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Water as a component of real estate value

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Recent climatic developments including the drought that hit midwest farmland this summer sheds light on the importance of water as a component of real estate value. The northeast is relatively fortunate in that water availability is not a major concern, at least at the moment, in comparison to other areas of the country. Detailed climatic records are comparatively recent phenomena beginning in 1850, and long-term patterns may not yet be discernible. Based on data that is available, the northeast tends to have a 20-year drought cycle.

Any participant in the real estate market is well aware that water impacts the value of a property. Water takes many forms such as water views, water frontage, fresh water availability and riparian rights. Typically, properties with water views and water frontage sell at a premium compared to similar properties without that amenity. However, the most important factor is the availability of potable water.

Almost every use of a property requires water. If a residential property has no readily available potable water as a result of drought or contamination, the value of that property is greatly diminished. If residential use is to continue, water must be made available. Such remediation may include installing an on-site well, bringing municipal water to the site, or trucking water to the property. Any of these alternatives has the potential to create significant expense to the owner. As appraisers, we generally assume that a property has an adequate water supply unless noted otherwise.

A cross country drive from California to Maine during mid August of this year was very eye-opening for me. Traveling primarily along I-90 through Montana, South Dakota and Wyoming, we encountered vast expanses of dry open range land accentuated by lush green vegetation along water courses and within irrigated cropland. Water was obviously the critical ingredient in the stark difference between barren and productive. Riparian or water rights are a major component of real estate value in these states. One party may own the land but another party may own the water rights associated with that land.

In the northeast where water is much more abundant, riparian rights are rarely transferred separately from the remaining bundle of rights. During my appraisal career, the only time I have encountered such separation were water rights along a river acquired by a nuclear power plant that required large amounts of water for reactor cooling and those purchased by a water district within a two mile radius around the intake valve of a public water source. During the 1800s and early 1900s when water was the primary power source to operate the large mills in the area, riparian rights were vital. As electricity replaced water power, such rights became less and less important.

Understanding the value of water and our dependence on water to sustain our quality of life is

necessary to protect this critical resource. In 1985 Boutros BoutrosGhali, former UN secretary general said, "The next war ... will be fought over water...." He may well be accurate in his forecast. Patricia Amidon, MAI, is president of Amidon Appraisal, Portland, ME.

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