



## State Sets Factors to Consider In Fair Market Value

### Three approaches to valuation offered

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**Q:** I own two nearly identical units in a small condominium. One unit is on the first floor, and the second is nearly directly above on the second floor. When I received my notice for proposed taxes this year, I noticed that the market value of the unit on the second floor was nearly \$9,000.00 dollars higher than the first floor unit. In speaking with the Lee County Property Appraiser's Office, I was told that second floor units were assigned a higher value due to a "view adjustment." Since the market value is used to determine the assessed value, and this is the first time that I've noticed such a difference, can you please explain what the Property Appraiser considers in assigning the market value to a property? **C.M. (via e-mail)**

**A:** The factors a property appraiser must consider in assigning the fair market value, the amount a willing purchaser would presently pay a willing seller, are set forth in Section 193.011 of the Florida Statutes. Three approaches to valuation can be used: (1) Direct Sales Comparison, (2) Replacement Cost, and (3) Capitalization of Income. The Lee County Property Appraiser's Office uses a computer-assisted mass appraisal system that incorporates elements of all three approaches to arrive at its conclusions as to the fair market value of properties throughout Lee County.

The Direct Sales Comparison method looks at

similarly situated properties which were purchased between January 1 and December 31 of the previous year. Accordingly, for the 2009 tax year, the Property Appraiser would look at sales that took place between January 1, 2008 and December 31, 2008. In determining the fair market value of properties based on the Direct Sales Comparison, the Property Appraiser must determine the actual sales price of the real property, irrespective of furnishings or club memberships which might have been included in the sale. Additionally, the Property Appraiser must consider sales which are classified as "outliers" – those which have sales prices well above or below those of similarly situated properties. An example of such an outlier would be a sale where the seller agreed to a purchase price below the actual value of the home because the seller needed the cash right away. Finally, the Property Appraiser must make certain that the sale was an arm's length transaction or, in other words, a transaction in which the buyer and seller act independently and have no relationship to each other so as to avoid any artificial impact on price.

The Replacement Cost method is based on how much money it would take, at current material and labor costs, to replace the property with one just like it, taking into account depreciation of improvements which are not new.

The Capitalization of Income method is typically applied to commercial properties, those properties which do, or could, provide income. Apartment complexes, retail store space, and office buildings are typical examples. In applying this method, the property owner must supply and the Property Appraiser shall consider income-related information such as revenues, operating expenses, insurance and maintenance costs, degree of financial risk incurred by owning the property, and the return the typical owner would expect to receive on the specific property.

General factors to be considered in all of the approaches include the location, size, and condition of the property. By way of example, waterfront properties are generally assigned a greater value than non-waterfront properties. Additionally, the larger of two similarly-situated properties will likely be assigned a higher value.

The Property Appraiser must also take into account the present use of the property as compared to the highest and best use to which the property can be expected to be put in the immediate future. This allows the Property Appraiser to account for development restrictions placed on the property by documents recorded in the public records together with those imposed by local, state, and federal governments. An example of a restriction on the highest and best use is a conservation easement placed on all or a portion of the property. Conservation easements typically restrict

development and, thus, would greatly reduce the highest and best use of a property which could otherwise be developed.

Outside sources, such as the state of the economy of the forces of supply and demand, also affect the fair market value.

The assessed value is the fair market value less any consideration for the "Save Our Homes" Cap or Agricultural Classifications. The assessed value less any exemptions, such as the Homestead Exemption and Senior's Exemption, provides the taxable value.

In addressing your question specifically, the "view adjustment" is one of several building features the Lee County Property Appraiser uses to assign a fair market value to a property. The effect these features will have on the fair market value varies based on the location of the property and is ultimately dependent upon the purchase price any willing buyer would pay for a similar unit. For instance, in some parts of Lee County the floor the unit is located on has no effect on the fair market value. In other parts of Lee County, a buyer may pay more for a ground floor unit than a unit on a higher floor and, thus, the first floor unit will have a greater fair market value than those on higher floors. There is no magic formula to apply nor simple explanation to give. Rather, it is a matter of where you are located and how much people at the current time are willing to pay to live there as well.

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