Client Alert

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New Real Estate Assessment Classification System for Cook County, Illinois

Areas of Interest

Real Estate

United States: Illinois

The Cook County Board recently passed Ordinance No. 08-O-51 (the "Ordinance") amending the real property assessment classification system. The Ordinance revamps the statutory assessment classification level for all classes of Cook County real property.[1] As a result, beginning in 2009 (for taxes payable in 2010), all Cook County real property will be classified and assessed at the following percentages of market value:

- Class 1: 10% (Vacant Land – formerly 22%)
- Class 2: 10% (Residential – formerly 16%)
- Class 3: 16% in tax year 2009, 13% in tax year 2010, 10% in tax year 2011, and subsequent years. (Apartment Buildings over 6 Units – formerly 20% for 2008)
- Class 4: 25% (Non-Profit – formerly 30%)
- Class 5a: 25% (Industrial – formerly 36%)
- Class 5b: 25% (Commercial – formerly 38%)

The Ordinance also reduces the assessment levels of special property classes that qualify for Incentive Classification based on use:

- Class 6b: (Industrial) 10% for first 10 years and for any subsequent 10-year renewal periods; if the incentive is not renewed, 15% in year 11, 20% in year 12 and 25% thereafter.
- Class 7a: (Commercial (under $2 million of development costs)) 10% for first 10 years, 15% in year 11, 20% in year 12 and 25% thereafter.
- Class 7b: (Commercial (over $2 million of development costs)) 10% for first 10 years, 15% in year 11, 20% in year 12 and 25% thereafter.
- Class 8: (Commercial and Industrial Development in areas of severe economic stagnation) 10% for first 10 years and for any subsequent 10-year renewal periods; if the incentive is not renewed, 15% in year 11, 20% in year 12 and 25% thereafter.
- Class 9: (Low-income multifamily) 10% for an initial 10-year period, renewable upon application for additional 10-year periods.
- Class C: (Contaminated Commercial and Industrial) 10% for 10 years, 15% in year 11, 20% in year 12 and 25% thereafter.
- Class L: (Landmark Properties-Commercial and Industrial) 10% for first 10 years and for any subsequent 10-year renewal periods; if the incentive is not renewed, 15% in year 11, 20% in year 12 and 25% thereafter.
- Class S: (Multifamily – Section 8 housing) 10% for the term of the Section 8 contract renewal under

the mark-up-to-market option, as defined herein, and for any additional terms of renewal of the Section 8 contract under the mark-up-to-market option.

Despite the assessment classification changes, tax reductions are neither automatic nor guaranteed. The level of assessment is only one of three factors that determine the final annual tax bill. Annual property taxes are the product of the assessed value (market value multiplied by assessment classification level), multiplied by the equalization factor and applicable tax rate. Unless the costs of operating government and public schools go down, upward pressure on property taxes will continue. In addition, the decrease in the classification level for residential property (37.25% for single family and 50% over a graduated three-year period for multi-family) will result in commercial and industrial property continuing to bear a disproportionate share of the tax burden. Therefore, it is critical to seek the lowest market/assessed value possible.

TAX IMPACT

The potential tax impact of the change in assessment levels is best illustrated by an example. A Loop office building (not located within the State Street Mall Special Service Area) assessed at $25,000,000 would be taxed for 2007 in the total amount of $3,550,609 ($25,000,000 x 2.8439 x .04994). A 2007 assessed value of $25,000,000, at the 38% assessment level for commercial property, imputes a market value of $65,789,474. Assuming that the market value remained unchanged at $65,789,474 (the Illinois Constitution requires that property be assessed uniformly at market value), the Ordinance level effective in 2009 for commercial property (25%) would yield a new assessed value of $16,447,368, a decrease of approximately 34%.

It is highly unlikely, however, that this 34% reduction in assessed value will translate into a 34% tax reduction in 2009, as we expect the equalizer and applicable tax rates to go up to offset the loss in county-wide assessed value caused by the Ordinance. In addition, tax year 2009 is a triennial reassessment year for townships located within the City of Chicago. As such, the Assessor will re-evaluate Chicago market values and increases should be expected despite the recent loss in property values due to current economic conditions. However, even if Chicago and County property market values decrease, without a similar reduction in the spending of major taxing districts, tax rates will likely rise and lead to higher property taxes.

In spite of reduced assessments based upon adjusted assessment classification levels, commercial and industrial property owners will likely continue to experience property tax increases. Therefore, it is critically important to closely track and monitor property values and file annual assessment challenges to ensure fair and reasonable taxation.

For more information on this topic, or to discuss any property tax concerns, please contact Patrick J. McNerney at +1 312 701 7609, Michelle V. Dohra at +1 312 701 7750, Frederick R. Dempsey at +1 312 701 8868, or the member of our Real Estate practice with whom you regularly work.

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1. Cook County is the only Illinois county that classifies property for assessment purposes. All other counties must assess all real

property (apart from farm and coal properties) at 33.33% of market value.

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