

# Rogers Park: Multifamily & Commercial Real Estate Valuation Report

The CCAO's statutory duty is to estimate the Fair Market Value of property and then produce assessments in accordance with those estimates. To do this, we hold a mirror to the market. The CCAO is confident that the 2021 reassessment of Rogers Park commercial properties reflects an in-depth and professionally researched valuation methodology. Most commercial properties generate income from rent, and so for most properties the CCAO uses the industry-standard income approach to mass appraisal of commercial real estate, supplemented with sales analyses.

Rogers Park Township—one of Chicago's eight townships—is home to 797 large apartment buildings (including senior living and affordable housing), 2 hotels, 36 office buildings, 14 industrial buildings, 3 retail shopping centers, and 61 special commercial structures.

2021 is the first scheduled reassessment of Rogers Park since its last reassessment in 2018. The 2021 reassessment is an opportunity to ensure that property assessments mirror the market, such that property taxes are fairly divided among all properties.



## Executive Summary

In the three years since 2018, property values in most of Chicago's commercial real estate sectors have risen overall. Chicago has been a steady, vibrant place for local, national, and international commercial real estate investors. Commercial real estate sale prices and rents—and property values—have grown overall from 2018 to 2021 for most property types.

In the last year, COVID-19 and associated shutdowns have had varying effects throughout Chicago. Hotels and retail properties are among the sectors with the largest declines since the onset of COVID, whereas grocery stores, industrial buildings, and data centers have been stable or even met positive growth since the onset of COVID.

Reassessments conducted in 2021 will affect the second installment property tax bills for Tax Year 2021, issued in summer of 2022.

Effects of this reassessment on an individual's property tax bill are impossible to predict based on just one property's change in assessed value. Each property's share of the overall property taxes for a taxing agency's district depends on its share of the total assessed values of all properties in that district. Assessments throughout the other seven townships in the City of Chicago will affect how property taxes are distributed among property owners throughout the City.

A typical Chicago property's taxes contribute to a dozen taxing districts, all listed on the property tax bills issued by the Cook County Treasurer.

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## Valuation method: Income Approach

Our office looks at commercial property the way a buyer would approach a market transaction: by examining its highest and best use through three valuation approaches:

- Income
- Sales comparison
- Cost

For income-producing properties, “the income approach is the preferred valuation approach” (International Association of Assessing Officers, [Standard on Mass Appraisal of Real Property, Section 4.4](#)). Our office primarily relies on the **income approach**, with secondary support and consideration from other approaches.

The **income approach** begins with analyzing income and expense data to determine typical gross incomes, vacancy rates, net incomes, and expense ratios for comparable types of properties.

Income estimates can be transformed (capitalized) into estimates of building value in various ways. The CCAO uses **unloaded cap rates**, which, consistent with general real estate market analysis, account for expenses and real estate taxes in transforming income into estimated value.

## Assessment methodology: Investment Class Categorization

Properties are categorized into similar groups by the CCAO into categories. These categories include investment classes as described below.

Investment Class Category	Investment Class Description
Institutional	<ul style="list-style-type: none"><li>• Highest Quality</li><li>• Typically the focus of national and international investors</li><li>• Typically lower cap rates</li></ul>
Regional	<ul style="list-style-type: none"><li>• Typically distinguished from Institutional class by age, size, and condition</li><li>• Larger and more complex than Neighborhood class</li><li>• Frequently a transitional property</li><li>• Typically the focus of regional and national investors</li></ul>
Neighborhood	<ul style="list-style-type: none"><li>• Typically smaller properties</li><li>• Typical commercial tenant is an owner user or local business</li><li>• Typically the focus of only local investors</li><li>• Typically higher cap rates</li></ul>

## Report: Multifamily (7+ units)

The following table describes the ranges of rents, vacancy rates, expense rates, and cap rates, based on our data sources and interviews with local market participants, used to calculate 2021 fair market values of Rogers Park apartments. Apartments were categorized into groups of investment category group based on a combination of factors like building quality and per-unit rent.

Rogers Park experienced some increase in demand for rental units over the past year, which may have been partially a result of a decrease in home buying due to COVID-related financial impacts on potential buyers.

Property information			Inputs to CCAO Valuation Model				CCAO Valuations
Group	# buildings in this group	Size: # units per building (range)	Income: Rent \$/unit (range)	Vacancy	Expense ratio	Cap rate	CCAO estimated Market Value \$/unit (range)
<b>Institutional</b>	7	38–158	\$896–\$1,356	9%	40%	5.0%	\$117,346–\$177,690
<b>Regional</b>	321	8–171	\$788–\$2,000	9%	40%	6.0%	\$52,154–\$218,400
<b>Neighborhood A*</b>	469	7–40	\$781–\$2,000	9%	45%	8.0%	\$47,071–\$208,237
<b>Neighborhood B</b>	0						

\* Neighborhood A buildings included 7 Affordable Housing buildings, which ranged in rent/unit from \$896–\$1,300, 9% vacancy, expense ratio of 60%–65%, and a cap rate of 7.5–9%, with estimated market values ranging from \$47,071–\$75,712 per unit.

