

Report:
**Palatine Township 2019
Commercial Reassessment**

**2019 North Triad Assessment
Cook County Assessor's Office**

August 2, 2019



Executive Summary

Palatine Township 2019 Commercial Reassessment

This is the current CCAO's tenth township-level report on commercial valuation. It details our methods and performance statistics for Palatine 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 significantly in Palatine 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 median capitalization rate used for apartments was 10.75% in 2016, and 6.0% in 2019.

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:

Commercial 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 Palatine 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: Commercial 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:

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, 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 (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.

Overview

Palatine Township 2019 Commercial Reassessment

The Palatine Township commercial/industrial population of properties consists of 743 separate properties, with a range of property types from apartment buildings as small as seven units to as large as 186 units, from individual store front retail properties to high-rise mixed use properties.

See the following slide for a breakdown of property types.

Palatine Assessed Values	Previous 2018 Assessed Value	2019 Assessed Value	% Increase
Industrial/Commercial	\$266,395,720	\$478,767,195	79.72%
Residential	\$1,046,441,299	\$1,150,774,996	9.97%
Total	\$1,312,837,019	\$1,629,542,191	24.12%

Overview

Palatine Township 2019 Commercial Reassessment

Property Type	2019 Parcels
Apartments	74
Offices	113
Commercial/Retail	383
Industrial	173

Notes on broader trends seen in the 2019 Palatine reassessment:

- Apartments in the area continue to be in stable condition.
- There has been no new recent apartment or industrial construction.
- Palatine Wolff's Flee Market was demolished and a new car dealership is under construction.

Trends

Palatine Township 2019 Commercial Reassessment

Property Type	2019 Median Rent	2019 Median Vacancy
Apartments	\$1310.00/unit	6.00%
Offices	\$15.00/sf	15.00%
Commercial/Retail	\$16.00/sf	7.00%
Restaurants	\$20.00/sf	5.00%
Industrial	\$8.07/sf	5.00%

These are median values, and not necessarily the exact value for each individual property of that type. For example, Commercial/Retail properties in Palatine had a median vacancy of 7% but ranged from 5-14% vacancy.

- 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.

Cap Rates

Palatine Township 2019 Commercial Reassessment

Property Type	2016 Cap Rate	2019 Median Cap Rate*
Apartments	11.31%	6.00%
Offices	9.00%	7.00%
Commercial/Retail	9.00%	8.50%
Restaurants	9.00%	8.00%
Industrial	9.00%	9.00%

These are median values, and not necessarily the value for each individual property of that type. For example, Commercial/Retail properties in Palatine had a median cap rate of 8.5% but ranged from 6-8.5%.

The cap rate for each property type was determined independently from the other property types, but a similar process was used throughout.

A full listing of median cap rates for property types is in Appendix B.

It is unknown whether 2016 values are averages or medians.

2019 vs. 2016

Palatine Township 2019 Commercial Reassessment

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	Median Assessed Value	Average Annualized Assessed Value
Apartments	74	\$90,536	6.00%	\$153,001	N/A*	11.31%	\$47,983	N/A*	219%	47%
Offices	113	\$114,347	8.00%	\$323,349	\$168,472	12.50%	\$300,106	-32%	8%	3%
Commercial /Retail	383	\$81,853	7.17%	\$279,023	\$113,177	11.33%	\$219,762	-28%	27%	8%
Industrial	173	\$102,525	8.50%	\$290,367	N/A*	9.00%	N/A*	N/A*	N/A*	N/A*

Palatine Assessed I/C Value	Previous 2018 Assessed Value	2019 Assessed Value	% Increase
Industrial/Commercial	\$266,395,720	\$478,767,195	79.72%

*Data Unavailable



Commercial Property Conclusions

Palatine Township 2019 Commercial Reassessment

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 Palatine in 2019

Property Type	Median Rent	Vacancy
Apartment	\$1,310/unit	6.00%
Apartment/Retail	\$11.93	6.00%
Bank	\$29.30	5.00%
Car Wash	\$14.18	5.00%
Fast Food	\$25.00	5.00%
Industrial	\$8.07	5.00%
Medical Office NNN	\$15.00	15.00%
Motel	\$60/room/night	42.00%
Nursing Home	\$225/bed/day	10.00%

Property Type	Median Rent	Vacancy
Office NNN	\$15.00	15.00%
Other Retail	\$16.00	7.00%
Restaurant	\$20.00	5.00%
Retail Strip	\$16.00	6.00%
Self Storage	\$13.00	5.00%
Shopping Centers	\$12.60	11.00%
Store/Office	11.25	7.00%
Supermarket	\$11.55	5.00%
Svc Garage	\$10.94	5.00%

Appendix B:

Cap Rate tables for Palatine in 2016 and 2019

Property Type	2016 Cap Rate	2019 Median Cap Rate
Apartment	11.31%	6.00%
Apartment/Retail	11.31%	6.00%
Bank	9.00%	6.50%
Car Wash	9.00%	7.00%
Fast Food	9.00%	6.50%
Industrial	9.00%	8.50%
Medical Office NNN	9.00%	8.00%
Motel	16.50%	9.00%
Nursing Home	16.50%	8.50%

Property Type	2016 Cap Rate	2019 Median Cap Rate
Office NNN	9.00%	8.00%
Other Retail	9.00%	7.00%
Restaurant	9.00%	9.00%
Retail Strip	9.00%	7.00%
Self Storage	16.50%	6.50%
Shopping Centers	9.00%	8.50%
Store/Office	9.00%	7.50%
Supermarket	9.00%	6.00%
Svc Garage	9.00%	7.00%

Appendix C:

Total Assessed Value for Palatine Residential and Commercial

Palatine Assessed Values	Previous 2018 Assessed Value	2019 Assessed Value	% Increase
Industrial/Commercial	\$266,395,720	\$478,767,195	79.72%
Residential	\$1,046,441,299	\$1,150,774,996	9.97%
Total	\$1,312,837,019	\$1,629,542,191	24.12%

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.