Wasting Assets: Are You Choosing the Right Valuation Method?

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Often, 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.

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