

Cook County Assessor's Office: 2019 North Triad Assessment

Norwood Park Commercial/Industrial Assessment Narrative

March 11, 2019

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Norwood Park Commercial/Industrial Assessment Valuation Summary

The Norwood Park commercial/industrial population of properties consists of 234 separate properties, with a range of property types from apartment buildings as small as seven units to as large as 281 units, from individual store front retail properties to the Harlem Irving Plaza. The community has good demand by tenants for all its commercial/retail properties and is an attractive community for real estate investors due to the stability of the community and the buying power of the community to support commercial uses.

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/retail properties in Norwood Park:

- 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.
- The CCAO also 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).

Norwood Park Commercial/Industrial Assessment Valuation Summary

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.

As a result of this research, we have determined:

- Assessed values of commercial properties have risen significantly in Norwood Park with apartments rising on average by 76% from the 2016 assessment and other property classes rising by lower percentages.
- The most powerful driver of the increased values is a reduction of cap rates used in the 2019 North Triad Assessment. The capitalization rate used in 2016 was 9.25% for apartments while the rate in 2019 was 6%. 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.
- 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.

Northwood Park Property Type Summary

Apartments

- There are 70 apartments with seven units or more
- There was no new construction of apartment properties since the last assessment in 2016
- Apartments in the area continue to be in stable condition

Offices

- There are 141 parcels which are one-story office buildings
- There are 19 parcels of office buildings which are more than two stories tall
- There has been no new construction since the last assessment in 2016

Commercial/ Retail

- There are 50 properties which are classified as commercial/retail
- There are four new commercial/retail construction parcels: a new restaurant, a furniture store, a mattress store, and a bank
- Many older restaurants are being re-purposed or renovated into newer restaurants

Industrial

- This is a small industrial township with only 54 industrial properties, some of which are being repurposed for other uses
- There has been no new construction of industrial properties since the last re-assessment
- Large properties are being demolished and converted to commercial/retail space
- There has been some remodeling of small/medium properties

Norwood Park Commercial Properties Valuation Process – 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, in fact, to the contrary, it performs valuations across groups of properties. The assessment process looks to the market for current rent levels across the market rather than historical rent levels that an individual property might experience.

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Norwood Park Commercial Properties Valuation Process – Mass Appraisal

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.

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

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2019 Norwood Park Commercial/Industrial Assessment Methodology

Overall Approach

- 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.
- Every property use type is analyzed.

Net Operating Income

- Property revenues are calculated based on market rent per square foot for commercial/retail/office/industrial properties and per unit for apartment properties. 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.

Cap Rates

- Cap rates sources: CoStar, Trepp, Realtyrates, CBRE, and PwC for apartments, offices, retail and industrial properties.
- Cap rates are validated in interviews with appraisers, real estate bankers, and sales brokers.
- 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.

Norwood Park 2019 Commercial & Industrial Market Rents

Property Type	Median Rent	Vacancy
Bank	\$35.00	5.00%
Car Wash	\$16.60	5.00%
Fast Food	\$23.75	5.00%
Industrial	\$6.00	5.00%
Large Retail	\$11.00	5.70%
Medical Office*	\$14.40	5.00%
Mixed Use	\$16.00	6.00%
Motel	\$67.50/ room/night	42.00%
Nursing Home	\$240/per day/bed	5.00%
Office*	\$14.40	5.00%
Office MG	\$16.00	5.00%
Other Retail	\$18.00	6.00%
Restaurant	\$13.77	5.00%
Retail Store	\$15.12	6.00%
Self Storage	\$11.00	5.00%
Shopping Centers	\$16.00	5.00%
Supermarket	\$10.32	5.00%
Svc Garage	\$16.00	5.00%
Theater	\$20.40	5.00%

- Sources for rent are CoStar, Loopnet, local papers, CityFeet, Showcase, and realtor websites
- Most properties are rent per square foot. Motels are per room/night and nursing homes are per bed
- Sources for market vacancy rates are Costar and Trepp

