

# Breaking Ground

## COMMERCIAL REAL ESTATE TRENDS

JUNE 2006

# Value Engineering Real Estate Taxes

As industry must obviously remain competitive to survive and prosper, fixed operating costs must occasionally be analyzed and compared against alternatives. In real estate this is called "value-engineering" and is one of the most effective dynamics in the expansion of industry into Will and Kankakee Counties. With the exception of principal and interest costs (mortgage payments) the most substantial fixed operating cost in real estate is the real estate tax liability. The most populous market in Illinois is Cook County and has historically been the hub of commerce and industry. But relatively recent trends indicate a "flight" from Cook County by industry.

With over 2 million of industrial real estate expansion in University Park and Monee in the last 36 months, plus an additional 2 to 3 million square feet proposed for the next 24 months, Southern Will County is undergoing an expansion that is comparable to the previous Western Will County expansion that has borne tens of millions of square feet of new industrial expansion and has been called one of the fastest growing sub-markets nationally. The Will County boundary that extends North of Interstate 80 (between Harlem Avenue/Route 43 and LaGrange Road/Route 45) has been developed through maturity to absolute capacity and expansion is apparent West along this corridor as far out as Minooka, Morris and beyond.

An analysis of how real estate taxes are calculated in Cook and contiguous counties demonstrates the effect of this particular value engineering. Below is a comparison of estimated real estate taxes for a \$3 million facility in Cook and Will or Kankakee County. To provide some relevance to this exercise, the estimated tax alone liability in Cook County in the above example are equal to the gross annual occupancy cost for a similar facility in Will or Kankakee County. This is a prime example of an area that can provide direct benefit through the value-engineering of operational-occupancy costs.

As demonstrated above, certain factors in the formula, primarily the Equalizer and the Tax Rate, create the disparity. Cook County has incorporated an unusual Equalizer in an effort to relieve high residential real estate taxes. It is arguable whether Cook County's loss of commerce and industry due to the tax disparity and the related loss of sales tax revenue and primary job creation mitigate the burden on the residential taxpayer. This effect is indicated by the higher municipal Tax Rate, which is required in order to pay for basic services such as schools and infrastructure. While Cook County attempts to relieve some of the burden through programs such as its "6b" tax incentive program, these inducements generally only lower the assessment level to a rate competitive with contiguous counties, providing minimum impact. Additionally, significant inducements are prevalent in Will and Kankakee Counties, which further reduces the tax liability.

What does this all mean? It provides the reasoning behind the notably rapid industrial expansion along the I-57 and I-80 corridors. With the related primary job creation, residential and retail growth is expected to follow, which means that the Southern Will and Kankakee County markets are in the path of progressive development.

Within the last eighteen months, the region has seen unprecedented expansion with institutional investors making major acquisitions and plans for speculative facilities within the corridors. An expansion of the infrastructure within the market allows for capacity for such growth for the unforeseeable future. Vacant, Class B+ industrial facilities can still be found for under \$20 per square foot and improved, incentivized land can be purchased for well under \$1 per square foot. For instance, a rail-served fully improved 210 acre site with Interstate 57 frontage at a planned interchange, located less than 20 miles from Route 80, can still be acquired for under \$30,000 per acre. Compare this to industrial land prices ranging from \$2.50 to \$6.00 per square foot only 20 miles North of such a site, and it pays to look closer at the South Suburban/I-57 Corridor.

	Cook County	Will/Kankakee Co.
Market Value	\$3,000,000	\$3,000,000
Assessment Level	36%	33%
Assessed Value	\$1,080,000	\$990,000
Equalizer	2.5±	1.
Equalized Assessed Value	\$2,700,000	\$990,000
Tax Rate	.12 (average)	.08 (average)
Annual Tax Liability	\$324,000	\$79,200
Tax Liability per square foot	\$3.24	\$.79



## Commercial Real Estate & Development

Chicago • Kankakee • Suburbs

815.933.2554 Kankakee

312.932.0022 Chicago [www.perrycommercial.com](http://www.perrycommercial.com)