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General guidance to the property owner and the owner's appraiser for doing an appraisal under the unit rule where a billboard use is part of the acquisition for a highway project.

1. Value the before and after conditions of the property under the unit rule.
2. Use methodology that excludes business value such as the expectation of future business profits.

The property owner needs to be aware their real estate appraisal must be completed and received by WisDOT no later than 60 calendar days of receiving the WisDOT appraisal in order for the appraisal to be paid for by WisDOT.

In summary, the owner's property appraisal should include the billboard sign site value with the sign structure included as part of the property value as if the property owner owned the billboard, held all permits and owned all right, title and interests to the billboard location. Any and all business value for the billboard use is not to be included in the appraisal.

The appraisal should not simply add to a property appraisal a separate valuation for the billboard that includes business values such as expected future business profits, expectation of lease renewal and business based value typically based on:

1. Sales of outdoor advertising businesses.
2. Sales of billboards that include business value. (expectation of future profits)
3. Capitalized advertising revenue that directly converts business advertising revenue into a dollar amount by using a multiplier or capitalization rate.
4. Capitalized business profits and cash flow such as applying a multiplier or capitalization rate to business earnings for a sign location. An example would be multiplying or capitalizing EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) by a specific multiplier or capitalization rate that was derived from sales of outdoor advertising businesses or going concern billboard advertising businesses.

Start the appraisal with the premise that the property owner owns the billboard and all right, title and interest to the billboard sign location but does not do the outdoor advertising business himself.

In various cases the property owner appraisal has included the real estate value of the billboard sign site with structure as presented in the WisDOT appraisal as an accepted part of their property owner appraisal if the appraiser has agreement to the value.

Here are the basics of completing the property owner's real estate appraisal under the unit rule, starting with what the unit rule means:

- The unit rule means we consider all components of the property to be owned as if by one entity, even if there are multiple owners of the property either in its entirety or if various people actually own different parts of the property or improvements on the property. Various ownership rights may be owned by different people or entities but we consider them all to be as if owned by one entity for the appraisal. Improvements to the property can include buildings, roads, billboard signs and other physical property components.

Often in the case of a billboard and its sign site on a property, the land location for the sign may be owned by the underlying fee property owner and the sign itself owned by an outdoor advertising company. All permits for the billboard use are often held by the outdoor advertising company, but not necessarily. The various land rights and interests for the billboard property use may be split between the outdoor advertising company and the underlying fee landowner based on contractual agreements.

Under the unit rule acquisition for a highway project, the fee value of the acquisition is determined and the division of proceeds by the various parties of interests is between those parties, either by agreement or in a legal partition hearing.

Start the appraisal by doing these two steps:

- 1. Find good comparable property sales without a total billboard package on the property.**
- 2. At the same time look for good comparable property sales with a comparable total billboard package owned totally by the fee landowner.**

The two sets of sales should give a good sales comparison with and without the total billboard package.

Experience has indicated comparable sales with a total billboard package included in the sale and also owned in total by the fee landowner may not exist.

Be aware also that a sale with a total billboard package included may also contain business value, such as the expectation of future business profits, which is non-compensable in Wisconsin eminent domain proceedings.

Assuming you can find comparable sales without the total billboard property component included, consider the following points and then develop the total billboard property component fair market value for possible inclusion in the unit value of the property:

- Various existing property uses may or may not be compatible land uses where each fully contributes to a single property value. Let's consider the case of a billboard on a property. The appraiser must analyze and consider whether the billboard land use is compatible with the other existing land uses. For example, an existing non-conforming billboard land use on vacant farmland that has no foreseeable development for 30 years probably is fully compatible with a farming operation when it is located on the edge of a cornfield.
- The appraiser must consider the billboard land use in his highest and best use analysis.
- Assuming the billboard land use is fully compatible with the land use at its highest and best use, we need to determine the total real property component fair market value for the billboard location.
- When determining the fair market value of the total billboard component of land use we must not include any business value for the billboard location.

How do we determine the fair market value of the total billboard component of land use without a business value component?

1. We initially looked for comparable property sales that included a total billboard package where the fee landowner owns the billboard structure and all right, title and interests in the billboard location as part of the fee ownership. A comparison to similar property sales without the total billboard component would then allow an allocation of the total billboard real estate package.

