CUSHMAN & WAKEFIELD

WHAT'S NEXT

BREAKING DOWN CHICAGO'S CHANGING TAX LANDSCAPE

Guide | Vol. 1

Q1 2020

THE GROUNDWORK

COOK COUNTY TAX REASSESSMENTS

Cook County Assessor Fritz Kaegi recently completed the property reassessment process for the northern suburbs, and the results confirm what many expected: Kaegi placed much higher values on office, multifamily, industrial and other commercial properties than did his predecessor, Joseph Berrios.

+74.4%
IN ASSESSED VALUE FOR ALL COMMERCIAL PROPERTIES (VS 2018)

+15.6%
IN ASSESSED VALUE FOR RESIDENTIAL PROPERTIES (VS 2018)

Assessor Kaegi claims assessed values have substantially increased because Berrios used inaccurate assumptions in his valuation process. Kaegi concludes Berrios used inexplicably high cap rates, resulting in unreasonably low property values. Kaegi says his cap rates are closer to true rates used by investors, making his estimates more accurate.

When elected, Kaegi pledged to reform Cook County reassessments and "mark to market," so a property's taxable value is reflective of its true market value.

While potentially painful at first, Kaegi asserts that over time, his approach will increase transparency and predictability in Cook County taxes, improving the state's investment climate and reputation.

HOW MARKET VALUE IS ASSESSED

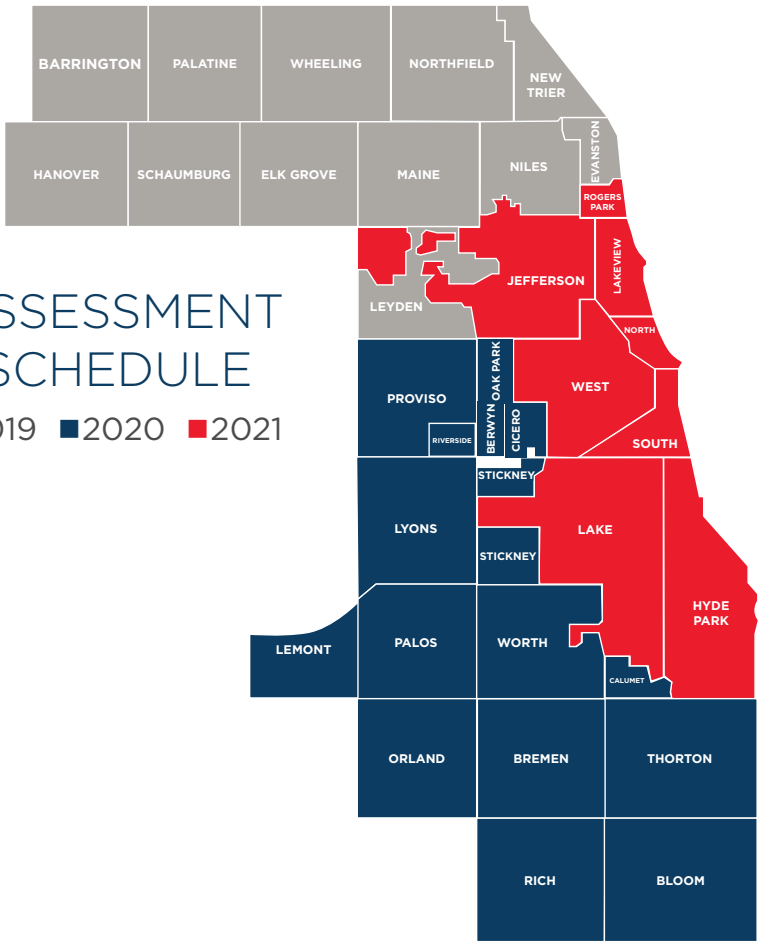
In order to set cap rates and make financial assumptions, the Cook County Assessor's Office (CCAO) relies primarily on external data for building valuation because data from landlords is difficult to obtain. Sources include:

- **CoStar and Trepp**
- **Property websites**
- **Reports from leading CRE firms**
- **Broker and appraiser insight**

