

Commercial Real Estate Taxes in Cook County

June 5, 2019

Presented by
Ali ElSaffar

Who is this Ali ElSaffar guy?



- Oak Park Township Assessor since 2001

Who is this Ali ElSaffar guy?



- Oak Park Township Assessor since 2001
- President, Cook County Township Assessors Association, since 2008
- Attorney since 1992
- Property manager since 1977 when Dad bought first commercial property

Education of Township Assessors

- Township Assessors must take classes before taking office



Education of Township Assessors

- Township Assessors must take classes before taking office
- Your last speaker is an excellent teacher
- But after explaining Illinois assessment law, he always adds one caveat:



“Except in Cook County!”

The 'Tax Tab'

A Better Way to Think about Property
Taxes

The property tax system is similar to the tab these bar patrons are sharing.



At the end of the night, there will be one bill that the patrons must divide up.

The 'Tax Tab' for Oak Park Government last
year was:

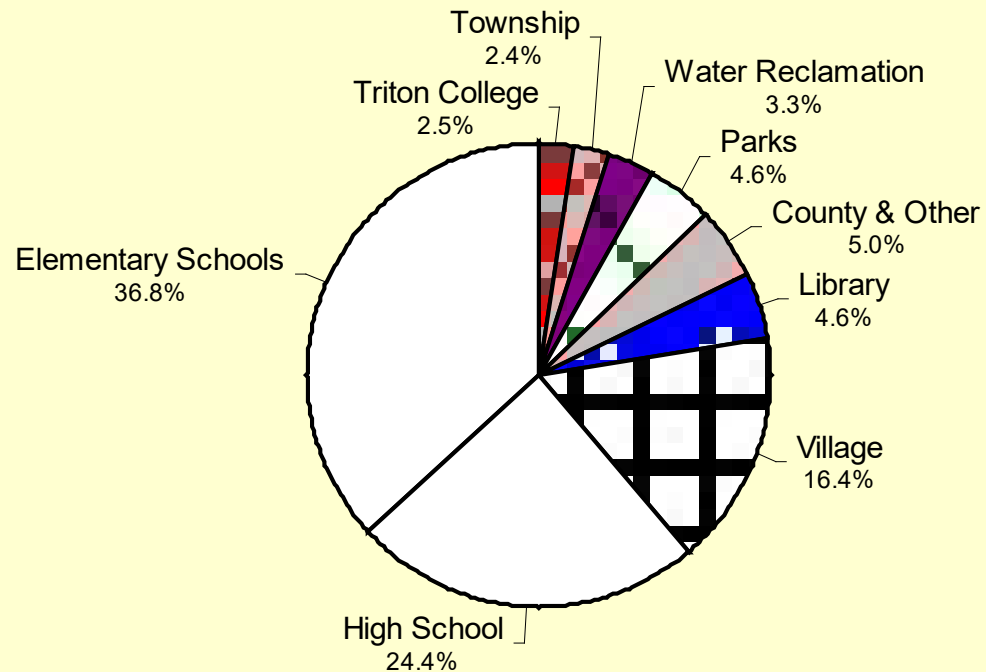
\$201,855,671

This tab was paid collectively by all Oak Park property owners
last year.

What do Property Taxes pay for?

- Distribution is somewhat different in each community
- Public education consumes most property tax dollars

**Distribution of Oak Park Property Taxes
2017 Taxes Paid in 2018**





The Tax Tab



- The 'tax tab' is the combined levy of all local governments within a community.
- The tab directly influences the taxes paid by each property owner in the community.
- In a non-reassessment year, increases in the tax tab roughly matches increases in each tax bill in the community.



Oak Park Tax Tab



Tax Levies for Government Units Serving Oak Park 2017 Taxes Paid in 2018 (Excluding TIFs and Special Service Areas)

<i>Unit of Government</i>	<i>2016 Total Levy (Paid in 2017)</i>	<i>2017 Total Levy (Paid in 2018)</i>	<i>Levy Growth</i>	<i>% of Total Tax Bill for '17</i>
School District 97	\$77,402,999	\$74,327,792	-4.0%	36.8%
High School District 200	\$48,962,736	\$49,226,225	0.5%	24.4%
Village of Oak Park	\$31,296,770	\$33,049,292	5.6%	16.4%
Cook County	\$7,390,863	\$8,212,650	11.1%	4.1%
Oak Park Library Fund	\$8,971,648	\$9,355,135	4.3%	4.6%
Water Reclamation District	\$5,629,813	\$6,656,220	18.2%	3.3%
Triton College District 504	\$4,575,957	\$5,066,675	10.7%	2.5%
Oak Park Township	\$4,686,889	\$4,834,866	3.2%	2.4%
Oak Park Park District	\$9,068,714	\$9,338,578	3.0%	4.6%
Miscellaneous Agencies	\$1,109,323	\$1,788,238	61.2%	0.9%
Totals	\$199,095,712	\$201,855,671	1.4%	100.0%



The Tax Tab



How does the tab go up?



