COOK COUNTY'S UNIQUE CLASSIFICATION SYSTEM PENALIZES BUSINESSES

Cook County's Unique Classification System Unfairly Burdens Commercial Properties and Businesses
Cook County's classification system assesses commercial properties at 250% the rate of residential properties. All other 101 counties in Illinois assess properties equally at 33 1/3%. For commercial buildings, these property taxes are ultimately paid by the business tenants.

Classification Causes Chicago Businesses to Subsidize Residential Property Taxes at One of the Highest Rates in the Country
The Lincoln Institute of Land Policy's [2021 50-State Property Tax Comparison Study] compares the effective tax rate on a $1 million commercial property to the effective tax rate on a median-value home.

While the average classification ratio for the 53 cities reviewed in the study below is 1.745 (meaning on average commercial properties experience an effective tax rate that is 74.5% higher than homesteads), Chicago's classification ratio is nearly double that rate at 3.145.

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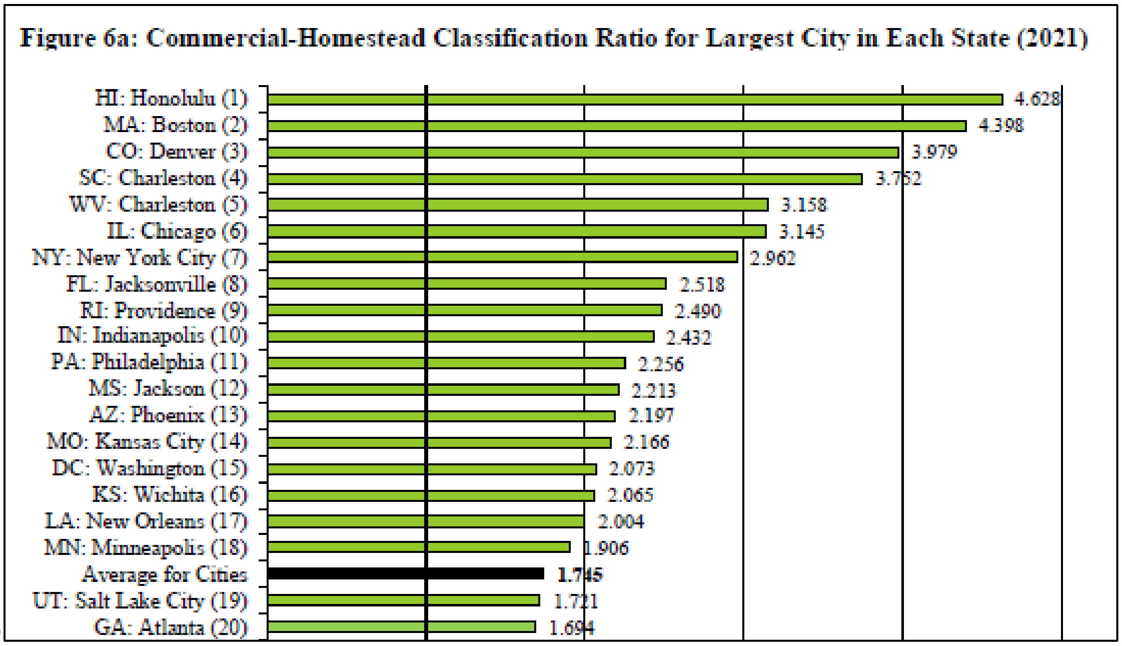


2021 50-State Property Tax Comparison Study, Page 39

Chicago Has the Second Highest Commercial Property Taxes in the Country

Citing our classification system and high government spending, the Lincoln Institute on Land Policy ranks Chicago with the *second highest commercial real estate taxes* in the country in its [2021 50-State Property Tax Comparison Study](), behind only Detroit.