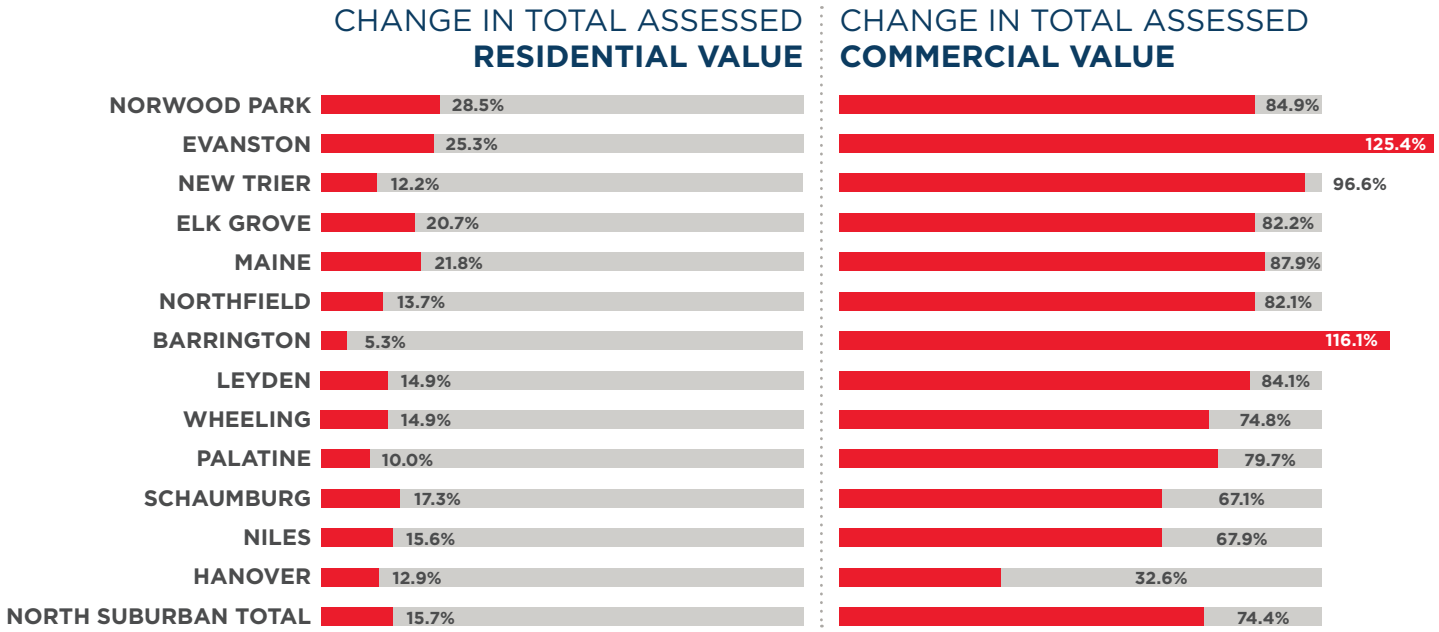
SB 1379, The Data Modernization Bill currently before the general assembly, would help the CCAO gather income and expense data, and in turn provide a more realistic valuation for property taxes.

ASSESSMENT SCHEDULE

2019 2020 2021



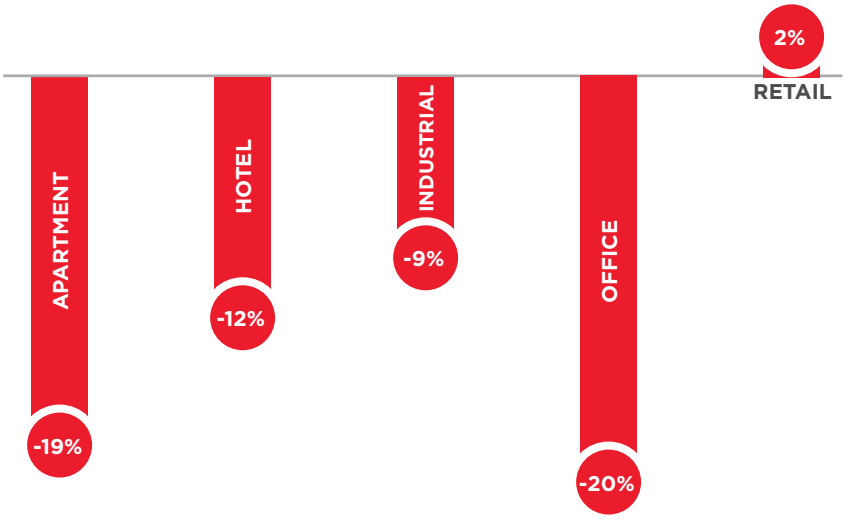
NORTH SUBURBAN ASSESSMENT HIKES



If Assessor Kaegi's assessment pattern holds, **commercial landlords** will experience major hikes in the south and west suburbs in 2020 and the City of Chicago in 2021.

