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Conceptual Issues in Outdoor Advertising Billboard Valuation – Lessons for Nigeria

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Abstract. This paper examined, by literature, four principal conceptual issues that are germane to outdoor advertising billboard valuation namely; the concept of outdoor advertising billboard itself, the tripartite components of the billboard property, billboard legal status controversy and the money trail concept. A review of these conceptual issues was critically carried out, pinpointing their implications to valuation of billboards for many purposes such as compensation so as to enhance understanding of estate surveyors and valuers, especially in Nigeria. Findings from the literature are that; modern billboards are diverse in nature (material, displays and technology), there is no consensus yet about whether billboard is real or personal property and that the task of allocating income to the different assets that contribute to the total business value of an outdoor advertising business is herculean. While valuers should improve their understanding of the criteria that qualify an asset as real or personal property and treat each billboard to be valued on its own merit, educational and training institution in Nigeria should encourage capacity building in outdoor advertising billboard valuation.

Key words: Concepts, outdoor advertising billboard, valuation

1. Introduction

Outdoor advertising billboards (OAB) are a common sight along the roads and in high traffic zones of our towns and cities. Often owned by outdoor advertising companies, they are affixed to land and carry advertisement spaces usually leased to advertisers in exchange for rental income or where advertisement contracts are sold. Thus, they are income-generating assets that can be subject of many business transactions, government compulsory acquisitions, taxation and insurance among others, and can be valued for these reasons. Due to the unique nature of OAB and the challenges this can pose to valuers [1], a deeper insight into this subject and its associated concepts is pertinent to the development of an appropriate methodology for its valuation.

A good definition and perception of outdoor advertising billboard and its related concepts will facilitate understanding of the standpoint and methodology for determining its market values for different purposes and under differing circumstances. This paper therefore seeks to espouse its better understanding by estate surveyors and valuers so as to achieve a standard and more reliable valuation practice. This is done by examining, through the literature, the concept of off-premise outdoor advertising billboard, the billboard property as a composite of three items, the conjectural issue of whether it is personal or real property that is being valued when appraising a billboard structure and the money trail concept. Available literature in billboard valuation predominantly emanated from the United States of America and this paper focused generally on the ones that cover these conceptual issues

The paper discussed findings from the literature regarding these concepts and made recommendations that could further the course of billboard valuation for various purposes, especially in Nigeria.



2. Conceptual issues

So profound today is the place of outdoor advertising billboard structures in our cities and in the business world. In the light of this, [2] opined that, because of the challenge to actively connect with consumers and the difficulties faced by marketers using traditional advertising media in catching eyeballs, the digital billboard advertising has become a phenomenon. This, he observed was due to changing lifestyles and increased mobility of individuals, The digital billboard advertising, typified by giant static and high-resolution motion pictures, has, more than before, exhibited its ability to define the personality and identity of cities besides setting the tone of an entire urban landscape. However, for the purpose of valuation, the question of how much of this unique asset and its associated concepts do estate surveyors and valuers know, especially in Nigeria, could be asked.

2.1 *The outdoor advertising billboard*

According to [3], an outdoor advertising billboard, is a structure used to carry the display spaces on which an advertisement copy is placed. The display spaces are what advertisers lease, and they can come in different sizes, shapes and materials. There are on-premise and off-premise signs (billboards), which are defined not by type, but by the user and location. An off-premise sign displays advertising copy that relates to a business, person, organisation, activity, place, service or product not located or primarily manufactured or sold on the premises on which the sign is located while the former displays advertisement on the same premises [4]. Off-premise billboards are subject to different and more stringent permitting rules. According to [5], an outdoor advertising sign also referred to as billboard consists of one or more display panels and the supporting framework. Modern billboard structures are constructed of steel and they conform to engineering standards, while older ones are made of wood or angle iron frames. The off-premise billboards are of different types such as freestanding, gantry, roof-tops, wall drapes, and street furniture.

The concept of outdoor advertising billboard in this paper relates only to the freestanding, off-premise type. According to [5-9], billboards can be classified on four broad bases, namely: materials used in construction, configuration, display arrangement and display type.

The material classification are in four classes as follows:

- **Class 1:** Wood Structure usually constructed with wood post or pole supports and a single display panel.
- **Class 2:** A-Frame steel type constructed with angle iron or steel supports and with a single display panel.
- **Class 3:** Multi-Mast structure usually constructed with steel pole, I-beam or equivalent, as primary support, with a catwalk, and a single display panel. Lighting is fluorescent or mercury vapour.
- **Class 4:** Monopole which is constructed with tubular steel support/framing and single or multiple display panels.

