Billboard Valuation Issues: An Overview

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Where to Begin

• First we need to define some of the fundamental underlying issues
• As we discuss them, we will refer to how they can influence value
• And we will reference some different interpretations in different states
Where to Begin

• Next we look at some of the history of practice and literature surrounding the sign valuation issue
• We will examine criticism of the processes as well
• and finally employ some tests of reasonableness
Billboard Valuation: A Bundle of Classic Appraisal Issues

- Real vs. Personal Property
- Allocation of Business Value
- Laws and Regulations
- Undivided Fee
- Tenant owned improvements
- Special Purpose Property
Real vs. Personal Property

• Why does it matter? -
• Determines whether it is treated as an element of compensation or relocation
• Pennsylvania classifies signs as personal property
Real vs. Personal Property

• Wisconsin law classifies signs as real estate if the land owner owns the sign
• Wisconsin classifies them as personal property IF tenant owned property but
• allows for a hypothetical condition to treat as real estate under certain taking conditions
Real vs. Personal Property

• in a Supreme Court ruling in 2015 (Texas v Clear Channel - still being appealed) the court classified
  • ..outdoor advertising signs as personal property vs. real property
• Virginia classifies them as real estate for the sake of RW acquisition
Business Value

• The question of properly allocating business value has been an issue for decades in properties like hotels, restaurants, service stations, fast food, drug stores and billboards.

• Even greater emphasis on the issue has emerged in the past two decades with the Institute’s courses on intangible assets.
Business Value

• The method of addressing this issue can greatly impact value.
• One method is to begin with gross advertising income,
• deduct identified business expense
• and capitalize the net income to derive a real estate value - essentially a residual technique.
Business Value (cont)

• Another approach is to identify properties (land and sign) that are leased as a whole by the advertising company

• make adjustments for location and impact

• and determine an appropriate income ratio of rent to total advertising income

• ratio then applied to ad income to derive net income
Laws and Regulations

• Case law in each state can have substantial impact of how these properties are valued
• As a result of the Texas case in 2015 (still under appeal) Texas does not employ an income approach in the valuation of billboards
• Michigan case law delineates the status of real vs. personal property based on fee ownership
Undivided Fee/
Tenant owned improvements

• The principle of undivided fee is that the property acquired should be valued as if owned by a single entity
• Tenant owned improvements, then, are valued according to their contribution to the whole
Undivided Fee/
Tenant owned improvements
(Cont)

• The value of the structure must still be allocated separately
• Note that much of the value influence to the advertiser results from the specific location
• The implication, then, would be that the structure itself would be a candidate for value by a cost approach
Special Purpose Property

• Unlikely that the sign will be converted to an antique store, or an apartment, or even a drive-in movie

• We are forced to carefully consider the elements concerning this use that influence value

• ...and to be careful where lines are drawn (site/structure, business/real estate, etc.)
Some Background

• Here are some of the primary texts regarding OA Valuation:
  
  • *Appraisal of Outdoor Advertising Signs*, Donald T. Sutte, Jr., Published by AI in 1994

  • *Billboard Appraisal: The Valuation of Off-Premise Advertising Signs*, Paul and Jeffrey Wright, Published by ASA in 2003

  • *Valuation of Billboards*, Marvin Wolverton & Dwain Stoops, Published by AI in 2006

• An article in the Winter 2016 “Appraisal Journal” is also informative: “*Outdoor Billboard Real Property Valuation*” by Robert Thomas Helmer
• My introduction to billboards came from an appraisal that ultimately ended up in the Supreme Court of Virginia
• Property was small unimproved commercial site and new development was imminent
• Lease allowed either party to terminate and spelled out sign company would take the sign
• Did not know Virginia court had ruled signs to be real estate
• Not familiar with Uniform Act
• Valued the site lease as interim income and assumed company would take their sign
• Our attorneys argued that Sutte should not be allowed to testify to sign value because...

