



GENERAL SECTION

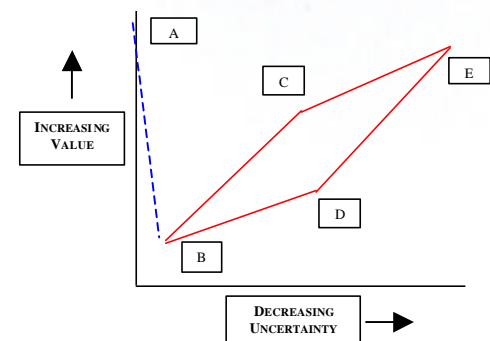
The Value Lifecycle of Environmentally Impaired Property

BACKGROUND

The value of real property impaired by environmental conditions reflects the uncertainty of the potential costs associated with those conditions. A potential buyer will assume the maximum environmental liability and bargain for minimum value as long as there is uncertainty. A focused environmental investigation will reduce the uncertainty by identifying critical risk drivers and remedial standards; thus allowing meaningful estimates of remediation costs. An unfocused investigation usually does not restore the property value and provides little value to the transaction.

THE PROPERTY VALUATION REFLECTS THE DEGREE OF UNCERTAINTY

If an environmental condition is unknown to a property owner, the owner assumes the unimpaired maximum value of a property, which is represented as point A on the chart. When an environmental issue is initially discovered, the extent of the impact, property use limitations, and related financial liabilities are unknown. The buyer will assume the worst case and the property value is at its lowest, shown as point B. With additional investigation, value is restored to the property as the uncertainty is reduced. An investigation focused on reducing uncertainty will restore the property value to point C. An unfocused investigation does not restore the value of the property to the owner, but returns only the value of the investigation to the buyer (point D). As remedial measures are completed the property value returns to a level below the unimpaired value (point E). The difference between the unimpaired value and the restored value represents the stigma that environmental conditions carry. Unless there is a No Further Action determination from the appropriate agency, the environmental stigma is difficult to remove and the property value may remain below the unimpaired value.



STATISTICAL METHODS FOR REDUCING UNCERTAINTY

Remedial actions may take months to complete, but a property can be sold in the meantime if the uncertainty in the potential value is minimal. The ASTM Standard Guide for Estimating Monetary Costs and Liabilities for Environmental Matters (E2137-01) provides an objective method for parties to reduce the uncertainty. This method provides a statistical procedure for determining an expected cost from estimated potential maximum and minimum costs.

SUMMARY

The value of property with potential environmental impairment loses its maximum value immediately upon discovery of the potential issue. The devaluation is probably greatest at the time of discovery because the uncertainty about the issue is the greatest. Further investigation should focus on reducing the uncertainty to restore the value to the property early in the project.

For more information, please contact Mike Saul or Tony Domanico at (513) 489-2255 or by e-mail at mts@paynefirm.com or aid@paynefirm.com. You may visit us at our web site at www.paynefirm.com.