

August 16, 2006

To: Interested Parties

From: Steve Keller, Chief Counsel
Al Mobley, MAI, CCIM, CAE, AAS
Property Tax Administration Program
Florida Department of Revenue

Re: Eighth Draft of the Florida Uniform Market Area Guidelines

Attached please find the current (eighth) draft of the Florida Uniform Market Area Guidelines, dated August 16, 2006. These proposed uniform guidelines are the result of an open and public process, including seven public workshops and two public rule hearings held from June 2003 to September 2005, along with seven previous drafts. Prior to development of the first draft in June 2003, the Department conducted several public workshops on market areas in 2001 and 2002.

The Department believes these proposed guidelines will greatly enhance the ability of Property Appraisers to evaluate and demonstrate the geographic uniformity of real property assessments, and will serve the best interests of the taxpayers of the State of Florida.

Two public workshops will be held on this draft: the first will be held on August 22, 2006 at 9:30am, in Room 116, Larsen Building, 200 East Gaines Street, Tallahassee, Florida; the second public workshop will be held on August 24, 2006 at 9:30am, in the Orlando Public Library, Albertson Room, 101 East Central Boulevard, Orlando, Florida. The notice for these workshops was published in the Friday, August 4, 2006 issue of the Florida Administrative Weekly. If you have any comments or concerns, we request that you appear at one of these workshops and express them or, alternatively, provide them in writing as soon as possible and by no later than September 15, 2006. In the interest of potential improvement, please describe specifically and clearly any substantial administrative effect these provisions might have and/or the basis for any recommended changes. Any comments you may have are appreciated.

Please direct your response and any comments to Sharon Gallops, Tax Law Specialist, Department of Revenue, Property Tax Technical Unit, 725 South Calhoun Street, Tallahassee, Florida 32399-0100; telephone (850) 414-6108; fax (850) 488-9482; email gallopss@dor.state.fl.us

Attachment

The Florida Uniform Market Area Guidelines

DRAFT

Draft Dated
August 16, 2006

FLORIDA DEPARTMENT OF REVENUE
PROPERTY TAX ADMINISTRATION PROGRAM

TABLE OF CONTENTS

1.0 INTRODUCTION AND LEGAL PARAMETERS

- 1.1 Overview of Legal Framework and Roles
- 1.2 Department's Responsibility to Prescribe Rules and Regulations
- 1.3 Department's Responsibility for Market Area Regulations and Guidelines
- 1.4 Description of Geographic Stratification
- 1.5 Intended Users of These Uniform Guidelines
- 1.6 Intended Uses of These Uniform Guidelines

2.0 DEFINITIONS AND CONCEPTS

- 2.1 Overview
- 2.2 Ratio Study
- 2.3 Useable Sales
- 2.4 Population
- 2.5 Sample
- 2.6 Representativeness
- 2.7 Representative Sample
- 2.8 Stratification
- 2.9 Geographic Stratification
- 2.10 Market Area Concepts
 - 2.10.1 Market
 - 2.10.2 Market
 - 2.10.3 Market Areas Are Geographic Areas
 - 2.10.4 Market Areas Are Local Geographic Areas
 - 2.10.5 Market Areas Under Florida Law
- 2.11 Market Area Codes
- 2.12 Neighborhood

3.0 USES OF MARKET AREAS IN FLORIDA

- 3.1 Overview
- 3.2 Stratification by Property Type
- 3.3 Stratification Using Market Areas
- 3.4 Other Uses of Market Areas by Florida Property Appraisers

TABLE OF CONTENTS

(Continued)

4.0 SPECIFIC GUIDANCE FOR MARKET AREA DELINEATION

- 4.1 Overview
- 4.2 Sample Sizes Within Market Areas
- 4.3 Parcel Counts Within Market Areas
- 4.4 The Four Forces That Affect Market Areas
- 4.5 The Legal, Physical, and Economic Characteristics of Market Areas
- 4.6 The Life Cycle Stages Within Market Areas
- 4.7 Census Geographic Entities
- 4.8 Other Criteria for Market Area Delineation

5.0 DELINEATION AND CODING OF MARKET AREAS

- 5.1 Overview
- 5.2 Specific Guidance for Determining Market Area Boundaries
- 5.3 Summary of Criteria for Delineating and Coding Market Areas
- 5.4 Market Area Coding Systems
- 5.5 Maintenance of Market Area Codes
- 5.6 Framework for Resolution of Issues