State Law on Taxes



- State law governs a taxing district's ability to increase its annual tax levy
- Most taxing districts can increase their levies by no more than the rate of inflation
- This means, in a non-reassessment year, that tax bills generally rise by about the rate of inflation
- But there are several exceptions to the law limiting tax increases to inflation



State Law on Taxes



- The biggest exception is a voter-approved tax referendum, which allows taxes to increase by more than inflation.



The Tax Tab and Individual Tax Bills



- Each property pays a small share of the tab
- Individual bills generally rise with the tax tab
- Tax appeals, tax exemptions and tax policy can change a property's *share* of the overall tax tab, but cannot change the tab itself
- And now it's time to look at a special tax policy that exists...

“Only in Cook County!”





Level of Assessment



- The assessed value of a property is a percentage of its market value
- The percentage used is called the 'level of assessment'
- In 101 out of 102 counties in Illinois, the level of assessment for all properties is **33 1/3%**





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But not in Cook County!



Classification System in Cook County

In Cook County, the level of assessment varies with the class of property



Classification System in Cook County

<u>Property Class</u>	<u>Level of Assessment</u>
Residential	10%
Apartment Buildings	10%
Commercial Property	25%
Industrial Property	25%



**What does the Cook County
classification system do to the
tax burden of property classes?**

A Four Property Town



A Four Property Town

- Town has two commercial properties
- Two residential properties
- The market value of each property is \$100,000





Share of Tax Burden in Four Property Town



If town were in DuPage County

	<u>Commercial</u>	<u>Residential</u>
Market Value of each property	\$100,000	\$100,000



Share of Tax Burden in Four Property Town



If town were in DuPage County

	<u>Commercial</u>	<u>Residential</u>
Market Value of each property	\$100,000	\$100,000
X Level of Assessment	X <u>33.33%</u>	X <u>33.33%</u>
= Assessed value of each property	= \$33,333	= \$33,333



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= Total assessed value per class	= \$66,666	= \$66,666



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Total Assessed Value in Town	\$133,332	



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Share of Tax Burden in Four Property Town



If town were in Cook County





Share of Tax Burden in Four Property Town



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Market Value of each property	\$100,000	\$100,000



Share of Tax Burden in Four Property Town



If town were in Cook County

Commercial

Residential

Market Value of each property

\$100,000

\$100,000

X Level of Assessment



Share of Tax Burden in Four Property Town



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Market Value of each property	\$100,000	\$100,000
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Share of Tax Burden in Four Property Town



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= Assessed value of each property		



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= Total assessed value per class	= \$50,000	= \$20,000
Total Assessed Value in Town	\$70,000	



Share of Tax Burden in Four Property Town



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Total Assessed Value in Town	\$70,000	
Commercial share of tax burden	\$50,000/\$70,000=	



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Total Assessed Value in Town	\$70,000	
Commercial share of tax burden	\$50,000/\$70,000= <u>71.4%</u>	



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Total Assessed Value in Town	\$70,000	
Commercial share of tax burden	\$50,000/\$70,000=	<u>71.4%</u>
Residential share of tax burden	\$20,000/\$70,000=	<u>29.6%</u>

Classification System in Cook County



<u><i>Property Class</i></u>	<u><i>Ordinance Level</i></u>	<u><i>Department of Revenue study</i></u>
Residential	10%	9.40%
Apartment Buildings	10%	6.88%
Commercial Property	25%	22.33%
Industrial Property	25%	21.00%

Every year, the Illinois Department of Revenue compares the actual sales to their assessments ('sales ratio study') to see if Cook County is achieving the ordinance levels of assessment



Classification System in Cook County

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Commercial Property	25%	22.33%
Industrial Property	25%	21.00%

- 
- Department of Revenue figures use the median ratio of all valid sales
 - Residential are closest to ordinance level
 - By percentage, apartment buildings are farthest from ordinance level
- 



Share of Tax Burden in Four Property Town



Note on homeowner exemptions

- All owner-occupied residential properties are eligible for homeowner exemptions
- Some are eligible for senior citizen or disabled exemptions
- These exemptions reduce the tax burden on properties eligible for them
- Since the 'tax tab' does not change when exemptions are granted, all properties not receiving exemptions, including commercial properties, pay more to make up for the exemptions
- This is true in DuPage County and in Cook County
- In Oak Park last year, homeowner exemptions accounted for 10% of the tax base



Effects of Cook County Classification System



- Taxes higher on commercial and industrial properties





Effects of Cook County Classification System



- Taxes higher on commercial and industrial properties
- Taxes lower on residential properties





