

REVIEW FOR VILLAGE OF ARLINGTON HEIGHTS  
DETERMINATION OF VILLAGE TAX ABATEMENT FOR

3 W. College Drive  
Arlington Heights, Illinois  
Midwest Industrial Funds

INITIAL CONTACT: March 19, 2015

APPLICATION SUBMITTED: April 7, 2015

PRE-APPLICATION REVIEW: N/A

PLANNING & COMMUNITY DEVELOPMENT REVIEW: April 22, 2015

FINANCE DEPARTMENT REVIEW: April 17, 2015

SITE VISIT: April 9, 2015

VILLAGE BOARD REVIEW: June 15, 2015

June 9, 2015

THE DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT

The review for determination of support for County Tax abatement for the property identified as 3 W. College Drive will be conducted as follows:

- I. Item by item review as per Village Procedures and Application Form.
- II. Synopsis of application.
- III. Correlation of application to Comprehensive Plan.
- IV. Correlation of application to zoning.
- V. State of economy of industry making application.
- VI. Site visit summary.
- VII. Site specifics of property requesting abatement.
- VIII. Relationship of property tax abatement goals to application.
- IX. Relationship of Village guidelines to application.
- X. Finance Department review.
- XI. Adherence to Zero Interest Loan program requirements.
- XII. Department of Planning and Community Development recommendation.

This particular approach is being utilized so as to provide ease to Village Administration and Trustees with the review of the application submitted. It is hoped that this method will encourage a realistic understanding of the application and relationship of such to the community and local economy.

**I. Review Item by Item of Application**

- A) INTRODUCTION: Complete. (Applicant asserts that computations are to the best of its knowledge based on current value.)
- B) PROPERTY DESCRIPTION: Complete. Submitted as Attachment A.
- C) IDENTIFICATION OF PERSONS: Complete. Identified in application.
- D) PROPERTY USE: Complete. Identified in application and submitted as Attachment E.
- F) TRAFFIC: No response. Traffic is unknown at this time as the building will be purchased vacant. The applicant will conduct improvements to the site and recruit a tenant. The site offers 50 parking spaces.

- G) **EVIDENCE OF NEW CONSTRUCTION:** Complete. Identified in introductory letter. Ownerships plans to conduct a \$400,000 rehabilitation of the facility with an additional estimated \$200,000 in tenant improvements for when a business commits to a lease. Rehab efforts include: reconstruction of facility roof; renovation of all office and entrance space; repairs and seal coating to parking lot; landscaping upgrades; installation of energy-efficient lighting throughout the building; and other improvements such as the replacement of HVAC equipment and overhead doors. The applicant expects that this work will create 10-20 construction jobs and plans to have work completed by December 31, 2015.
- H) **EMPLOYMENT OPPORTUNITIES:** Complete. Does not apply. The applicant is purchasing the property to renovate the building and attract a single-user tenant for the 35,000 square foot space. It will be 100% vacant upon purchase.
- I) **FINANCIAL INFORMATION:** Complete. Submitted as letter from Heartland Bank & Trust.
- J) **FISCAL EFFECT:** Complete. Submitted as Attachment M.
- K) **OTHER INDUCEMENTS:** Complete. No other inducements requested. Submitted as Attachment N.
- L) **JUSTIFICATION:** Complete. Submitted as Attachment O.
- M) **OTHER DATA:** Complete. Provided copy of eligibility application to Cook County, copy of property record card, plat of survey, and purchase contract. Submitted as Attachments B, C, and I.

## **II. Synopsis**

Applicant wishes to obtain a Cook County Class 6b Property Tax Classification. The Class 6b classification is designed to encourage industrial development throughout Cook County by offering a real estate tax incentive for the development of new industrial facilities, the rehabilitation of existing industrial structures, and the industrial reutilization of abandoned buildings. The goal of Class 6b is to attract new industry, stimulate expansion and retention of existing industry, and increase employment opportunities.

The property at 3 W. College Drive has not previously received a Class 6b property tax abatement. Currently the site has three office tenants with one of the tenants using the warehouse space for storage of supplies and unused machines. These tenants would vacate the property upon purchase by Midwest Industrial Funds. Ownership of the buyer has indicated to Staff that purchase of the site is contingent upon approval of the Class 6b property tax abatement. The applicant intends to make all renovations to the property by December 31, 2015. They would then market the property for lease.

Under the incentive provided by Class 6b, qualifying industrial real estate would be eligible for the Class 6b level of assessment from the date that new construction or substantial rehabilitation is completed and initially assessed or, in the case of abandoned property, from the date of substantial re-occupancy. Properties receiving Class 6b designation will be assessed at 10% of market value for the first 10 years, 15% in the 11th year and 20% in the 12th year. This constitutes a substantial reduction in the level of assessment and results in significant tax savings. In the absence of this incentive, industrial real estate

would normally be assessed at 25% of its market value. However, the abatement would not take effect until a tenant has begun occupation of the space.

