

Proposed Rule
LSA Document #17-173

DIGEST

Adds [50 IAC 30](#) to establish procedures for conducting a market segmentation analysis for the assessment of real property improvements. Effective January 1, 2018.

[IC 4-22-2.1-5 Statement Concerning Rules Affecting Small Businesses](#)

[50 IAC 30](#)

SECTION 1. [50 IAC 30](#) IS ADDED TO READ AS FOLLOWS:

ARTICLE 30. MARKET SEGMENTATION OF REAL PROPERTY IMPROVEMENTS

Rule 1. General Provisions

[50 IAC 30-1-1 Purpose](#)

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 1. The purpose of this article is to provide guidance for applying [IC 6-1.1-31-6\(d\)](#) and [IC 6-1.1-31-6\(e\)](#). These rules are intended to assist in the identification and use of sufficiently similar comparable sale properties in a sales comparison analysis.

(Department of Local Government Finance; [50 IAC 30-1-1](#))

[50 IAC 30-1-2 Applicability](#)

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 2. (a) Under [IC 6-1.1-31-6](#), this article applies to the valuation of real property improvements, as defined in [50 IAC 30-2](#), in which the sales comparison approach is employed pursuant to [50 IAC 2.4](#).

(b) The rules provided in this article supplement and do not supersede the rules of the department on the assessment of real property at [50 IAC 2.4](#).

(Department of Local Government Finance; [50 IAC 30-1-2](#))

Rule 2. Definitions

[50 IAC 30-2-1 Applicability](#)

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 1. The definitions in this rule apply throughout this article.

(Department of Local Government Finance; [50 IAC 30-2-1](#))

[50 IAC 30-2-2 "Department" defined](#)

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 2. "Department" means the department of local government finance.

(Department of Local Government Finance; [50 IAC 30-2-2](#))

[50 IAC 30-2-3](#) "Disaggregation" defined

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 3. "Disaggregation" means grouping properties together based on similar attributes or characteristics of the properties to differentiate them from other types of property.

(Department of Local Government Finance; [50 IAC 30-2-3](#))

[50 IAC 30-2-4](#) "Generally accepted appraisal principles" defined

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 4. "Generally accepted appraisal principles" refers to the appraisal principles and standards recognized in the appraisal community as authoritative. Sources of generally accepted appraisal principles include, but are not limited to, the following:

- (1) The Uniform Standards of Professional Appraisal Practice (USPAP) promulgated by the Appraisal Foundation.**
- (2) The interpretations of USPAP offered in the advisory opinions of the Appraisal Standards Board of The Appraisal Foundation and all other documents intended by the Appraisal Standards Board as interpretations of USPAP.**
- (3) Standard appraisal and valuation texts published by the Appraisal Institute.**
- (4) Standard appraisal and valuation texts published by the International Association of Assessment Officers.**

(Department of Local Government Finance; [50 IAC 30-2-4](#))

[50 IAC 30-2-5](#) "Market" defined

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 5. "Market" means an aggregation of likely actual or potential sellers and buyers facilitating the exchange of real property. A market for a property is not necessarily limited to a particular geographic area or taxing jurisdiction and can be local, regional, national, or international.

(Department of Local Government Finance; [50 IAC 30-2-5](#))

[50 IAC 30-2-6](#) "Market area" defined

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 6. "Market area" means the geographic or locational delineation of the market for a specific category of real property; i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable likely purchasers and users.

(Department of Local Government Finance; [50 IAC 30-2-6](#))

[50 IAC 30-2-7](#) "Market segmentation" or "market segmentation analysis" defined

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 7. "Market segmentation" or "market segmentation analysis" means the process by which markets and submarkets for a property are identified and analyzed.

(Department of Local Government Finance; [50 IAC 30-2-7](#))

[50 IAC 30-2-8](#) "Real property improvements" defined

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 8. "Real property improvements" refers to buildings or fixtures situated on land located within this state or an appurtenance to land located within this state.

(Department of Local Government Finance; [50 IAC 30-2-8](#))

[50 IAC 30-2-9](#) "Submarket" defined

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 9. "Submarket" means a division of a market that reflects the preferences of a particular set of buyers and sellers for real property. A submarket for a property is not necessarily limited to a particular geographic area or taxing jurisdiction and can be local, regional, national, or international.

