THE WALL STREET JOURNAL.

REAL ESTATE

New York Builders See Woes In New Asbestos Cleanup Law

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NEW YORK CITY'S new law covering asbestos in residential and commercial buildings becomes effective next week—on April Fool's Day. The date seems appropriate to some building owners who regard the law as a cruel joke. Starting April 1, no apartment or commercial space—be it a pizza parlor or the trading floor of a securities firm—can get a building permit for alterations unless it has been inspected for asbestos and, if asbestos is found, an abatement plan is approved.

Confusion is certain to be a byproduct. "Things won't grind to a halt in New York, but there will be a period of painful adjustment," says John Welch, president of the Safe Buildings Alliance, a Washington, D.C., group of ex-makers of asbestos products. Daniel Sitomer, a partner of the New York law firm Sitomer & Odesser, sees more-dire consequences: "The entire real estate market is going to be frozen. A lot of deals will be lost."

Logistics is part of the problem. New York must license asbestos investigators and certify contractors' employees. Then there is the matter of disposal of the asbestos fireproofing, insulation and finishes removed from buildings. The one nearby landfill capable of properly dealing with asbestos can take only four truckloads of the material a day. Consequently, contractors say they will be disposing of it as far away as Maine and the Midwest.

THE COSTS OF REMOVAL are high—an estimated $10 to $30 a square foot, depending on where the asbestos is situated; asbestos on heating pipes is much easier to remove than asbestos fireproofing on a building frame. Some people worry that the cost of renovations of some older office buildings may be uneconomical as a result.

Meanwhile, some owners report instances in which leasing brokers representing non-asbestos buildings are calling tenants in asbestos buildings and reminding them that employers could be liable for employees' asbestos-related health problems if they remain in the building.

Some say it is hard to overstate the issue's importance. John McMahan, a San Francisco real estate adviser to pension funds, calls asbestos "the biggest single problem facing U.S. real estate today." Michael Cordery, who heads investment sales for Edward S. Gordon Co., a New York real estate broker, says that even when the asbestos has been removed, "there will be a differential in rents between those buildings that had asbestos and those that never did." Already, asbestos has hurt leasing in some of New York's most prominent buildings. For instance, brokers say some prospective tenants passed up space in the Pan Am building until Metropolitan Life Insurance Co., the owner, began removing the material.

UNTIL NOW, many owners haven't been sure what to do. At the World Trade Center, the north tower has asbestos fireproofing on the first 40 stories. The owner, the Port Authority of New York and New Jersey, delayed installing fire sprinklers until it decided what to do about the asbestos. It now is seeking its first bids for asbestos removal on two floors. Buyers of asbestos buildings also are demanding that sellers indemnify them against future asbestos claims by employees, according to Mr. Sitomer. And contractors have encountered problems getting performance bonds, because bonding companies fear insurers will cancel policies in the midst of a job.

In part, the confusion stems from the fact that the federal government hasn't set any standards for the presence of asbestos in offices and other buildings.

Not everyone is focusing on the negatives of the asbestos problem. Investors such as Tishman Speyer Properties, a New York builder, and lenders such as General Electric Credit Corp., a subsidiary of General Electric Co., see opportunities. Jerry Speyer, a managing partner of Tishman Speyer, aims to buy some asbestos buildings cheap because of the hysteria surrounding the problem. Likewise, GE Credit will make mortgages on certain buildings, provided the asbestos is practical to remove and the borrower agrees to sock away cash in a fund for eventual removal. "The risk is manageable," says John Deterding, vice president and general manager of GE Credit's commercial-mortgage operation.

FOR CONTRACTORS, asbestos removal is clearly an opportunity, provided they have liability insurance, licensed workers and a safe disposal site. LVI Group Inc., a New York construction company that specializes in interiors, bought a New Jersey company that did asbestos removals. Salvatore Zizza, president of LVI, says, "We feel it's a window of opportunity. We had been looking for just such a high-growth area. There are only about 40 to 50 big contractors qualified to do asbestos removal." One important factor LVI is stressing to building owners is that it has "gone to great lengths" to acquire rights to a government-approved landfill for the asbestos.

"The landlord is still the owner of the asbestos, even after it's been dumped," Mr. Zizza says. "We truck the material several hundred miles to a landfill where we know the chances of its ever getting on the Environmental Protection Agency's Superfund list of hazardous waste sites are minimal."

New York isn't the only market where owners face the problem; it's merely among the first. Mr. Welch of the Safe Buildings Alliance says: "New York City is a paradigm of what's happening. Cities and states are taking the leadership role and moving more thoughtfully than the federal EPA."

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