Approved:______________________________
Director, Office of Right of Way

GUIDANCE DOCUMENT 3
Effective: August 18, 1997
Responsible Office: Right of Way Appraisal and Appraisal Review

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GUIDANCE DOCUMENT FOR RIGHT OF WAY OUTDOOR ADVERTISING VALUATION

PURPOSE:

To provide guidelines for valuation of outdoor advertising signs and sign sites to be acquired for transportation projects. These guidelines are intended to assist the appraiser and review appraiser in understanding the complex issue associated with sign valuation. They should not be considered mandatory and any other approach to valuation consistent with state law and sound appraisal practice may be utilized.

AUTHORITY:

Sections 334.044(2) and 20.23(3)(a), Florida Statutes.

SCOPE:

All FDOT Right of Way Appraisal staff.

REFERENCE:

Rule 14-75, FAC; Chapter 475, Part II, Florida Statutes; Department of Transportation, State of Florida v. Heathrow Land & Development Corporation, et. al., 579 So.2d 183 (Fla. 5th DCA 1991).

GENERAL INFORMATION:

This guideline does not include the valuation for acquisition of on-premise signs.

To the greatest extent practicable, the appraisal of outdoor advertising signs should be combined with the fee interest appraisal assignment.

Uniform Standards of Professional Appraisal Practice (USPAP) Standards 1 and 2 apply and Standards 7, 8, and 9 may apply to the appraisal of outdoor advertising signs.

Appraisal and appraisal review activities for outdoor advertising valuation are to be performed in accordance with Chapter 6, Section 1 of the Right of Way Manual with consideration given to this guideline.

DEFINITIONS:

Note: These definitions are for the purpose of clarifying certain language contained in this guideline or involved in applicable ODA appraisal assignments and may not necessarily be appropriate in other contexts.

Advertiser is the client or customer of the sign operator.

An ODA **asset** is a saleable entity comprised of the following integrated components: the business component (advertising element), the sign structure, the site interest, and the sign permit. The sign site or fee interest may be a separate or related interest in the valuation process.

Bonus is the concept that there may be an increment of value over and above the value of the parent tract without the outdoor advertising sign. In order for there to be a bonus value, the highest and best use of the property must be for a use other than an outdoor advertising sign.

Business component is the advertising element of the ODA asset. The business component interests are noncompensable because statutory criteria for eligibility are not met.

Business value is a value enhancement that results from items of intangible personal property such as marketing and management skill, an assembled work force, working capital, trade names, franchises, patents, trademarks, contracts, leases, and operating agreements.

A **component** is any of the asset elements.

Contributive value is a term used in the *Heathrow* decision. It is synonymous with the appraisal term and concept known as "contributory" value. It is the value a particular component contributes to the value of the whole property, or the amount that its absence would detract from the whole property.

Ground rent is the amount of money typically paid by the sign owner (lessee) to the land owner (lessor).

A **Lease** is a written document in which the rights to use and occupy land or structures are transferred by the owner to another for a specified period of time in return for a specified rent.

Leased fee See leased fee estate.

Leased fee estate is an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease.

Leasehold See leasehold estate.

Leasehold estate is the interest held by the lessee (the tenant or renter) through a lease conveying the rights of use and occupancy for a stated term under certain conditions.
Leasehold improvements are improvements or additions to leased property that have been made by the lessee.

Lease interest is one of the real property interests that results from the division of the bundle of rights by a lease, i.e., the leased fee estate or the leasehold estate.

Lessee is one who has the right to use or occupy a property under a lease agreement; the leaseholder or tenant.

Lessee's interest See leasehold estate.

Lessor is one who holds property title and conveys the right to use and occupy the property under a lease agreement; the leased fee owner or landlord.

Operator is an entity which manages the advertising element of the ODA asset.

Outdoor advertising (ODA) is a term used in connection with a form of out of home advertising involving off-premise signs or billboards.

Permit is the governmental permission to conduct the ODA activity at a specific site.

Personal property is identifiable portable and tangible objects that are considered by the general public to be Apersonal,@ e.g., furnishings, artwork, antiques, gems and jewelry, collectibles, and machinery and equipment; all property that is not classified as real estate. Personal property includes movable items that are not permanently affixed to and part of the real estate.

Real estate is physical land and appurtenances attached to the land, e.g., structures.

Real property is all interests, benefits, and rights inherent in the ownership of physical real estate; the bundle of rights with which the ownership of the real estate is endowed.

Revenue is the income that the billboard operator receives for displaying advertising.