(Department of Local Government Finance; [50 IAC 30-2-9](#))

[50 IAC 30-2-10](#) "True tax value" defined

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 10. "True tax value" refers to the true tax value of real property as defined in the 2011 Real Property Assessment Manual, incorporated by reference in [50 IAC 2.4-1-2\(c\)](#).

(Department of Local Government Finance; [50 IAC 30-2-10](#))

Rule 3. Market Segmentation

[50 IAC 30-3-1](#) Purpose and conduct of market segmentation

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 1. (a) Per [IC 6-1.1-31-6\(d\)](#), a market segmentation analysis may be used as evidence refuting or supporting the purported comparability of a sale or appropriateness of a valuation approach in an opinion of true tax value.

(b) A market segmentation analysis must conform to generally accepted appraisal principles.

(c) No specific form or procedure is required for a market segmentation analysis.

(d) It is not required for a market segmentation analysis to:

- (1) accompany a valuation utilizing the sales comparison approach; or**
- (2) be separate or distinct from an appraisal report.**

(Department of Local Government Finance; [50 IAC 30-3-1](#))

[50 IAC 30-3-2](#) Property attributes

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 2. (a) Property attributes, including an attribute of the real property improvement described in subsection (b), for purposes of disaggregation, may include the following:

- (1) Age (e.g., construction date of property), including effective age.**
- (2) Current or intended use.**
- (3) Deed or use restrictions (e.g., constraints on ownership type or use).**
- (4) Design and amenities (e.g., unheated storage space, mezzanine, drive-thru).**
- (5) Land-to-building ratio (e.g., large or small building footprint).**
- (6) Location (e.g., prime or desirable location, traffic count of access roads and streets).**
- (7) Occupancy (e.g., residential, apartment, office, retail), whether single-tenant or multitenant.**
- (8) Physical characteristics.**
- (9) Quality of construction (e.g., class of building).**
- (10) Size (e.g., square footage of building).**
- (11) Any other relevant factors.**

(b) The presence or absence of any attribute described in this section in a market segmentation analysis or sales comparison analysis does not invalidate the market segmentation analysis or sales comparison analysis. The use of any attribute other than the attributes described in this section does not invalidate the market segmentation analysis or sales comparison analysis.

(c) In analyzing comparable sales as they relate to the subject property as part of a sales comparison analysis, any adjustment to the purchase price recognized by generally accepted appraisal principles may be considered to the extent the adjustment is consistent with [IC 6-1.1-31-6\(d\)](#).

(Department of Local Government Finance; [50 IAC 30-3-2](#))

[50 IAC 30-3-3](#) Analysis of markets and submarkets

Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)

Affected: [IC 6-1.1-31-6](#)

Sec. 3. (a) A market segment is delineated by identifying the likely actual or potential buyers and sellers of a property based on its current use.

(b) Consistent with generally accepted appraisal principles, identification of markets and submarkets may include consideration of the following factors:

- (1) Property type (e.g. single-unit residence, retail shopping center, office building, etc.).**
- (2) Property features, including, but not limited to, the following:**
 - (A) Property attributes, including those listed in section 2 of this rule.**
 - (B) Customer base, consisting of the most probable users and based on the economic differences and similarities of the properties, including analysis of population, employment, income, and activity patterns.**
- (3) Market area, defined by geographical market and location. Market area may not necessarily be limited to the same geographic area or taxing jurisdiction. Depending on the property type, a market area may be local, regional, national, or international in scope. It may be urban, suburban, or rural. It may correspond to a district or neighborhood of a city.**
- (4) Available substitute properties, which are equally desirable and compete with the subject property in its market or submarket area, which may be local, regional, national, or international.**
- (5) Other properties or property types that are complementary to the subject property, which are also referred to as support facilities.**

(c) The presence or absence of any attribute described in subsection (a) in a market segmentation analysis does not necessarily invalidate the market segmentation analysis.