1.0 INTRODUCTION AND LEGAL PARAMETERS

1.1 Overview of Legal Framework and Roles. Section 4, Article VII, of the Florida Constitution, requires a just valuation of all real property for ad valorem taxation, with certain exceptions. As one of their tasks, Florida Property Appraisers have the statutory responsibility to list and appraise all real property in each county each year for purposes of ad valorem taxation. The Florida Department of Revenue is a state agency with the statutory responsibility of general supervision of the assessment and valuation of real property for ad valorem tax purposes. Regarding the valuation of property, the roles of Property Appraisers and the Department of Revenue are distinct and separate, as described below.

Section 193.085(1), Florida Statutes, states the following: *“The property appraiser shall ensure that all real property within his or her county is listed and valued on the real property assessment roll...”*

Section 195.002(1), Florida Statutes, states the following: *“The Department of Revenue shall have general supervision of the assessment and valuation of property so that all property will be placed on the tax rolls and shall be valued according to its just valuation, as required by the constitution...”*¹

1.2 Department’s Responsibility to Prescribe Rules and Regulations. Section 195.027(1), Florida Statutes, generally requires the Department of Revenue to prescribe rules and regulations for certain public officials, including Florida Property Appraisers, who must follow these rules and regulations, as stated below.

“The Department of Revenue shall prescribe reasonable rules and regulations for the assessing and collection of taxes, and such rules and regulations shall be followed by the property appraisers, tax collectors, clerks of the circuit court, and value adjustment boards. It is hereby declared to be the legislative intent that the department shall formulate such rules and regulations that property will be assessed, taxes will be collected, and the administration will be uniform, just, and otherwise in compliance with the requirements of the general law and the constitution.”

1.3 Department’s Responsibility for Market Area Regulations and Guidelines. Sections 193.114(2) and (2)(a), Florida Statutes, specifically require the Department of Revenue to promulgate regulations and guidelines for the establishment of market area codes, as stated below.

“(2) The department shall promulgate regulations and forms for the preparation of the real property assessment roll to reflect:

¹ The legislative intent for Chapter 195 is described in Section 195.0012, Florida Statutes, as follows: *“It is declared to be the legislative purpose and intent in this entire chapter to recognize and fulfill the state’s responsibility to secure a just valuation for ad valorem tax purposes of all property and to provide for a uniform assessment as between property within each county and property in every other county or taxing district.”*

(a) A brief description of the property for purposes of location and, effective January 1, 1996, a market area code established according to department guidelines...”

As provided by statute, the Department of Revenue has promulgated Rule 12D-8.013(6)(a), Florida Administrative Code, which sets forth a two-digit market area code for each parcel on real property assessment rolls that Property Appraisers must report to the Department. The statutory provisions above also require the Department to promulgate guidelines for the establishment by Property Appraisers of market area codes on all real property assessment rolls.

Together, the statutory and administrative law referenced above in sections 1.1, 1.2, and 1.3 describe the legislative intent and the Department’s authority for the promulgation of the Florida Uniform Market Area Guidelines.

1.4 Description of Geographic Stratification. The delineation and use of market areas under Florida law is an application of geographic stratification. In the context of the Florida Uniform Market Area Guidelines, geographic stratification means to divide, or stratify, the real property parcels within a county into geographic groups, known as market areas. Any other applications of geographic stratification are not addressed in these uniform guidelines. The discussion of geographic stratification in the Florida Uniform Market Area Guidelines may be different from the discussions of the subject found in the professional literature pertaining to single-property appraisal, real estate market analysis, and the direct use of geographic units in mass appraisal modeling.

1.5 Intended Users of These Uniform Guidelines. Based on the statutory provisions referenced in sections 1.1, 1.2, and 1.3 above, the intended users of the Florida Uniform Market Area Guidelines are Florida Property Appraisers and the Department of Revenue.

1.6 Intended Uses of These Uniform Guidelines. The primary intended use of the Florida Uniform Market Area Guidelines is for Florida Property Appraisers and their staff to use them as guidance for the establishment of market areas and market area codes on real property assessment rolls. These uniform guidelines are not intended for use as a reference for any of the following or similar subjects: valuation theory, valuation approaches, or valuation methods. Any and all uses of these uniform market area guidelines and the market area codes on Florida assessment rolls must be consistent with the provisions of these uniform guidelines and with the responsibilities of Property Appraisers and the Department of Revenue.