Highest and Lowest Effective Property Tax Rates on $1-Million Commercial Property

Highest Property Tax Rates				Lowest Property Tax Rates			
1	Detroit (MI)	4.21%	*Why:* Low property values	49	Boise (ID)	0.97%	*Why:* Low local gov't spending, High property values
2	Chicago (IL)	3.78%	*Why:* High local gov't spending, Classification shifts tax to business	50	Birmingham (AL)	0.88%	*Why:* Low property tax reliance
3	Providence (RI)	3.53%	*Why:* High property tax reliance	51	Charlotte (NC)	0.87%	*Why:* Low property tax reliance
4	Des Moines (IA)	2.91%	*Why:* Low property values, High property tax reliance	52	Seattle (WA)	0.82%	*Why:* High property values, Low property tax reliance
5	Kansas City (MO)	2.84%	*Why:* Low property values, High property tax reliance	53	Cheyenne (WY)	0.69%	*Why:* Low property tax reliance

2021 50-State Property Tax Comparison Study, Page 3

Homeowners and Commercial Property Owners Are in This Together

It is essential that both our commercial and residential markets flourish and grow, as each market relies upon the other to thrive. Because commercial properties are assessed at 250% the rate of residential properties, they subsidize residential property taxes. When commercial corridors falter, the loss of tax base falls on homeowners to pay.

Some South Suburban homeowners in communities without a strong commercial base are currently experiencing unbearably high tax rates. The following chart from the [Cook County Clerk's Office]() shows Chicago with the lowest tax rate and the South Suburbs with the highest tax rate. The smaller commercial value base in the South Suburbs results in higher tax rates—for residential taxpayers—than in both the City of Chicago and the northern suburbs.

Property Tax Changes for Average Single-Family Dwellings by Region

AVERAGES ONLY; Individual Property Tax Bills Will Vary Depending on Impacting Factors

	2019 Average Estimated Market Value[1]	2020 Average Estimated Market Value[1]	% Change Average Estimated Market Value[1]	2019 Average Tax Rate[2]	2020 Average Tax Rate[2]	% Change Average Tax Rate[2]	2019 Tax Bill Average Property[3]	2020 Tax Bill Average Property[3]	Tax Bill Change Average Property[3]	% Tax Bill Change Average Property[3]
City of Chicago - North	297,500	270,000	-9.24%	6.890%	6.911%	0.30%	$5,288.14	$5,323.67	$35.52	0.68%
City of Chicago - Central	332,000	306,500	-7.68%	6.890%	6.911%	0.30%	$5,981.29	$6,136.78	$155.48	2.65%
City of Chicago - South	156,000	141,000	-9.62%	6.890%	6.911%	0.30%	$2,445.23	$2,449.95	$4.71	0.20%
North & Northwest Suburbs	324,000	289,500	-10.65%	8.922%	9.048%	1.41%	$7,537.04	$7,538.56	$1.52	0.02%
South & West Suburbs	184,000	188,000	2.17%	13.317%	11.822%	-11.23%	$5,813.52	$5,981.92	$168.40	2.95%

1. Average Estimated Market Value based on Average Assessed Value for single family residences divided by level of assessment.
2. Chicago Average Tax Rate incl. Cook County, Forest Preserve, City of Chicago (incl. Library & Bldg. Funds) Board of Education, City Colleges, Chicago Park District, & Metropolitan Water. Suburban Average Tax rates =Total Tax in Region divided by Total Equalized Assessed Value (EAV) in Region. Actual rates within Regions will vary.
3. Average Tax Bill amounts based on Average Estimated Market Value as listed for each Region.

Property Tax Changes for Commercial Properties by Region

AVERAGES ONLY; Individual Property Tax Bills Will Vary Depending on Impacting Factors

