

2020 Reassessment of Palos Commercial Properties

2020 South Triad Assessment

March 17, 2020



Palos 2020 Reassessment: Commercial

Executive Summary

The CCAO is confident that the 2020 reassessment reflects an in-depth and professionally researched view of commercial/industrial properties.

Fair market values of commercial properties have risen in Palos since 2017.

Market rents used in the 2020 reassessment were generally higher than rents used in the 2017 reassessment. This generates additional increases in market value (resulting in comparable increases in assessed value).

The most powerful driver of increased values is a lower capitalization rate, driven by a low interest rate environment and increasing rental rates. For example, the range of cap rates used for apartments in 2017 was 11.8% to 12%, and in 2020 was 7% to 8.5%.

The remainder of this report provides significant detail for each property class.

The CCAO is committed to transparency in all that we do and the detail provided here is a result of that commitment.

Assessment Methodology:

Mass Appraisal for Fair Market Values

The CCAO's duty is to produce a Fair Market Value for each property: what the property could sell for, between a willing buyer and a willing seller.

The assessment process does not attempt to perform appraisals on individual properties. Instead, **mass appraisal** performs valuations across groups of properties. The assessment process strives for uniformity of valuation across properties of similar size, location, and **Investment Class** (examples are on next page).

The assessment process looks to the market for current rent levels, rental rates, vacancy, and expense levels, rather than historical levels that an individual property might experience. The market levels are then adjusted for variations in size, location and other characteristics based upon property type.

Using the market rents and the average vacancy and expense levels, a net operating income is generated for each commercial property.

Assessment Methodology:

Investment Class Categorization

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

Assessment Methodology:

Data Sources

The Cook County Assessor's Office (CCAO) used multiple professional sources of data used to determine market values and, by extension, assessed values, for commercial properties.

For years, the CCAO has used **CoStar**, a leading source of commercial property rents and sales information. In 2019 the CCAO added **Trepp** to its tools for research. Trepp reports on every loan that is financed through a commercial mortgage backed securities (CMBS). CMBS are a significant source of financing for commercial properties nationwide. For each loan in a CMBS transaction, Trepp reports on the appraisal the lender used to make the loan, reports the operating income the lender used to make the loan, and provides the operating results of the property since the loan has been made. This data helps to determine rents, expenses, and capitalization rates.

Capitalization rates were also utilized from recent sales as well as national surveys from **PWC**, **RERC**, and **Realty Rates**.

In addition to CoStar and Trepp, the CCAO uses expense information from expense ratio studies as well as reports from **IREM** and vacancy rates from leading firms including **CBRE**, **Cushman & Wakefield**, **JLL**, and others.

Finally, the CCAO requested other market participants, including **local brokers and appraisers**, to share insights on current market rents, occupancy levels, and capitalization rates (a.k.a. cap rates). CCAO analysts also researched the websites for many of the properties to determine rents and property characteristics.

Assessment Methodology:

Capitalization Rates

The cap rates shown in this summary are unloaded cap rates (capitalizes net income after a deduction for expenses and real estate taxes paid) which is the cap rate most consistent with general real estate market analysis.

- For example, a property with \$100,000 of net income and a 9.25% capitalization rate generates a value of \$1,081,081 while a 6% capitalization rate generates a value of \$1,666,667.

The CCAO primarily uses an income approach – capitalization of after-tax property net income – using external authoritative references for cap rates with recent comparable sales providing additional market support.

The cap rates used are the typical cap rates for a property based on its Institutional, Regional, or Neighborhood investment class.

Typically, properties of lower investment attractiveness have higher cap rates, while properties with higher investment attractiveness have lower cap rates.

Assessment Methodology:

Estimating Fair Market Value

To produce our estimate of fair market value, the calculated **net operating income** (NOI) for each property is divided by the appropriate **capitalization rate** for a given property type.

- Property revenues are calculated based on market rent per square foot for commercial, retail, office, and industrial properties, and per unit for apartment properties.
- Our analysis also includes secondary income, such as parking income, reimbursements, escalations, etc.
- Property operating expenses are calculated based on typical expense ratios based on property type, class, and location.
- Vacancy rates are generalized for property type based upon location.

