

Cook County Assessor's Office: 2019 North Triad Assessment

Elk Grove Commercial/Industrial Assessment Narrative

April 11, 2019

Slides 6, 10, 11, and 14 were updated on July 29, 2019.



Executive Summary

- This is the current CCAO's fourth township-level report, which details our methods and performance statistics for Elk Grove township.
- The CCAO is confident that the 2019 research is an in-depth and professionally researched view of commercial/industrial properties. The CCAO is committed to continuing this research as we progress through the 2019 North Triad.
- Assessed values of commercial properties have risen slightly in Elk Grove Township.
- The most powerful driver of the increased values is a reduction of cap rates used in the 2019 North Triad Assessment. For example, the capitalization rate used in 2016 was 11.50% for apartments while the rate in 2019 was 6%.
- Rents are generally higher in 2019 than rents used in the assessment process in 2016, which generates additional increases in market value resulting in comparable increases in assessed value.
- The remainder of this report provides significant detail for each property class, far more detail than has been previously provided. 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

- The assessment process strives for uniformity of valuation across properties of similar size, vintage, location, and quality.
- The assessment process does not attempt to perform appraisals on individual properties. Instead, it performs valuations across groups of properties. The assessment process looks to the market for current rent levels, rather than historical rent levels that an individual property might experience.
- In a similar fashion, the assessment process looks to the market for current vacancy and expense levels. The market rents are adjusted, up or down, for variations in size, vintage, location, and quality.
- Using the adjusted rents and the average vacancy and expense levels, a net income is generated for each commercial property.

Assessment Methodology – Data Sources

- The Cook County Assessor's Office (CCAO) was diligent in utilizing multiple sources of professional information to determine market values and, by extension, assessed values, for the commercial properties in Elk Grove Township.
- 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 is the national leading aggregator of information for loans supporting commercial mortgage backed securities (CMBS). CMBS is one of the most important financing platforms for commercial real estate and every borrower is required to submit quarterly financial reports to its CMBS servicer.
- In addition to CoStar and Trepp, the CCAO used reports by other leading firms including CBRE, Cushman & Wakefield and others, and researched the websites for many of the properties to determine rents and property characteristics.
- 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).

Assessment Methodology – Net Operating Income

Net Operating Income

The calculated net income for each property is divided by the capitalization rate, determined as the average rate in the market for that group of similar properties. Apartments are then assessed at *10% of market value* while commercial properties are assessed at *25% of market value* pursuant to County Ordinance.

- Property revenues are calculated based on market rent per square foot for commercial/retail/office/industrial properties and per unit for apartment properties.
- Our analysis also includes secondary income such as parking income, reimbursements, escalations, etc.
- Property operating expenses (including real estate taxes) are calculated based on age, condition, grade, and location.
- Vacancy is calculated by property use type.

Assessment Methodology – Capitalization Rates

The cap rates shown in this summary are unloaded cap rates (capitalizes net income after a deduction for 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, a 54% increase.

The CCAO primarily uses an income approach – capitalization of after-tax property net income using external authoritative reference for cap rates. Minimal, selective use of sales data is used and every property use type is analyzed.

The cap rates used are the typical cap rates for a property of average investment attractiveness. The actual cap rate used in assessment of a property will be higher or lower depending on whether the property is above or below investment attractiveness in this community. A higher cap rate is used on properties with lower investment attractiveness while a lower cap rate is used for properties with higher investment attractiveness.

This slide was updated on July 29, 2019 for clarity. Our methods have not changed.

2019 Elk Grove Overview

- The Elk Grove Township commercial/industrial population of properties consists of 1990 separate properties, with a range of property types from apartment buildings as small as seven units to as large as 360 units, from individual store front retail properties to high-rise mixed use properties.
- Industrial properties are seeing growth, expansion, and redevelopment in Elk Grove do to the proximity of the O'Hare expansion and the anticipation of the western access to the airport.
- See the following slide for a breakdown of property types.

Elk Grove	2018	2019	% increase from 2018
Residential	619,026,802	747,167,368	20.70%
Industrial/Commercial	720,093,967	1,311,983,831	82.20%
Total	1,339,120,769	2,059,151,199	53.77%

2019 Elk Grove Township Overview

Property Type	2019 parcels
Apartments	99
Office	161
Commercial/Retail	469
Industrial	1266

Notes on broader trends seen in the 2019 Elk Grove re-assessment:

- Industrial has experienced 16 new construction properties since the last assessment cycle
- Large older industrial buildings are being purchased for new construction projects or converted into data centers
- Technology Park is slowly changing from vacant land to buildings

2019 Elk Grove Township Trends

Property Type	Median Rent	Vacancy
Apartments	\$1095/unit	5%
Offices	\$10.78/sq. ft.	8.5%
Retail	\$11.90/sq. ft.	8.5%
Restaurants	\$19.55/sq. ft.	7.5%
Industrial	\$6.19/sq. ft.	8.5%

- Sources for rent on apartments are CoStar as well as various apartments websites such as apartments.com, hotpads.com, trulia.com, etc. Sources for rent on other properties are CoStar, Loopnet, local papers, CityFeet, Showcase, and realtor websites.
- Rents are per unit for apartments and per square foot for properties with commercial/retail. Rents range from studio to 4 bedrooms. Most properties are rent per square foot. Motels/hotels are per room/night and nursing homes are per bed
- Sources for market vacancy rates are CoStar and Trepp.
- A full listing of market rents is listed in Appendix A.