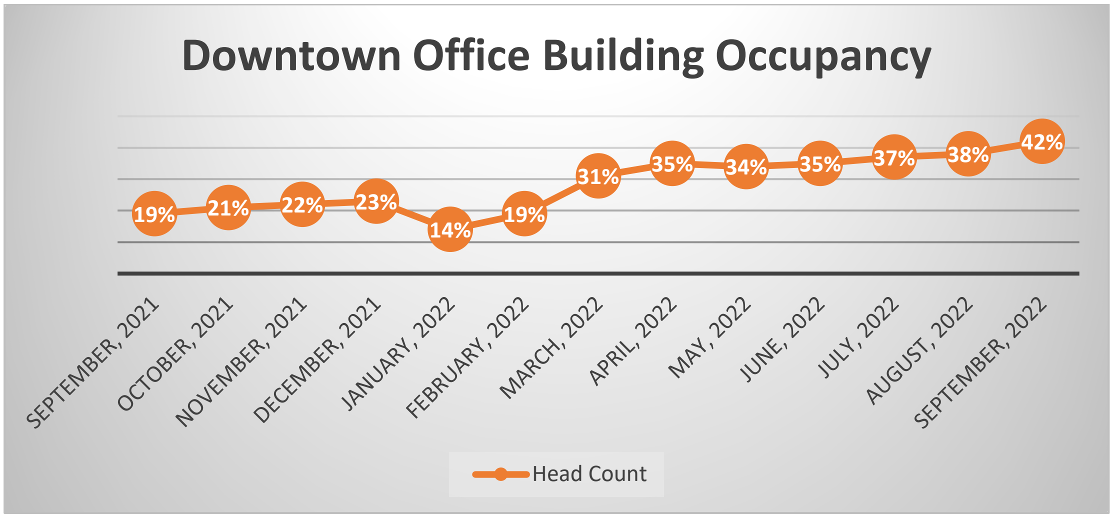
	2019 Average Estimated Market Value[1]	2020 Average Estimated Market Value[1]	% Change Average Estimated Market Value[1]	2019 Average Tax Rate[2]	2020 Average Tax Rate[2]	% Change Average Tax Rate[2]	2019 Tax Bill Average Property[3]	2020 Tax Bill Average Property[3]	Tax Bill Change Average Property[3]	% Tax Bill Change Average Property[3]
City of Chicago - North	614,000	595,500	-3.01%	6.890%	6.911%	0.30%	30,840.05	$ 33,164.76	$ 2,324.71	7.54%
City of Chicago - Central	2,770,000	2,601,000	-6.10%	6.890%	6.911%	0.30%	139,131.84	$144,855.66	$ 5,723.82	4.11%
City of Chicago - South	285,000	265,500	-6.84%	6.890%	6.911%	0.30%	14,315.01	$ 14,786.30	$ 471.29	3.29%
North & Northwest Suburbs	1,490,000	1,363,000	-8.52%	8.922%	9.048%	1.41%	$96,910.03	$ 99,380.84	$ 2,470.81	2.55%
South & West Suburbs	434,500	457,000	5.18%	13.317%	11.822%	-11.23%	$42,182.15	$ 43,537.29	$ 1,355.14	3.21%

1. Average Estimated Market Value based on Average Assessed Value for commercial properties divided by level of assessment.

SLUGGISH RETURN TO OFFICE COMBINED WITH HIGH PROPERTY TAXES ARE DEVASTATING THE LOCAL ECONOMY

After two and a half long years since the onset of the pandemic, the commercial office industry is still staggering as workers trickle back into the office. The impact on the commercial office sector and the economy overall can be seen through sluggish return to office combined with a record-high vacancy rate.