(Department of Local Government Finance; [50 IAC 30-3-3](#))

Rule 4. Examples of Appropriate Comparable Sale Properties**50 IAC 30-4-1 Examples**Authority: [IC 6-1.1-31-1](#); [IC 6-1.1-31-6](#)Affected: [IC 4-22-7-7](#); [IC 6-1.1-31-6](#)

Sec. 1. (a) The following examples illustrate how to identify comparable sale properties for use in a sales comparison analysis:

(1) Subject Property is a big-box property (that is, a freestanding building in excess of fifty thousand (50,000) square feet with minimal interior divisions that is used for retail purposes). In an appraisal of the property, an appraiser cited several properties for use as comparable sales, all of which are big-box properties. Four (4) of the properties were sold to subsequent users for continued use as retail properties, though they were originally built for the retail use of the initial users. All four (4) properties are used for retail purposes both presale and post-sale and are situated in the "general retail" market. However, the fact that all four (4) properties were used for retail purposes both presale and post-sale does not necessarily mean that they are comparable sale properties. Additional evidence would be needed to determine whether the four (4) purportedly comparable sale properties have a different market or submarket than the current use of the Subject Property.

(2) Subject Property is a big-box property originally built, owned, and occupied by a national department store chain. The Subject Property is located on a major traffic corridor (corridor) approximately one-quarter (1/4) mile from an interstate highway but is not visible from that highway. The Subject Property is only accessible by a private road intersecting the corridor. Appraisals relied in part on two (2) sale properties. The sale properties, big-box retail stores used by a furniture outlet store and an electronic and appliance store operator, respectively, are visible from the interstate, but they can only be accessed by a street intersecting the corridor. Notwithstanding their differences in location and proximity, it is possible that the sale properties could be used to determine the true tax value of the Subject Property. Additional evidence may be needed to determine whether the two (2) purportedly comparable sale properties have a different market or submarket than the current use of the Subject Property.

(3) Same Subject Property as in subdivision (2), except the appraisal used as sale properties include:

(A) a former grocery store located in the same metropolitan area as the Subject Property that was demolished shortly after sale;

(B) a big-box retail store that served as an anchor store to an unenclosed mall, which was demolished shortly after the sale and was located in another city; and

(C) a big-box retail store converted to multitenant use after the sale also located in a different city.

Although the sale properties and Subject Property may have been appropriately classified within a "general retail" market prior to the time of sale, the sale properties may fall into a different submarket following their sale because the sale properties were put to a use following their sales that is different from the current use of the Subject Property. Additional evidence may be needed to determine whether the three (3) purportedly comparable sale properties have a different market or submarket than the current use of the Subject Property.

(4) Subject Property is a freestanding department store, owned by a national retail chain and built to the specifications of the owner-company. An appraisal used nine (9) sale properties as comparable sales. These sale properties were all freestanding department stores, owned in fee simple, located outside Indiana, vacant at the time of sale, and were sold for continual retail use. Here, the fact that the sale properties were located outside Indiana and vacant at the time of sale is not sufficient to disqualify them from serving as comparable sale properties in a sales comparison analysis. However, the fact that the sale properties, like the Subject Property, were owned in fee simple and used for retail purposes is also not sufficient to determine whether the sale properties reflect the true tax value of the Subject Property. Additional evidence would be needed to determine whether the nine (9) purportedly comparable sale properties have a different market or submarket than the current use of the Subject Property.

(5) Subject Property is a light manufacturing facility, where the operator manufactures plastic components for the automotive industry. In its sales comparison approach, an appraiser relies upon three (3) comparable sale properties, which are designated as Sale Comparable 1, Sale Comparable 2, and Sale Comparable 3. Two (2) of the comparable sales are of light manufacturing facilities, with the operator of Sale Comparable 1 using the property to manufacture wooden frames and trusses for the housing industry and the operator of Sale Comparable 2 using the property to manufacture handheld

electronic devices. Sale Comparable 3 is used by the operator to manufacture metal piping for the oil and gas industry, considered a heavier manufacturing use. The three (3) comparable properties have many physical characteristics common for light and heavy manufacturing facilities, respectively. Additional evidence would be needed to determine whether the three (3) purportedly comparable sale properties have a different market or submarket than the current use of the Subject Property.

(b) The examples listed in subsection (a) are for illustrative purposes only and are not intended to be exhaustive. The department may provide additional examples in its directives on real property or other guidance, including memoranda, pursuant to [IC 4-22-7-7\(a\)\(5\)](#) as authoritative interpretations of this rule.

(Department of Local Government Finance; [50 IAC 30-4-1](#))

SECTION 2. SECTION 1 of this document takes effect January 1, 2018.

[Notice of Public Hearing](#)

Posted: 06/14/2017 by Legislative Services Agency
An [html](#) version of this document.