2019 Elk Grove Township Cap Rates

Property Type	2016 Cap Rate *	2019 Median Cap Rate
Apartments	11.5%	6.0%
Retail	9.0%	8.5%
Industrial	9.0%	8.5%
Offices	9.0%	8.5%
Restaurant	9.0%	7.5%

* It is not known whether previous 2016 cap rates are medians or averages.

- The cap rate for each property type was determined independently from the other property types, but a similar process was used throughout.
- The cap rates ranged from a low of 6.00% to a high of 8.50% driven by the independent determination process for each property type.
- A full listing of cap rates for property types is in Appendix B.

This slide was updated (July 29, 2019) to report 2019 median values, replacing average (mean) values reported in the original publication.

2019 – 2016 Elk Grove Township Snapshot

2019 Assessment					2016 Assessment			Change 2019 vs. 2016	
	Parcel Count	Median NOI	Median Cap Rate	Median Assessed Value	Median NOI	Cap Rate	Median Assessed Value	Median NOI	Average Annualized Assessed Value
Apartments	99	\$129,312	6.00%	\$215,519	\$290,426	11.50%	\$168,162	-55%	8%
Offices	161	\$170,585	8.50%	\$501,589	\$287,528	12.04%	\$594,128	-41%	-5%
Commercial /Retail	469	\$107,114	7.83%	\$353,998	\$114,566	11.00%	\$289,923	-7%	7%
Industrial	1266	\$94,262	8.50%	\$ 271,301	\$85,567	9.00%	\$213,880	10%	8%

The above information compares the assessment analysis factors for 2016 and for 2019.

This slide was updated (July 29, 2019) to report median values, replacing average (mean) values reported in the original publication. Parcel count for apartments was updated (from 96 to 99), and an unnecessary footnote was removed.

Conclusions – 2019 Elk Grove Township

- The CCAO is involved in a years-long effort to improve the quality of its assessments.
- First, we continue to build our ability to model and detect increasingly fine patterns in our data.
- Second, and perhaps more importantly, we are working to improve the accuracy, timeliness, and granularity of our data and better identify these more granular, difficult-to-observe features.
- The CCAO will release its models and code in 2019 once the full assessment period is complete which will allow others to check its work.

Appendix A – Median Rents and Vacancy for 2019 Elk Grove Township

Property Type	Median Rent	Vacancy
Apartment	\$1,095.00	5.00%
Bank	\$31.50	5.00%
Car Wash	\$12.83	5.00%
Fast Food	\$25.00	5.00%
Industrial	\$6.19/sf	5.00%
Large Retail	\$12.60	5.00%
Medical Office NNN	\$13.50	10.00%
Hotel	\$85/room/night	25.00%
Nursing Home	\$158/bed/day	10.00%

Property Type	Median Rent	Vacancy
Office NNN	\$10.78	12.00%
Restaurant	\$19.55	5.00%
Retail Strip	\$11.90	8.00%
Self Storage	\$12.00/sf	5.00%
Shopping Centers	\$12.60/sf	11.00%
Supermarket	\$10.45/sf	5.00%
Svc Garage	\$12.49/sf	5.00%
Theater	\$14.00/sf	5.00%

Appendix B – Cap Rate Tables for 2016 and 2019 Elk Grove Township

Property Type	2016 Cap Rate	2019 Median Cap Rate
Apartment	11.50%	6.00%
Bank	9.00%	6.50%
Car Wash	9.00%	7.00%
Fast Food	9.00%	6.50%
Industrial	9.00%	8.50%
Large Retail	9.00%	8.50%
Medical Office NNN	9.00%	8.00%
Hotel	16.50%	8.00%
Nursing Home	16.00%	8.50%

Property Type	2016 Cap Rate	2019 Median Cap Rate
Office NNN	9.00%	8.50%
Restaurant	9.00%	7.50%
Retail Strip	9.00%	8.5%
Self Storage	16.00%	6.50%
Shopping Centers	8.50%	7.00%
Supermarket	8.50%	6.00%
Svc Garage	9.00%	7.00%
Theater	9.00%	7.75%

This slide was updated (July 29, 2019) to more precisely label 2019 as median cap rates. No values have changed. It is unknown whether 2016 cap rates are averages or medians.

Appendix C – Total Assessed Value for Elk Grove Township Residential and Commercial

Elk Grove	2018	2019	% increase from 2018
Residential	619,026,802	747,167,368	20.70%
Industrial/Commercial	720,093,967	1,311,983,831	82.20%
Total	1,339,120,769	2,059,151,199	53.77%

Classes included in residential above: 2-02, 2-03, 2-04, 2-05, 2-06, 2-07, 2-08, 2-09, 2-10, 2-11 apartments (less than six), 2-12, 2-34, 2-78, 2-95, 2-99 and any residential side lots (2-41) or standalone garages (2-01) on separate pins. Note that the numbers above include additional classes not included in the numbers on slide 3 and slides 11-13.

Commercial classes include 1, 3, 4, 5, 6, 7, and 9.