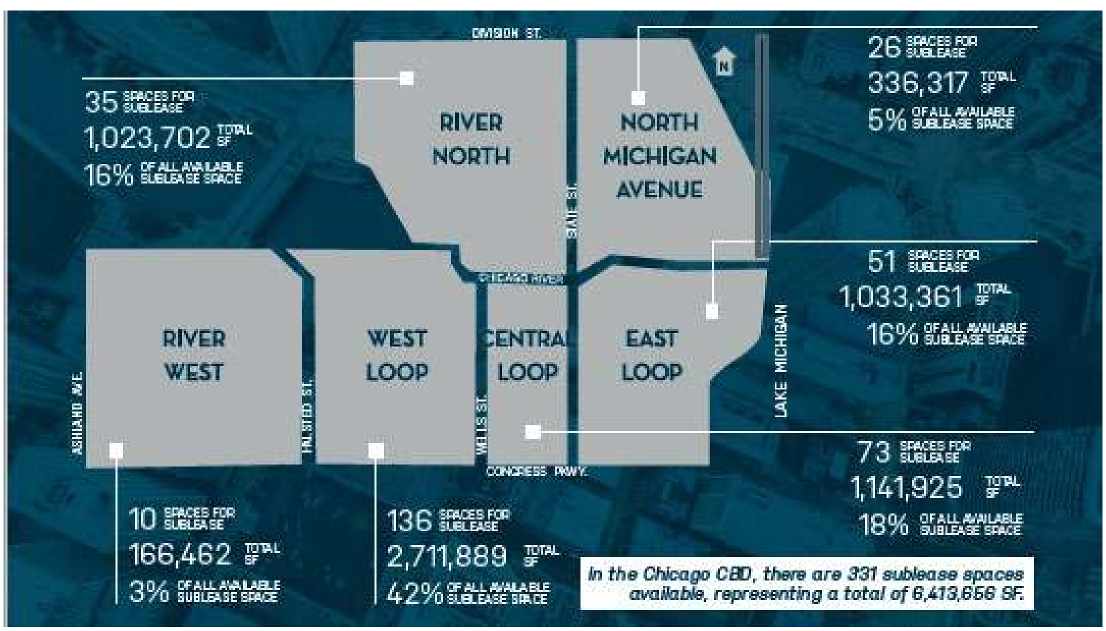
Less than half the workforce has returned to the office: Before the pandemic, BOMA/Chicago buildings housed nearly 647,000 employees who supported downtown restaurants, retail, cultural institutions, and more. Fast forward to Fall of 2022 and BOMA/Chicago's September 2022 Occupancy Report indicates that only 42% of workers are returning to the office on a busy day (typically a Tuesday, Wednesday, or Thursday) and only 15% are returning to the office on a slow day (typically a Monday or Friday).



BOMA/Chicago non-scientific monthly survey of Building Members, September 2022

Direct vacancy is at an all-time high: With employees still preferring to stay home, tenants have realized they can save money by reducing the size of their workspace. Vacancy is at an all-time high of 19% as of Q2 of 2022. Due to tenant leases averaging seven to ten-years, a significant portion of existing leases have still yet to be renewed (or terminated) since COVID, meaning the challenge will continue in the years ahead.

Available sublease space has nearly doubled since pre-pandemic: A sublease is the re-renting of property by an existing tenant to a new third party for a portion of the tenant's existing lease contract. As tenants shed their unused office square footage, available sublease space in the Chicago CBD office market has nearly doubled between the first quarter of 2020 and the third quarter of 2022. Sublease space as of September of 2022 was at a historic high of 6,413,656 square feet.