2.0 DEFINITIONS AND CONCEPTS

2.1 Overview. This section includes concepts and definitions relevant to the Florida Uniform Market Area Guidelines. In the event of any conflict between these concepts and definitions and those from other external sources, the ones below shall apply. These concepts and definitions are based on the following: 1) Florida law and manual of

instructions; 2) the considerations for market areas as described herein; and 3) information from external sources. Any information from external sources may be considered only to the extent that it is consistent with Florida law and manual of instructions.

2.2 Ratio Study. Ratio study has been defined in a ratio study reference as: *“A study of the relationship between appraised or assessed values and market values. Indicators of market values may be either sales (sales ratio study) or independent ‘expert’ appraisals (appraisal ratio study). Of common interest in ratio studies are the level and uniformity of the appraisals or assessments.”*²

2.3 Useable Sales. In the context of the Florida Uniform Market Area Guidelines, useable sales are defined as those real property sales accepted as arm’s length transactions by the Department and then filtered by the Department’s analysis programs to enhance the accuracy and representativeness of the sale data. Such useable sales are referred to in these uniform guidelines as sales or sale counts.

2.4 Population. In the context of ratio studies, a population is defined as all real property parcels within a specified real property group. Such a real property group may be composed of all real property parcels within a county, all real property parcels within a statutory stratum within a county, all real property parcels within a market area, or all real property parcels within some other specified group.

2.5 Sample. In the context of ratio studies, a sample is defined as the useable sales that may occur within a population of real property within a specified time frame or is defined as the real property parcels that may be randomly selected from a population for appraisal ratio studies. *“The sample consists of those parcels for which sales or expert independent appraisals are available.”*³

2.6 Representativeness. Representativeness is a condition where the characteristics or statistics of a sample may be considered typical of the characteristics or parameters of the population from which the sample is drawn. See the discussion of representative sample in section 2.7, and also see the discussion of geographic stratification and geographic representativeness in section 2.9.

2.7 Representative Sample. Representative sample is defined in one mass appraisal reference as: *“A sample of observations from a larger population of observations that is similar in relevant features to the population; thus statistics calculated from the sample can be expected to be representative of the population being studied.”*⁴ Sample representativeness can be enhanced by stratification.⁵

² International Association of Assessing Officers, *Standard on Ratio Studies* (Chicago: International Association of Assessing Officers, 1999), page 40.

³ Robert J. Gloudemans, *Mass Appraisal of Real Property*, (Chicago: International Association of Assessing Officers, 1999), page 227.

⁴ Ibid, page 395.

⁵ International Association of Assessing Officers, *Standard on Ratio Studies* (Chicago: International Association of Assessing Officers, 1999), page 10.

2.8 Stratification. Stratification means to divide, or stratify, real property populations or samples into two or more groups based on some defined criteria, resulting in property groups with one or more shared characteristics. Stratification provides a more complete and detailed evaluation of appraisal performance, can enhance sample representativeness, and is essential in most ratio studies.⁶ The appropriate level of stratification may range from general, with only one criterion, to detailed, with several criteria. The term “stratum” means one group, and the term “strata” means more than one group. Section 195.096(3)(a), Florida Statutes, specifies seven real property classes, or strata.

2.9 Geographic Stratification. For purposes of the Florida Uniform Market Area Guidelines, geographic stratification means to divide, or stratify, the real property parcels within a statutory stratum within a county into geographic groups, known as market areas. Geographic stratification is useful for improving geographic representativeness in sale ratio studies.⁷ The beneficial uses of market area stratification include: identifying areas for prioritizing appraisal activities; diagnostic analysis for pinpointing specific opportunities to improve appraisal results; evaluating geographic uniformity of assessments; and valuation planning.

2.10 Market Area Concepts. The definition of a market area is dependent upon the intended use of the market area, along with applicable legal and regulatory provisions. The primary intended use of market areas codes on real property assessment rolls is ratio study analysis by Property Appraisers and reporting to the Department of Revenue as required by law. Certain provisions of Florida law are applicable to the Florida Uniform Market Area Guidelines. The first four subsections below contain information from professionally recognized references regarding markets, market areas, and market area delineation, and the fifth subsection concludes with the definition of market areas applicable to these uniform market area guidelines under Florida law.

