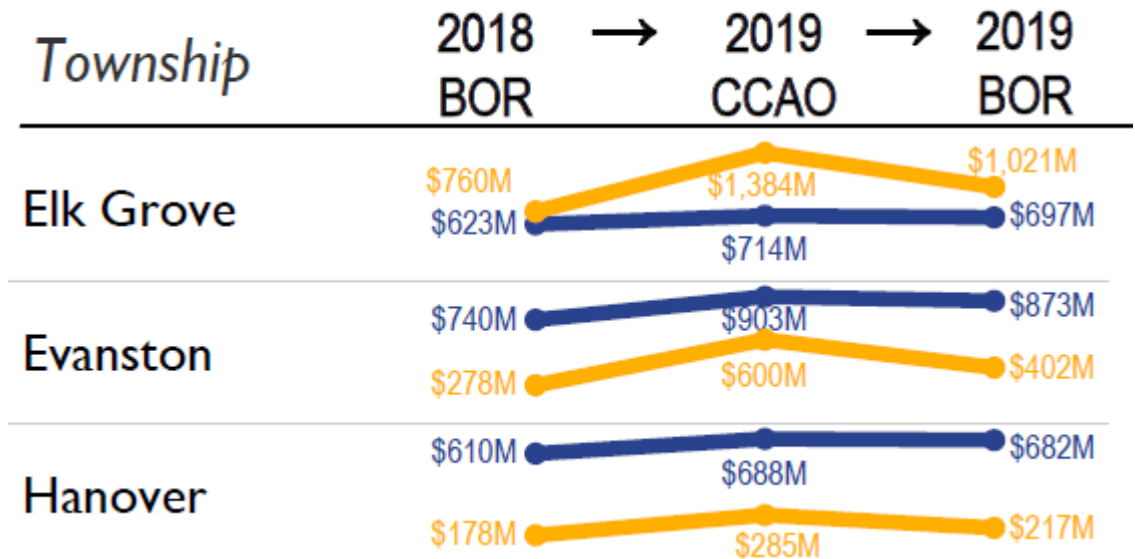
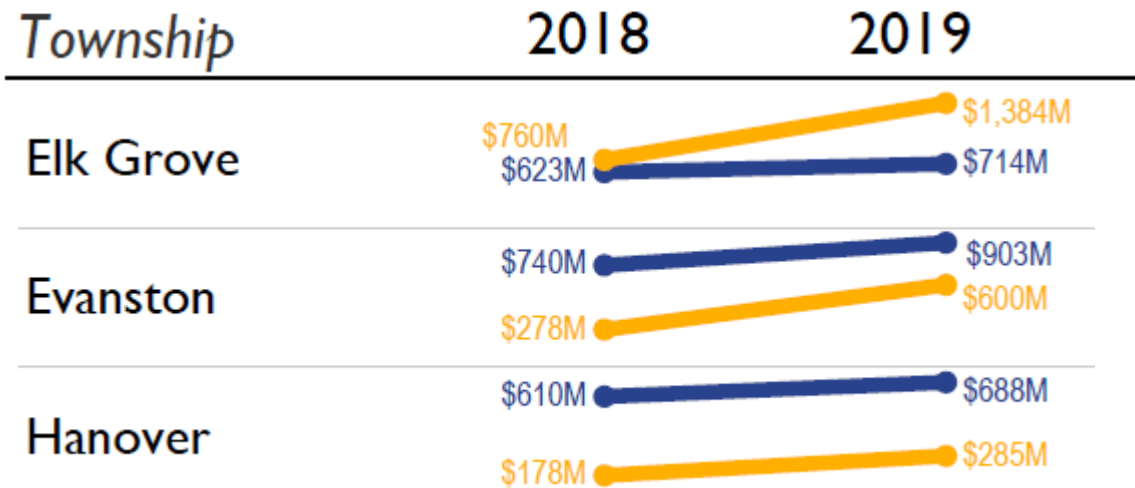


Property tax bases throughout the north suburbs



Total Assessed Values (\$)

There was **growth** in total Assessed Values of **Residential** (class 2) and **Non-Residential** (all other) property classes for all townships in the North Suburbs. Growth occurs when individual property values rise, and when there are more properties.

