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Tax abatements for contaminated property

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Many contaminated properties are assessed for more than their fair market value. The use of a capitalization of income method often does not work for property that is contaminated. The capitalization of income method of valuation does not take into account the fact that a potential buyer will be reluctant to buy a contaminated property because of the stigma that hazardous materials have on property value. Likewise, the sales comparison approach may not work for valuation of a contaminated property. A buyer of contaminated property is taking the chance that the dollar cost of the remediation and monitoring will far exceed the amount by which the purchase price was discounted because of the contamination.

There are other things to consider in addition to stigma: the reluctance of lenders to lend on contaminated property, the liability to third parties, the requirement of indemnification in connection to selling the property. These are in addition to the clean up costs, the costs of monitoring, and the stigma.

For example, if the cost of remediation is estimated at \$100,000, a buyer who buys contaminated property for \$500,000 and has it under agreement to eliminate the contamination and sell it for \$850,000 has the chance of making \$250,000 less closing and carrying costs. However, if the remediation costs \$350,000, the buyer will end up taking a loss when he resells the property for \$850,000. Because of this risk, the buyer of the contaminated property may not be willing to pay more than \$250,000. Therefore, the assessment should be \$250,000 rather than \$500,000. Assessors fail to take this into consideration.

Even if a licensed site professional says that the contamination has been removed, the public may not be convinced. Therefore, the fair market value of the property could continue to be depressed even though it is no longer contaminated.

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