MB Real Estate Chicago Sublease Vacancy Report 2022

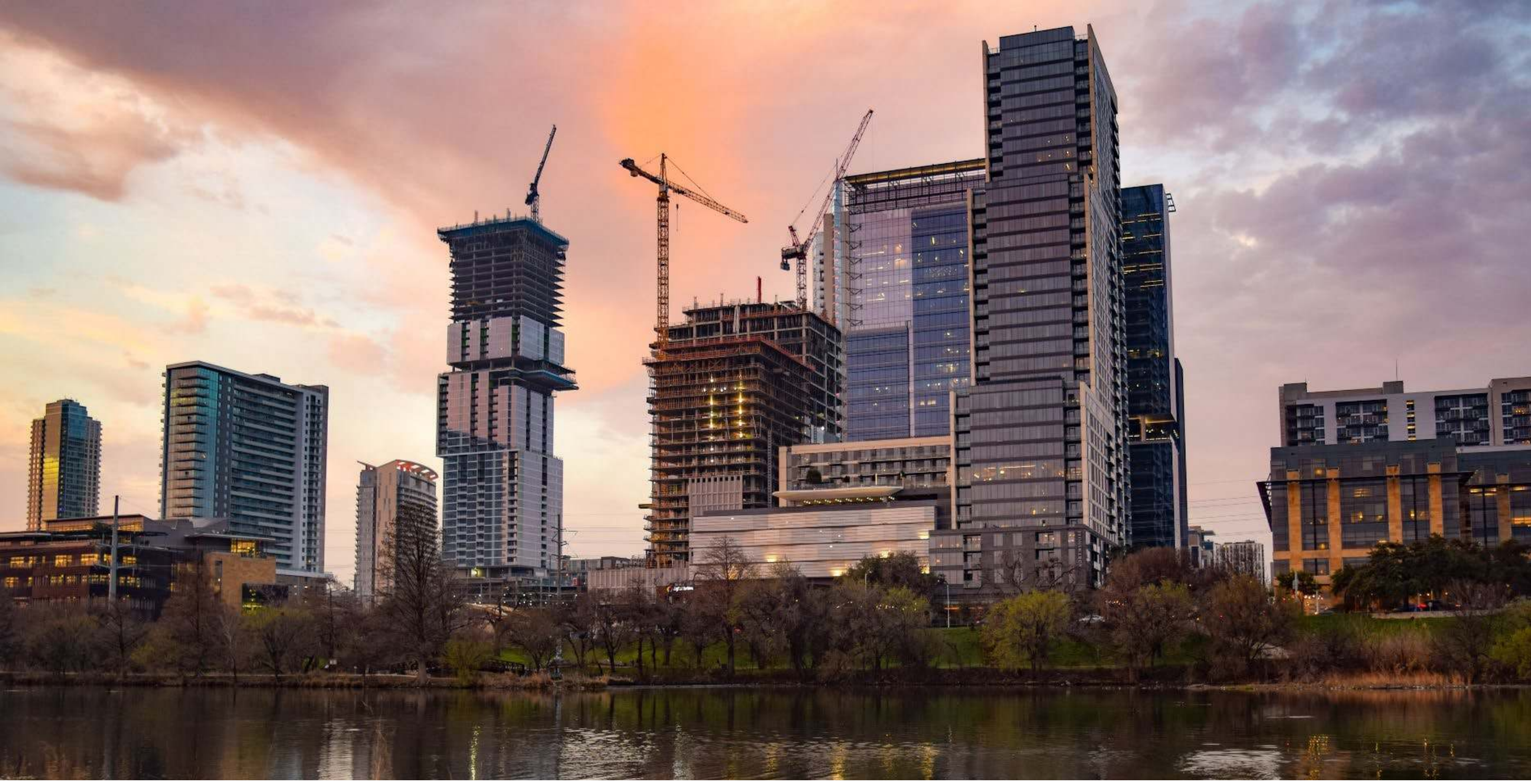
Fifteen Chicago Office Buildings in Financial Distress

As business tenants continue to move out or condense their office space, fifteen downtown buildings have been publicly identified as experiencing financial distress. Some have put their buildings on the market, with many trying to pitch a conversion from office to residential. Others are in foreclosure or have had to turn over their keys to their lender because they were unable to pay the rent. There are additional buildings in financial distress that have not been identified publicly. These buildings represent an estimated 8.8 million square foot of space in the Central Business District.

Commercial Office Buildings in Financial Distress		
123 West Madison	105 West Adams	209 West Jackson
175 West Jackson	318 West Adams	79 West Monroe
135 South LaSalle	115 South LaSalle	181 West Madison
216 West Jackson	19 South LaSalle	65 East Wacker
1 North LaSalle	20 North Wacker/ Civic Opera House	10 South LaSalle

When commercial building owners are unable to pay the mortgage payments, building investments (along with related jobs) cease, values decrease, and the tax burden those properties previously shouldered are distributed to residential and other properties. As buildings fall into disrepair and people no longer populate the area, there is also a negative impact on the neighborhood and surrounding properties.

Adding to the problem, a significant portion of the Central Business District's tax base will be cut as commercial office buildings (assessed at 25%) are converted to residential buildings (assessed at 10%). If the classification system is not changed, the values on these converted properties would need to increase a massive 250% of pre-pandemic office values just for the net tax base to break even.