While the northern suburbs saw an overall hike in the assessed values used to calculate commercial property taxes, the higher values for most properties fell short of their recent sale prices, **contradicting the narrative that the Assessor has overestimated the market in the recent assessments.**

PERCENTAGE DIFFERENCE FROM **SALE PRICE TO ASSESSED VALUE (MEDIAN)***



On average, the 2019 assessed value was **20% lower** than the recent sale price.

Top 40 sales from 1/1/2019-12/31/2019.
Source: Real Capital Analytics, Cook County Assessor's Office, Crain's Chicago Business.

THE IMPACT

WHAT DOES THIS MEAN FOR PROPERTY TAXES?

HOW MUCH YOUR PROPERTY TAXES WILL CHANGE DEPENDS ON THREE VARIABLES

1. The levy
2. A property's assessed value increase relative to assessed values of other properties
3. The equalization factor

HOW PROPERTY TAXES ARE CALCULATED

1. **Equalized Assessed Value (EAV)** = Market Value x Level of Assessment x Equalization Factor
2. **Total EAV** = Sum of EAV for all properties in taxing district
3. **Tax Rate** = Total Levy ÷ Total EAV
4. **Tax Bill** = EAV x Tax Rate

TERMS TO KNOW

Market Value: The estimated value of a property determined by the CCAO.

Level of Assessment: Only a portion of the Market Value of a property is taxable. Per Cook County code, commercial properties are assessed at 25% and residential properties at 10%.

Equalization Factor: The multiplier determined by the Illinois Department of Revenue to achieve uniform property assessment across the state.

Equalized Assessed Value (EAV): The taxable value of a property.

Levy: The amount taxing bodies charge property owners to support services such as schools, libraries, fire departments, parks and water reclamation. Communities submit their levy to the Cook County Clerk annually. The amount a tax levy can escalate annually is regulated.

*An assessment increase **does not automatically mean a tax increase of the same magnitude** because a property's assessed value is only one component of the tax equation.*

THE EVIDENCE

THE EVANSTON ASSESSMENT CASE STUDY

A deep dive into Evanston's assessment and what it really means for tax payers—you may be surprised at the findings.

KEY TAKEAWAYS:

1NE

The substantial increase in assessed values means the tax rate is likely to fall.

2WO

Tax increases will not be the same magnitude as assessment increases.

3HREE

Even if property taxes do increase, the burden on tenants will be minimal.

"The tax rate is going to go from 9% to 5.6%, so for an average property whose assessed value increased 100%, actual tax paid will rise in the neighborhood of 20%."

Fritz Kaegi (May 2019)

DOING THE MATH ON EVANSTON

1NE

The substantial increase in assessed values means the tax rate is likely to fall.

REMEMBER
The amount a tax levy can escalate annually is regulated.

ACTUAL 2018		ESTIMATED 2019/2020
256,061,038	Total Levy	256,061,038*
÷	÷	÷
2,720,580,914	Total Equalized Assessed Value (EAV)	4,522,418,264**
=	=	=
9.41%	Tax Rate	**5.66%**

**2018 Levy amount is used for 2019. **2018 Equalization rate of 2.9109 is used as estimated rate for 2019.*
Source: City of Evanston (August 2019), Cook County Assessor's Office (July 2019).

2WO

Tax increases will not be the same magnitude as assessment increases.

INCREASE IN ASSESSED VALUE	ESTIMATED CHANGE IN TAXES
150%	+50%
100%	+20%
66%	**0%**
50%	-10%
0%	-40%

THEORETICAL EXAMPLES | 250,000 SF

	MARKET VALUE	X	LEVEL OF ASSESSMENT	=	ASSESSED VALUE	X	EQUALIZER FACTOR	X	TAX RATE	=	TAX BILL
2018	$25,000,000	X	25%	=	$6,250,000	X	2.9109	X	9.412%	=	$1,712,337 ($6.85 psf)
2019	$41,572,438	X	25%	=	$10,393,110	X	2.9109	X	5.66%	=	$1,712,337 ($6.85 psf)
% Change	**66%**										**0%**