Please note that the applicant is applying for the Class 6b under “special circumstances”, as this property will not have been 100% vacant for at least two years prior to closing. Per the *Cook County Class 6b Eligibility Bulletin*:

**Abandoned property:** “Buildings and other structures that, after having been vacant and unused for at least 24 continuous months, are purchased for value by a purchaser in whom the seller has no direct financial interest.” An exception to this definition shall be, “if the municipality or the Board of Commissioners, as the case may be, finds that special circumstances justify finding that the property is ‘abandoned’ for the purpose of Class 6b.”

The finding of abandonment, along with the specification of the special circumstances, shall be included in the resolution or ordinance supporting and consenting to the incentive application. Notwithstanding the foregoing, special circumstances may not be determined to justify finding that a property is deemed “abandoned” where:

- A. There has been a purchase for value and the buildings and other structures have not been vacant and unused prior to such purchase; or
- B. There has been no purchase for value and the buildings and other structures have been vacant and unused for less than 24 continuous months.

If the ordinance or resolution containing a finding of “special circumstances” is that of a municipality, the approval of the County Board of Commissioners is required to validate such a finding that the property is deemed “abandoned” for purposes of the incentive, and a resolution to that effect shall be included with the eligibility application.

The resolution must include that this Class 6b abatement was approved by the municipality supporting “special circumstances” in this instance. The applicant would like to justify this need by providing substantial improvement to an antiquated facility. Additionally, the industrial/flex vacancy rate is currently 22.7% in Arlington Heights (source: CoStar, April 2015). Complete occupancy of this building would immediately reduce the vacancy rate over one-half percent to 22.1%.

Also, sale of the site is contingent upon municipal approval of a Class 6b tax abatement. Per the applicant's contract for purchase:

3. Due Diligence Period – Class 6b. The Due Diligence Period shall be extended to May 22, 2015, for the sole reason of Purchaser obtaining class 6b approval (with respect to the level of assessment pertaining to real estate taxes for the Property) as further provided in this Section 3 below.

Purchaser shall use commercially reasonable efforts to obtain the support, consent and/or written approval of the municipality with respect to Purchaser's class 6b application on or before the expiration of the Due Diligence Period. All of the foregoing must be in such form as Purchaser requires, in its sole and absolute discretion. Seller agrees to reasonably cooperate with Purchaser in furtherance of Purchaser's class 6b application with respect to the Property, including, completing applications and providing supporting documentation. The foregoing obligations of Seller shall survive Closing. In the event Purchaser has not received the support, consent and/or written approval of the municipality with respect to Purchaser's class 6b application, in such form as Purchaser requires, on or before the expiration of the Due Diligence Period, then Purchaser may terminate the Agreement pursuant to the Due Diligence Period upon written notice to Seller delivered prior to the expiration thereof. In the event Purchaser terminates the Agreement, then Purchaser shall receive a refund of all Earnest Money and the parties shall be released from all obligations thereunder.

From and after the commencement of the Due Diligence Period, all other due diligence under the Agreement is waived and deemed satisfied except with respect to Purchaser obtaining the support, consent and/or written approval from the municipality of Purchaser's class 6b application as provided above.

### ***Eligibility Requirements***

Real estate is eligible for Class 6b status under the following conditions:

1. The real estate is used primarily for "industrial purposes".
2. There is either: (a) new construction, (b) substantial rehabilitation, or (c) substantial re-occupancy of "abandoned" property.
3. An Eligibility Application and supporting documents have been timely filed with the Office of the Assessor according to deadlines as set forth in the "What Must Be Filed" and "Time for Filing" sections.
4. The municipality in which such real estate is located (or the County Board, if the real estate is located in an unincorporated area) must, by lawful resolution or ordinance, expressly state that it supports and consents to the filing of a Class 6b Application and that it finds Class 6b necessary for development to occur on the subject property.

Applicant wishes to obtain a Cook County Class 6b Property Tax classification. Sandrick Law Firm LLC filed the original Class 6b application on behalf of the applicant, Midwest Industrial Funds, with Village Staff on April 7, 2015.

### **III. Correlation of Application to Comprehensive Plan**

The General Comprehensive Plan indicates that this property should be research, development, manufacturing, and warehouse. Within this designation the layout of the building is appropriate: industrial and office.

- Industrial/Manufacturing/Warehouse Space 82%
- General Office Space 18%

This takes into account 29,239 square feet of industrial space and 6,402 square feet of office space.