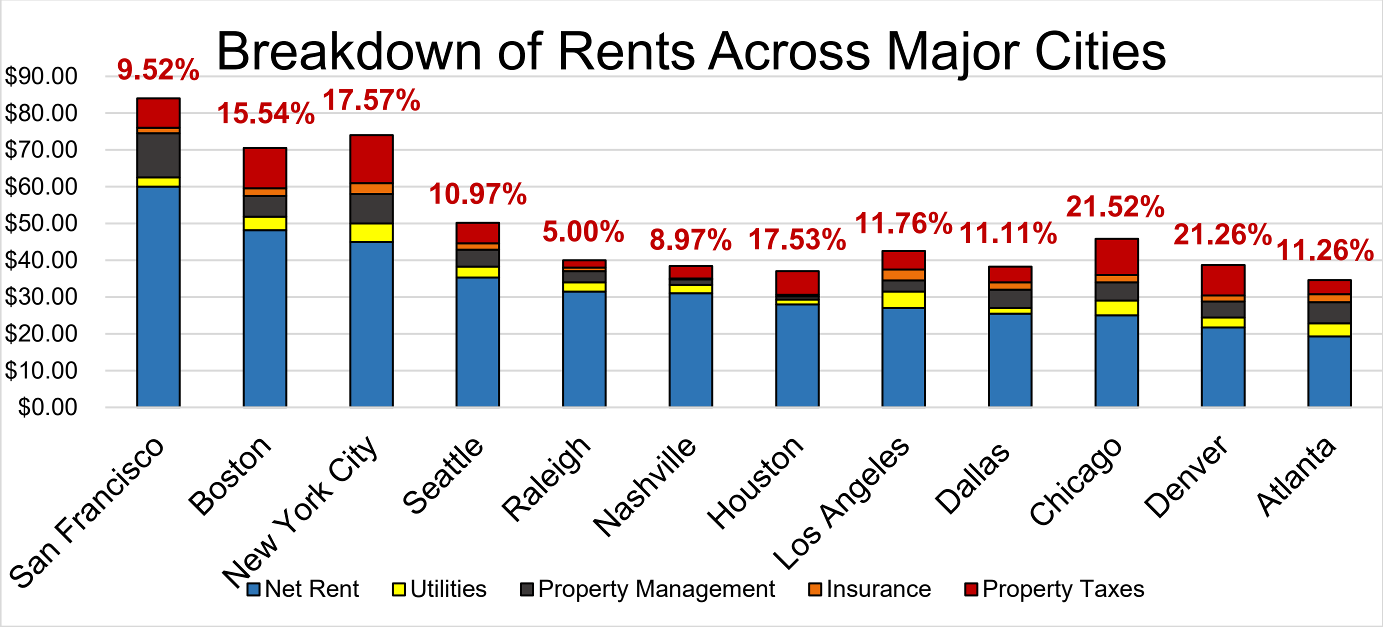


AS PROPERTY TAXES INCREASE, INVESTORS LOOK OUTSIDE OF CHICAGO

Chicago Property Taxes are the Highest Cost for Commercial Office Buildings Across the Country

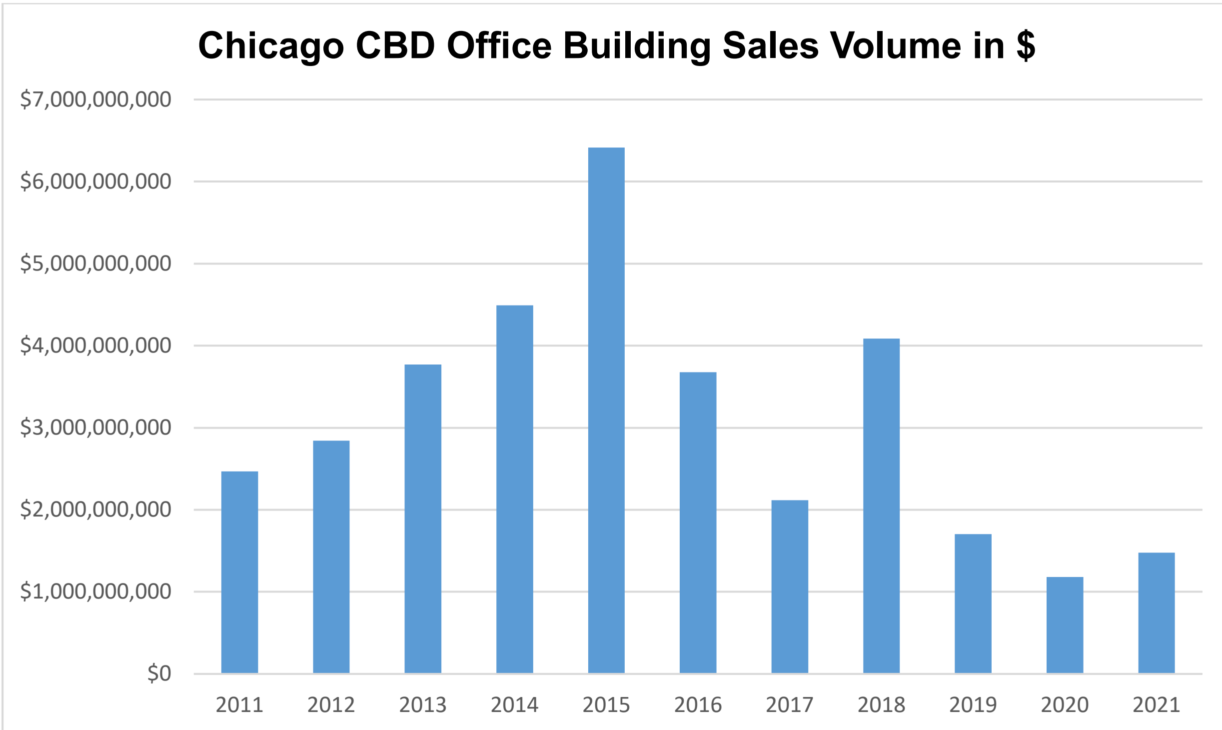
When comparing property taxes as a percent of gross rent, property taxes are the highest expense for Chicago office buildings. In comparison to other competitive cities, property taxes make up the greatest portion of gross rents in Chicago and continue to grow.