## Report: Hotels

The following table describes the ranges of average daily rates, occupancy, operating expense ratios (as a percentage of total revenue) and EBITDA levels based on industry standards, data sources and interviews with local market participants. These factors were used to calculate 2021 fair market values for Rogers Park hotels. Each property was delineated on the basis of property type and property class as defined by STR.com, the premier hotel industry data resource. Full Service hotels were rated by industry classifications such as Luxury, Upper Upscale and Upscale classes. Limited Service hotels were rated on the basis of Upper Midscale, Midscale and Economy classes.

Given the COVID pandemic, stabilized occupancy and average daily rates were reduced.

Property information			Inputs to CCAO Valuation Model				CCAO Valuations
Group	# buildings in this group	Size: # keys per building	Income: Daily rate \$/key	Vacancy	Expense ratio	Cap rate	CCAO estimated Market Value \$/key
Full Service – Luxury	0						
Full Service – Luxury	0						
Full Service – Upscale	1	145	\$123	62%	30%	9.0%	\$114,676
Limited Service – Upper Midscale	0						
Limited Service – Midscale	0						
Limited Service – Economy	1	45	\$68	62%	39%	11.0%	\$58,156

In addition to interviews with local market participants, recent hospitality sales were noted and cap rates were extracted from the market and supported by independent third party market data sources.

## Report: Office buildings

Below we report on larger Office buildings, typically in property class 5-91 (Commercial building over three stories) and 5-92 (Two-or-three-story building containing part or all retail and/or commercial space). Each property was classified into a group based on Class C office buildings as defined by CoStar.

For specialty office types, such as medical offices, see Appendix.

Property information			Inputs to CCAO Valuation Model				CCAO Valuations
Group	# buildings in this group	Size: SF/building (range)	Income: Rent \$/SF (range)	Vacancy (range)	Expense ratio (range)	Cap rate (range)	CCAO estimated Market Value \$/SF (range)
Institutional	0						
Regional	0						
Neighborhood A (class 5-91)	1	40,320	\$17.50	5%	40%	8.75%	\$91
Neighborhood A (class 5-92)	35	2,250–47,884	\$17–\$18	5%	39%–41%	8.0%–9.0%	\$75–\$122
Neighborhood B	0						

## Report: Industrial buildings

Each industrial building was first classified into a group based on investment grade.

Property information			Inputs to Valuation Model				CCAO Valuations
Group	# buildings in this group	Size: SF/building (range)	Income: Rent \$/SF (range)	Vacancy (range)	Expense ratio (range)	Cap rate (range)	CCAO estimated Market Value \$/SF (range)
Institutional	0						
Regional	0						
Neighborhood	14	1,995–1,190,656	\$4.50–\$8.50	7%	15%	8.5%	\$36–\$75

## Report: Retail shopping centers (class 5-31)

Here we report on retail centers like regional malls, strip malls, and shopping centers. Each property was first classified into a group based on Class B retail properties, many of which had national and regional tenants, as defined by CoStar.

Property information			Inputs to CCAO Valuation Model				CCAO Valuations
Group	# buildings in this group	Size: SF/building (range)	Income: Rent \$/sf	Vacancy	Expense ratio	Cap rate	CCAO estimated Market Value \$/SF (range)
<b>Institutional</b>	0						
<b>Regional</b>	0						
<b>Neighborhood A</b>	1	267,371	\$17.00	5%	39%	8%	\$133
<b>Neighborhood B</b>	2	22,323–93,710	\$17.00	5%	39%	9%	\$99–\$116

In addition to interviews with local market participants, recent retail shopping center sales were noted and cap rates were extracted from the market and supported by independent third party market data sources.

## Report: Special commercial properties (class 5-97)

Property types include auto dealerships, mixed-use retail, storage facilities, car washes, commercial warehouse buildings and the like. Because the business uses in this building class vary, the buildings themselves tend to have dis-similar rents, vacancies, expenses and associated cap rates. Each building type within this class is evaluated separately.

Property information			Inputs to CCAO Valuation Model				CCAO Valuations
Group	# buildings in this group	Size: SF/building (range)	Income: Rent \$/SF (range)	Vacancy (range)	Expense ratio (range)	Cap rate (range)	CCAO estimated Market Value \$/SF (range)
Institutional	0						
Regional	0						
Neighborhood A/B/C – General Commercial **	45	300–210,911	\$5–\$17 per SF	0%–7%	15%–41%	8%–9%	\$28–\$159
Neighborhood A- Nursing Homes/ Hospitals ***	14	99–313	\$145–\$220 per day/bed	15%	85%	8%	\$38,400–\$67,500 per bed or \$174–\$339 per SF
Neighborhood A – Parking *****	2	136–205	\$5 per space/day	0%	40%	9%	\$9,378–\$28,458 per space or \$83–\$86 per SF

\*\* Includes mixed-use properties.

