THE FORMULA FOR BILLBOARD VALUATION

Applying the income approach in eminent domain appraisals

BY RICHARD E. WELCH, SRPA, SRA, SR/WA, R/W-AC

The appraisal of outdoor billboards is a niche market with limited data of comparable sales. Since the sales comparison approach relies on the principle of substitution, without similar properties available, this approach is useless. This is the primary reason why, in an eminent domain billboard appraisal, the income approach is used.

BEFORE AND AFTER CONDITION

A typical situation where you would need to value a billboard is when the larger parcel includes a billboard before and after it is part of the take. Attempting to separate billboard income from other income or allocating the sales price of real estate apart from the billboard and the rest of the real estate can be problematic and challenging. In all of my eminent domain appraisal assignments, not a single piece of property had a separate sign site as a portion of the larger parcel.

The income approach is based on the principles of anticipation and substitution. In using the income approach to appraise a billboard, the formula for calculating value is:

Value = Income/Rate (V=I/R)

The first step in calculating the value is to identify the income from market rent, which can be obtained directly from the property owner during the inspection process. The next step is to determine the appropriate capitalization rate. With limited comparable sales information available, the capitalization rate can be determined by analyzing sales with similar uses and applying that rate.

CASE STUDY 1

An eminent domain appraisal was needed on a property in Lewis County, Washington. The property had frontage on Interstate 5 with heavy traffic volume. There were two wooden billboards with direct orientation to the south-bound traffic on I-5 and each was currently leased at a contract rent of $2,400/year. However, the lease was going to expire in one year, at which point the market rent would be raised to $3,500/year for each billboard.

The market rent capitalized into the value at the subject property's overall rate of return of 9% indicated a combined gross leased fee value of:

$7,000 income ÷ 0.09 (9% cap rate) = $77,778 value

Because the market rent cannot be achieved for one year, the difference between market and contract rent ($7,000 - $4,800 = $2,200 rent loss) must be subtracted from the capitalized gross leased fee value of the leased fee interest as follows:

Capitalized Value	**$77,778**
Rent Loss	**- $2,200**
Value of Billboards	**$75,578**

This amount is added to the before value, not the after value.

CASE STUDY 2

This property was located along State Route 20 in Mount Vernon, Washington. Clear Channel, the property owner, was generating $1,800 per year for the first five years of the lease and $2,000 per year for the next five years. They had based the rent on the projected growth of the billboard income potential.

After analyzing the billboard market along State Route 20, the market rent was estimated at $1,800 per year. The market rent capitalized into value at a reasonable subject property overall rate of return of 8% indicated a gross leased fee value of:

$1,800 income ÷ 0.08 = $22,500

The billboard leased fee interest was $22,500, the amount added to the before value, not the after value.

CASE STUDY 3

This assignment involved appraising a parking lot that included two billboards on a piece of property slated to be a total take. Billboard easement interest would be acquired when the purchaser of the unencumbered fee title acquired this parcel.

The signboard easement had a clause that essentially limited the grantee's partial use of the subject site to effectively expire upon development to the property's highest and best use. Thus, upon a sale of the undivided fee for development, the benefit of the easement would only be enjoyed by the purchaser until actual construction, which was estimated to be within 18 months of closing on the acquisition.

The income expected during the period between purchase and construction was detailed in recent documents from Clear Channel, the owner of the signboards. The south-bound sign was a non-commercial, public service/public relations panel, and it was not classified as a billboard by the City of Seattle. The annual rental amount was $6,000 per year.

The north-bound sign, owned by Clear Channel, had annual license payments made dating back to 2001, which is summarized as follows:

May 2001 through April 2002 = $28,435
May 2002 through April 2003 = $52,725
May 2003 through April 2004 = $57,909

The effective date of the appraisal was April 2005, so the first step was to estimate the rental income for the next five-year period. Noting that the income increased 9.83% between the most recent periods, a 10% increase to the date of value was deemed appropriate. This reflected an income of $63,700 for the year ending in April 2005.

Adding the $6,000 income from the south-bound sign brings the total income to $69,700 per year, or $5,808 per month. Therefore, the present value of the $5,808 monthly income discounted for the typical 18-month holding period at a reasonable land discount rate of 8% is calculated to be $98,207. The fair market value of the signboard easement interest was rounded to $100,000.

SUMMARY

Single billboard sites and structures sell infrequently. Due to the scarcity of data concerning billboard sales, the income approach is the most viable alternative in valuing a billboard.

References

"The Valuation of Billboards" by Dwain R. Stoops, MAI, SRA and Marvin L. Wolverton, PhD, MAI

"Real Estate Valuation in Litigation" by J. D. Eaton, MAI

Richard E. Welch, SRPA, SRA, SR/WA, R/W-AC

Rick is a Certified General Senior Real Property Appraiser and President of Rick Welch Appraisal Inc. He has more than 30 years of appraisal and consulting experience and specializes in fair market value, condemnation, easement rights and partial acquisitions. Rick is a member of IRWA and the Appraisal Institute. Email rw.appraisal@verizon.net.