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Chicago Investors Face Property Tax Uncertainty

By Bob Twan, CMI Chicago

As new officials take office in Chicago, there are many unknowns about what changes real estate investors and developers may face in the Windy City. The biggest concern is the future of property taxes and how to budget for this major expense.

NEW CITY LEADERS

Chicago is getting a new mayor, a new chairman for the City Council Zoning Commission, and a new chairman for the Finance Commission. There will also be new members on the Council, who have power to change everything from the way real estate projects are approved, to how much property tax is collected.

Developers must also deal with Chicago's tradition of aldermanic privilege. The city's 50 aldermen effectively have veto power over real estate projects in their wards. Receiving an alderman's backing is typically the biggest hurdle for a developer. Without it, a project almost never makes it to the next stage of approval before the Chicago Plan Commission.

NEW ASSESSOR

Changes are also coming as Fritz Kaegi takes over as the new Cook County Assessor. Kaegi talked about his goals to increase the level of transparency in tax assessments at the 2019 Chicago Real Estate Forecast.

"One thing we hear is that our system today is totally unpredictable. When I talk about transparency, I want to emulate what other agencies do, provide predictability to people for what to expect when developing," Kaegi said.

Under the current system, there are built-in premiums, Kaegi said, because there is no clear and established procedure for how the Assessor's office sets its levels. Banks, for example, over-escrow because they don't know where assessments are going.

Kaegi went on to explain how other property tax offices around the country try to benchmark their assessments, and how far off-base Cook County has been historically.

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“The standard within the U.S. is to be within 15% of transactions. Last year in Cook County we got it within 50% for commercial properties. And that was a good year,” Kaegi said. “What we do in this office in Cook County is idiosyncratic. There’s no other system like it.”

So what steps will his office implement to improve the system? “First, being clear about the inputs you are using. Putting your assumptions out there is key. Second is having those assumptions being based on good data,” said Kaegi.

UNCERTAINTY WILL PERSIST

It is critical to point out that even with more uniform and improved assessment practices from the new assessor, the uncertainty gap with Cook County property taxes will continue to persist for real estate investors and developers.

The unknowns consist of major budgetary problems and increased spending at all levels of local government in Cook County. Another contributing factor is linked to Cook County’s assessment classification system, which assesses residential homes and apartments at 10% and commercial and industrial properties at 25%. This is significantly below the state mandated assessment ratio of 33.33%. It produces an annual state equalization factor, which brings assessments in Cook County in line with other assessing jurisdictions in the state, while escalating the tax assessment calculation on all taxpayer’s bills. The most recent 2017 state equalization factor for Cook County was 2.9627.

Pending higher, albeit more uniform assessments, coupled with rising real estate taxes, there will still be a tone of uncertainty for most commercial and industrial tax payers. As a result, it will be more important than ever to engage a professional tax representative for your Cook County property tax concerns starting with the 2019 assessment year.