\*\*\* Size is based on number of Beds. Income is based on Rent/Bed; A 5% management fee and \$445/Bed reserve was also deducted from NOI.

\*\*\*\* Size is based on number of Parking Spaces. Income is based on Rent/Parking Space

In addition to interviews with local market participants, recent sales, by property type, were noted and cap rates were extracted from the market and supported by independent third party market data sources.

# Appendix

## A1. Report: Single-story standalone properties (class 5-17)

This property class (“One-story commercial building”) comprises a broad range of freestanding buildings. Although the businesses within these structures tend to vary, the buildings tend to have similar sale prices (expressed as \$/SF), and the rents, vacancies, and expenses used in their valuations are similar.

<b>Property Type</b>	<b>Med. Sale Comp. \$/SF</b>	<b>Market Rent \$/SF</b>	<b>Vacancy (%)</b>	<b>Expenses (%)</b>
<b>Office</b>	\$110.00	\$18.00	10%	41%
<b>Medical</b>	\$120.00	\$18.00	10%	41%
<b>Retail/Office</b>	\$110.00	\$17.50	10%	40%
<b>Retail-Freestanding</b>	\$110.00	\$17.00	10%	39%
<b>Strip Center</b>	\$125.00	\$17.00	10%	39%
<b>Retail-Storefront</b>	\$110.00	\$17.00	10%	39%
<b>Fast Food</b>	\$234.00	\$19.00	10%	20%
<b>Sit Down Restaurant</b>	\$145.00	\$20.00	10%	40%

The estimated market value per SF ranged from \$77.00–\$335.00 per SF for this class. There is one outlier at \$1,661.00 per SF.

## A2. Market Research

We are a team of appraisers and analysts with combined decades of assessment and appraisal experience and leadership. We don't have real-time income, expense, or vacancy information for every property, so we develop market estimates using reliable sources of market data that impacts value.

In our revaluation of Rogers Park in 2021, our data sources included the following:

- Bloomberg, a computer software system that enables access to a broad range of financial data
- CoStar, a leading source of commercial property rents and sales
- Trepp, which reports on appraisals and operations of properties receiving CMBS loans
- PWC, RERC, Realty Rates, and other national surveys
- CBRE, JLL, Cushman & Wakefield, IREM, and other leading reporting firms
- Conversations with area professionals such as brokers, appraisers, and other market participants
- Properties' websites to determine rents and property characteristics
- RPIE, the Cook County Assessor's platform for owners of commercial properties to submit property-associated income, expense, occupancy rates, and similar data.

### A3. How the CCAO determines Assessed Values for Commercial Properties

Reassessment starts with revaluation. To produce a fair estimate of market value and a fair assessment of most commercial income-producing properties during a reassessment year, the CCAO undertakes the following steps:

1. **Determine a property's use** by reviewing the property's history, including property class, tenants, business, and external photography of the parcel. It is important to understand the property's characteristics to accurately group it with similar properties.
2. **Estimate the income** generated by the property, and **expenses**. Most often, rent is the primary source of income for commercial property. Other incidental income streams may include fees from parking or advertising signage. Expenses include property taxes, insurance, repair and maintenance costs, property management fees, and service expenditures for professional services.
3. **Examine market-level vacancy** based on location and property type. Some level of commercial property vacancy is normal and expected. The CCAO does consider reductions as a result of vacancy when a building is not serving its intended use due to conditions outside the control of the property owner, such as a casualty event or other localized factors, or new construction that has not yet been leased.
4. **Produce capitalization rates**. Once we've been able to recreate a snapshot of a property's income statement based on market data, we use a standard valuation metric called a "capitalization rate" to convert income to value. This capitalization rate (or cap rate) quantifies the relationship between a single year's Net Operating Income (income minus expenses) and the total property value.

Cap rates have an inverse relationship to value. Properties with lower cap rates tend to have higher values. Properties with higher cap rates tend to have lower values.

5. **To estimate building value, divide its estimated income by cap rate**. A property with \$100,000 of net income, divided by a 9.5% cap rate, has an estimated market value of \$1,052,631. A 6.5% cap rate generates an estimated market value of \$1,538,461.
6. **Apply Level of Assessment, per County ordinance**. A property's assessed value depends on its market value and its level of assessment (LOA). Since 1973, the Cook County Board has passed ordinances to set different levels of assessment depending on the property's use. Multifamily properties have a 10% LOA. A multifamily building valued at \$1,000,000 has an assessed value of \$100,000. Commercial properties like office and retail buildings have a 25% LOA. A commercial building valued at \$1,000,000 has an assessed value of \$250,000.

Note that the CCAO administers incentives that permit a reduced assessment for some multifamily, commercial, and industrial properties. The goal of these programs is to promote economic development and neighborhood vitality. Learn more [here](#).

7. **Send notice of reassessment**. Many buildings are divided into multiple Property Index Numbers (PINs). Owners of multiple PINs will receive multiple reassessment notices containing the assessed value of each PIN.