In contemporary billboard advertising globally and particularly in Nigeria, many billboards are constructed of complex steel and fibre structures of diverse shapes carrying digital and electronic displays. These are variants of the steel monopole structures that also pose new challenges to billboard valuation in terms of cost estimation and standardisation.

In terms of configuration, billboards come in four standard categories. They are: ‘Juniors’ with standard panel size of 1.83 by 3.66 metres; the ‘30-sheet Poster Panels’ measuring 3.66 metres high by 7.62 metres wide with a face area of approximately 28 square metres. The third is the ‘Painted Bulletins’ also referred to as ‘Rotaries’, measuring 3.05 by 12.20 metres, 3.20 by 11.00 metres, 4.27 by 14.63 metres and 6.10 by 18.29 metres, while the fourth is the ‘Spectaculars’, which are larger than ‘bulletins’, and built to order, with unique shapes and features. They have enhancements such as special lighting or features that attract attention [5, 7].

The typical arrangement of billboard display areas according to [6] are; single face, V-build, back-to-back, side-by-side, stacked and tri-build arrangements. The construction of monopole structure can be either ‘centre-mount’ or ‘flag mount’ with V-build or back-to-back arrangements.

Outdoor advertising billboards can also come in different types of display such as paper, vinyl, trivision or digital display. According to [10], digital billboards are the most advanced billboards that employ the latest technology in lighting and high definition picture displays. The light emitting diode (LED), which produces efficient lighting and clear pictures for the billboard, is the most basic component of a digital billboard. Digital billboards are usually equipped with state-of-the-art facilities including internet connectivity on site. Such equipment enables easy and efficient updating of advertising. Volumetric billboard also falls under this category and according to [11], it is an image-based representation that allows for the actual rendering of semi-transparent and visually complex objects randomly distributed in a 3D scene.

There is no doubt that a good knowledge and understanding of the concept of outdoor advertising billboard and their various categories is pertinent to their valuation for many purposes.

2.2 Components of a billboard property

According to [1, 12], the value of a billboard encompasses three distinct components that define the appraisal unit. These are: the leasehold (or freehold) land on which the billboard stands; the billboard structure itself including its physical attributes; and the use permit that enables the billboard to operate on the site. In general terms, it is the aggregate of the values of these components that make up the market value of the appraisal unit referred to as the billboard property. This means that the value of a billboard can be mathematically expressed as: $V_{bb} = f(L_v, B_v, P_v)$; where V_{bb} represents the billboard value, L_v = land value (freehold/ leasehold), B_v = billboard cost (value) and P_v = the value of the use permit from appropriate authority.

Due to the fact that the land and billboard structure components are tangible physical elements while the permit is an intangible, estate surveyors and valuers must exercise caution when valuing billboards for compensation purpose as intangible assets are conventionally not compensable. Also, the land component can be of varying interests such as freehold, leasehold, sub-leasehold, easement and licenses, and any or a combination of some of these interests can predominate in different climes. Thus, valuers must be wary of the particular site interest being valued especially when cost method is being applied.

2.3 Billboard legal classification

There has been sustaining arguments about whether a billboard is personal property or real property. Considering the fact that personal property is not generally compensated for in compulsory acquisition

proceedings in many climes, this argument is especially important [3]. There is a lack of consensus among billboard owners, tax authorities, acquiring authorities (governments), and even researchers in the United States as to the legal status of outdoor advertising billboards, with each group defining billboard based on selfish motives. The status of billboards - whether real property or personal property that is being valued - affects valuation methodology. According to [13], the legal status of a billboard is a crucial issue when valuing the interest of an outdoor advertising company in compulsory acquisition matters. They believe that for property tax purpose, this issue, as a general rule, has been resolved in favour of personal property, except where expressly stated to the contrary. In the lease agreements of billboard sites, it is always stated that the signs can be removed at the expiration of the lease as they remain the property of the outdoor advertising company. Many cases have held that billboards are personal property [13]. Virtually all courts held that compensation is due to the sign owner for the billboard, provided the lease had not terminated before the compulsory acquisition. A key issue while valuing billboards for compensation purpose is the exact nature of the property interest acquired.

