



REAL ESTATE LAW & INDUSTRY



REPORT

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BUILDING FACILITIES

For commercial real estate (CRE) developers, parking spaces can have a serious economic impact. A single space in a structured parking lot can cost up to \$50,000, and some are being sold—in the manner of condominiums—for as much as \$250,000. L. Dennis Burns, senior practice builder and regional vice president for Phoenix-based Kimley-Horn and Associates Inc., a leading advocate of “smart parking,” recommends hiring a professional parking consultant to get the most out of this \$25 billion per year industry. Speaking with BNA’s Kevin Lambert, he explained why developers need to get a parking audit, the latest innovations in parking systems, and how the transit-oriented development (TOD) trend toward fewer parking spaces will be good for his business.

Building Parking Systems, Properly Designed, Can Save Developers Millions

BNA: I understand that paid parking facilities typically supply 10 to 14 percent of a building’s total annual revenue. Are building owners taking full advantage of that?

Burns: I’m not sure about that statistic, but in . . . markets where paid parking is the norm I think most of them are. [Then] there are lots of markets in the country, especially in smaller, mid-sized cities, where parking is still free. So in that regard it is essentially seen as a subsidized bit of infrastructure.

BNA: How does parking impact upon commercial real estate?

Burns: In general it is the way it has always been, in that any development that goes through a development



L. Dennis Burns

process has to comply with certain codes and parking requirements based on zoning regulations and the like. Some of that is changing dramatically, especially in TOD, where they are trying to reduce the amount of parking that is required. There is recognition in urban environments, especially transit-oriented environments, that in the past we tended to overbuild the supply of parking by requiring what some people are call-

ing suburban parking standards, and trying to apply that in an urban environment.

Shared Parking Saves Millions. And then there is also the concept of shared parking. Shared parking is a concept that the Urban Land Institute and the IPI (International Parking Institute) have been promoting for years. It basically says that as opposed to requiring X amount of parking by land use and looking at those as individual components, if we could find certain land uses that have offsetting peak parking accumulation periods—say an office building would typically start [early] and rise up to peak at about 1000 a.m. and . . . dive off at 4:00 p.m.

So, compare that pattern of parking accumulation . . . with a hotel, where it peaks overnight. If you had a need for 200 parking spaces to supply a hotel's need, you could share that parking resource with an office development—and these parking spaces can cost \$20,000 a space or whatever—so [that is 200 spaces] you wouldn't have to build. So from a developer's point of view 20,000 times 200 is not a small number, that's \$4 million . . . so if you can do the study to prove that shared parking will actually work, most communities will accept that now. That's a huge benefit for developers, and I think they are looking at more combinations of land uses that can provide that kind of shared parking benefit.

BNA: Proximity must be very important in shared parking. Could this practice lead to a heightened desirability to, say, build an office building near a hotel?

Burns: If the parking for the office and hotel could be shared, there would be a strong case to be made for a significant shared parking benefit. If the hotel parking requirement was 1.25 spaces per room and there were 100 rooms, the parking requirement for the hotel as a standalone use would be 125 spaces. In a mixed-use context, the entire 125 spaces might not have to be built if there were at least 125 office spaces that could be used during their off-peak time.

Flexible Zoning. **BNA:** Is shared parking being utilized a lot?

Burns: Absolutely, yes it is. And the other piece of that concept and that kind of thinking . . . looking beyond the traditional suburban parking standards . . . is [that], especially in municipal environments and downtown environments where there are a lot of transportation options, we are now getting to the point where we are getting more flexible zoning requirements. [If] we can document that there is a really good transit system and your development is only a block from a major transit hub . . . we can significantly reduce the amount of parking required, based on the transportation options available. Then, developers [can] incorporate residential into their development. They can even go so far as to try to partner with a car sharing company. If the old code would have required say one parking space per bedroom and you've got a bunch of two-bedroom condos, you can now get away with one space . . . [a developer can] also offer transit passes, offer a Zipcar membership.

I really think the more enlightened view of parking is a view that doesn't put parking in a silo but looks at parking as part of a larger transportation equation.

The developer doesn't have to build as much parking, and we don't need as much parking. It could free up more land for more commercial uses.

BNA: Can you name a city where such zoning is already in place?

Burns: There's lots of them. Charlotte, Dallas, Boulder, Ann Arbor—there's just a huge number of them.