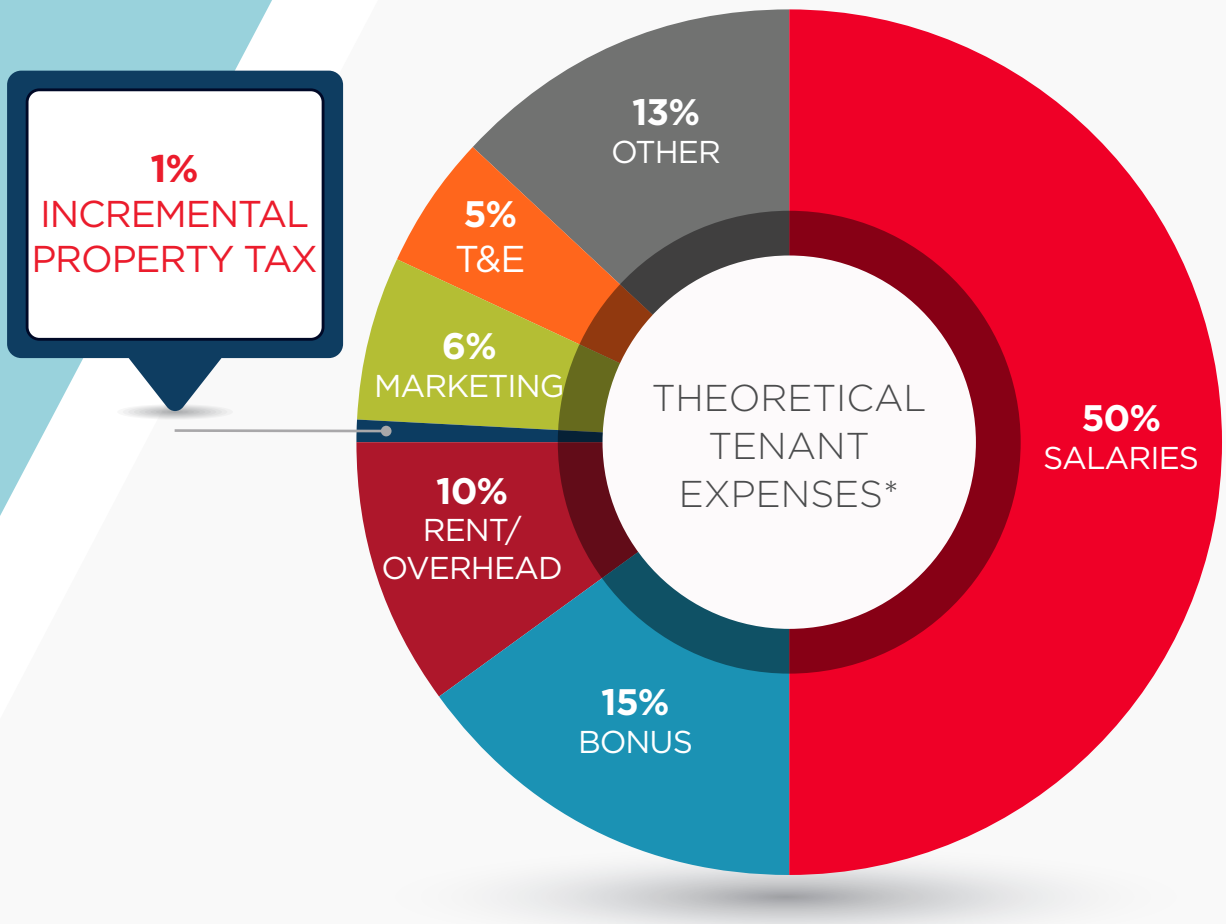
	MARKET VALUE	X	LEVEL OF ASSESSMENT	=	ASSESSED VALUE	X	EQUALIZER FACTOR	X	TAX RATE	=	TAX BILL
2018	$25,000,000	X	25%	=	$6,250,000	X	2.9109	X	9.412%	=	$1,712,337 ($6.85 psf)
2019	$56,350,000	X	25%	=	$14,087,500	X	2.9109	X	5.66%	=	$2,321,013 ($9.28 psf)
% Change	**125.4%**										**35%**

3HREE

Even if property taxes do increase, the burden on tenants will be minimal.

OFFICE TENANT EXAMPLE

Buildings typically pass along the tax burden to tenants. Will they feel it? Below is a break down of a typical office tenant's total budget and the impact of the estimated incremental tax burden.



Median EAV increase of 159% for office properties is used

THE LOOK AHEAD

WHAT TO WATCH IN 2020

SUMMER 2020

Landlords in north Cook County are speculating how much their taxes will rise. Remember, assessments are just **one variable** in the property tax equation—the tax rate and tax levy are also critical—so it's unclear what landlords will pay until they receive the second installment of their property tax bills **this summer.**

The 2019 Assessment Calendar and Deadlines can be viewed at www.cookcountyassessor.com.

Sources: Cook County Assessor's Office (July 2019), CoStar, Cushman & Wakefield Research, Bureau of Labor Statistics (2018, 2019).

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