* Triple-net

Norwood Park Apartment 2019 Market Rents

Property Type	Median Rent	Vacancy
Apartment	\$1,025.00	5.00%
Apartment/Retail	\$931/\$15.09	5.00%
Condo Apt. Rentals	\$1,557.50	5.00%

- Sources for rent are CoStar as well as various apartments websites such as apartments.com, hotpads.com, trulia.com, etc.
- Rents are per unit for apartments and per square foot for properties with commercial/retail. Rents range from studio to 4 bedrooms.
- Sources for market vacancy rates are CoStar and Trepp

Norwood Park 2016 vs. 2019 Cap Rates

Property Type	2016 Cap Rate	2019 Cap Rate
Apartment	9.25%	6.00%
Apartment/Retail	9.25%	6.00%
Bank	8.50%	6.50%
Car Wash	8.50%	7.00%
Condo apt	11.90%	6.00%
Fast Food	9.00%	6.50%
Industrial	9.00%	9.58%
Large Retail	9.00%	7.50%
Medical Office NNN	9.00%	8.00%
Mixed Use	9.00%	7.50%
Motel	14.25%	9.00%
Nursing Home	13.75%	8.50%
Office MG	9.00%	7.50%
Office NNN	9.00%	8.50%
Other Retail	9.00%	8.00%
Restaurant	9.00%	6.50%
Retail Strip	9.00%	8.50%
Self Storage	14.75%	7.00%
Shopping Centers	8.50%	7.50%
Store/Office	9.00%	9.00%
Supermarket	8.50%	6.00%
Svc Garage	9.00%	7.00%
Theater	8.50%	7.75%

How we calculated 2019 cap rates

- The cap rates were derived from surveys published from the following sources: Realty Rates, CBRE, The Boulder Group, PwC Real Estate Investor Survey, Cushman & Wakefield, Calkin Research, Trepp, and CoStar. In addition, cap rates were validated in interviews with appraisers, real estate bankers, and sales brokers.
- 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% to a high of 9.58% driven by the independent determination process for each property type.
- Each of the cap rates used were unloaded cap rates (capitalizes net income after a deduction for real estate taxes paid) which is the cap rate used with general real estate market analysis.

Norwood Park

2019 Commercial/Industrial Assessment Values

Total Properties				
	Count	Total NOI	Median Cap Rate	Total Assessed Value
Apartments	70	\$8,807,655	6%	\$10,610,169
Offices	32	\$2,152,532	8.5%	\$7,147,890
Commercial/Retail	157	\$41,528,137	8%	\$55,193,668
Industrial	53	\$5,828,149	9.75%	\$14,968,622

In each property type the analysis was consistent with the mass appraisal analysis outlined on page four of this summary. The resulting assessed values in aggregate are detailed above.

These total assessed values include values of excess land and air rights that would fall outside the income capitalization model.

Norwood Park 2019 Commercial/Industrial 2016 vs. 2019 Assessment Comparisons

2019 Assessment Average Property					2016 Assessment			Change 2019 vs. 2016	
	Count	Average NOI	Median Cap Rate	Average Assessed Value	Average NOI	Median Cap Rate	Average Assessed Value	Average NOI	Average Assessed Value
Apartments	70	\$122,329	6.00%	\$143,381	\$91,354	9.25%	\$81,239	+34%	+76%
Offices	32	\$84,206	8.5%	\$244,982	\$93,010	9.00%	\$177,190	-9%	+38%
Commercial/Retail	157	\$434,452	8.00%	\$1,188,370	\$376,736	9.00%	\$825,426	+15%	+44%
Industrial	53	\$109,965	9.75%	\$282,427	\$103,681	9.00%	\$207,528	+6%	+36%

The above information compares the assessment analysis factors for 2016 and for 2019 so that the reader can identify the primary drivers for the change in values between the 2016 and 2019 triad assessments.

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Norwood Park Commercial Properties Conclusions

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.

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