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2019 MARKS THE TRIENNIAL ASSESSMENT FOR NORTHERN TOWNSHIPS IN COOK COUNTY AND THE QUADRENNIAL REASSESSMENTS FOR ALL PROPERTIES OUTSIDE OF COOK COUNTY

The new Cook County Assessor began his term on December 3, 2018 and quickly began working on the 2019 triennial reassessment of the 13 northern and northwestern townships of Cook County. This group of townships includes all properties located in Barrington, Elk Grove, Evanston, Hanover, Leyden, Maine, New Trier, Niles, Northfield, Norwood Park, Palatine, Schaumburg and Wheeling Townships. As of the current date, seven of the triennial townships' 2019 assessments have issued. We have seen large assessment increases in apartment buildings, commercial/retail and industrial properties. For example, apartment building owners in Evanston have seen median

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assessment increases of 281%. Commercial and industrial properties have been increased of 116.11% in Barrington Township, 96% in New Trier Township, 87.86% in Maine Township, and 82.2% in Elk Grove Township. Residential property owners have seen less severe increases on average. For example, residential properties have seen average increases of 21.75% in Maine Township, 20.70% in Elk Grove Township, 13.74% in Northfield Township, 12.20% in New Trier Township and 5.33% in Barrington Township from 2018 to 2019. A key factor in the significant increases in assessments in commercial/industrial properties results from Assessor Kaegi's Office using much lower capitalization rates which are seen more commonly in the banking and mortgage industries. In Evanston, the capitalization rates for apartment buildings declined from 11.95% in the 2016

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"There is no worse tyranny than to force a man to pay for what he does not want merely because you think it would be good for him."
--Robert Heinlein

2019 TRIENNIAL ASSESSMENT

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triennial assessment year to 6% in the 2019 triennial assessment year. Reducing the capitalization rates causes market values of properties to skyrocket. Another example of the plummeting capitalization rates is seen with commercial – retail properties in New Trier Township which have declined from 10.75% in 2016 to 7.08% in 2019 and as a result commercial/ industrial assessments have increased 96%.

For all properties located outside of Cook County, 2019 will be a quadrennial assessment year and all properties will be re-assessed and valued again using statistical sales data from 2015-2018. These new assessments will be published and mailed by the local Assessor's Offices starting this summer and will continue through the fall.

Please call our office at 312-372-2500 for an assessment review of your properties. □

THE EFFECTS OF THE NEW ASSESSOR'S POLICIES

Cook County Assessor Fritz Kaegi took office on December 3, 2018 and close to six months into his four-year term, we are beginning to see the effects of his new policies. In the five townships that he has reassessed in 2019 including Norwood Park, Evanston, New Trier, Elk Grove and Maine Townships, we are seeing significant assessment increases particularly with commercial, industrial and multi-family properties. Kaegi has stated publicly his policies are to remedy the fact that Cook County homeowners bear more of the tax burden than they should while commercial, industrial and apartment building owners bear less of a burden. Kaegi's skyrocketing assessments are primarily based on his manipulation of capitalization rates. Capitalization rates represent a property's net operating income (NOI) divided by its purchase price. Capitalization rates are also used by appraisers in valuing income producing properties in what is known as an Income Capitalization Approach to Value. In valuing properties by this approach, if you lower the capitalization rates, the value of your property increases. In prior Assessor's regimes, higher capitalization rates were used in valuation of properties and as a result, lower market values, assessments and real estate taxes resulted.

For example, in Kaegi's regime, the capitalization rates for apartments in Evanston have decreased 49.79% from 11.95% in 2016 (the last triennial assessment year) to 6.00% in 2019. For commercial properties, the capitalization rates have declined from 9.25% in 2016 to 7.00% in 2019 and for industrial properties the capitalization rates have declined from 9.00% in 2016 to 8.50% in 2019. [1] Kaegi has stated publicly that his intent is to use his capitalization rates to value property more in line with the banking and mortgage industries. Kaegi has also stated that his office uses data sources such as "Trepp" which is more widely relied on in the mortgage industry to justify his use of lower capitalization rates. The problem is the average loan size in the Trepp system is $22,655,826 which implies an average appraised value of $36,000,000. [2] To appraise individual properties (most of which are not Class A investment grade properties) using data from the largest securitized loan transactions in the region is like valuing your child's third grade art project using the same guidelines or parameters as a Van Gogh painting would be valued.