Effects of Cook County Classification System



- Taxes higher on commercial and industrial properties
- Taxes lower on residential properties
- Higher taxes tend to reduce the value of commercial properties





Effects of Cook County Classification System



- Taxes higher on commercial and industrial properties
- Taxes lower on residential properties
- Higher taxes tend to reduce the value of commercial properties
- Commercial and industrial properties tend to file more appeals



TAX APPEAL

Reassessments in Cook County



- Cook County is divided into three districts for reassessment purposes
- One district is reassessed each year
- Chicago was reassessed in 2018
- Northwest suburbs reassessed this year
- Southwest suburbs reassessed next year

Reassessment and Tax Bills

- In a non-reassessment year, a property's share of the tax burden is usually unchanged
- Thus in a non-reassessment year, tax bills generally increase with the tax tab, which is usually the rate of inflation





Reassessment and Tax Bills



- In a non-reassessment year, a property's share of the tax burden is usually unchanged
- Thus in a non-reassessment year, tax bills generally increase with the tax tab, which is usually the rate of inflation
- In a reassessment year, each property's share of the tax burden usually changes
- Large changes in a property's share of the tax burden can result in dramatic tax bill changes
- What is the process of reassessment?

Reassessment Process

- 1) Cook County Assessor proposes new assessed value
- 2) Taxpayers have 30 days to appeal the new value to the Assessor
- 3) Taxpayers can appeal the Assessor's decision to the Cook County Board of Review



Reassessment Process

- 1) Cook County Assessor proposes new assessed value
- 2) Taxpayers have 30 days to appeal the new value to the Assessor
- 3) Taxpayers can appeal the Assessor's decision to the Cook County Board of Review
- 4) Properties reassessed in 2019 will see impact of new assessment on bills paid in 2020
- 5) Taxpayers can appeal Board of Review's decision to the Property Tax Appeal Board or Circuit Court
- 6) Tax bills will be due before these entities decide the appeals

Appeals

- Typically, there are four types of appeals that commercial properties can file to reduce their assessments:
 1. A vacancy appeal
 2. An appeal based on the income approach to value
 3. An appeal based on a recent purchase price
 4. An appeal based on an appraisal
- The proper type of appeal depends on the circumstances

Necessary Appeal Documents

- Some documents are needed for most types of appeals:
 - Rent Roll
 - 3 years of Schedule E from federal tax returns
 - 3 years of income and expense statements

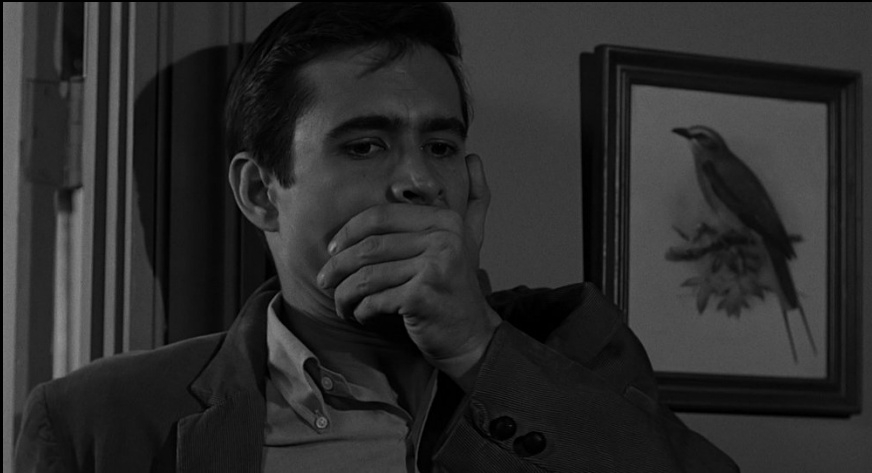


Vacancy Appeal

- Every assessed value has two components:
 1. Value of the land
 2. Value of the building
- Successful vacancy appeals do not change land values
- But they do reduce the building value based on the period of vacancy



Vacancy Appeal



- If building is 25% vacant, building assessed value reduced by 25%
- Maximum reduction typically 80% of building assessed value
- Vacancy appeals are good for just one year

Vacancy Appeal Documents

- Cook County Assessor and Board of Review both require vacancy affidavits to be completed by a property manager or owner
- Forms must provide square footage of the building, and percent of the building vacant on a monthly basis
- Include photos of the vacant space
- Explain efforts to rent the space, and include any listing agreements

Vacancy Appeal Documents

- Assessor's form recently added new information requirements regarding number of showings, offers and inquiries, prior year vacancy factors, and reasons for vacancies

Income Approach to Value Appeal

- Income approach to value is a common type of appeal if there is no vacancy, and there is no recent purchase price or recent appraisal
- To understand this type of appeal, we start with a question...