Sign structure is the physical improvement (sticks and bricks).

GUIDANCE:

(1) RESPONSIBILITIES

If the *Heathrow* decision applies, the appraiser, using standard appraisal techniques, may estimate the:

- **(a)** **Contributive value of the billboard** interests as an improvement to the condemned real property, **AND**
- **(b)** **Value of the billboard itself**.
- **(c)** **Final value estimate** of the billboard which **must** be the **greater** amount indicated by (a) or (b) cited above.

(d) **Value of the sign site** interest. This may include a breakdown of the leasehold estate and the leased fee estate interests, upon request of the District.

(2) VALUATION OF THE CONTRIBUTIVE VALUE OF THE BILLBOARD

In estimating the contributive value of the billboard as an improvement to the condemned real property, the interests being appraised are the ODA sign, site interest, if any, and any bonus value (value of the property attributed to the existence of the ODA, exclusive of the highest and best use) accruing to the parent tract. The appraisal should be performed on an individual sign basis. Standard appraisal techniques and real property considerations will apply.

Outdoor advertising signs involve more than a physical structure. They normally involve several integrated components which are blended into an asset. The asset typically includes: an interest in a site, the structure itself identified as a leasehold improvement, the permit, and an intangible business component. The business component is not compensable according to state statute.

All three standard appraisal techniques may apply depending on the quality and quantity of available data. They are the sales comparison approach, income capitalization approach, and cost approach.

When the techniques are applied, the appraiser should be aware of the nature of ODA signs as multi-component assets. The various ownership components and/or interests should be properly identified and valued. Furthermore, legally noncompensable elements, even if identified in the appraisal, should be excluded from the final estimate of value.

(a) Sales Comparison Approach

A reliable indication of market value should result from utilization of the Sales Comparison Approach when adequate supporting data are gathered and applied correctly.

One technique in appraising the contributive value of the sign structure to the condemned real property is a paired sales analysis. By the comparison of sales of parent tracts absent of any outdoor advertising structure with sales of other similar parent tracts which include an outdoor advertising structure(s), the contributive value of the structure may be extracted. As most billboard structures are not owned by fee owners and are not typically bought and sold with the fee ownership, this type of valuation analysis may be difficult to document due to the scarcity of data.

As an alternative method, the outdoor advertising industry uses the gross income multiplier (GIM) when sign assets are bought and sold in the marketplace. When applying the GIM, it is appropriate to identify and separate the components of the asset value (i.e. the outdoor advertising business, sign structure, and site interest, if any).

The asset value is estimated by multiplying the advertising revenue (effective gross revenue) by the properly supported GIM. The resulting value indication may include a site interest, the sign, the permit, and business components. It is appropriate to identify and deduct the value components attributable to the site (when appropriate) and business interests in order to estimate the value component of the sign structure.

One method of isolating and quantifying the business component is to identify what percentage of advertising revenue sign companies are willing to accept for assuming the operation of the asset. The sign company, as the operator, would perform all of the functions (generate advertising revenue, display ads, maintain the structure, and pay all operating and related costs) connected with the advertising through an agreement with the sign owner to split the effective gross revenue. The business component can be identified through the analysis of such actual written agreements and through interviews with knowledgeable individuals within the industry. The sign and site owner would effectively be placed in a passive role with no active business participation and share that part of the revenue which is compensable.

Careful consideration should be given as to which components were transferred in the comparable sales. Inclusion of the business component in the final value estimate is not appropriate.

Questions that should be answered to determine if this approach is appropriate are:

1. Is there a demonstrated demand in the market for the purchase of ODA assets?

2. Is the demand supported by open market, arm=s length sales of individual ODA assets or properties with ODA structures?

3. If the GIM is used, can the total asset value be allocated and supported relative to the interest being appraised? The sales analyzed should be comparable to the subject and to each other in terms of locational, ownership, physical, and investment characteristics.

If the answers to 1, 2, **and** 3 are "yes", the appraiser should present the appropriate analysis and reconcile to a value, as improved.

If the answer to any one of 1, 2, **or** 3 is "no", the appraiser should omit the Sales Comparison Approach and explain the omission accordingly.

(b) Income Capitalization Approach

The Income Capitalization Approach may be used to examine the quality, quantity, and durability of the rents paid to the leased fee estate by virtue of the presence of the ODA sign being appraised. If the highest and best use of the parent tract is not as an ODA sign site, the rents may be treated as other income. The rental income from a sign owned by the fee owner and leased to a third party, usually a sign company, can be a strong indicator of the structure's contributive value. Rental income from a sign having such an arrangement can be used to determine what percentage of gross advertising revenue is attributable to the sign and business portions of the advertising revenue.