2.10.1 Market. One professional reference defines a market as: “(1) *The arena in which buyers and sellers interact. (2) The collective body of buyers and sellers for a particular product. Real property markets are often delineated by property type and geographic area.*”⁸ This information is consistent with the approach provided by Florida law and these uniform guidelines of delineating market areas by property type (statutory strata) and by geographic area (market areas).

2.10.2 Market. Another professional reference defines a market as: “(1) *The topical area of common interest in which buyers and sellers interact. (2) The collective body of*

⁶ Ibid, page 10. Also, see Robert J. Gloudemans, *Mass Appraisal of Real Property*, (Chicago: International Association of Assessing Officers, 1999), pages 227-228.

⁷ International Association of Assessing Officers, *Standard on Ratio Studies* (Chicago: International Association of Assessing Officers, 1999), page 13.

⁸ Robert J. Gloudemans, *Mass Appraisal of Real Property*, (Chicago: International Association of Assessing Officers, 1999), page 380.

buyers and sellers for a particular product.”⁹ These references to buyers and sellers indicate that sale transactions occur within a real property market area.

2.10.3 Market Areas Are Geographic Areas. One professional reference defines a market area as: “See economic area.”¹⁰ This same reference defines an economic area as: “A geographic area, typically encompassing a group of neighborhoods, defined on the basis that the properties within its boundaries are more or less equally subject to a set of one or more economic forces that largely determine the value of the properties in question.”¹¹ This definition of a market area correctly recognizes that a market area is a geographic area; however, this definition is deficient because it refers to only one (economic) of the interactive forces that affect real property market areas. Two other professional sources properly recognize the four forces that are part of real property market analysis: governmental forces, environmental forces, economic forces, and social forces.¹² Finally, Standard 6 on Mass Appraisal, of the Uniform Standards of Professional Appraisal Practice (USPAP), provides for the identification of the appropriate market area, the location of the market area, and for the identification of the legal, physical, and economic characteristics of the real property parcels within the market area.¹³ USPAP may offer useful guidance on specific issues and is referenced herein only for that purpose. See the last sentence in section 2.1. Consistent with this professional standard and Florida law, the Florida Uniform Market Area Guidelines recommend consideration of the legal, physical, and economic characteristics of geographic real property groups.

2.10.4 Market Areas Are Local Geographic Areas. The following excerpt from a professionally recognized text on real estate market analysis describes market area delineation in the context of localized real estate markets, the geographic dimension, and the local geographic area.

“The consequence of localized real estate markets is that a house located in one urban area can be valued differently from an identical house in another urban area or in different sections of the same urban area solely because of its locational attributes. Moreover, such value differences can also occur in different sections of the same urban area. Therefore, once the market is disaggregated on use, tenure, and physical characteristics, the geographic dimension of the submarket must be specified. The area specification, or market area delineation, could be central city versus suburban, northern suburbs versus western suburbs, neighborhood A versus neighborhood B, for

⁹ International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment* (Chicago: International Association of Assessing Officers, 1997), page 84.

¹⁰ *Ibid*, page 84.

¹¹ *Ibid*, page 48.

¹² Robert J. Gloude-mans, *Mass Appraisal of Real Property*, (Chicago: International Association of Assessing Officers, 1999), pages 15-16. Also, see Appraisal Institute, *The Appraisal of Real Estate, Twelfth Edition* (Chicago: Appraisal Institute, 2001), page 168.

¹³ Appraisal Standards Board, *Uniform Standards of Professional Appraisal Practice, 2005 Edition* (Washington, DC: The Appraisal Foundation, 2005), pages 48-49.

example. However the local geographic area is differentiated, the process of disaggregation by location is another major step.”¹⁴ [underlined emphasis added]

2.10.5 Market Areas Under Florida Law. For purposes of the Florida Uniform Market Area Guidelines, market areas are geographic real property groups based on the statutory real property strata within each county. Market areas have legal, physical, and economic characteristics that are interactive and variable in their influence on geographic real property groups. Homogeneity of these legal, physical, and economic characteristics is not intended or required by these guidelines. Market areas are geographic divisions within Florida counties that do not cross county lines. The delineation of market areas is not based on any non-geographic stratification of real property. A market area is not synonymous with a comparable search area for a particular property or group of real property; a market area may be smaller or larger than an appropriate comparable search area.