What could you invest in with \$1 million?

a. An expensive car



What could you invest in with \$1 million?

- a. An expensive car
- b. An expensive house



*Manor of Gotham City Resident
Bruce Wayne*

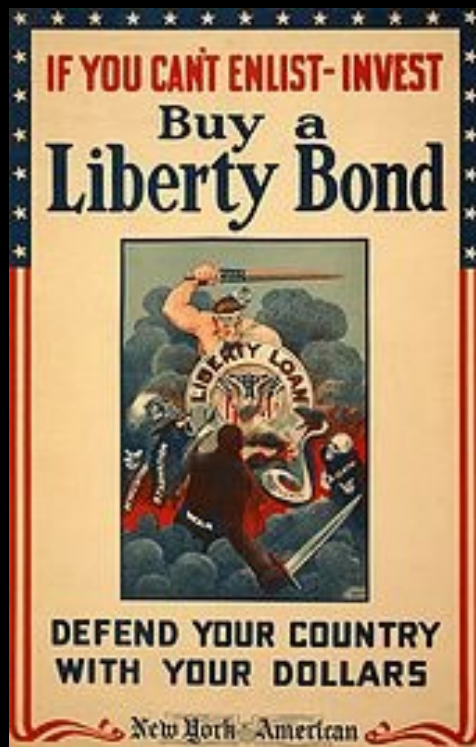
What could you invest in with \$1 million?



- a. An expensive car
- b. An expensive house
- c. The stock market

What could you invest in with \$1 million?

- a. An expensive car
- b. An expensive house
- c. The stock market
- d. Savings bonds



What could you invest in with \$1 million?



- a. An expensive car
- b. An expensive house
- c. The stock market
- d. Savings bonds
- e. Commercial real estate

What factors are considered when choosing where to invest money?



- Risk
- Return on investment
- Alternative investments

The term 'capitalization rate' essentially refers to the return on investment

- How much of a return do I need to invest in commercial real estate?
- The capitalization rate is the critical factor in determining the value of many commercial properties
- If the capitalization rate changes, the value of properties change

The term 'capitalization rate' essentially refers to the return on investment

- The dramatic changes in assessed values of commercial properties stem primarily from the new Assessor's view on capitalization rates

New Cap Rate's effect on Values

Gross Potential Income	\$100,000
<u>Less Vacancy/Collection Loss</u>	<u>\$5,000</u>
<i>Effective Gross Income</i>	<i>\$95,000</i>
<u><i>Less Expenses</i></u>	<u><i>\$45,000</i></u>
<i>Net Operating Income</i>	<i>\$50,000</i>

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<i>Divided by Capitalization Rate</i>	<u><i>Rate of 10%</i></u>	<u><i>Rate of 6.75%</i></u>
<i>Equals Property Value</i>	<i>\$500,000</i>	<i>\$740,750</i>

New Cap Rate's effect on Values

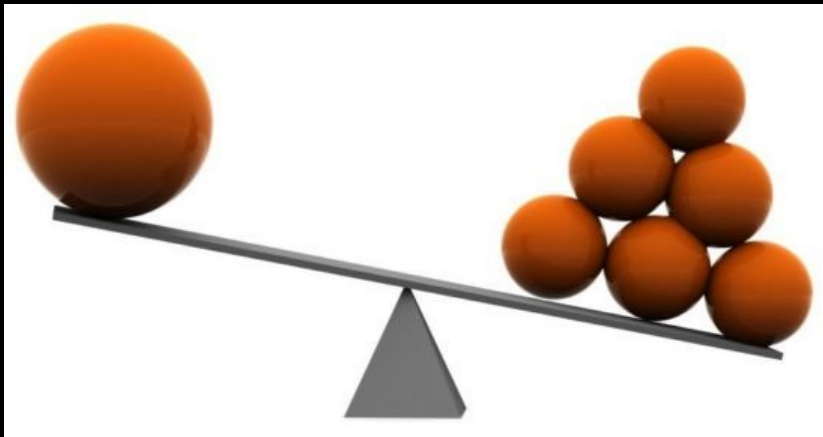
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<i>Equals Property Value</i>	<i>\$500,000</i>	<i>\$740,750</i>
This change in cap rate leads to...	<u><i>48% increase in value</i></u>	

What is the possible impact of these changes to business assessments?

- New focus on business appeals at the Cook County Board of Review



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- New focus on business appeals at the Cook County Board of Review
- Possible tax burden shift with businesses paying more and homeowners paying less

What is the possible impact of these changes to business assessments?



- New focus on business appeals at the Cook County Board of Review
- Possible tax burden shift with businesses paying more and homeowners paying less
- Possible decline in business property values