The Income Capitalization Approach does not appear to be used by the sign industry for valuation purposes when buying and selling ODA assets to other industry participants. This approach can be used in the appraisal of signs if valid income, expense, and capitalization rate information can be supported from verifiable market data. Caution should be taken with the Income Approach if the expenses and profit attributable to the advertising business cannot be isolated and documented. Once the equivalent of effective gross advertising revenue is estimated, appropriate expenses and business profit should be deducted. These items should be attributable to the proper asset component. A measure of the business component can be the percentage of effective gross advertising revenue that sign companies are willing to accept to conduct the advertising business on a sign and site owned by someone not in the ODA business. This effectively places the sign owner in a passive role. Whether the expenses and profit are itemized or handled as a lump sum, these deductions must be adequately supported from the market. In effect, this approach measures the present value of the net income to the sign owner, exclusive of the business component (business expenses and profit).

A critical step in the Income Approach is the selection and support of the appropriate capitalization rate. Unless expenses, profit, and capitalization rates can be supported, this approach could be rendered meaningless.

Questions that should be answered to determine if this approach is appropriate are:

1. Is there a demonstrated demand in the market for the advertising space on the subject structure and other similar structures (relates to revenue potential and level of occupancy)?

2. Can a vacancy and collection loss considering rollover, vacancy, and public service announcements be estimated? Knowing the effective gross revenue is essential to solving the appraisal problem.

3. Can the deduction of appropriate expenses or expense ratios be supported from the market?

a. The site interest expense may relate to the market ground rent. Contract rent may or may not be equivalent to market rent. In some cases the sign company may own some form of permanent interest in the site.

b. Once all advertising business and sign related expenses as well as business profit and ground rent are deducted from effective gross advertising revenue, the remaining net income is attributable to the sign component of the asset.

4. Can the capitalization rate be adequately supported from the market? Capitalizing the resulting net operating income from 3.b may give an indication of the contributive value of the structure.

If the answers to 1, 2, 3, **and** 4 are "yes", the appraiser should present the appropriate analysis and conclude a value, as improved.

If the answer to any one of 1, 2, 3, **or** 4 is "no", the appraiser should omit the Income Approach and explain the omission accordingly.

(c) Cost Approach

The Cost Approach may be appropriate to estimate the contributive value of the billboard. Reproduction costs new are readily obtained from sign fabrication firms, construction firms, or other specialists.

The indirect or soft costs may be more difficult to estimate, but should be well documented. Key elements of consideration include:

1. Estimate reproduction cost new of the structure to include all appropriate direct and indirect costs. A specialist's estimate may be necessary.

2. The inclusion of any entrepreneurial incentive or any premium value component must be directly supported from the market.

3. Deduct estimated accrued depreciation from all causes to indicate the current depreciated reproduction cost new of the sign itself.

(d) Reconciliation

In arriving at the contributive value of the billboard as an improvement to the condemned property, as estimated by using standard appraisal techniques, the appraiser is to reconcile to the best supported value indication considering the sales comparison approach, income capitalization approach, and cost approach to value.

(e) Key Considerations

1. Consider the degree to which the sign can co-exist with the highest and best use of the parent tract if for other than that of a sign.

2. The appraiser must be aware of which asset component or interests transferred in the comparable sales transactions and which interests did not transfer. The investigation of the nature and durability of the assets transferred needs to be determined.

3. A leasehold estate analysis should be considered when the sign owner is the sign site lessee.

4. The permit status of the sign should be checked initially and periodically as the billboard may be or may have become in violation of regulatory laws governing billboards during the life of the proposed acquisition.

(3) VALUATION OF THE BILLBOARD ITSELF

In estimating the value of the billboard itself, the sales comparison approach, income capitalization approach, and cost approach may apply. The interest being appraised focuses on the physical structure absent of any external, locational, or going-concern economic influences which are inherent to a billboard in place and capable of generating advertising revenue. The exclusion of such forms of obsolescence, which is considered a *Jurisdictional Exception* to the USPAP, is necessitated by recent court decisions and, in essence, offers the benefit of the doubt to the sign owner.

(a) Sales Comparison Approach

The Sales Comparison Approach may be supported by the research, collection, and verification of sales of new and used billboard structures from ODA salvage yards, sign fabricators, or other entities engaged in selling sign structures as personal property to sign companies and other buyers. Through the direct comparison of such comparable sales to the subject sign structure, the appraiser may estimate the value of the sign itself as personal property without any impact on value brought about by the involvement of real estate.

