

What is the impact of a pipeline on property value?

Economists use a technique known as Hedonic Modeling to evaluate the price impact of amenities or risk associated with location. For example, two houses may be identical in every way except location. A house located on a pristine lake will have a higher price than the exact same house located in a typical suburb. Hedonic Modeling can identify either positive or negative influences. A house located downwind from a hog confinement facility will sell for a lower price than one in a typical suburb. The difference in price thus creates a valuation of that particular amenity or negative externality.

Most studies of pipeline impact have focused on changes in property values after an accident or explosion. A frequently cited study looked at the property value impact of a gasoline pipeline explosion in Bellingham, Washington in 1999. Bellingham had two major pipelines going through the city. Immediately following the explosion of the Olympic pipeline, which killed three people, property values declined by approximately 4.6% within 50 feet of the pipeline that had suffered the rupture. This effect was influenced by distance, falling to 2.3% decrease at a distance of 100 feet, 1.2% at 200 feet, and 0.2% at 1,000 feet. Additionally, this negative property value impact decreased with the passage of time.

Hedonic Modeling of the 5 ½ year time period prior to the explosion found no evidence that either of the two pipelines had an effect on local property values. Even after the explosion and all the resulting media coverage, the researchers found that the second pipeline had no effect on nearby property values.

These results are not unexpected. Property values are negatively impacted by odors, unsightly landscapes, health and safety risks, and persistent loud noises. Installed pipelines are literally out-of-sight and out-of-mind for ordinary land owners. The Bellingham study cited a State of Washington survey gauging public awareness of pipeline location. That study found that 55% of the homeowners living near a pipeline “flatly denied” that they lived anywhere near a major pipeline.

The completed Keystone Pipeline gives us immediate information on the potential impact of a pipeline on property values. On June 13, we talked directly with the county assessors from Butler County (Vickie Donoghue) and Saline County (Brandi Kelly). Both assessors stated without hesitation that the existing pipeline had no impact on land values. There was no land value adjustment on the property bisected by the pipeline and no adjustment on adjacent property.

Conclusion

In our professional judgement, the ordinary operation of the pipeline will have no impact on property valuation. During the construction phase, landowners are compensated for easements or crop damage. In the event of an accident or pipeline rupture, the pipeline operator is responsible for mitigation, cleanup and restoration. It is possible that in the event of a major oil spill from the pipeline, surrounding property values would likely decline for several years. The economic impact of a spill on land values cannot be appropriately modeled because the rarity of significant spills makes each spill a unique event.