### **IV. Correlation of Application to Zoning**

The Zoning Map revised January 1, 2015 designates this parcel as an M-1 Research, Development and Light Manufacturing zoning district. Within this district warehousing, distribution and development are permitted, as are research, office, and light manufacturing uses. Although the applicant is not moving into the building, they will be conducting substantial rehabilitation to the facility in order to make it more enticing for an entity that meets zoning criteria.

### **V. State of Economy of Industry Making Application**

Midwest Industrial Funds (MIF) is a company that renovates antiquated industrial facilities, bringing them to Code and attracting viable, long-term tenants. The site at 3 W. College Drive has not experienced any capital improvement in over 10 years and has fallen into disrepair. The building has several Code violations, and is completely under-utilized, with only approximately 4,000 square feet of office space being used on a regular basis (out of a 35,000 square foot building).

The applicant will not be locating their business at this site. However, they plan to conduct an approximately \$400,000 - \$500,000 renovation to the building, along with an additional \$200,000 in tenant improvements to attract a user that will occupy the entire building. The initial renovation would be completed before the end of 2015.

The building has been listed on the open market for over 30 months. Investors have hesitated to purchase the property due to the renovation needed. Three times in the past 30 months, the listing price has been reduced. Additionally, the building suffers from a high property tax rate. Taxed at \$3.47 per square foot, this compares unfavorably to four other similar buildings with the same zoning (M-1) that are also for sale. In terms of property tax rates, these sites range between \$1.11 - \$3.38 per square foot.

The applicant provided examples of sites that they purchased and refurbished in Northlake and Burr Ridge with assistance from the Cook County Class 6b property tax abatement. In both cases, shortly after completing renovations, the company was able to attract tenants to occupy these industrial facilities.

As the property at 3 W. College Drive has not been 100% vacant for over a year, the applicant is seeking “special circumstances” that would grant them the Class 6b designation. Economic benefits would include an increase in property value, a long-term increase in property taxes, and the probable attraction of a large industrial employer to the site.

Additionally, please note that the abatement would not take effect until a tenant has begun occupancy of the building. Although a municipal recommendation is required, the County will not assess for property

tax relief until there is a tenant operating in the space. The applicant does not have a tenant at this time. Therefore, in this instance, the abatement will not go into effect upon purchase of the property.

## **VI. Site Visit**

Planning and Community Development Department staff met with the applicant on April 9<sup>th</sup> to walk through the facility in its current state. Beyond the office occupancy, the remaining vacant space within the building is severely outdated. Empty office space needs repairs to the walls and ceiling. The great majority of the industrial space, including the roof, walls, and floor, is in need of substantial renovation to attract a tenant. The property also has several Code violations.

There has not been capital improvement in the building for over ten years, and the property has been listed for sale for over 30 months. Improvements to make the building marketable will require significant financial investment from the buyer.

## **VII. Site Specifics of Property Requesting Abatement**

The existing facility is 35,641 square feet in size. Midwest Industrial Partners is applying for a Class 6b property tax abatement that would allow them to purchase the property and complete a renovation to the entire building. The site specifics are provided below:

- A. The property is approximately 90% vacant, except for three small office users. These office users are vacating upon purchase of the property, leaving the site 100% unoccupied. The applicant is applying for “special circumstances” through the County since the property has not been completely vacant for the past 365 days.
- B. The combined cost of purchasing the property and completing improvements is approximately \$1.5 million. Without the abatement, Midwest Industrial Funds has stated that they cannot afford the purchase and renovations.
- C. Although the applicant will not be employing any people at this location, they will strongly market the building to recruit a tenant for the newly renovated site. Rehabilitation work is expected to create 10-20 construction jobs as well.

The building will be renovated to attract a business that meets zoning standards as allowed by the M-1 district (Research, Development, and Light Manufacturing). By definition, “The purpose of the M-1 District is to encourage the grouping of offices, research offices and laboratories, light manufacturing uses, and ancillary business uses...performance standards protect residential areas by restricting objectionable manufacturing activities such as noise, vibration, smoke, dust, odors, heat, glare, fire hazards, and other objectionable influences.”

## **VIII. Relationship of Property Tax Abatement Goals to Application**

The initial intent of the County Assessor's revised property tax incentive plan is to encourage new industrial and commercial development within the county. Reacting to slowed development in the commercial and industrial sectors, the Assessor recognized that the property tax rates in Cook County were above those of neighboring counties, which were seeing a rise in the previously mentioned sectors. The Class 6b Property Tax Abatement program demonstrates an ongoing desire by Cook County officials to maintain Cook County's commercial and industrial competitiveness with the Chicago metropolitan region.

In this instance, the abatement would allow for the rehabilitation of a building that has not received capital improvement in over a decade. Such rehab to the property would encourage a prospective tenant to occupy a restored 35,000 square foot space. The economic impact would be shown in employment growth, a reduction in the Village's industrial/flex vacancy rate, and a growth in the site's property value.

