

## Toward environmental valuation

**Matt Mathes of the United States Forest Service was recently reported as having said that the value of virgin Port Orford Cedar was greater for Spotted Owl and Marbled Murrelet habitat than as timber. Does anybody have a problem with that statement?**

## Background

Speaking approximately, the history of the United States up to the 1970's, as it relates to real estate, was a history of development. Conservation was a secondary theme from about the end of the 19th century, but had to do, largely, with the public buying parks and some private groups, such as Audubon or Ducks Unlimited, seeking to preserve habitat. Landowners were not only allowed, but encouraged, to maximize the economic productivity of their land whether that meant draining swamps (reclamation), mining, manufacturing, or urban development. Gradually the right of the public to regulate development was conceded, but the power to block or prohibit development was a revolution of the 1970's. What occurred at that time was a massive shift of the perception of rights, and, necessarily, a commensurate shift in value from the private landowner to the public in the form of the government. Roughly a generation has elapsed wherein landowners have attempted to redress the balance or at least salvage something from the wreckage. Does the trend of this paragraph mean that I support paving Paradise for a parking lot? Not at all. I only support the conservative notion that if the public wants something, it ought to pay for it. Perhaps this reversal of traditional land use policy was merely a modern expression of another trait of American history: if there's something you want, take it if you can. Ask any Native American about that. Eventually, of course, there were settlements of Native American claims predicated on appraisals of the properties on the dates in question. One reason that this outcome is unlikely in the present instance is that it would probably be very costly. Cost might have been another element in the rise of police power in land use control. After all the 1970's was also the era of tax revolts, such as Proposition 13 in California, aimed at reducing tax burdens.

## What is the controversy?

Briefly, a generation ago acquisitions for environmental preservation tended to reflect low values. Today they may not. The question is whether those higher values are legitimate. The pro argument is that public awareness of environmental questions has increased and the public is more willing to act to preserve habitats or mitigate negative environmental impacts. After a couple of decades of simply stifling property owners through police power, public agencies are beginning to compensate owners for this preservation. As appraisers, the failure to reflect these facts could either lead to professional liability if a client does not maximize their return on a sale of the appraised property. From an assessment point of view, ignoring environmental values may lead to an erroneous allocation of tax burdens. The one standard that has been established in this area, however, is that of the Interagency Committee on Land Acquisitions, which seeks to methodologically ensure low values for this class of land.

## The Players

Who are doing environmental land deals? Well, the easiest to identify are the land bank type non-profits, those that create their own land banks. Nature Conservancy and the Audubon Society come to mind. From a valuation point of view, these purchases are conceptually easy. They are private organizations buying private land for their own private uses. If there is comparability of environmental attributes between two parcels then such purchases are germane to valuations. The twist is that environmental attributes valuable to Audubon are probably different than agricultural attributes valuable to Farmer Jones. If Audubon paid \$1,000 per acre for a wetland, that value would be irrelevant for the upland parcel next door. It might, however, be very relevant for other wetland parcels in the watershed or flyway. The next class is the non-profit that acts as a conduit for public acquisition. The Trust for Public Land is an example. These acquire property in the expectation that the Public will take the land off their hands at their cost. The third is the Public itself, most usually in park acquisitions. Public acquisition is pretty well understood. And the stance of the Interagency Committee on Land Acquisition, that purchases should only reflect economic values, ensures that relatively few of these purchases will be controversially high. In any case, for assessment purposes sales under threat of eminent domain can be disregarded.

The non-profits that act as conduits are more of a problem. The question is, are these organizations acting responsibly, or are they just spending other people's money? The possibility is that these land flips are funneling public money into inflated purchases, using arbitrarily high acquisition prices as evidence of value. It is said that neither are the terms of sale equivalent to cash, nor are prices determined by any rational criteria. The Interagency Committee takes the point of view that these prices are not germane to value because they reflect non-economic motivations and uses. The rebuttal to this is three-fold. First, does the seller get paid? Second, is it not possible that the public in general approves of preservation of land for its environmental attributes? If so, how can this use be inadmissible for appraisal purposes? This leads to the third part. Not all decisions can be well quantified and justified from their income streams. Imputed rent and resale value do not well capture single family residential values. Although the rest of the article can be read to exclude this class of purchase, I believe that they are indicative of value and are probably the wave of the future. And if you were a private appraiser, how could they be ignored? I would hope, rather, that some of the concepts mentioned below could find application in informing such purchases.

## Attributes

What distinguishes a property that might have an environmental value? The easy answers are questions themselves. Does the property constitute or contribute to the habitat of a popular threatened/endangered species? Or, does the property offer such outstanding wilderness amenity that in previous eras it would have been considered to be a potential national park acquisition? Similar questions might be, could this property be improved or restored to provide habitat or park? Since the 1973 Friends of Mammoth decision a yes answer to the first set of questions tended to erase private market value, defined by the Interagency Committee on Land Acquisition as being the only value relevant to federal land acquisitions and based on the ultimate development /income potential of the property. A positive answer to the second set has tended to create value in the present age of environmental awareness. To a large extent,

the process of determining environmental attributes is the converse of determining attributes that would contribute to value as it is generally considered in the private sector for directly productive uses. I suggest a process similar to a due diligence procedure for contamination. In this case, if positive answers are found, an environmental value may be present.

An example of the first case might be wetlands around San Francisco Bay, California. The California Clapper Rail and the Salt Marsh Harvest Mouse are locally popular endangered species. Perhaps given the proximity to urban areas and the actual development of parks on some publicly acquired wetlands, these properties also are an example of the second case. A clearer example of the second case is the Headwaters Forest of Northern California. Sequoia Sempervirens is not endangered. Even old growth sequoia is a land option unexplored. The landowner may wish to know what he or she can really expect to receive for a given parcel of land. The assessor may wish to account for that value, too.