

Commentary

UFFI and Value

By B. J. Lansink

Urea formaldehyde foam insulation is a low-density foam prepared at the installation site from a mixture of urea formaldehyde resin and a propellant, usually compressed air. The mixture was pumped into the cavities of a wall where it hardened. Deterioration of the foam over time results in the release of formaldehyde gas. In addition, a high moisture content may cause a fungus to grow. Spores of this fungus may find their way into the living areas of a home. Formaldehyde gas and fungus spores can result in irritation to the eyes, nose and throat.

The installation of UFFI was subsidized by the Canadian Federal Government's C.H.I.P. program.

In 1980 Health and Welfare Canada put a temporary ban in place. The ban is permanently continued as of April 1981.

In 1980, a lab test showed a relation between cancer and UFFI.

Insulation is a hidden item. Usually it is located in the frame cavities of the exterior walls between the interior and exterior finish and the attic area and is not readily visible to an appraiser. In many instances the type of insulation in the wall cavity and attic differs, so a visual inspection of attic insulation does not necessarily mean wall cavity insulation is the same. Also, some exterior walls possibly have one type, other walls another type; or a wall could be insulated with two or more insulation types.

If a home has been insulated with urea formaldehyde foam and this insulation has been removed, the property may still have unacceptably high levels of urea formaldehyde gas.

Because of many negative articles in the press since the Canadian Federal Government's UFFI ban in 1980, some buyer resistance to a UFFI insulated house has developed. This resistance appears to have increased in severity from 1980 to present.

It is new phenomenon, in its early stages, and difficult to accurately measure. While buyer resistance was difficult to measure in 1980 because there were very limited resales of UFFI homes, it has now become possible to measure from market activity.

Will a home exposed on the open market fetch less when insulated with UFFI than an exact duplicate not insulated or insulated with a product other than UFFI?

The evidence since the ban of UFFI by the Canadian Federal Government in 1980 suggests “yes”, a UFFI insulated home will be subject to buyer resistance and will probably sell for less.

I am aware of the following properties that have sold and are reported to be UFFI insulated:

#	Location	Sold Date	\$Price	Sold Date	\$Price	Loss	%Loss
1	1350 Baseline Rd	1975	\$42,400	1982	\$25,000	\$17,400	41%
2	190 Commissioners	1981	\$56,900	1982	\$42,000	\$14,900	26%
3	271 Highbury	1976	\$23,000	1981	\$12,000	\$11,000	48%
4	Pt.Lt.20, C.12, Lobo	1981	\$110,000	1982	\$59,478	\$50,522	46%
5	81 Base Line E	1982	\$185,000	1983	\$93,000	\$92,000	50%

All five sales are located in London, Ontario, Canada with the exception of Sale 4 which is within commuting distance.

Sales 1, 2, 3 and 5 all sold under the mortgage power of sale clause. None of the examples consider the resale date's market value assuming no UFFI, thus complicating the true loss measurement.

Sale 4 was purchased by a local brewery to assist an executive in a corporate relocation. When contacted the brewery advised that they may remove the foam, but no decision had been made as of May 9, 1983. It was vacant when inspected May 1983.

Sale 5 was appraised for \$185,000.00 in 1982.

Other evidence as to the effect on market value is submitted by a notice mailed to all property owners in Elgin and Middlesex Counties by M.C. Quinn, Regional Assessment Commissioner, Government of Ontario. I quote in part:

"If your residential property is insulated with urea formaldehyde foam insulation (UFFI) you may qualify for a reduction to your property assessment. A 35% reduction will be applied to the residential building portion of the property assessment. This percentage reduction has been determined based on an analysis of those properties in Ontario which sold over the past year, where purchasers were aware of the presence of UFFI."

My conclusion concerning the estimated fair market value of a UFFI residence versus a non-UFFI residence is that the UFFI home is worth substantially less. Consider the following hypothetical situation.

Let us assume that the current estimated fair market value assuming no UFFI was \$100,000, with UFFI the value range suggested is as follows:

\$100,000	-25%	=	\$75,000
\$100,000	-50%	=	\$50,000

Based on negative press, which caused buyer resistance and homeowner concern over possible health consequences, I feel a range of 25 percent to 50 percent less than the estimated fair market value is necessary.

Therefore, the final estimated value range is \$50,000 to \$75,000, with the final value tending to the mid-range at say \$62,500. However, I would recommend acceptance of any offer over \$50,000. While the range suggested may be significant, I feel it is necessary due to UFFI complexities.

B. J. Lansink, SRA, AACI, is an appraiser with Knowles, Lansink & Associates Ltd., London, Ontario, Canada.
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