

The Impact of Asbestos on Real Estate Values

by Randall Bell, MAI

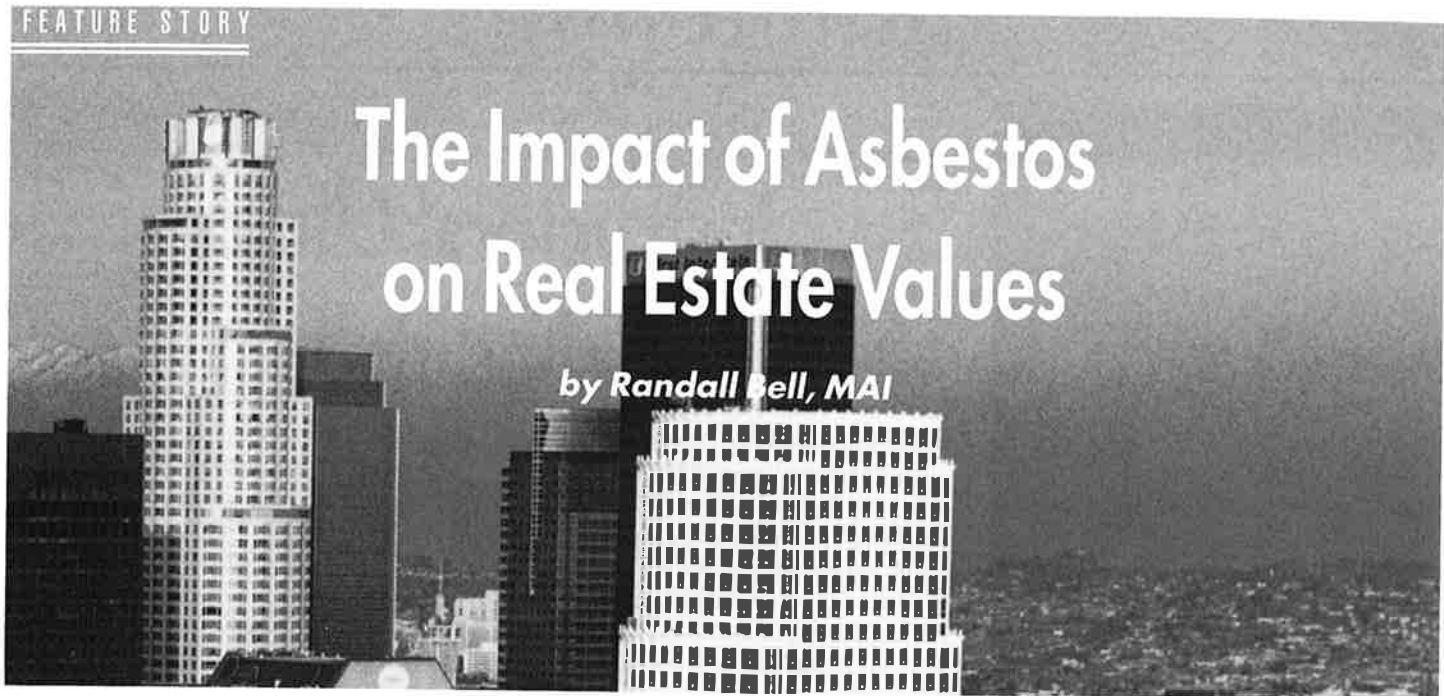


photo by Dennis Plummer

While asbestos has been used in building construction since the first century by the Romans and the Greeks, its days of being considered a staple building material are clearly over.

The serious impact that asbestos issues have had on property values can be illustrated by citing an appraisal assignment from the mid-1980s, involving a high-rise office building in Los Angeles. The building was 98 percent occupied with very strong tenants, and had a very long, successful operating history.

After the appraisal had been completed, the lender informed the borrowers that they would not make the loan because—although occupancy was high and the tenants were strong—the property had asbestos. At that time, asbestos was a new concern for most people, and the uncertainties surrounding the issues caused some lenders to avoid any property that had asbestos-containing materials (ACMs).

In that case, the investors had approximately \$4.5 million equity in the property. Because of the asbestos situation, the investors had difficulty in obtaining a new loan and subsequently lost the property and their equity. The experience demonstrates the profound impact that asbestos can have on property values.

Asbestos affects virtually everyone involved in real estate related activities. Obviously, it affects property owners and managers who own or manage properties with ACMs. Under California law, brokers must fully disclose any asbestos issues when involved in any real estate related activity or transaction.¹ A recent survey indicated that 37 percent of all lenders would not finance a building with ACMs.² Asbestos even affects city, county and state agencies, as they may incur additional costs resulting from condemning or redeveloping a building with ACMs.

