



SAFE ENCASUREMENT SYSTEMS-MIDWEST

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LONG-TERM SAVING BY ENCASUREMENT OF ASBESTOS

A frequent question raised in connection with the abatement of asbestos by encasement is "the asbestos is still there and it will eventually have to be removed. Why not just remove it now and be done with it?"

The answer to this question lies in the time value of money, and in the potential health and environmental effects of the replacement insulation materials. If the property is expected to be demolished within 10 years or less, then it may be advisable to pay the extra money and have it removed now. However, if the property is likely to be used for another 10-20 years or more, encasement now and removal prior to demolition is probably the most cost effective course of action.

On the reverse side is a graph that can be used to illustrate this point. This graph is based on a current cost of removal and replacement of \$1,000,000, on a current removal cost (including lock-down) that would be required prior to demolition of \$650,000, and savings by using encasement vs. removal and replacement of 60 percent or \$600,000 (actual savings on most projects fall with the range of 50-80 percent). Savings in relocation costs due to the smaller amount of time required for encasement have been neglected. These are often substantial and can be of the same magnitude as the cost of abatement. The cost of removal prior to demolition (not shown for the first five years) was increased at an inflation rate of 3 percent (the average rate of inflation during the past ten years was 2.8 percent). The cost of removing encased asbestos was assumed to be the same as the cost of removing asbestos that has not been encased, though it is actually likely to be less expensive. Two curves are presented on the graph to represent the time value of savings at interest rates of 5 percent and 7 percent. A similar analysis can be made using other interest rates and inflation rates.

Referring to the graph, the time value of the \$600,000 saving at an interest rate of 5 percent is approximately \$2,600,000 after 30 years versus a cost of removal in 30 years of approximately \$1,600,000, resulting in a net cash generation of approximately \$1,000,000 over and above the cost of removal at that time. The present worth of this net cash generation after 30 years at 5 percent interest is \$235,000, which means that the total effective cost of dealing with the asbestos by encasing now at a cost of \$400,000 (60 percent saving versus removal and replacement for \$1,000,000) and removing after 30 years is \$165,000 (\$400,000 - \$235,000), compared with \$1,000,000 for removal and replacement now.

Choosing other time periods, interest rates, inflation rates, percentage savings by encasement versus removal and replacement, etc. will yield different results, but very likely lead to the same conclusion in many cases; namely that encasing now and removing later when the building is demolished will often be the best course of action from the standpoint of the cost to the owner. This may even turn out to be the best choice when the building is likely to be demolished in as little as ten years. In some cases the owner may actually realize a net profit in this manner. An equation for calculating the net cash generation is provided on the reverse side.

An additional consideration that should not be overlooked is that some of the fibrous insulating material being used today as replacements for asbestos are already being scrutinized as potential health hazards and could be found to be unacceptable within the next 10-20 years or even sooner.

Please contact your Safe Encasement Systems distributor or sales representative with any questions.

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