BNA: Do you feel that your industry is losing turf to transit-oriented development?

Burns: I don't see it that way. Our firm largely designs parking structures and I was promoting all these concepts because I really think the more enlightened view of parking is a view that doesn't put parking in a silo, but looks at parking as part of a larger transportation equation. So really what we are trying to do is to promote good access for communities and projects, [and] by promoting these projects we are not only saying we are going to look at the amount of parking that you need—and let's reduce that to the degree that we can because we don't want to overbuild. We don't want to have a car-dominated society. We would rather have more people-oriented places and better urban design. And that actually turned out to be very good for our business. We are actually seeing more densification of parking as we densify these urban environments around transit developments. So the denser TODs are actually spurring smaller but better located, strategic[ally] located, structured parking projects. Because it is a better use of land overall.

BNA: How profitable can street-level parking lots be?

Burns: I think people don't give credit to private parking management firms. [Those parking lots are not] their main business. Most of those people are a lot smarter than that. They are using parking lots as an interim land use until the value of that land appreciates to the point where you can develop it. So, certainly there are less capital costs associated with a surface parking lot, and that can be profitable for an operator if there is plenty of demand around.

The other dimension—and this is kind of touchy—actually most municipalities . . . have a public parking system in place largely because structured parking tends not to pay for itself. You need \$150 to \$200 in revenue per space per month to pay capital, your debt service, your operating and maintenance cost and maintenance reserves. That is why there is not a huge rush of people out there throwing up parking decks left and right. Now in a downtown environment, you can usually get enough revenue. An airport certainly pays for itself. But that's why you see most mid-sized U.S. cities with parking systems that are actually subsidizing the cost of those parking structures.

Now, here's the trick with that—the Holy Grail of parking systems. A parking structure by itself has a hard time paying for itself. But if the municipality or the

parking authority . . . whoever has responsibility for the parking in that area, has an on-street meter program with an enforcement program and some off-street facilities, all that revenue streams together and possibly even some other revenue streams . . . all of that together can easily—well, not easily, because it takes some careful management—can be made to be a profitable, self-supporting enterprise.

BNA: As to hiring a parking professional, what is the best policy for a building owner to follow?

Burns: If they can't afford to hire a full-time parking person, having a good [parking] consultant on call is probably a really smart thing to do. There are all these opportunities to reduce your costs and increase your revenues by managing very effectively.

The key, I think, for developers, is what is the right amount of parking to provide, so you are not overbuilding or underbuilding? Leveraging things like shared parking so that you can get municipalities to agree to lower your parking requirements . . . and also to provide other transportation alternatives so that we are really focusing on better access for the project overall.

But the bottom line is that parking adds X number of dollars per square foot to whatever project you are trying to lease. If you are at \$20 per square foot and having to provide structured parking pushes that up to \$25 per square foot, that puts you at a bit of a competitive disadvantage. So the degree in which we can be smart about how much parking we are providing is really critical to developers, and I think they really understand that, for the most part.

BNA: What about public/private partnerships?

Burns: There's lot of that going on right now. There are all kinds of variations on public/private partnerships. The city of Phoenix right now has a proposal out there to build a biomedical [campus with a] mixed-use garage, where they want to put certain other land uses. But they want to provide parking and they want a developer team to come together—which includes parking experts [and] parking management expertise to actually run and manage and build and own and operate the parking garage to support their biomedical campus.

BNA: How does public parking impact on a building owner's bottom line?

Burns: There are some communities, for example, a downtown [that] they are trying to make more competitive from a development point of view. Some places will actually eliminate parking requirements altogether and then . . . they are kind of responsible for providing that parking infrastructure because they have taken it away as a requirement for the developer.

Now, a lot of times banks will not fund a project without a certain amount of parking because . . . if that public parking would go away you've got an asset that can't park itself and [tenants] are never going to lease this space. So the banks are a player in this as well. But public parking can subsidize and offset the amount of parking that's required, if that's the policy of that municipality. And that kind of reduces the cost of entry for the developer, especially in downtowns where the land costs are so high.

BNA: So parking has to be considered and mapped out right up front?

Burns: I absolutely agree with that, especially if structured parking is involved. A surface parking spot might cost you \$2,500 a space. A structured space may be 10 times that, maybe \$25,000 a space.