(b) Income Capitalization Approach

The Income Capitalization Approach is supported by the collection, research, and verification of rentals of new and used billboard structures from ODA salvage yards, sign fabricators, or other entities engaged in renting sign structures as personal property to sign companies and other customers. Through the direct comparison of such comparable rentals to the subject sign structure and the appropriate support and selection of a standard capitalization technique, the appraiser may estimate the value of the sign itself as personal property without any impact on value brought about by the involvement of real estate.

(c) Cost Approach

In the Cost Approach, reproduction costs new can be readily obtained from sign fabrication firms, construction firms, or other specialists. The indirect or soft costs may be more difficult to estimate, but should be well documented. The deduction of estimated accrued depreciation should be limited to physical deterioration. Appropriate application of these elements should indicate the depreciated reproduction cost new of the sign itself.

(d) Reconciliation

In arriving at the value of the billboard itself, as estimated by using any or all of the techniques described in (3)(a),(b), or (c) above, the appraiser is to reconcile to the best supported value indication.

(4) FINAL RECONCILIATION

The value of the billboard is to be estimated by considering the contributive value of the billboard as an improvement to the condemned real property estimated in paragraph (2)(d) or the value of the billboard itself estimated in paragraph (3)(d). The appraiser must select the methodology which provides the greatest estimate of compensation to the sign owner. This area of ODA valuation is considered a *Jurisdictional Exception* to the USPAP.

(5) VALUATION OF THE SIGN SITE

(a) Valuation Analysis

The valuation of sign sites requires special considerations due to their nature. The site may not have a legal description but, rather, may be an interest in a non-specific part of a parent tract. In instances where the highest and best use of the site being appraised is a sign site, a valuation of the site can be made through direct sales comparison or through an analysis of the anticipated income stream attributable to the sign site (ground rent). That income stream can be converted to a value estimate with proper consideration of the quality, quantity, and durability of that income stream, given the inherent nature and risks involved.

In instances where the highest and best use of the sign structure=s parent tract is other than that of a sign site, the appraiser should analyze the compatibility of the sign with the highest and best use of the parent tract. The sign can have a positive, negative, or possibly no impact on the highest and best use value of the property. AWould the property sell for more, less, or no difference from the highest and best use with or without the sign?@, is a question that should be answered and supported by the appraiser. The income stream from the sign, usually reflected in ground rent flowing to the fee owner, forms the basis for the bonus value increment.

The value of the sign site may be estimated through the analysis of market-derived income attributable to the sign site. When the highest and best use of the parent tract is not for a sign site, the GIM technique described in (2)(b) does not account for any bonus value that the land may enjoy due to the existence of the sign site. In this instance the GIM used in the sales comparison approach may be applied to the market ground rent to estimate the value component of the site interest. When using techniques other than the GIM in valuing the asset, the technique used should, in and of itself, account for any bonus value to the land.

NOTE: Any direct capitalization or discounting process for site interest values in the GIM application may yield an inappropriate or unsupported value conclusion. When utilizing the Sales Comparison approach in valuing the contributive value of the billboard structure, the appraiser should not stray into other approaches which yield results that are adding separate value components instead of valuing all of the compensable interests as a whole.

(b) KEY CONSIDERATIONS

1. Consider the degree to which the sign site can co-exist with the highest and best use of the parent tract if other than that of a sign site.

2. The quality, quantity, and durability of income to the fee interest is typically linked to the risk of the lessee's interest and may be estimated using the GIM.

3. A leasehold estate analysis should be considered when the sign owner is the sign site lessee.

4. Reporting on leasehold estate and leased fee estate values:

   a. For reporting purposes, when the Department requests the leasehold estate value of the sign site be identified, the appraiser should show the allocation of the leased fee estate and leasehold estate values within the body of the report and under "Land" as a lump sum on the Certificate of Value.

   b. In reports prepared or updated for hearing or trial, the appraiser should be prepared to state:

      (I) whether there is a valid lease in place **and**,

      (II) the value allocations of leasehold estate and leased fee estate.

      (NOTE: the appraiser may be asked to report only the total site value attributable to the sign site in testimony.)

TRAINING:

Training on outdoor advertising issues for appraisers, reviewers, administrators, and attorneys is available through coordination with the Appraisal and Appraisal Review Office. All individuals involved with the appraisal, review, or litigation of valuation matters are encouraged to attend this training.