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Abstract

This paper examines the effects of environmental contamination on the sales prices and income capitalization rates for retail centers sold in southern California from 1994 to 2004. The sales are analyzed through two sets of statistical models. The first, with property characteristics, location and date of sale as predictors, estimates price reductions for contaminated properties sold before or during remediation of 30% to 35%. The second set of models use variables associated with the income capitalization approach to value, net operating income and the overall income capitalization rate, and find risk related price reductions of 15% to 17% for contaminated properties prior to cleanup. All of the models indicate that the value of these properties fully recovers after cleanup. One model even finds a significant price premium in the after condition. Lastly, the model based on income capitalization rate quantifies an environmental risk premium of 197 basis points over rates for comparable but uncontaminated properties.

The entire article is available in PDF format: [Jackson Environmental Risk Paper](#).