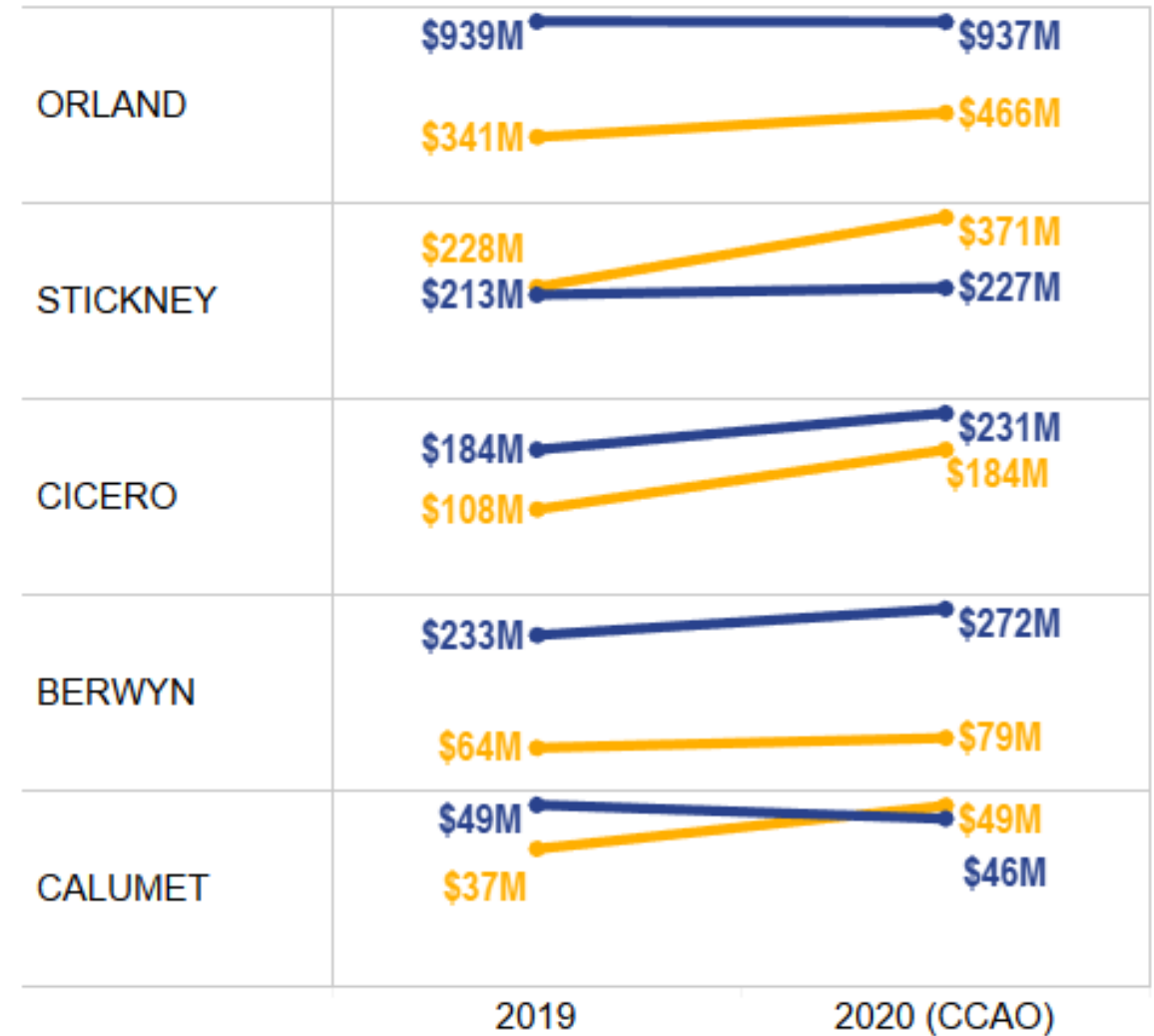
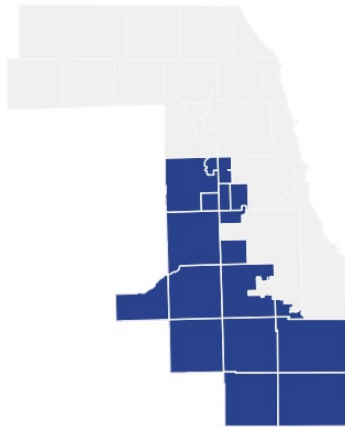


