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Mitigation credits are key to wetlands' value

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To appropriately value potential wetlands, real estate appraisers must explicitly take into consideration the market for mitigation credits, according to an article published this week in The Appraisal Journal's Spring issue.

The Appraisal Journal is the quarterly technical and academic publication of the Appraisal Institute, the nation's largest organization of real estate appraisers. The materials presented in the publication represent the opinions and views of the authors and not necessarily those of the Appraisal Institute.

"Valuing Properties with Wetland Potential," by Michael Cragg, Ph.D., Christine Polek, Ph.D., and Stephen Polasky, Ph.D., examines how federal policy favoring wetland mitigation banks and the sale of wetland credits influences the value of land that has potential use as wetlands.

Regulations adopted in 2008 by the U.S. Army Corps of Engineers and the Environmental Protection Agency make mitigation banking the preferred method for wetland restoration and compensation for wetland losses. Mitigation banks sell parcels as wetlands credits to offset impact of developments.

Between 1998 and 2004, wetlands increased by a net average of 32,000 acres annually; the number of active mitigation banks in the United States more than tripled between 1992 and 2001, the article states.

The authors note that because governmental policies have created a mitigation credit market, property that has potential as a wetland may be treated as income-producing property in a valuation. The authors show how appraisers should consider the market elements of supply and demand, revenue and expenses of land that may be sold as a mitigation credit.

They recommend that appraisers consider the impact of government policies on the market for the wetlands and credits.

The study reported in the Journal is significant because prior research has only looked at valuation of wetlands adjacent to development sites, which is not a market commodity.

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