However, since billboard locations have an inherent likelihood of having a business value component typically in the form of expected future business profits, the sale of a property with the total billboard component included in the sale may include some business value, which is non-compensable in Wisconsin. Business value must be excluded or extracted from the sale.

2. We know outdoor advertising companies buy and sell billboards and billboard businesses based on a multiple of advertising revenues collected on a sign as a going concern value of one or more billboard locations. If a group of billboards owned by one outdoor advertising company sold to another for 6 times the yearly advertising revenue that would not be the value of the total billboard component of land use under the unit rule. The sale of a billboard or group of billboards inherently contains portions of business value or expectation of business profits due to the scarcity of billboard sites, with a buyer possibly quickly creating business revenue in a good demand location.

Lacking good comparable sales that include a total billboard package without a business component, how then can we value the total billboard property component to consider in the unit value of the property?

The value of the total billboard real estate component of land use can be reasonably determined based on data where a fee landowner owns a billboard, holds all right, title and interests to the billboard location and rents out the total package to an outdoor advertising company to do their advertising business. The real estate rent generated to the landowner can be converted to a dollar amount by doing a present value calculation for long term use with an overall capitalization rate or for short term use with a discount rate for a specified time of use before that use is discontinued. Assuming compatibility of land use with the underlying fee property this dollar amount calculated will be the contributory component of land use for the total billboard component land use that can be included as part of the total property value.

Here are some suggested do's and don'ts for the appraiser for putting together a property appraisal under the unit rule when there is a billboard on the property and business value is to be excluded from the value.

Remember, all appraisals for the Wisconsin Department of Transportation are done under the unit rule where the expectation of future business profits must be excluded.

Do:

- A highest and best use analysis of the property to see if the billboard land use is compatible with the billboard use as either a long term or short term use.
- Use accepted appraisal methods for real estate valuation, not business valuations.
- A search for total billboard packages owned by fee landowners where the entire billboard package is rented to an outdoor advertising business to do outdoor advertising. Extract the percentage of yearly net advertising revenue being paid the landowner for real estate rent of the total billboard package. Use this collected data along with other similar total billboard package rentals to value the real property component of a billboard location. Consult WisDOT for additional data already collected.
- A search for permanent sign easement sales where the billboard location has competition for the sale by a number of buyers. The sale reasonably contains the value of sign site for the location as compared to market advertising revenue for the same location. Consult WisDOT for additional data already collected.
- A search for sales of permanent sign easements with structures by investment groups where the sign package is rented to an outdoor advertising business. This data will allow extraction of overall capitalization rates to use as well as the value of total billboard packages as total real estate components.
- A search for property sales that include a total billboard package owned by the fee landowner where you can extract the value of the total sign package. Be careful to exclude and business value in these sales as the expectation of future business profits is non-compensable in WisDOT eminent domain proceedings.
- An estimate of the in-place sign structure to enable the Wisconsin Department of Transportation to allocate the sign structure value of an appraised sign location for use in either buying the structure or giving relocation payments to move the structure to a new off-site location.

Don't:

- Include any business value or expectation of future profits in the valuation as those items are not compensable.
- Use the sale of a billboard, group of billboards or a billboard business as a direct comparison to an appraised sign site as those sales typically include expectation of future profits as well as other business value elements. These billboard sales typically are based on a multiplier of annual business advertising revenue. Don't simply remove a percentage of annual advertising business revenue to get a yearly dollar income to the business and then capitalize that business income. That method is indicative of valuing business income after some expenses are removed.
- Capitalize business income EBITDA into a value and assume it is real estate rent capitalized into value. EBITDA is "earnings before interests, taxes, depreciation and amortization" and is a measure of business cash flow.
- Use a multiplier for the sale of a billboard, groups of billboards or billboard businesses and multiply it against a billboard location's yearly advertising business income and call it real estate value as that value is more appropriate to valuing a billboard business.
- Simply add the value of a total billboard package to a comparable property sales conclusion without doing a highest and best use analysis for compatibility of property uses.

In summary, the above guidance is not meant to steer the appraiser in specific directions, but to clarify the following two main issues for valuing a partial acquisition for WisDOT highway acquisitions:

3. Value the before and after conditions of the property under the unit rule.
4. Use methodology that excludes business value such as the expectation of future business profits.

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