South and west suburban reassessment

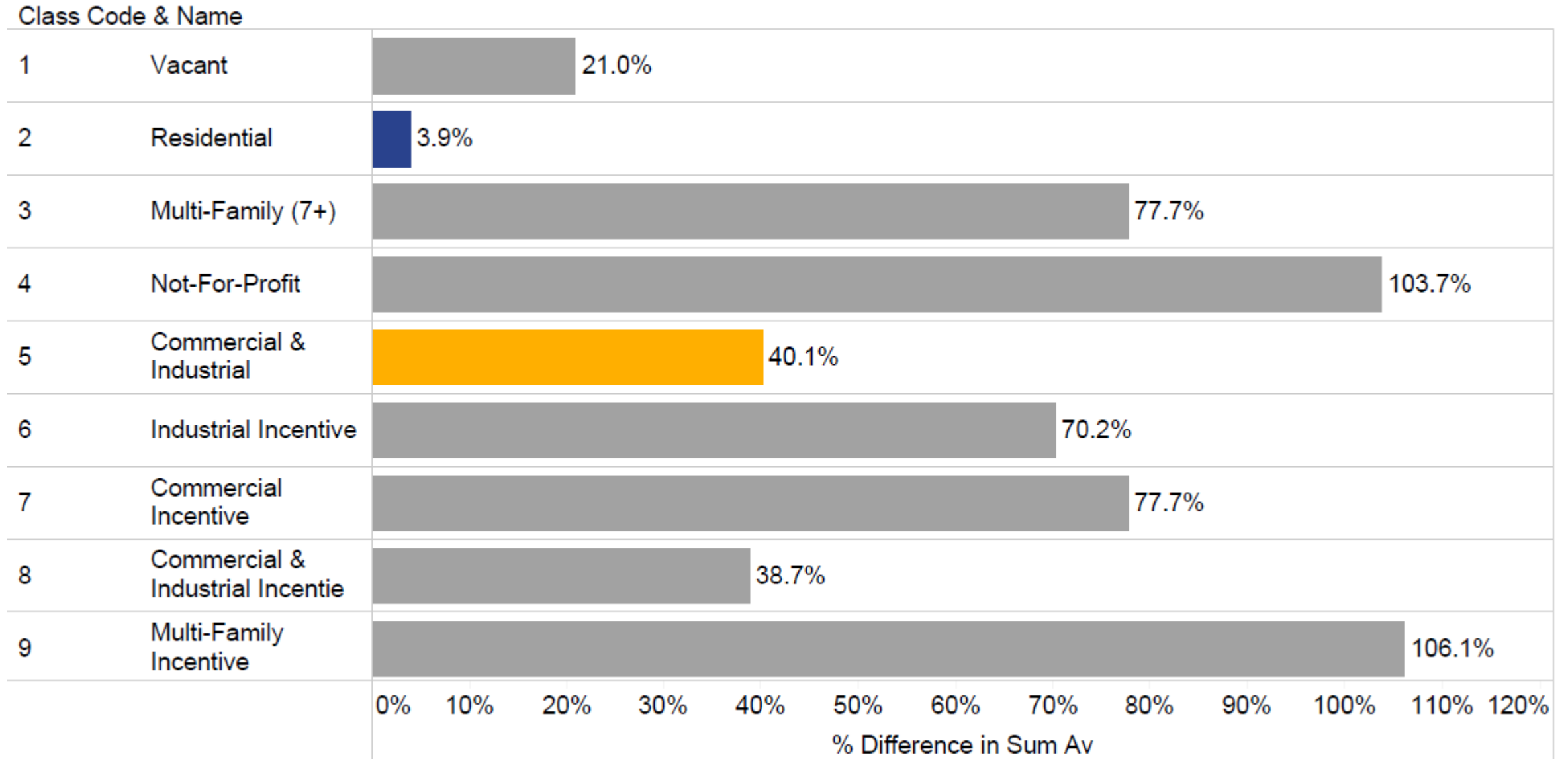
South/west suburban reassessment

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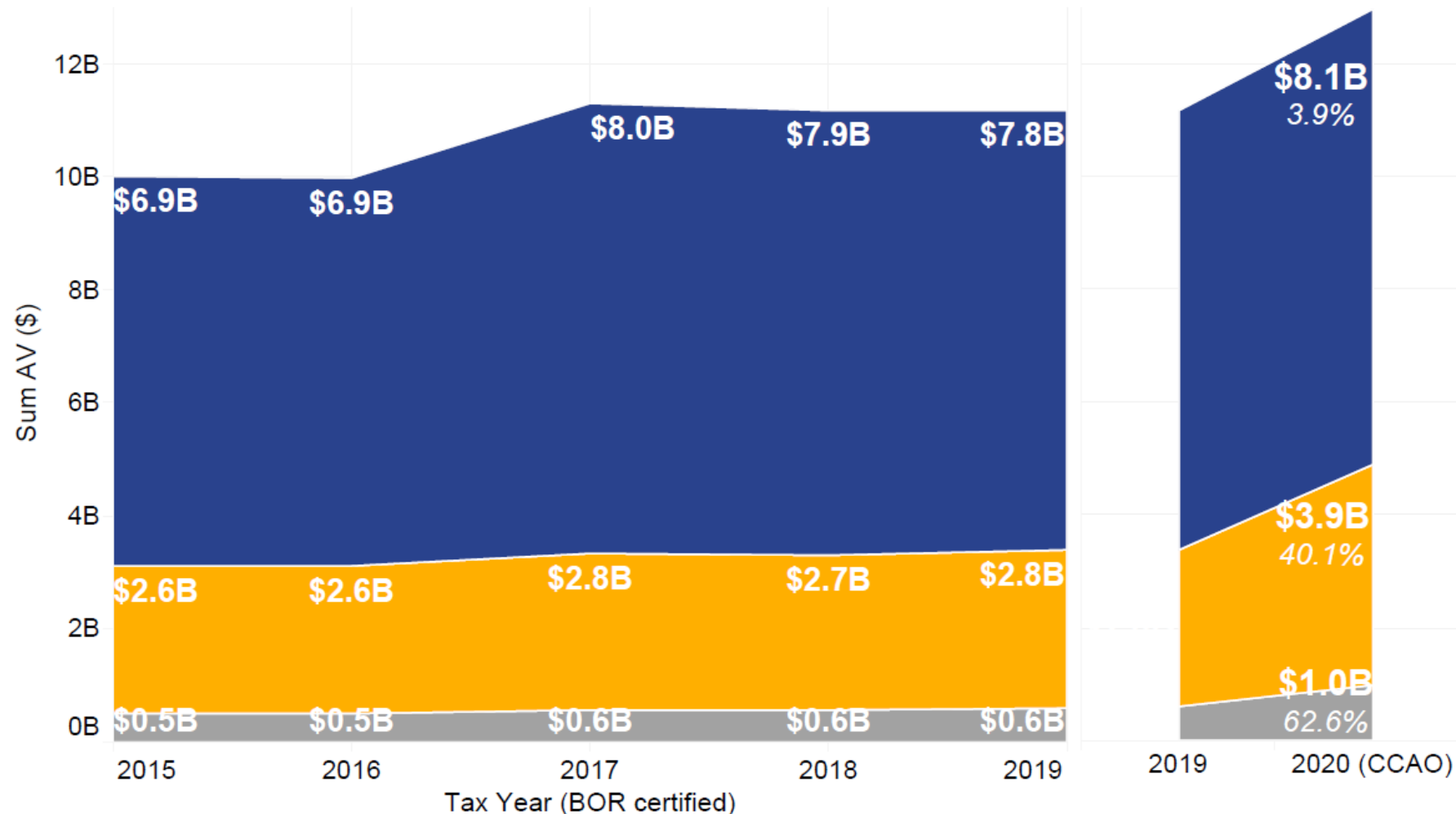
South Tri: Total Class AV growth, 2019 to 2020



South/west suburban reassessment: +16%

The South Tri's AV grew 16% from 2019 --> 2020 (CCAO).

Residential (Class 2) Commercial (Class 5) Other (All Others)



Q&A