2020 Palos Commercial Reassessment

Property Type	2020 Properties
Apartments	374
Offices	142
Commercial/Retail	373
Industrial	121

Notes on broader trends seen in the 2020 Palos Reassessment:

Palos commercial properties have seen stable growth over the last three years due to a low interest rate environment, increasing rental rates, and capitalization rate compression.

Apartments in Palos

Each apartment was categorized in its Investment Class based on a combination of factors.

The following table describes the ranges of vacancy rates, expense rates, and cap rates that were used to calculate fair market values, based on our data sources and interviews with local market participants (see Slide 5). The final column contains the ranges of the estimated Fair Market Value of each apartment unit.

Investment Class	# properties	Rent \$/unit (range)	Vacancy rate (range)	Expense ratio (range)	Cap rate (range)	CCAO FMV \$/unit (range)
Regional and Neighborhood	374	\$700 to \$1650	5%	35% to 45%	7% to 8.5%	\$52,215 to \$241,311

Offices in Palos

Offices include general and medical office types, under both modified and net lease. Each office was categorized in an Investment Class based on a combination of factors.

The following table describes the ranges of vacancy rates, expense rates, and cap rates that were used to calculate fair market values, based on our data sources and interviews with local market participants (see Slide 5). The final column contains the range of the estimated Fair Market Value for the entire building.

Investment Class	# properties	Rent \$/sf (range)	Vacancy rate (range)	Expense ratio (range)	Cap rate (range)	CCAO FMV (range)
Regional and Neighborhood	142	\$17.00	5% to 7%	45%	8.5% to 9%	\$241,716 to \$6,732,299

Commercial/Retail in Palos

Commercial/Retail includes car washes, restaurants, big box stores, regional malls, strip malls, shopping centers, supermarkets, and other similar retail use types. Each commercial/retail building was categorized in its Investment Class based on a combination of factors.

The following table describes the ranges of vacancy rates, expense rates, and cap rates that were used to calculate fair market values, based on our data sources and interviews with local market participants (see Slide 5). The final column contains the range of the estimated Fair Market Value in for the entire building.

Investment Class	# properties	Rent \$/sf (range)	Vacancy rate (range)	Expense ratio (range)	Cap rate (range)	CCAO FMV (range)
Regional and Neighborhood	373	\$10 to \$25	5% to 42%	15% to 85%	6.5% to 9%	\$118,584 to \$22,663,614

Industrial buildings in Palos

Each industrial building was categorized in its Investment Class based on a combination of factors. The following table describes the ranges of vacancy rates, expense rates, and cap rates that were used to calculate fair market values, based on our data sources and interviews with local market participants (see Slide 5). The final column contains the range of the estimated Fair Market Value in \$/sf.

Investment Class	# properties	Rent \$/sf (range)	Vacancy rate (range)	Expense ratio (range)	Cap rate (range)	CCAO FMV \$/sf (range)
Regional and Neighborhood	121	\$4.74 to \$7.87	5%	15%	8.5% to 9%	\$38.39 to \$121.23

Conclusions & Community Data

The CCAO is committed to transparency in all that we do and the detail provided here is a result of that commitment. To access more CCAO data and reports, please visit cookcountyassessor.com/community-data.

The CCAO is involved in a years-long effort to improve the quality of its assessments.

To this end, we are working to improve the accuracy, timeliness, and granularity of our **data**. To that end, in January 2020, we released a data submission portal for commercial property owners to voluntarily submit local, high-quality data about properties to analysts. Read more about the **Real Property Income & Expense (RPIE)** tool on the next page.

RPIE (Real Property Income and Expense)

Fair and accurate assessments depend on high-quality data.

But outside data sources may not capture all of the market rental rates, expenses, and vacancy rates specific to different property types and neighborhoods of our county. These data sources do not always convey how much rentable space is included in your buildings.

In 2020, property owners can now submit **data** about their properties directly to the CCAO using the Real Property Income & Expense tool (**RPIE**). This provides local data to our analysts to use during valuations. Data submission during assessments is voluntary, and any data submitted will contribute to the CCAO's efforts for fair and accurate assessments for individual properties and other nearby properties like it.