The real-life effects of these significant increases in capitalization rates are that the average assessed value increases for apartment buildings in Evanston has increased 281%, with 92% increases

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for Evanston commercial/retail properties, 71% increases for Evanston office properties and 46% increases for Evanston industrial properties. Using specific examples, the Assessor's Office valued Amli Evanston (737 Chicago Avenue, Evanston), a 214-unit apartment building in southeast Evanston at $74.5 million nearly triple its 2018 value of $25.7 million. For the Central Station Apartment Building (1620 Central Street, Evanston), its assessment was reassessed at $31.6 million more than double its prior value of $14.9 million. [3] The other effect of higher assessments, market values and much higher taxes are that values on these properties on the open market are less. As a result, there will be a chilling effect for real estate investors considering whether to buy new properties in Cook County. However, Kaegi tries to buttress his new policies by stating that his new capitalization rates and higher market values for commercial and multi-family properties will result in a more accurate and transparent assessment that will stand up to scrutiny on appeal. He has replied to questions about the impact of enormous assessment increases by implying that the equalization process used to calculate tax bills may cause reductions in the local tax rates and/or the Cook County Equalization Factor. However, Kaegi is downplaying the actual effects of his drastic increases in market valuations and the resulting higher real estate taxes by overlooking the obvious fact that apartment building owners and commercial property owners will likely be forced to increase monthly rents for all tenants in order to "pass through" these tax increases. If the market does not allow for higher rents to cover the increased taxes, many landlords will cut back on maintenance and repairs which will reduce the quality of housing in Cook County. Some commercial property owners might also consider leaving the Chicago market altogether. Also, Kaegi's focus on market vacancy and expense data overlooks the specific issues that a property might be experiencing in terms of increased vacancy, higher operating expenses and/or declining rents.

Lastly, Kaegi has been pushing legislation (SB 1379) for mandatory disclosure of a property owner's income and expenses prior to his setting of the assessments. He has pushed for monetary penalties for those property owners who do not comply with this disclosure. This mandatory disclosure will even apply for those property owners who do not plan to file tax appeals. Kaegi has also requested disclosure of business income on his new forms (Real Property Income and Expense Worksheet) which is not pertinent in real estate tax valuations. In conclusion, Kaegi's new policies are causing great uncertainty among real estate investors and developers and as a result, could very well lead to reductions in the number of purchases intended for new development projects or existing buildings and might cause property owners in Chicago to reconsider their future intentions of staying in the Chicagoland area. □

1 *Cook County Assessor's Office: 2019 North Triad Assessment – Evanston Commercial/ Industrial Assessment Narrative* – March 25, 2019, p. 10.

2 "Surveys Understate Capitalization & Occupancy Rates for Smaller Properties," by Gary Peterson, MAI, MBA of Chicago Commercial Appraisal Group

3 "What Evanston's Assessments Tell Us About the New Assessor's New Math," by Alby Gallun, *Crain's Chicago Business*, April 12, 2019, p. 1

CIVIC FEDERATION REPORT INDICATES THAT EFFECTIVE PROPERTY TAX RATES IN ILLINOIS CONTINUE TO RISE

The Civic Federation issued its annual report earlier this year on Illinois' estimated effective property tax rates earlier this year which shows that ten-year period between 2007 and 2016, residential and commercial effective tax rates have increased substantially in Chicago, suburban Cook County and the collar counties (Lake, McHenry, Kane, DuPage and Will).

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Effective tax rates are calculated by dividing a property's real estate taxes by a property's full market value. For residential property, between tax years 2007 – 2016, increases ranged from 21.7% in Arlington Heights to 81.0% in Harvey and 98.0% in Chicago Heights. The increases in Harvey and Chicago Heights are due to the very high local tax rates in Thornton Township and Bloom Township and result from a shrinking tax base, particularly for commercial properties. A concrete example is shown with a home worth $200,000 in Chicago Heights with a 2.63% effective tax rate in 2007 would be paying $5,260 in real estate taxes. In tax year 2016, the effective tax rate for houses in Chicago Heights increased to 5.20%. Therefore, for a $200,000 home, taxes would increase to $10,400. [1] For a house in Lake County, the effective property tax rate is 2.68% of the value of a home. Between 1996 and 2016, Lake County residents saw their property taxes grow 161 percent faster than home values. [2]

As for commercial properties, the effective tax rate increased 63.6% from 2007 to 2016 from 2.20% to 3.61% of full market value. Effective commercial rates are up, generally, at least 50 percent in Cook County and 24 percent or more in the collar counties. [3]

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The city of Chicago's effective tax rate for commercial properties remained at 3.61% in 2016. For industrial properties, Elgin had the highest estimated effective industrial tax rate at 7.55% and Barrington had the lowest at 4.84%. The highest ten-year increase in industrial tax rates is seen in Elk Grove Village, whose effective tax rate increased 88.2% or from 3.20% in 2007 to 6.03% in 2016. Waukegan had the highest effective tax rate among the selected collar counties in 2016 at 3.88%. [4]

As shown by this study by the Civic Federation, Illinois property owners pay some of the highest effective tax rates in the U.S. and unfortunately, the trend is for these rates to increase for the foreseeable future.□

1 "Ten-Year Trend Shows Increase in Effective Tax Rates for Cook County Communities," *The Civic Federation*, January 18, 2019.

2 "Lake County Residents Pay Some of the Highest Property Taxes in the Na tion," by Joe Barnas, www.illinoispolicy.org/lake-county-residents-pay-some-of-the-highest-property-taxes-in-the-nation/, May 7, 2019.

3 "It's Been a Bad Decade for Property Taxes," by Greg Hinz of *Crain's Chicago Business*, January 9, 2019.

4 "Estimated Effective Property Tax Rates – 2007-2016: Selected Municipalities in Northeastern Illinois," *The Civic Federation*, January 9, 2019.

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