



## **Pitfalls when valuing contaminated properties**

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Valuing contaminated properties is always a complicated issue for appraisers because of the lack of good information in regards to cleanup costs and market documentation. Over the past few decades, more cleanup alternatives have been developed which has decreased the impact of contamination. However, this has increased the level of difficulty for the appraiser and created new pitfalls.

The best methodology when appraising a contaminated property is to first estimate the value assuming the property to be without any known contamination which is sometimes referred to as the "before value." The appraiser must be careful to note that this is a hypothetical condition which puts the reader of the report on notice that there is a known condition which will not to be considered at all in the "before value." Don't make the mistake of calling it an extraordinary assumption if it is known that the contamination exists. The next step is to estimate the direct and indirect (stigma) diminishment of value attributed to the contamination. The direct damages are generally more measurable since these are attributed to the cost of cleanup which include hard costs of soil removal, remediation, engineering, legal costs, etc. The most difficult part of measuring direct damages is if a long-term remediation system is used.

The indirect or stigma damages is much more difficult to measure. This is truly where the appraiser considers the art more than the science. It goes back to the question: "Did they get it all?" In more and more cases the cleanup plan is to not completely remove the contamination because of the expense and damage this technique can do to the property. Thus, managing the contamination through long-term bio or other remediation has become more mainstream. However, this further complicates the appraisal.

Recently, I completed an appraisal in which the use and marketability of the property was reduced due to a reported environmental contamination on and around the subject site which had been remediated to reasonable standards, according to the Phase II environmental report cited in an Extraordinary Assumption of the report. The Phase II Environmental Site Assessment drew conclusions that the source area of contaminated soil including but not limited to the contaminant had been removed and post remedial groundwater sampling indicated a significant reduction in contaminants. Periodic groundwater monitoring would continue and additional biological amendments would be added to the subject site as necessary by the New York State Department of Environmental Conservation (NYSDEC). The subject property would still undergo remedial action for environmental contamination. The remediation reportedly began in 2011. Many tons of the site were excavated, removed and also treated with a microbe process aided by a PVC injection well. The presence of contamination had been reduced substantially through this process. A building vapor intrusion remediation system also had been installed. Based upon the Phase II report the vapor intrusion was not a concern based upon recent test results. Since some of the contaminants were

above unrestricted use soil objectives, the NYSDEC stated that it intended to file an environmental notice/institutional contract for the property with the county clerk to minimize the potential for human exposure to the remaining contamination at the site. However, it was concluded in the Phase II report that further investigation or remedial activities were not warranted.

Another extraordinary assumption used in the appraisal stated that was assumed that there are no environmental conditions on site or off site which had a diminishing effect on value other than what the market comparables indicated and what was outlined in previous extraordinary assumption. Also, the appraisal company and the individual appraiser were taking no responsibilities in regards to any detrimental environmental influences on the subject property. Furthermore, the company and the appraiser did not have any knowledge of the existence of such materials on or in the property other than what is cited in the extraordinary assumptions. The appraiser was not qualified to detect such substances and had relied upon the Phase II report cited in the extraordinary assumption. Some users of the property including but not limited to tenants, owners and the public who visit the site, may have had some concerns about the contamination. The risk rates and some operating costs were elevated due to the remaining environmental issues the subject property had. This had a downward effect on value and marketability. However, this diminishment had been reduced due to recent remediation which had taken place along with extraordinary assumptions outlined in this report.

In summary, the appraiser must sit back and analyze the impact that slow methodical cleanup plans have on property through various stages outlined in the example. Since cleanup technology has improved, it has created more complications and pitfalls for appraisers.

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