2.11 Market Area Codes. A market area code is a two-digit code set forth in Rule 12D-8.013(6)(a), Florida Administrative Code. The function of market area codes is to identify the real property groups that have been geographically stratified into market areas based on the statutory strata.

2.12 Neighborhood. A neighborhood is a geographic real property group. Neighborhood codes are different from market area codes. In most cases, market areas are larger geographic areas than neighborhoods. Neighborhoods and neighborhood codes are not addressed in these uniform guidelines.

3.0 USES OF MARKET AREAS IN FLORIDA

3.1 Overview. A clear understanding of the uses of market areas as described herein is required in order to develop uniform market area guidelines and to delineate and code market areas in accordance with these uniform guidelines. Florida Statutes provide for Property Appraisers to delineate, code, and report market areas.

3.2 Stratification by Property Type. Section 195.096(3)(a), Florida Statutes, provides for the following seven real property classes, or strata.

1. *Residential property that consists of one primary living unit, including, but not limited to, single-family residences, condominiums, cooperatives, and mobile homes.*
2. *Residential property that consists of two or more primary living units.*
3. *Agricultural, high-water recharge, historic property used for commercial or certain non-profit purposes, and other use-valued property.*

¹⁴ Neil Carn, Joseph Rabianski, Ronald Racster, and Maury Seldin, *Real Estate Market Analysis: Techniques and Applications* (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1988), page 67.

4. *Vacant lots.*
5. *Nonagricultural acreage and other undeveloped parcels.*
6. *Improved commercial and industrial property.*
7. *Taxable institutional or governmental, utility, locally assessed railroad, oil, gas, and mineral land, subsurface rights, and other real property.*

In order to proactively evaluate appraisal level and uniformity, Florida Property Appraisers should conduct stratified statistical and analytical review on these statutory real property strata.

3.3 Stratification Using Market Areas. Geographic stratification is part of maximizing representativeness and evaluating appraisal uniformity in ratio studies. The following excerpts from a professionally recognized reference describe the appropriateness of stratifying real property by type, geographic area, and value range for ratio studies.

*“As with any ratio study, a major issue is stratification.”*¹⁵

*“Property class, geographic area, and value range are good candidates for stratification.”*¹⁶

Therefore, the development and application of the Florida Uniform Market Area Guidelines addresses the competing considerations of stratifying to enhance representativeness and evaluate uniformity with providing for sample sizes sufficient for ratio studies.

3.4 Other Uses of Market Areas by Florida Property Appraisers. For valuation planning, diagnostic analysis, and proactively evaluating assessment level and uniformity, Property Appraisers should use market area stratification in their statistical and analytical review of real property assessment rolls. The direct use of market areas in the valuation modeling process, which involves the application of a particular valuation methodology, is not required to achieve successful mass appraisal results; however, these guidelines do not preclude such use where desired and appropriate. Consistent with Florida law, the Florida Uniform Market Area Guidelines do not suggest or advocate the application of particular valuation methodologies. The application of a particular valuation methodology is a decision of administrative discretion on the part of Florida Property Appraisers. See section 11.2 of the Florida Real Property Appraisal Guidelines, adopted November 26, 2002. At their discretion, Property Appraisers are authorized to develop and directly use, in the valuation modeling process, geographic units and related coding systems other than those described in these uniform guidelines, including other market areas and related coding systems.

¹⁵ Robert J. Gloude-mans, *Mass Appraisal of Real Property*, (Chicago: International Association of Assessing Officers, 1999), page 322.

¹⁶ *Ibid*, page 322.

4.0 SPECIFIC GUIDANCE FOR MARKET AREA DELINEATION

4.1 Overview. For the delineation of market areas and the establishment of market area codes pursuant to section 193.114(2) and (2)(a), Florida Statutes, these uniform market area guidelines recommend several criteria as described below in sections 4.2 through 4.8.

