Cook County Assessor's Office: 2019 North Triad Assessment

Barrington Commercial/Industrial Assessment Narrative

June 6, 2019

Executive Summary

- This is the township-level report detailing our methods and performance statistics for Barrington 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 Barrington 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 capitalization rate used in 2016 was 10.75% for apartments while the rate in 2019 was 6%.

- 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 – 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 – 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 Barrington 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 – 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/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.

2019 Barrington Overview

- The Barrington Township commercial/industrial population of properties consists of 281 separate properties, with a range of property types from apartment buildings as small as seven units to as large as 52 units, from individual store front retail properties to high-rise mixed use properties.

- See the following slide for a breakdown of property types.

Barrington Assessed Values	Previous 2018 Assessed Value	2019	% Increase
Industrial/Commercial	$188,247,441	$406,829,772	116.11%
Residential	$376,450,991	$396,534,400	5.33%
Total	$564,698,432	$803,364,172	42.26%

2019 Barrington Township Overview

Property Type	2019 parcels
Apartments	16
Office	114
Commercial/Retail	133
Industrial	18

Notes on broader trends seen in the 2019 Barrington re-assessment:

- Recent activity reflects no new apartment, office, or industrial construction.
- Barrington township overall is in stable to prime condition.

2019 Barrington Township Trends

Property Type	Median Rent	Vacancy
Apartments	$1,202/unit	7.2%
Offices	$18.00/sq. ft.	10.0%
Retail	$17.00/sq. ft.	6.0%
Restaurants	$23.00/sq. ft.	5.0%
Industrial	$6.59/sq. ft.	5.0%

- 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.

2019 Barrington Township Cap Rates

Property Type	2016 Cap Rate	2019 Cap Rate
Apartments	10.45%	6.00%
Retail	8.50%	8.00%
Industrial	8.50%	8.00%
Offices	8.50%	7.00%
Restaurant	8.50%	7.00%

- 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 6.00% to a high of 8.00% driven by the independent determination process for each property type.
- A full listing of cap rates for property types is in Appendix B.

2019 – 2016 Barrington Township Snapshot

	2019 Assessment				2016 Assessment			Change 2019 vs. 2016		
	Parcel Count	Median NOI	Median Cap Rate	Median Assessed Value	Median NOI	Median Cap Rate	Median Assessed Value	Median NOI	Median Assessed Value	Average Annualized Assessed Value
Apartments	16	$63,075	6.00%	$97,616	N/A*	10.45%	$82,431	N/A*	18%	6%
Offices	114	$192,601	7.00%	$657,883	$146,878	11.00%	$471,593	31%	40%	12%
Commercial /Retail	133	$97,232	7.50%	$402,567	$103,497	10.33%	$266,981	-6%	51%	15%
Industrial	18	$327,970	8.00%	$683,061	$241,934	8.50%	$429,402	36%	59%	17%

Northfield Assessed I/C Value	Previous Assessed Value	2019	% Increase
	$175,364,807.00	$392,578,943.95	124%

The above information compares the assessment analysis factors for 2016 and for 2019.

* Data unavailable

Conclusions – 2019 Barrington Township

- 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 2019 Barrington Township

Property Type	Median Rent	Vacancy
Apartment	$1,202.13	7.2%
Bank	$32.25	5%
Fast Food	$23.00	5%
Industrial	6.59	5%
Medical Office (NNN*)	$16.00	13%
Motel	$149/room/night	25%
Nursing Home	$370/bed/day	10%

Property Type	Median Rent	Vacancy
Office (NNN*)	$18.00	10 %
Retail	$17.00	6%
Restaurant	$23.00	5 %
Retail Strip	$17.00	5%
Shopping Centers	$11.45	10%
Svc Garage	$10.32	5%
Theater	$14.40	5%

* NNN stands for triple net. A triple net lease is when the tenant pays for expenses and taxes.

Appendix B – Cap Rate Tables for 2016 and 2019 Barrington Township

Property Type	2016 Cap Rate	2019 Cap Rate	Property Type	2016 Cap Rate	2019 Cap Rate
Apartment	10.45%	6.00%	Office (NNN*)	8.50%	7.00%
Bank	8.50%	6.50%	Retail	8.50%	8.00%
Fast Food	8.50%	7.00%	Restaurant	8.50%	7.00%
Industrial	8.50%	8.00%	Retail Strip	8.50%	7.00%
Medical Office (NNN*)	8.50%	8.00%	Shopping Centers	9.00%	7.50%
Motel	15.25%	8.00%	Svc Garage	9.00%	7.00%
Nursing Home	14.50%	8.50%	Theater	9.00%	7.75%

* NNN stands for triple net. A triple net lease is when the tenant pays for expenses and taxes.

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Appendix C – Total Assessed Value for Barrington Township Residential and Commercial

Barrington Assessed Values	Previous 2018 Assessed Value	2019	% Increase
Industrial/Commercial	$188,247,441	$406,829,772	116.11%
Residential	$376,450,991	$396,534,400	5.33%
Total	$564,698,432	$803,364,172	42.26%

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.