In similar vein, [7] opined that many acquiring authorities maintained that compensation is necessary only for real estate. They argued that if billboard owners claim that billboards are personal property in tax assessment matters to benefit from lower tax rates and other income tax related benefits, they should be so in eminent domain (acquisition and compensation) matters. Thus, billboard owners' argument that billboards are real estate since signs are affixed to the land and are intended to be permanent, just to claim full compensation, was inconsistent and untenable.

Oregon Department of Revenue [14] hinted that Oregon Administrative Rule (OAR) 150-308.115 defines billboards as real property. Section 1 requires that the person paying taxes on the billboard "must file annually with the assessor's office, a Real Property Return (RPR)". The department recommended that billboard properties be classified as commercial real property, requiring the maximum assessed value.

According to the [15], real estate connotes physical land and appurtenances attached thereto such as structures and improvements, if any, while real property encompasses all interests, benefits, and rights inherent in the ownership of physical real estate. In some States or countries, real property is defined by statute and, in that case, it is synonymous with real estate. On the other hand, personal property are identifiable, tangible objects that are considered by the general public to be "personal," such as furnishings, art work, antiques, gems and jewelry, collectibles, machinery and equipment. They are all properties that are not classified as real estate. Personal property includes movable items that are not permanently affixed to, and part of, the real estate.

In [3], a billboard structure was deemed a fixture and real property. This was based on the definition of a fixture by [15] as "an article that was once personal property, but had since been installed or attached to the land or building in a rather permanent manner". The following criteria were used to determine a fixture that was regarded as part of real estate:

- the way in which the item is attached to the land. An item is generally considered as personal property if it can be easily removed without serious damage to itself or the land;
- the nature of the asset and how adapted it is to the real estate. Assets that are constructed for specific use in a building or that are installed to carry out the function for which the building

was constructed in the first place, are primarily considered as permanent part of the building; and

- the primary motive or intention of the party that carried out the attachment of the item to real estate is pertinent. Most often the terms of the lease document reveal whether the item is permanent or is to be removed at some time in future.

They asserted that the billboard structure clearly meets the three listed criteria as a result of its degree of fixity to the land, it's being purposely built for outdoor advertising and the primary intention of the billboard owner to make it permanent because the chosen site had permanent visibility and exposure attributes desirable for outdoor advertising.

Aguilar [4] argued that outdoor advertising billboards were structurally secured to the land for strength and stability, which included such obvious considerations as resistance to wind and earthquake forces. Also, their values were preeminently location-dependent hence, bill board structures and the interests that were attached to the boards qualified them as real estate. He argued further that outdoor advertising signs were movable fixtures that become immovable by destination.

The argument about the legal status of billboards has divided researchers and writers into two groups, with each arguing from either the real estate-related premise or personal property-related premise. The former group, as exemplified by [16] concluded that sales in the advertising business shows that outdoor billboards are real property and as such do not translate to serious business concern. The author added that signboard sales were in fact in more ways akin to dealings entailing conventional real estate. The position of this premise was espoused by [17] who concluded that there were arguments in support of the idea that billboards are real property, and that their being site-specific was the most convincing.

However, on the personal property-related premise divide were [6, 13] who argued that billboard advertising signs were trade fixtures and as such regarded as personal property assets belonging to the outdoor advertising companies operating upon the leased premises because:

- they are removable without much injury to the real estate and the structure itself;
- lease agreements between billboard owners and land lessors do not reflect permanence since the billboards can be removed at the end of leases or their sooner determination; and
- the income flow from a typical sign structure (money trail) constitutes only a proportion of the revenue being generated by the activities of outdoor advertising business enterprise rather than real estate.

Personal property tax is not operative in Nigeria, which means that there is no *ad valorem* (according to value) tax on OAB. Thus, the issue of legal status of billboards (whether personal or real property) does not count. On the other hand, the Nigerian Land Use Act, 1978 stipulates that fair compensation should be paid for real estate improvements, the quantum of which should be determined using the cost (depreciated replacement cost) method of valuation. The laws regulating outdoor advertising billboards in Lagos State, Nigeria, 'The Lagos State Structures for Signage and Advertisement Agency Law No,9 of 2006 as recorded in [18] does not stipulate legal status of billboards or how they should be valued for whatever purpose.

In view of the explanations and strength of the arguments from [3, 4, 14, 16, 17] on one side, and [6, 13] on the other; billboards and the circumstances surrounding them, including the legal environment, must be cautiously and carefully studied before valuing them.