4.2 Sample Sizes Within Market Areas. As discussed in sections 2.10.2 and 4.5, the concept of a market indicates the occurrence of sales within a market area. A useful number of sales is an important consideration in the statistical and analytical review of assessment rolls. Therefore, the need to achieve an adequate sample size (number of useable sale transactions) is useful guidance in the delineation and coding of market areas on real property assessment rolls. Accordingly, the market areas reported on Florida assessment rolls should be delineated and coded to achieve, to the greatest extent possible, a useful number of useable sale transactions within a calendar year. However, when delineating market areas in counties with lower total parcel counts or with real property strata with limited sale counts, it may be preferable to focus more on the benefits of stratification than on achieving a certain minimum number of parcels or sales within a particular market area. Lower parcel counts and/or sale counts within a market area may still be useful to Property Appraisers for diagnostic analysis, evaluating geographic uniformity, and decision-making based on statistical and analytical review. When delineating market areas in larger counties where sales are plentiful and where achieving a useful number of sales within market areas is not a problem, Property Appraisers should focus on the benefits of stratification in order to provide for the effective evaluation by Property Appraisers of the geographic uniformity of assessments. The establishment of market area codes under these uniform guidelines requires diligent efforts to appropriately balance the need for stratification with the need for useful sale counts within market areas.

4.3 Parcel Counts Within Market Areas. The intended uses of market areas, as described in sections 3.3 and 3.4, require appropriately balancing the need for stratification with the need for sufficient sale counts within market areas. However, sale counts may be subject to significant annual variation. Generally, parcel counts per market area are subject to less variation than sale counts per market area and are easier to determine and maintain. Therefore, the delineation and maintenance of market areas under these uniform guidelines should be based on consideration of both parcel counts and sale counts within market areas. Generally, smaller counties are expected to have fewer market areas than larger counties. However, even the smallest counties are expected to have more than one market area in order to achieve the benefits of geographic stratification. Larger counties are expected to have more market areas than smaller counties. For example, counties with more than 150,000 parcels are expected to have substantially more market areas than counties with less than 50,000 parcels, and counties with more than 600,000 parcels are expected to have substantially more market areas than counties with less than 400,000 parcels. Very large market areas with very high parcel counts and sale counts subvert the goal of

evaluating the geographic uniformity of assessments, and are not expected under these uniform guidelines.

4.4 The Four Forces That Affect Market Areas. The following excerpt from a professionally recognized text on single-property appraisal lists four forces that are the focus of market area analysis.

*“Market area analysis focuses on the four forces – social, economic, governmental, and environmental – that influence value. Analysis of the four forces is performed by investigating specific factors pertaining to each.”*¹⁷

These same four forces are recognized in a mass appraisal text as being part of real property market analysis.¹⁸ Governmental, environmental, and economic forces equate to the legal, physical, and economic characteristics for which identification is provided by the Uniform Standards of Professional Appraisal Practice (USPAP). See section 2.10.3. USPAP does not specifically provide for analysis of social forces. However, the impact of social forces within a market area is reflected in the legal, physical, and economic characteristics of the real property parcels composing the market area.

4.5 The Legal, Physical, and Economic Characteristics of Market Areas. As noted in section 2.10.3, USPAP references the identification of the appropriate market area, the location of the market area, and the identification of the legal, physical, and economic characteristics of the real property parcels within the market area.¹⁹ This is consistent with information from a professionally recognized text on real estate market analysis, as excerpted below:

*“A market is formed by the interaction of the forces of supply and demand. The supply side is represented by sellers. Each property has a set of physical, locational, legal, and design attributes that makes it suitable for different uses. Sellers auction these attributes to the highest bidders. The demand side is represented by buyers, who bid for the attributes that the properties offer.”*²⁰

The interaction of sellers and buyers described above provides the economic characteristics that correspond to the legal and physical characteristics within market areas, and also indicates the occurrence of sales within market areas. Another professionally recognized reference on real estate market analysis provides useful guidance on the following three discrete units of property characteristics as being relevant to real estate market analysis: 1) legal characteristics, 2) physical

¹⁷ Appraisal Institute, *The Appraisal of Real Estate, Twelfth Edition* (Chicago: Appraisal Institute, 2001), 168.

¹⁸ Robert J. Gloude-mans, *Mass Appraisal of Real Property*, (Chicago: International Association of Assessing Officers, 1999), pages 15-16.

¹⁹ Appraisal Standards Board, *Uniform Standards of Professional Appraisal Practice, 2005 Edition* (Washington, DC: The Appraisal Foundation, 2005), pages 48-49.

²⁰ Stephen F. Fanning, Terry V. Grissom, and Thomas D. Pearson, *Market Analysis for Valuation Appraisals* (Chicago: The Appraisal Institute, 1994), page 123.

characteristics, and 3) economic/financial/locational characteristics.²¹ The following two excerpts from the same source describe the need to consider these three types of property characteristics.

