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FDC DETY STANDARDE ENTRANCE

ften, properties like apartments or office buildings reach the end of their useful or economic life and have costs associated with removing items that were income-generating assets. In other words demolition. However, there is usually a superior use with a corresponding economic rationale for doing so. The current use is no longer the highest and best use, and the underlying land retains considerable value. However, there is a category of real estate assets that often has limited value, a \$0 value, or a negative value (i.e., no income and only expenses) at the end of its holding period. These properties are called wasting assets.

Wasting assets, a term often associated with resource-intensive industries, represent a unique category of assets that depreciate over time. Generally, they are real estate assets that are "used up" at the end of their economic and/or physical life. Examples include quarries, landfills, mines, wind farms and oil fields, where the value is literally extracted or removed from the asset rather than being consumed through use, as with traditional property and equipment depreciation.

In the context of real property and valuation, wasting assets are assets that have a limited lifespan and tend to decrease or lose value over time. Because wasting assets have \$0 or even negative value at the end of their useful life, traditional valuation methods are often unsuitable, creating numerous problems for appraisers and valuation professionals.

History and Evolution of Wasting Assets

Over the years, the management of wasting assets has evolved in response to changing economic, environmental and regulatory factors. Early approaches focused primarily on extraction and exploitation, often neglecting long-term sustainability and environmental impacts. However, as awareness of environmental issues grew and regulations tightened, businesses and investors began adopting more sustainable practices and innovative technologies to manage wasting assets responsibly.

In 1970, the Resource Conservation and Recovery Act decreased the number of private landfills in the U.S. During this time, the Environmental Protection Agency estimated there were approximately 20,000 Municipal Solid Waste landfills across the country. Between 1970 and 1995, the total number of U.S. landfills declined from 20,000 to only 2,800. Despite the drastic decrease in the number of landfills, capacity has since increased substantially. The volume of waste managed in publicly and privately owned landfills have followed the same trend. Due to tightening regulations, publicly owned landfills closed between 1996 and 1998. In the last 50 years, both landfill capacity and the population of the U.S. have increased by more than 70%.

What are the Key Attributes of Wasting Assets?

All assets evolve and change in their highest and best use. What was once a property best suited for single-family homes may now be a prime spot for an apartment complex or commercial building. Conversely, old industrial complexes may be converted to open space.

So, what is it that makes a "wasting asset" a "wasting asset"?

- Finite Duration of Functionality: Wasting assets possess a pre-established period of effectiveness, beyond which their principal usefulness diminishes or is depleted. This can be defined by time, capacity, in the case of landfills, or resources, in mining operations. This attribute sets them apart from perpetual-use properties such as commercial structures or residential dwellings, which continue to evolve in use.
- Diminishing Economic Utility: The economic worth of assets tends to decline as they near the end of their operational lifespan. The decline in usefulness is frequently associated with the depletion of resources, shifts in market demand or legal limitations.
- Environmental Impact: Numerous depleting resources, like landfills, possess inherent environmental consequences. These assets can result in ecological alterations, and their shutdown may require environmental restoration, introducing an additional level of intricacy to their assessment, requiring consideration of long-term holding costs and monitoring. Ensuring compliance with environmental legislation, meeting closing requirements and adhering to growing industry standards are crucial aspects of a wasting asset's worth.

What Makes Valuation of Wasting Assets So Complex?

Wasting assets present a host of valuation issues. Using the case of landfills as an example, due to the integrated nature of the municipal solid waste industry, landfills are typically developed and not sold. Therefore, there is little, if any, comparable sales data available. Second, the appraiser is often trying to value a heavily regulated property which generates income from locally negotiated franchises. The barriers to entry into the industry are also extremely high, rendering only a handful of market participants from which to gain information. And third, the operations can span several states. This makes it difficult to value a singular asset such as a landfill that derives much of its value as part of a larger enterprise.

What are the Various Approaches to Valuation?

Each valuation method has its own strengths and weaknesses and may be more or less appropriate depending on the specific characteristics of the wasting asset being valued. In the case of landfills, the Royalty Method has generally gained wide acceptance because there is very limited sales data. Meanwhile, the replacement cost approach is often viewed as being undependable in that calculations can vary significantly depending on the site conditions and the local regulatory environment, which may not be proportional to end value.

Conclusion

Assessing the value of wasting assets presents unique challenges and opportunities, especially within regulated industries such as mining, landfills and power generation, leading to valuable lessons for right of way professionals. These assets, characterized by their finite lifespan and depreciation to zero or negative value, complicate traditional valuation methods. Understanding the various nuances of the wasting asset industry will shed light on the considerations necessary for accurately valuing the asset and may highlight the need for specialized approaches in their assessment. •



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