2.4 The money trail concept

Some of the challenges encountered in the valuation of outdoor advertising signs have been identification and allocation issues. In a business enterprise such as outdoor advertising, several assets (both tangible and intangible) contribute to the business income and hence business value. It is thus germane to be able to identify these assets and allocate incomes to them accordingly so that assets such as billboards will not be overvalued either for compensation or tax purposes [19]. According to [20], the question of properly allocating business value has been an issue for decades in properties such as hotels, restaurants, service stations, fast food and billboards.

The money trail, according to [19] entail the study of the trend and source of the revenue flow in the course of production. The money trail is the crux of the principle of contribution upon which asset valuation is based or situated. According to him, putting the billboard in its proper perspective will require a general survey of a typical outdoor advertising company. This is with respect to the tangible assets such as real estate concern or rented for offices and shops, tangible 'personal' property like the billboard structures, among other things used in the production of advertising services and intangible assets such as management and goodwill. The money trail is a compass that gives direction and guidance to money flows among the assets of an outdoor advertising business.

The job of allocating values to assets; especially the intangible business assets is not an easy task in an industry that is very private and still operating under a high level of secrecy in the management of specific data and information regarding operations and asset sales that are critical to valuation [1, 21]. However, as a result of the predictable direction of money flow, the assets to be valued can be properly identified. This is the first step in solving the complex problems of valuing outdoor advertising assets such as billboards.

In line with the money trail concept, estate surveyors and valuers must clearly identify and define the assets to be valued in order to properly allocate income to them for application of appropriate valuation methods that are based on sound and acceptable principles. Proper identification of assets and allocation of incomes to them will resolve most of the controversial situations in outdoor advertising billboard valuation whereby widely diverse opinions of value between two professional valuers are got.

3. Findings from the literature

The reviewed literature on the four concepts have yielded a number of revelations that should be considered when valuing billboards as discussed in succeeding paragraphs.

The category and types of outdoor advertising billboards are diverse especially in their construction materials, size and configurations, displays and technology. In contemporary outdoor advertising business, modern digital billboards may fall outside the traditional standards. This calls for more in-depth knowledge and understanding of the concept of outdoor advertising billboard by estate surveyors and valuers who may be saddled with the responsibility of valuing them for any purpose.

Also, the market value of a billboard property is a composite of the values of the three components (land, billboard structure and use permit) that make it up. However, while the first two components are tangible items, the last is an intangible one. This has implication on valuation for compensation and taxation purposes when both cost and income methods are applied. In addition, the land component can be of diverse interests such as freehold, leasehold, easements, licenses among others and the valuer must be sure of the exact interest (if any) being valued.

There still exists a dichotomy of idea about the status of a billboard (whether real or personal property). Although in the United State of America, this issue had been resolved legally in favour of real property in some States and personal property in others, this is not the case in Nigeria where valuers should adjudge each billboard being valued against established criteria for real or personal property.

In valuing billboards using the income approach, besides the billboard structures, identifying other tangible and intangible assets that contribute income to the total business value of an outdoor advertising firm and allocating incomes to them is tasking and meddlesome. Estate surveyors and valuers should be rigorous and meticulous in identifying all these assets and allocating incomes to them from the effective gross income of the firm (either using percentages or established ratios) so that a reliable net operating income (NOI), to be capitalised, is obtained.

4. Recommendations and Conclusion

Outdoor advertising billboard valuation is yet to be popular in Nigeria. Due to the fact that the outdoor advertising industry in Nigeria is just developing with few acquisitions and mergers, where billboards rarely exchange hands in the market and cases of acquired billboard sites and compensation for them are few, not many estate surveyors and valuers have been involved and thus have experience in billboard valuation [22].

The emerging trends are that modern digital billboards are springing up in Nigerian cities especially Lagos, which signals increased activities and prosperity within the industry. In the same vein, valuations of outdoor advertising signs for many purposes will increase and valuers in Nigeria should get themselves abreast of the relevant concepts relating to outdoor advertising business and billboard valuation.

It is further recommended that estate surveying and valuation firms in Nigeria should endeavour to send their professional staff (estate valuers) out for training and workshops, home and abroad, where billboard valuation and experience could be impacted. The educational and training institutions such as universities and polytechnics and Nigerian Institution of Estate Surveyors and Valuers (NIESV) should also embrace the teaching of billboard valuation to improve its practice in the nearest future.

This paper has thrown light on the subject of billboard valuation by looking into some of the relevant conceptual issues through literature. It has also brought to limelight some salient finding from the literature that could be considered in billboard valuation globally and in Nigeria in particular. Recommendations were proffered to improve billboard valuation practice in Nigeria.

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