The legal profession is impacted by the tremendous litigation arising from asbestos contamination issues. For example, there has been a total of more than 250,000 asbestos-related personal injury lawsuits filed, with approximately 50 percent currently resolved.³ This does not include the numerous suits filed alleging damages to property values caused by ACMs.

Asbestos Overview

Asbestos is a naturally formed fiber that is mined from rock. It is non-combustible and has high tensile strength due to the fibrous nature of the material. ACM has outstanding thermal, electrical and acoustical insulating properties.⁴ While the material can vary in color, it is virtually impossible to visu-

ally discern an ACM from a non-ACM.

Two terms frequently used when referring to ACMs are friable and non-friable. *Friable* simply means that the ACMs can be pulverized or crushed with hand pressure. Non-friable ACMs are formed into solid building materials and cannot be crushed with hand pressure. Examples of friable uses are sprayed acoustical ceilings and sprayed fire-proofing on structural steel. Non-friable materials include vinyl flooring, insulating bricks and roofing materials.

The use of asbestos in the building industry has been extensive. The Environmental Protection Agency (EPA) estimates that of the 30 million tons of asbestos used from 1900 to 1980, about 60 percent to 70 percent was in the construction industry.⁵ (The United States produced 25 percent of the asbestos it consumed and imported 97 percent of the remainder from Canada).⁶

The EPA further estimates that as many as 31,000 schools and 733,000 public and commercial buildings contain friable ACMs. ACMs can be found in approximately 20 percent of the 3.6 million commercial properties in the United States. Of these properties, approximately 14 percent contain damaged ACMs and approximately 9 percent contain seriously damaged ACMs.⁷

There are various types of asbestos. Serpentine, which includes chrysotiles, is the type utilized in approximately 95 percent of all buildings that have ACMs.⁸ Fortunately, from a health standpoint, it is the least dangerous type of asbestos. Amphiboles, (which include amosite, crocidolite, anthophyllite, tremolite and actinolite) are considered to be more dangerous.

Typical locations of ACMs in buildings include; sprayed surfaces such as thermal insulation or structural steel, sprayed acoustical ceilings or walls, pre-formed block insulation surrounding furnaces, insulation on boilers and hot water tanks, drywall, pipe wrap, patching compounds, texture paints, vinyl floor tiles and floor sheeting.

While asbestos was being widely used for centuries, in the early 1970s it was declared a health risk. No safe threshold has ever been established for exposure to asbestos. ACMs, in and of themselves, do not pose a health hazard; however, asbestos fibers released by disturbance, destruction or decay, can cause serious health problems.

There are about six diseases that are attributed to asbestos, the two primarily being mesothelioma, a lung cancer, and asbestosis, a chronic lung disease. Because of these health risks, the federal government intervened and restricted asbestos use. As would be expected, the demand for ACMs has fallen dramatically, with the 1989 use level approximately 15 percent of what it was in 1979.

With the exception of school buildings, ACMs in existing buildings were not affected by the EPA bans and regulations.

Determining if a Building has ACMs

In ascertaining whether or not a building contains ACMs, the first consideration is the construction date. Properties constructed prior to 1979 are likely to have ACMs. Friable or sprayed construction materials are also a warning sign that there are ACMs within a building. It is important to review building records of any building in question; however, the only way to be certain of the presence of ACMs is to

SUMMARY OF THE BANS PLACED ON ACMs:⁹

1973	All sprayed ACMs that contain an amount of 1 percent asbestos by weight or volume
1978	All friable uses
1989	A phased-in ban of virtually all ACMs
1990	Phase I includes: roofing and flooring felt, sheeting, tile and clothing
1993	Phase II includes: brake linings, transmission components, clutches and other friction products
1996	Phase III includes: floor coatings, paper, brake blocks, pipes and shingles

test air and building material samples.

Air sampling, as the name implies, means taking samples of the air for laboratory testing. The air is tested in the laboratory for fiber counts using one of three microscopy methods.¹⁰ OSHA has established an *action level* of 0.1 fibers per cubic centimeter of air. Samples of building materials are often taken in conjunction with air sampling.

For the study, small amounts of various building materials are collected for laboratory testing. Building materials are considered ACMs if the lab analysis indicates that the materials contain 1 percent or greater of asbestos (by either volume or weight). Asbestos sampling is usually unobtrusive and can be done without causing any risk of exposure to the building occupants.

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