“In addition to the legal and physical characteristics, the subject property also possesses economic characteristics in the form of location or accessibility features and economic features. The analyst should also identify these features and evaluate their effect on the property.”

“These legally permissible, physically possible, and economically supportable uses for the subject property must now be analyzed in greater detail.”²²

Users of these uniform guidelines are cautioned that the delineation of market areas for individual properties often does not directly apply to the delineation and use of market areas on assessment rolls under Florida law. Based on their intended use and intended users, the Florida Uniform Market Area Guidelines are focused on the delineation of market areas for groups of real property, not for individual properties.

4.6 The Life Cycle Stages Within Market Areas. The following excerpt from a professionally recognized text refers to the four possible life cycle stages that may exist within market areas and provides useful guidance for market area delineation.

“Market areas often pass through a four-stage life cycle of growth, stability, decline, and revitalization. Some market areas may bypass stages in this cycle.”²³

These four possible life cycle stages within market areas are described as follows: 1) Growth – a period of gaining market favor and acceptance; 2) Stability – a period of market equilibrium without marked gains or losses; 3) Decline – a period of diminishing demand; and 4) Revitalization – a period of renewal, redevelopment, modernization, and increasing demand.²⁴ It is important to understand that, in many cases, different parts of a delineated market area may experience their own life cycle stage at a particular point in time. Thus, multiple life cycle stages may occur simultaneously within a single market area. In other cases, particularly in the largest counties, a particular market area may experience only a single life cycle stage at a given point in time. A good understanding of these four stages is very useful for the delineation and coding of market areas on real property assessment rolls.

4.7 Census Geographic Entities. There are some census geographic entities that are very useful in the delineation of market areas. Useful census geographic entities include census tracts, census block groups, census places, and traffic analysis zones. Census tracts are geographic entities required by the U.S. government and that cover

²¹ Neil Carn, Joseph Rabianski, Ronald Racster, and Maury Seldin, *Real Estate Market Analysis: Techniques and Applications* (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1988), pages 84-86.

²² Ibid, page 86.

²³ Appraisal Institute, *The Appraisal of Real Estate, Twelfth Edition* (Chicago: Appraisal Institute, 2001), page 166.

²⁴ Ibid, page 166.

the entire United States. Like those within market areas, the geographic real property groups within census tracts have legal, physical, and economic characteristics. The Uniform Residential Appraisal Report, required by numerous finance agencies of the U.S. government, specifically provides for the reporting of census tracts. This indicates the importance of census tracts to users of these uniform appraisal reports. Additionally, the following excerpt from a professionally recognized market analysis text illustrates the relevance of census tracts to market area delineation, and provides useful guidance for market area delineation.

*“If the subject property is a subdivision or an apartment complex, the census tracts represent the area from which the subdivision or complex will draw prospective home buyers or renters, who are part of the population of the census tracts. If the subject is a neighborhood shopping center, the census tracts represent the area from which its retail customers will be drawn. Population and employment projections for census tracts that delineate the market area will constitute the population and employment base for that market area.”*²⁵

The excerpt above is helpful for understanding the relationship between census tracts and the legal, physical, and economic characteristics of real property groups. Since census geographic entities divide all of the real property parcels within Florida counties into geographic units that are widely used for real property market analysis, census geographic entities provide useful guidance for the delineation and coding of market areas on Florida assessment rolls.

4.8 Other Criteria for Market Area Delineation. It is appropriate to delineate market areas in a manner that maximizes the stability of market area boundaries and coding systems and minimizes the need to adjust them. However, some maintenance will be necessary as market change occurs. During the initial delineation of market areas, the life cycle stages that may occur within each market area must be considered. For example, in growth areas, market areas with lower parcel counts should be delineated in order to minimize the need to create new market areas when parcel counts within existing market areas become large due to market growth. This consideration would be less important for stable market areas that are built-out and have limited potential for growth. Other criteria for market area delineation include the relationship between sale counts and parcel counts within each market area and the need to maximize sample representativeness within each market area.

5.0 DELINEATION AND CODING OF MARKET AREAS

5.1 Overview. Market areas must be delineated, coded, maintained, and reported on each real property parcel on assessment rolls in accordance with Florida law and these uniform guidelines.

²⁵ Stephen F. Fanning, Terry V. Grissom, and Thomas D. Pearson, *Market Analysis for Valuation Appraisals*, (Chicago: The Appraisal Institute, 1994), page 126.