## **IX. Relationship of Village Guidelines to Application**

The Class 6b incentive renewal provides a 10% assessment level for the first 10 years, 15% in the 11th year and 20% in the 12th year. This constitutes a substantial reduction in the level of assessment and results in significant tax savings. In the absence of this incentive, industrial real estate would normally be assessed at 25% of its market value.

This provision requires that the applicant be a manufacturing or warehousing operation and may include high technology land uses. This incentive is available throughout Cook County, but requires municipal approval prior to County officials granting the abatement.

Further, localities may adopt guidelines of their own. These specifications may place restrictions such as minimum number of employees, residency or square feet of operation.

The Village of Arlington Heights initiated its own guidelines in May, 1990. These guidelines require the following:

1. The application fee shall have been paid.
2. The application form shall have been completed with attachments.
3. The business must be a manufacturing, industrial, research, warehousing or fabricating firm for an excess of 51% of the structure's floor space or an excess of 51% of the employees.
4. The business must employ at least 25 individuals during the period when the taxes are abated. Ten or more employees must reside in Arlington Heights.
5. The application (Section VI, VII, VIII and IX) must show a five-year financial benefit to the Village and no negative effect on any similar Village firm.

Guideline #3 is met by this application as 82% of the floor space is dedicated to industrial use, with the remaining 18% dedicated to office space. Guideline #4 is not met as the applicant is purchasing on a speculative basis, but after rehab will recruit a tenant for the entire 35,000 square foot space. This could potentially result in a business that meets or exceeds the Village's employment guidelines. Guideline #5 is met by the inevitable increase in property value, and long-term property tax revenue from the proposed renovations.

## **X. Finance Department Review**

The Finance Department has reviewed the application. Considering that the incentive would not take effect until a tenant has occupied the building, Finance sees benefit to the Village in approving this particular Class 6b.



## **XI. Adherence to Zero Interest Loan Program Requirements**

In order to receive approval from the Village of Arlington Heights for the Class 6b tax abatement, the applicant must formally execute an agreement with the Village. This agreement is a commitment to rebate 10% of the applicant's savings from the abatement to the Village over the first five years of the incentive. The savings will be placed in the Zero Interest Loan fund, to be distributed to new or expanding businesses within Arlington Heights that have applied and been approved for such a loan.

Midwest Industrial Funds has signed the formal agreement and is willing to rebate the Village 10% of their property tax abatement savings in order to help the Village enhance its business community. Additionally, the agreement requires additional contingencies outlined in the section below. Lack of compliance in these regards could result in the retraction of the Class 6b designation, per the Village's discretion.

## **XII. Department of Planning and Development Recommendation**

The intent of the Class 6b tax abatement program is to allow participating communities in Cook County to provide an incentive to office research, manufacturing, and warehousing firms to locate and/or expand within the County. This program provides for a renewal of the adjusted property tax in addition to new tax abatements by reducing the tax rate for a twelve-year period provided that a fiscal benefit continues to return to the host community. Although the applicant is not proposing a move into this facility, they will be reinvesting in it heavily in order to attract a stable, long-term tenant in the immediate future.

As is always the case with Class 6b property tax abatement requests, the applicant finds Cook County commercial property taxes to be burdensome. An illustrative comparison of Cook County and DuPage County taxes follows:

### **For use as an EXAMPLE:**

	<u><b>COOK</b></u>	<u><b>COOK (W/CLASS 6B)</b></u>	<u><b>DUPAGE</b></u>
Market Value	\$1,589,168	\$ 1,589,168	\$1,589,168
Assessment Level	x .25	x .10	x .33
Assessed Valuation	\$ 397,292	\$ 158,917	\$ 524,425
Equalization Factor	x 2.6621	x 2.6621	x 0.9800
Equalized Value	\$1,057,631	\$ 423,052	\$ 513,937
Tax Rate (per \$100)	x11.6789%	x11.6789%	x10.0940%
<b>Taxes</b>	<b>\$ 123,520</b>	<b>\$ 49,408</b>	<b>\$ 51,877</b>

DuPage County taxes for a similar building are \$71,643 lower than Cook County taxes. In other terms, DuPage County property taxes are approximately 138% lower than Cook County non-residential property taxes. With the Class 6b abatement, Cook County property taxes become exponentially more competitive (5% less than DuPage property taxes) in this instance.

As with the granting of Class 6b tax abatements in general, the net result of encouraging Class 6b tax abatements will provide for a more aggressive atmosphere for economic development in Arlington Heights than other communities in the six-county region. Although the applicant is not bringing a new business to the community at this juncture, the contingencies laid out on the previous page will ensure that a large employer is attracted to the Village, or result in the retraction of the Class 6b incentive. Additionally, the investment allowed by this Class 6b will permit a facility in disrepair to be modernized and allow for its long-term viability.