RPIE (Real Property Income and Expense)

<http://RPIE.cookcountyassessor.com>

The **Real Property Income & Expense** tool (RPIE) is an online portal developed by the CCAO specifically for owners of commercial properties.

All commercial property owners in the South Suburb townships were mailed one RPIE invitation code per PIN. The invitation looks like this:

Retain this letter for your records. It contains the Real Property Income and Expense (RPIE) Invitation Code associated with this PIN, created to ensure security for your filing.

You will receive **one RPIE invitation code per commercial PIN**.

Step 1: Visit <http://rpie.cookcountyassessor.com>

Step 2: Enter a PIN and its RPIE code.

Commercial property's address 141 SUPERIOR ST
MELROSE PARK, IL

Property Index Number (PIN):	22-20-300-041-1000
PIN's RPIE code:	38D-M8B-K05-L

CCAO in 2020

Fairness. Ethics. Transparency.

CCAO resources and tools for owners of income-producing properties:
[cookcountyassessor.com/business-owners](https://www.cookcountyassessor.com/business-owners)

CCAO's RPIE:
[RPIE.cookcountyassessor.com](https://www.cookcountyassessor.com/rpie)

CCAO data and reports:
[cookcountyassessor.com/community-data](https://www.cookcountyassessor.com/community-data)

Request a meeting with CCAO Leadership:
[cookcountyassessor.com/contact-assessor-leadership](https://www.cookcountyassessor.com/contact-assessor-leadership)

[www.CookCountyAssessor.com](https://www.cookcountyassessor.com)

Facebook: [/CookCountyAssessorsOffice](https://www.facebook.com/CookCountyAssessorsOffice)

Twitter: [@AssessorCook](https://twitter.com/AssessorCook)

Appendix A: Total Assessed Value in Palos

Palos is predominantly residential. There has been growth in both residential and non-residential real estate sectors.

	2019		2020		2019 → 2020	
	Sum of AV	% share of total AV	Sum of AV	% share of total AV	Change in %share	Change in \$AV
Commercial / Non-residential	\$149,335,255	24.3%	\$216,541,568	29.4%	5.0%	\$67.2 m
Residential	\$465,009,580	75.7%	\$521,135,861	70.6%	-5.0%	\$56.1 m
TOTAL	\$614,344,835		\$737,677,429			

Residential includes all class 2. Commercial/non-residential includes classes 1, 3, 4, 5, 6, 7, and 9.

2019 are Assessor-certified final values.

2020 values are Assessor mailed values that have not yet been finalized.

Appendix B: Cap rate historical comparison

Property Type	2017 cap rate range	2020 cap rate range
Apartments	11.8% to 12%	7% to 8.5%
Offices	9% to 10%	8.5% to 9%
Commercial/Retail	9% to 15.5%	6.5% to 9%
Industrial	9.75%	8.5% to 9%

Appendix C: Loaded vs. Unloaded Cap Rates

“Why does your office use unloaded cap rates?”

- It's not possible to predict taxes without knowing the levy or rate
- We assess as of January 1st. Rate determined more than a year later and taxes paid as much as 18 months later
- Loading a cap rate would be speculative

Illinois Tax Code does not make a recommendation for loaded versus unloaded cap rates. The International Association of Assessing Officers recommends accounting for taxes as an expense *or* loading it into the cap rate when using an income approach to commercial assessment.

If all properties know and agree on what is the fair tax rate for a property, using an unloaded or loaded valuation methodology will generate exactly the same result.

Appendix D: What is an Assessed Value?

The estimated Fair Market Value of a property is *not* what is taxed. The taxable value of a property depends on its **Assessed Value (AV)**, which is a percentage of its Fair Market Value.

Cook County ordinance defines different assessment levels for different property types:

- Residential and apartment properties are assessed at 10% of FMV
- Most non-incentive commercial properties are assessed at 25% of FMV.

Examples: for an apartment building with a FMV of \$1,000,000, its AV = 10% of \$1,000,000 = \$100,000. For a non-incentive industrial building with a FMV of \$1,000,000, its AV = 25% of \$1,000,000 = \$250,000.

Note: commercial property tax bills depend on the property's local tax rate, its assessed value, and State Equalizer. These numbers are all printed on second-installment tax bills mailed by the Cook County Treasurer.