Because property taxes and other operating expenses are passed through to tenants under the typical lease, net effective rents are growing more slowly than gross rents. Additionally, the looming budget and pension crisis facing the City of Chicago and the State of Illinois threatens to compound that property tax burden and its effects on rents. As investors research the best investment opportunities across the country, they find that other cities offer more competitive property tax rates.



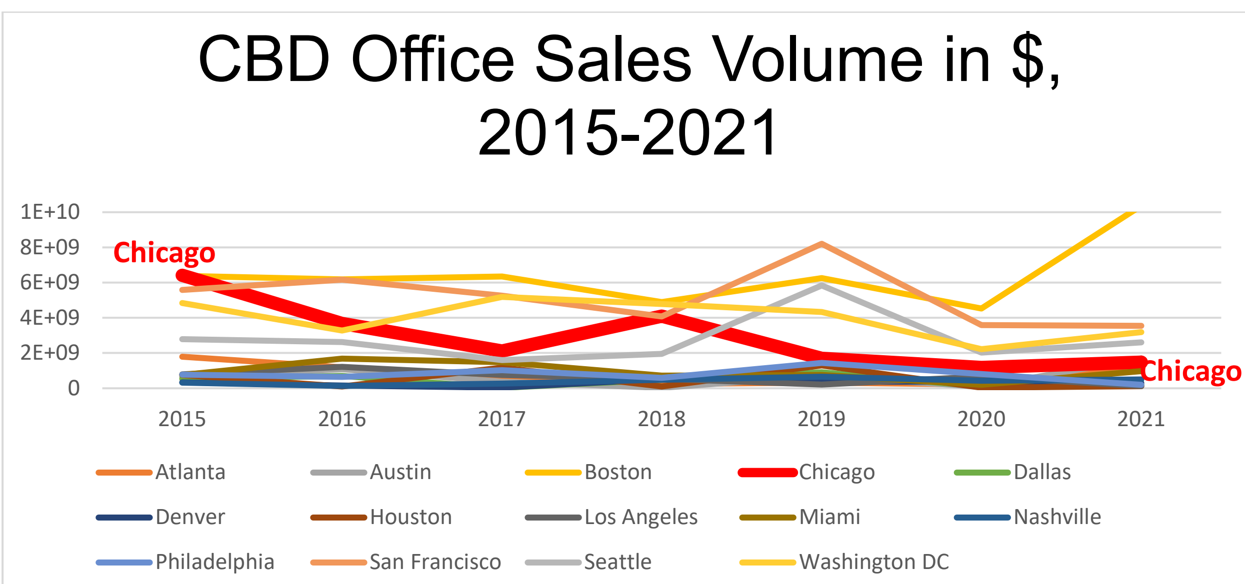
Chicago Loses Opportunity to Grow Jobs and Tax Base when Investors Build in Other Cities

The City of Chicago's pensions payments increased to actuarially required contribution ramps in 2015, significantly increasing the overall property tax burden. As property taxes increased sharply for commercial office buildings, building transactions have experienced a steep decline, with 2021 sales volume at less than quarter of 2015.



