



Shelterfield Article

The Stain of Stigma

By how much will it affect property value?

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Real estate professionals dread marketing stigmatized properties. In addition to presenting disclosure dilemmas, they are almost certain to cause buyers to shy away from otherwise desirable offerings. Even when testing reveals no physical impact, conditions such as underground water contaminants or high-tension wires are practically guaranteed to make buyers skittish.

For real estate appraisers, quantifying the extent to which a stigmatized property's value has been reduced is a particularly challenging task. Without a paired sales analysis - that is, comparing the prices of two properties that are similar in every way save for a stigma attached to one of them - it is almost impossible to determine by how much a stigma has reduced a property's value. Yet frequently appraisers are asked to do just that.

According to the Appraisal Institute's *Dictionary of Real Estate Appraisal, 4th ed.*, a "stigma" is any "adverse public perception regarding a property." In other words, when a property's association with a negative condition or event - such as environmental contamination or a homicide - adversely affects its marketability and value, that is a stigma.

While grisly murders and purported hauntings are headline-grabbing examples of stigma, it is environmental stigma that practitioners most frequently encounter. Because there is a dearth of concrete information on which realtors and appraisers can rely, Shelterfield Valuation Services conducted a study to examine how stigma affects real estate prices.

We began by devising five hypothetical scenarios based on situations that our appraisers have encountered during our 35-plus years in business. We then asked 300 real estate professionals to analyze our fictional properties and provide their thoughts on how the hypothetical stigmas might affect property values. Several hypotheticals and the responses they generated are detailed below.

The Study

Hypothetical 1: Our first hypothetical presented well-maintained twin homes that were identical in nearly every respect. The only noteworthy difference between the properties was their heating systems: one used oil heat while the other had been converted to a gas system. Unfortunately, however, an oil company inadvertently pumped 250

gallons of heating oil into the basement of the gas-converted home. While the mess was ultimately resolved without lasting effects, a paper trail of course remained. As realtors know, the event would have to be disclosed if the property were sold.

In this case, most of the 40 survey respondents (71 percent) agreed that following cleanup, the homes would sell for about the same amount. Fifty-nine percent believed that because the spill was fully remediated, the property was not stigmatized at all. Fifteen percent thought that it would take more than six years for any stigma to disappear.

"Usually cleanups of this variety are very well done by professionals with no aftereffects," one respondent observed. Another said he would not be comfortable without an environmental examination. "As a buyer's agent, I would advise some type of environmental inspection," he stated.

Eighteen percent of the survey participants thought the value of the home that had been converted to gas heat would be reduced by five to 15 percent as a result of the mishap. And 23 percent estimated that it would take from one to four years for the property to become stigma-free.

Hypothetical 2: We next asked our survey participants to consider a subdivision offering 4,600-square-foot executive homes. Specifically, a developer had constructed two houses loaded with amenities on desirable side-by-side, half-acre lots. The homes were placed on the market at the same price. Unfortunately for the developer, inspection of one of the homes revealed an underground plume of gasoline emanating from a nearby storage building. The inspector who discovered the gasoline plume promptly notified the Department of Environmental Protection. The DEP was not overly concerned given that the subdivision relied on a public water system, but did insist on an unobtrusive ground water monitoring system for the affected home.

Only five percent of our respondents believed that the monitoring system would not reduce the value of the affected property. Forty-nine percent estimated that the stigmatized property's value would be reduced by five to 15 percent. And 23 percent of the respondents thought its value would drop by a whopping 15 to 25 percent.

"I wouldn't sell either house," one realtor said. "[That is] a real problem," another stated.

Sixty-five percent of the respondents agreed that it would be more than six years before the property lacked any stigma.

"The need for monitoring assumes something is, was, or will be wrong with the water," according to one participant. Another advised that "the stigma would only fade after the gasoline plume was remediated and the storage building tanks were removed or otherwise stopped from leaking."

Rounding out the numbers, 13 percent of the professionals who responded indicated that the gasoline plume would reduce the affected home's value by 25 to 35 percent. Ten percent thought the property would drop more than 35 percent in value.

Hypothetical 3: A third area of stigmatization that we addressed dealt with a necessary evil: cellular phone towers. We all use cell phones as part of our daily lives, which means that some homes will unfortunately be situated near cellular towers. Here, we set our hypothetical situation in a desirable suburb of Philadelphia. The fictional homes that would be affected by the as-yet-unbuilt cellular tower typically sold for approximately \$2 million. The question was, how would a 165-foot-tall tower constructed on a nearby – yet unobtrusive – parcel of land affect the value of these homes?



An overwhelming 70 percent of our respondents believed that property values would be affected in the short term. The homes would sell for five to 10 percent less than they otherwise would have, 34 percent of the participants said. Another 23 percent thought that values would diminish by as much as 10 to 20 percent.

Cellular towers are “a blight on the landscape no matter how cleverly they are constructed to look like a tree,” one participant stated. Another realtor indicated that buyers do not wish to purchase lots located near these towers. Thirty-four percent of the respondents said that the cell tower would negatively impact home values for more than four years. Eighteen percent thought the negative effects would last only one to two years, while 15 percent estimated that it would be two to three years before there was no stigma attached to the homes.

“Once built, [the cellular tower] will have a diminishing effect on sale prices over time,” a respondent stated. “Until built, it will affect prices.”

Hypothetical 4: We also explored how a radon remediation system might affect a stone mansion outside of Philadelphia. Interestingly, nearly 90 percent of our survey participants did not think that the remediation system would be of concern to potential buyers. “I believe that the presence of radon has lost its scary punch,” one professional said. Another agreed, stating, “The radon is not a problem if mitigated.”

Hypothetical 5: Finally, we asked our respondents to consider minor settlement cracks in the foundations of newly constructed homes. The cracks were remedied, but most respondents thought buyers would nonetheless shy away from the properties. “There will always be a stigma on these properties because people cannot cope with a defect that is uncontrollable,” we were told. Another realtor said she “would not sell that development unless multiple core sample studies were done to prove” that sinkholes were not a threat.

While our survey is the tip of the iceberg regarding stigma and property value, we believe it provides valuable insight into what is terribly difficult to prove empirically: how seemingly negative conditions affect perception and, in turn, home values. In the future, we would like to conduct further study into negative events or conditions such as high-tension wires, nuclear cooling towers and houses that are situated under airport flight paths. We welcome readers’ thoughts and comments on our work, as clearly there is still much to be done in this area.