• He referred to his value as a leasehold interest

• Law allows tenant testimony as to total property value only at acquisition trial
Background (cont)

- Court agreed and excluded the sign owner’s testimony
- Appealed to Virginia Supreme Court
- Court ruled sign value evidence should be admitted
Fast Forward

• When I began at VDOT, they were losing billboard court cases
• Wanted new Chief Appraiser to help
• I read and studied including arguments being presented by Dwaine Stoops, MAI, and Charles F. Floyd, a real estate professor at the University of Georgia
We formed a task force including both Stoops, Floyd and a local attorney who familiarized himself with the fundamental legal and valuation issues.

Issues centered around business value, allocation to structure, etc.

VDOT experienced marked improvement in billboard settlements.
Trends

• Both of the more recent texts and the Appraisal Journal Article provide serious insight into the structure of OA advertising with the latter reflecting more current trends

• Like everyone else, advertising has taken advantage of technology to provide highly tuned multi-media messages in a highly targeted fashion
Trends

• The analysis is complex. Following from Helmer article:
• Originally the Annual Average Daily Traffic Count (AADC) was combined with the Dwell Time to derive Daily Effective Circulation (DEC)
Trends

• Now a much more complex measure is used called The Traffic Audit Bureau (TAB) Out of Home Ratings

• The information from these ratings is proprietary

• As are lease, sales and operating information for the most part
Trends

• This brings us to an important point about Outdoor Advertising as pointed out in the article and the Wolverton/Stoops book.

• The business is an Oligopoly
  • An inefficient market dominated by a small number of suppliers  p.184, The Valuation of Billboards
Trends

• Helmer’s article suggests, as do the texts, that it is the appraiser’s job to have this information that is generally unavailable before they can properly estimate value OR

• They should approximate it using their own best efforts
What is Purpose of Appraisal?

• Appraise the value of the sign package or what Michigan refers to as the TOARP (Total Outdoor Advertising Real Property) ..and

• Estimate the appropriate allocation to the structure when they are tenant owned improvements
Issues to Consider

• The industry oriented methodology suggests that the site leases are generally far below market and the lessors are uninformed.

• They suggest this potential “market rent” for the site and sign should be capitalized and that is the sign value.
Issues to Consider

• If the appraiser goes out and finds a number of similar sites and derives a consistent indicator of rent rates or ratios

• is that not an effective market rent for the area?
Issues to Consider

• Furthermore, isn’t the site rental the element that is sensitive to advertising appeal, i.e. specific market placement, dwell time, etc?

• What then is the value of the sign if not a cost approach?

• Does a bus become inherently more valuable with an advertisement on its side?
Issues to Consider

• Alternately, the income approach begins with the gross advertising revenue and
• makes deductions for business elements that are extremely complex and variable (and that cannot be typically verified)
• to derive a net income capitalized as a sign value residual
Test of Reasonableness

• When we appraise a fast food operation, do we begin with how many burgers are sold
• then deduct industry expenses of developing a supply chain or other non-real estate expenses and
• use the remaining income to determine the residual value of the real estate?
Reasonableness (cont)

• No

• We look at how much rent the Food Company pays to have a structure at a suitable location

• In like manner, finding leases of both site and sign more accurately separates the real estate from the business value
Issues to Consider

• This is not to say the appraiser should not be familiar with industry drivers so that proper adjustments can be made.
Tests of Reasonableness

• When I began, I noticed that signs that cost $60,000 to build were being represented by the industry as being worth $500,000
• Not the site, but the sign itself
• I thought “I need to start building signs”
Tests of Reasonableness

• Furthermore
• Texas v Clear Channel also says
  • ..depreciated contributory value of the sign structure via the cost approach is acceptable.. and
  • .. direct use of any income or other approach based on advertising revenues is prohibited
Other Considerations

• AND the Outdoor Advertising Industry itself supports using a cost approach for the sign!
• But only for real estate taxes
Other Considerations

• The industry has, and continues to claim that the same sign with the same definition of market value
• should be valued capitalizing the advertising income for RW acquisitions
• and valued by the cost approach for real estate taxation
Summary

• Billboard valuation is obviously a complex topic
• Specific laws and regulations can have a major impact on how the issues are addressed
• Appraisers need to be versed in the issues involved in order to arrive at credible opinions they can support
• This includes employing critical thought and tests of reasonableness