Real Capital Analytics

Even home-town developers are leaving Chicago to invest and build in other cities. In the past, large cities like New York, San Francisco and Houston were competitors. Now we are seeing even smaller cities win competing development investments, including Denver, Austin, and Nashville. It is imperative that we have policies in place that encourage continued investment in this city to increase jobs and tax base growth.



Real Capital Analytics

LOCAL ASSESSMENT POLICIES PENALIZING BUSINESSES ALSO CAUSE FOR CONCERN

Policies from the Cook County Assessor's Office Raise Cause for Concern

There are several polices from the current Cook County Assessor's Office that are a cause for concern. These include:

Determination of Cap Rate: While we applaud the sharing of additional data by the Assessor's Office, there is still more transparency needed. Questions about how cap rates and building values are determined, along with providing full transparency about how and if the cap rate is loaded, should be provided up-front.

Value Determination: A building's sale price estimates the *future* value of the building using its projected financials, and not the current value based on current financials. With this in mind, buildings should be valued with an emphasis on the income method based on current financials over the sale price, which is the assessment standard.

Mandated Data Submission: For those municipalities and states that request data from properties to inform mass assessment models, the vast majority ask for it to be provided voluntarily. Additionally, the IAAO recommends a voluntary data system.

Addressing Property Underassessment: The Assessor has made multiple claims that commercial properties are underassessed. In fact, most property classes were underassessed at the time of his claim according to the Department of Revenue Sales Ratio Studies. Because commercial assessments were raised significantly while the majority of residential properties were awarded a COVID adjustment, residential properties continue to be underassessed relative to commercial properties, which already bear a larger tax burden because of classification.

Vacancy Policy: On May 19, 2020, the Assessor's Office determined that only 50% credit of the vacancy rate would be provided for commercial properties. With record-high vacancy and sub-vacancy rates because of COVID, vacancy should be credited in full. Equally important, effective policies such as vacancy should be applied with rigor and in a uniform manner.

PROPERTY TAX REFORM THROUGH CLASSIFICATION IS NEEDED NOW

It is essential for homeowners, business owners, and commercial property owners alike that property tax policies support thriving commercial corridors across the county. The current classification system penalizes commercial properties and the business tenants they house by assessing them at 250% the rate of residential properties. As a result, Chicago has the second highest commercial property taxes in the nation.

Since the onset of Covid two and a half years ago, the commercial office industry and Chicago's downtown has struggled. Workers are still only trickling back to the office while vacancy (at 19%) and available sublease space (at 21%) in the Central Business District have increased nearly 50% and 100% respectively. As tax burden increases on commercial properties, investors are increasingly shifting to other cities across the nation.

We encourage the Cook County Property Assessment and Tax Working Group to reform the classification system sooner than later to address current economic challenges and create a fairer system for commercial properties and the businesses they house. Reducing the excessively high burden on commercial properties will also generate jobs, maximize real property value, and grow our tax base.

We applaud Cook County President Preckwinkle's leadership and commitment to tackling this complex issue. We look forward to collaborating with the Cook County President's Property Assessment and Tax Working Group, led by Jim Thompson, and welcome opportunities to provide assistance, data, and insight.

About BOMA/Chicago: *BOMA/Chicago is a trade association that has represented the interests of the Chicago office building industry since 1902. Membership includes 240 commercial office, institutional and public buildings and 200 companies that provide commercial building services to support operational excellence. BOMA/Chicago members constitute approximately 80 percent of all rentable office space and more than 98 percent of rentable space in Class A buildings downtown.*

Our members also play a vital role in ensuring the economic viability of downtown Chicago. Member buildings support over 33,000 jobs, house more than 646,000 tenant employees and nearly 18,000 local, national, and international companies. BOMA/Chicago buildings support local schools and public services through more than $1 billion in annual property taxes.