



contents:

- this month's issue
- author's guidelines
- advertising
- subscribe



APPRAISING

What to Do About Environmental Depreciation

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An increasing problem in today's environment is a home's exposure to both man-made and natural byproducts emitted by the home and its surroundings. Some may be real and some may be imagined or hyped by the media, but the stigmatization and the effect on a home's value are real. Martin explains the appraiser's role in these situations.

As home inspections have become a routine procedure on most relocations, so will environmental audits of one degree or another. Appraisers frequently look at this problem when they are identified as a form of depreciation. With the growing problem of such environmental issues, this may or may not be considered a fourth form of depreciation, in addition to physical, functional, and external depreciation.

The issues of contamination of homes and surroundings and the awareness of the general public are growing at an alarming rate. During the past 25 years, urea formaldehyde foam insulation, asbestos, PCBs (polychlorinated biphenyls), power lines, radon, fuel spills, dust, lead-based paint and, most recently, mold have been a concern.

Hiring two appraisers to perform the ERC residential appraisal, and a home inspector may identify significant deficiencies in a home. But this may not be enough. Often in commercial, industrial, and multifamily residences that include more than four units, environmental audits are completed. Considering that the average person spends 10 to 12 hours a day at home and seven to nine hours at the office, homes should not be subject to less scrutiny than commercial buildings. Many relocation companies now hire professionals to check specifically for radon, asbestos, or other contaminants.

A missed environmental consideration in a home can lead to more expensive remediation after its sale than before. Not only are there potential damages that could occur as the result of such home repair, but the repair often can lead to litigation and additional costs paid to the purchaser for temporary living quarters, replacement of contaminated household goods, and so on.

Many appraisers, seeing the wide scope of environmental problems, are compelled to make statements in the appraisal, such as:

"On the appraisal inspection date, negative environmental conditions, either onsite or in the immediate vicinity of the subject, and including above- or below-ground heating fuel oil tanks were neither apparent nor observed. However, this appraiser has had no formal investigative training relative to environmental problems caused by the presence of lead-based paint, radon gas, toxic wastes, landfills, air-borne pollutants, or other environmental concerns. It is suggested that if the client has concerns relative to environmental matters and how they might affect the subject property, an appropriate environmental specialist be retained to inspect the property, determine if environmental problems exist, and if they do, prepare a remedial action plan including an opinion of the remedial cost. The subject property was built prior to 1978, therefore, there is a possibility of lead-based paint and/or asbestos on the premises."

Also, in relation to environmental considerations and other problems in a home, appraisers also state in their comments and conditions in each appraisal report:

"The appraiser is not a home inspector. If a home inspection is utilized at the request of any of the parties to the transaction, it is possible that a defect or defects may be discovered. Any repairs found to be needed, not already known to the appraiser, may impact the estimated market value.

"This appraisal is not a home inspection and the appraiser is not acting as a home inspector when preparing the report. The borrower has the right, and is encouraged, to have the home inspected by a professional home inspector.

"When performing the inspection of this property, the appraiser visually observed areas that were readily accessible. The appraiser is not required to disturb or move anything that obstructs access or visibility.

"While completing the appraisal, a visual inspection was accomplished. The inspection is not technically exhaustive. The inspection does not offer warranties or guarantees of any kind."

When addressing any known or perceived environmental problems the appraiser must identify if and what kind of effect it will have on the market. This is generally done by finding paired sales for comparison-similar sold properties with and without the environmental problem-and extracting the difference paid for properties with and without the problem.

The problem may have no support or limited support for a negative impact within the scientific community. If the potential buyers in a market frequently pay less for properties in that market with the same problem or exposure, then the notion of whether or not the problem is real is almost immaterial in relation to the value of the property. When a real or imagined problem is perceived by the typical buyer as a problem, then it is, in fact, a problem.

While environmental depreciation might seem to be a separate form of depreciation or even seem to be a fourth type, it actually is attributed to one or more types of depreciation: physical, functional, or external.

If the environmental consideration is within the property, the problem may be both physical and functional. For example, a roof that leaks over a period of time may have caused damage to the underlayment of the roof, the ceiling below, drywall, carpet, and furniture. While the repairs necessary for a property become obvious based on physical deterioration, additional repairs may be needed that limit the real or perceived limits of functional utility to the property. A functional problem might have little or no benefit to the cosmetic appearance or structural integrity of the home, but a concealed environmental problem might cause unsuspecting occupants to become sick. Opening up walls and removing or cleaning, where possible, contaminated materials might then be necessary. Physical and functional problems always are classified as to coming from within the property.

External or locational depreciation can be caused by a property's real or perceived environmental problem by its proximity or exposure to environmental considerations not located on the subject property. Electrical power lines, electrical transformers, power generating plants, waste disposal areas, fuel storage facilities, and manufacturing plants can be perceived as a source of potential depreciation.

But how close is too close? The question of whether or not an environmental consideration is too close depends on the mindset of the typical buyer for the home in question. If data within the area for comparable properties is similarly exposed, the appraiser can use this as a measure of the impact, if any exists.

Environmental depreciation is not a fourth type of depreciation, but is one categorized in one or more of the existing three forms of depreciation. The identification of any known or observed environmental consideration by the transferee/homeowner, appraiser, real estate agent, and home inspector are imperative. Further examination beyond these parties should be made on all homes because the appraiser, real estate agent, and home inspector typically are not environmental experts.

How can an effect be measured if an appraiser, real estate agent, or home inspector is not aware of an environmental problem because it was not identifiable to any of them or to the homeowner? It should be obvious that the practice of evaluating the subject by an environmental expert should become routine practice. And, if any negative findings are determined based on the evaluation, the results should be sent to the appraiser so that he or she may offer opinion as to whether the findings will have any effect on the value or the anticipated sales price of the property.

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[top of page](#)

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