5.2 Specific Guidance for Determining Market Area Boundaries. Market area boundary criteria based on the legal, physical, and economic characteristics of real property groups represent practical and useful criteria for identifying reasonable market area boundaries in accordance with the items listed in section 5.3. Such criteria include the following:

- (1) Future land use classification boundaries;
- (2) Zoning classification boundaries;
- (3) County lines and section lines;
- (4) Rivers, lakes, oceans, bays, etc.;
- (5) Major streets, expressways, railroads, canals, etc.;
- (6) Significant changes in real property type;
- (7) Significant changes in real property size;
- (8) Significant changes in real property construction quality and features;
- (9) Significant changes in real property age;
- (10) Significant changes in real property condition;
- (11) Boundaries of census geographic entities; and
- (12) Significant changes in the rate of real property market activity, particularly sale counts expressed as a percent of parcel counts.

The appropriate market area boundary may vary by statutory strata. For example, a major street may be a good boundary for a stratum 1 market area, but may be inappropriate for a stratum 6 market area if commercial properties line both sides of the street. A better boundary for a stratum 6 market area may be a future land use classification boundary. In some cases, all or part of the boundaries of one or more census geographic entities may be appropriate boundaries for a market area.

A market area boundary does not extend beyond a county line. Market area boundaries for different statutory strata can overlap. In almost all cases, the boundaries of a particular market area will form a single geographic unit, but there may be limited exceptions for unique situations within a county where a market area could be composed of two or more non-contiguous geographic areas.

5.3 Summary of Criteria for Delineating and Coding Market Areas. Market areas must be delineated, coded, and reported in accordance with Florida law and these uniform guidelines. Within this framework, below is a summary of the criteria that must be considered in the delineation and coding of market areas for each of the statutory strata.

- (1) The benefits of geographic stratification described in sections 2.8 and 2.9;
- (2) The description of a market area under Florida law in section 2.10.5;
- (3) The sample size and parcel count criteria provided in sections 4.2 and 4.3;
- (4) The legal, physical, and economic characteristics of market areas referenced in sections 4.4 and 4.5;
- (5) The life cycle stages within market areas referenced in section 4.6;
- (6) The census geographic entities referenced in section 4.7;
- (7) The other criteria for market area delineation provided in section 4.8; and
- (8) The criteria for determining market area boundaries provided in section 5.2.

5.4 Market Area Coding Systems. Market area codes are two-digit codes reported each year to the Department of Revenue for each real property parcel on assessment rolls. Under these uniform guidelines, no county may report more than 99 market area codes within one of the statutory real property strata. The largest Florida counties may have a total market area count (for all strata) numbering in the three digits. In order to accommodate any such total market area counts using a two-digit coding system, the largest counties may have to use the same market area code for more than one statutory real property strata, as provided for below. Other coding requirements include the following.

- (1) Market area codes under these uniform guidelines are based on the statutory strata referenced in section 3.2. Subject to the exceptions listed below and under these uniform guidelines, there must be a separate market area coding system for each of the seven statutory strata composing real property assessment rolls.
- (2) Counties with large numbers of a particular property use code within stratum 1 may choose to develop a separate system of market area codes for that particular property type, provided that more than one market area is delineated and coded for such separate system. All other criteria for stratum 1 property would still apply.
- (3) A county may select the option of using stratum 1 market area boundaries to establish stratum 4 market area boundaries. If a county selects this option, then all stratum 4 properties within a stratum 1 market area boundary also must be coded using the corresponding stratum 1 market area code.
- (4) A county may select the option of using stratum 6 market area boundaries to establish stratum 5 market area boundaries. If a county selects this option, then all stratum 5 properties within a stratum 6 market area boundary also must be coded using the corresponding stratum 6 market area code.

5.5 Maintenance of Market Area Codes. Florida Property Appraisers are required to submit preliminary assessment rolls with market area codes established on all real property parcels in compliance with applicable Florida law and these uniform guidelines. Following the initial delineation and coding period, Florida Property Appraisers must maintain market areas and market area codes on each real property parcel on assessment rolls in accordance with applicable Florida law and these uniform guidelines.

5.6 Framework for Resolution of Issues. To resolve any issues relating to market area codes and these uniform guidelines during the delineation and coding period and at any time thereafter, the Department of Revenue and the offices of Florida Property Appraisers will work cooperatively within the framework of applicable Florida law and these uniform guidelines.