BNA: Why is it so expensive?

Burns: It is an interesting type of building type if you look at it from that point of view. It is essentially an occupied bridge structure that has to react to all of the changes in temperatures, so there are a lot of interesting structural dynamics that go into making a parking garage that works well. Concrete and steel are expensive and those are the main components. But more and more, the [average] price to build just a Plain Jane garage, only a couple of years ago, was only \$14,500 a space. More and more we are seeing parking structures integrated in a mixed-use way so we not only have parking but we have also got parking below grade, a street level restaurant to activate the streetscape and then four levels of parking with condos above. And that kind of a mixed-use approach . . . makes the project more viable. You not only have storage space for vehicles but also additional revenue sources as part of that structure. That's a trend that we are seeing a lot of.

BNA: If there is free parking underground, is the owner taking a hit? How do they recoup that?

Burns: Free parking underground is a very expensive proposition. So if it is \$20,000 a space to build above ground, it is probably one and a half or two times that to build below ground. And the further below ground you go the more expensive it gets. The only place I know where they can actually afford below grade parking and have the rents of the property above pay for the garage is in Beverly Hills. But that's kind of an unusual dynamic.

Even in that environment I don't think you can really charge enough to pay for the garage all by itself. So you have to merge the cost of the garage into the cost of the building, have the overall rates per square foot incorporate all of those costs, and try to recoup your costs over time.

BNA: I have also heard that building owners and managers can lose up to 28 percent of this revenue due to deficient contracts with private operators, inefficient operations, maintenance lapses, employee theft, and financial irregularities. True? Could you elaborate on that?

Burns: Sounds pretty true [but] things are changing. Because parking was such a cash-intensive business the average rule of thumb was that without good revenue controls and audits a company could easily be losing 15 percent through leakage, just from a revenue control point of view, not to mention terms of leasing contract agreements. That's changing somewhat with the advent of new technology, and especially credit card acceptance which is becoming more prevalent, which cuts down on the opportunities for abuse.

BNA: Tell me about the new technology in your industry and were you think it will go?

Burns: I think that there has been a real technology revolution in the parking world and it is really accruing a lot of benefits to the customers of the parking systems. I think that parking in the past has not always been as customer friendly, but I think with the new parking professionals that we have . . . we are really seeing a focus on how to make parking a positive aspect of whatever community it is serving. So credit card acceptance, while that adds a cost to the parking system, is real positive to the users of the system, so they are going in that direction. Also with the on-street program, we are moving toward multi-space or even credit card acceptance in single-space meters, which is great be-

cause you don't have to have a pocket of quarters all the time. Also, we now have the ability to pay by cell phone. If it's 20 degrees outside we can pay from a warm car. We can also get text messages . . . asking if we want to extend our time. A lot of things like that are happening right now.

BNA: I understand that building owners can sell parking spaces to non-tenants.

Burns: There is a movement in some cities like Boston to what they call "condo-ize" a parking space, to actually sell them for \$25,000 to \$50,000 per space. The highest I ever heard was \$250,000 for a single space. It was in New York or Boston.

BNA: What class of landlord or developer will benefit by a parking audit?

Burns: Anybody who is actually managing their own parking or has a private operator. Private operators will generally say that they do their own audits—and they do—but if I were a property owner I would want to bring in an outside consultant to do an audit. I think there is an important distinction here. An audit of a parking system is not like a standard [certified public accountant] audit where they are just validating revenues that are deposited. We really are looking at op-

erational issues and the way that revenues can be skimmed off the top, and usually that's through validation programs or cashier abuse at airports. There is a problem with people trying to swap tickets because the ticket value at airports can be \$100—\$200 apiece, so . . . collusion between parking attendants and baggage claim handlers can be really interesting. But they have really advanced systems at airports. They can actually track every ticket and every vehicle by license plate inventories every single night. If you turned in a 10-minute ticket but your car has been in the lot for 10 days, they know that.

BNA: What do you recommend that a developer do, as far as their parking is concerned?

Burns: Appreciate the value and expense of parking and how important that is to the overall success of your project. Because of that, make the necessary investment in expertise, whether that is through hiring your own parking professional or outsourcing that expertise to consultants. You will see a huge return on this investment, as opposed to not giving parking its true credit and true due as an element of your overall business plan.