

FINANCING THE SUSTAINABLE PARKING FACILITY

By Michael Cramer

Can incorporating sustainable elements in a parking facility affect the revenue models used for attracting capital? In only a short time, it's likely that this could become an area of focus for investors in green facilities.

Posing the question creates challenges, because most garages are on a gross rate model and many are built to serve other structures. Rarely does a customer drive out of their way to park in a certain garage because of a particular garage element or because the garage is greener. So, will spending the money to build a sustainable garage have the sort of payback that attracts investors? As I researched this column, my answer swayed from yes to no to maybe.

As sustainability evolves, it's likely that investment in green garages may become an area of focus. Only in the past couple of years have we seriously considered making garages more sustainable.

Value

The value of a parking facility as an earning asset is affected by its net operating costs. Reducing these costs while maintaining or increasing revenues and customer service increases the value of the facility and reduces the owner's investment risk. To the degree that sustainable technology reduces out-of-pocket costs in a gross-rate model, these net savings fall directly to the bottom line and add value to the investment. Return on investment is still related to risk. If sustainable properties and attributes make the facility more financially efficient, both the owner's risk and the capitalization rate can be reduced.

Today, income for the owner and convenience for the customer are still the driving forces behind building a parking facility. Sustainable features are considered for other reasons.

A New Focus

Times are changing, though, as pointed out by Gary

Holtzer, global sustainability officer at Hines. Like most real estate professionals, he's hearing more about a focus on sustainability in new construction as well as in established developments.

Obvious options like LED lighting are well known and the cost for the fixtures is dropping considerably. Over time, LED lights cost less than traditional lighting systems to maintain. Well-designed garages make greater use of sunlight in their designs, too. Both of these ideas are already being incorporated in new garage designs and, where feasible, retrofitted into existing structures.

Holtzer offers up some ideas that could well affect future parking facilities. These make considerable economic sense and may change the dynamics for development and operations. By 2050, perhaps 70 percent of the world's population will live in cities with 1 million people or more. At the same time, private vehicle ownership may well decline. Additionally, parking facilities may evolve into net energy producers that provide sustainable energy harvested from the kinetic energy stored in autos and from nanotech solar collectors stored in the facilities' skin.

By 2020, it may be impossible to build a parking facility without a solid sustainability plan, just as it's nearly impossible to build one today without a good financial model. Sustainability is not yet a driving force in the finances of a new facility. However, it is becoming an increasingly important factor that can reduce the costs of parking facility operations. I hope that in the not-too-distant future, we'll need a follow-up article to this one that describes how sustainable financing is driving the design of a new generation of garages.



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