

# Parking Research Note

## February 2010



In the game of Monopoly, the “Free Parking” space isn’t a property for sale. In the real world, however, investors can take advantage of parking as a form of physical property that can be bought, rented or sold like any other type of real estate, with spaces being sold for as much as \$200,000 apiece in densely populated cities such as New York.

“Parking is a scarce commodity, and the ability to invest in it is now in the hands of the individual,” Richard Delaney, vice president of Palladian Development, and former developer for the Field Harbour Parking project in Chicago, USA, said.

Demand for parking is highest in “tier one” cities such as New York, London and Hong Kong and Milan and is increasing in “tier two” cities such as Munich, Cape Town, Athens and Madrid.

Parking facilities now present intriguing commercial real estate investments. Traditionally, most parking-related opportunities have not appealed to pension funds and institutional investors, but parking assets' low cost of capital and strong underlying fundamentals are generating new interest in this relatively undiscovered investment niche. While parking facility investment options exist in many markets, success largely depends on location.

Investors are beginning to realize that a well-located urban parking facility offers stable, long-term revenue growth and that this asset class is becoming an important part of any diversified real estate portfolio.

The parking industry generates more than \$20 billion annually in gross parking revenues, according to International Parking Institute estimates.

However, unfortunately for small investors, when opportunities become available in major markets, they are marketed aggressively to large institutional and private capital sources. As a result, sales prices usually go up, making it very difficult for small investors to get in on these deals.

A number of key global real estate brokers have now started offering car park investments as part of their portfolio.

"When a garage comes on the market these days, it spikes huge interest," says Robert A. Knakal, president of Massey Knakal Realty Services, a sales broker.

"Well-located parking properties definitely command a premium," Edward S. Gordon, the real estate executive who owns a controlling interest in Myers Parking.

Parking's attraction is understandable. It is a cash business. And it does not require an educated workforce or a lot of computers.

"Parking is commercial real estate in its most simplistic form, renting space to a car," comments Benjamin Fox, a partner in the New Spectrum brokerage.

"A lot of people outside the business are bidding for properties now," says Saul P. Schwartz, president of Kinney System. "They learned that garages that were built to service a building often yield better cash flow than the building itself."

Buying a parking asset in a high-density community is an excellent option for diversifying any commercial real estate portfolio. With a sound strategy, these properties can generate annuity-like cash flow. They also offer a natural hedge against inflation whilst total returns on paid parking investments can be significant.

Given the current low interest rate environment, the natural barriers to entry and the attractive yields, these properties are an excellent place to park money while investors wait for equities and currencies to recover. Furthermore, this natural income play also offers potential above average returns as land values rise coupled with the annual cash flow yields.

Investors cannot buy parking lots on stock exchanges. Traders do not swap synthetic options on parking management contracts. Commodity dealers normally refrain from extrapolating the intrinsic value from a straddled swap in a collateralized default obligation on parking spaces. The point is that the parking industry remains unscathed from the complexities and pitfalls of public securities markets.

*“As the parking industry’s older brother, commercial real estate continues to be sliced, diced, packaged and synthesized into complex investment securities, parking companies operate much like they did when the concrete was laid decades ago – a time when life was much more simple”*

*“Mr. Buffett, arguably the world’s most successful investor”*

With all the confusing forces in the stock market and the near illiquidity of various debt markets, why is Wall Street after the parking industry?

Warren Buffett once wrote in his widely read letter to the shareholders of Berkshire Hathaway. In addition to the presentation of undeniably superior investment returns, Mr. Buffett reminds investors of his simple acquisition criteria that have become the hallmark of his unmatched success. He looks for companies with economies of scale, consistent earnings, solid returns, low debt levels, and a business concept that he can understand. Most, if not all of those investment characteristics exist throughout the parking industry today.

Most businesses rely on credit facilities, be it from the banks to fund working capital or offering it to consumers to allow them to buy their product or service. This causes a shortage of funding sources to pay for near-term expenses.

Car park owners/operators work in a pretty much cash business so provide for sufficient working capital to run the company on a day-to-day basis. Taking the trade accounts and credit risk out of a business model creates short-term liquidity and more simplified operations. At a time when lenders won’t lend, structure finance is unstructured, and bond insurers can’t even insure their own bonds, cash is truly king.

At a conference recently, when asked why institutional capital is attracted to the parking industry, Emanuel Eads, CEO of Central Parking (USA), stated at the NPA conference: “Well, it’s three simple words: earnings, cash, growth.” Those three items make the parking industry ripe for the picking as investors look to diversify away from volatile stocks and vulnerable bonds.

A small case study of the Argentinean city of Buenos Aires shows that even in developing cities of South America, car park commands huge premiums.

Renting a garage space can now cost an average of \$350 to \$450 per month, and in some areas as much as \$800. Prices vary according to the neighborhood. A garage space for a medium car can cost \$300 in Once and \$600 to \$800 in Palermo.

It's easy to understand why apartments which include a garage space in the building are in the highest demand and are the most expensive.

The demand for garage spaces makes the purchase of a parking space an interesting investment option.

In the first quarter of 2009, car spaces were selling between US\$ 15,000 to US\$ 20,000, but could cost up to US\$ 35,000. Several factors determine the selling price, mainly whether it is a covered garage structure or simply an uncovered parking lot. Other price variables include the location and the type of structure, whether it is ground level or a basement, and whether it has a ramp or elevator.

### **Background**

Parking spaces as an investment was pioneered in the USA and is now seen as being a 'normal' real estate investment in America.

Parking spaces are "a great investment," Stephen Sinclair, founder of Parkingsearch.com. Sinclair said he observed a substantial appreciation in parking space values during the past three years.

"What we've noticed in the last three years of acquiring data is that these parking spaces have been increasing in value regardless of what's going on with the real estate market,"

Since 2005, Sinclair said he has seen a 20 percent increase in parking space values. "The average parking space on the ParkingSearch.com website for the city of Chicago was \$28,000 in 2005/06; \$30,000 in 2006/07; and about \$33,000 in 2007/08. Figures for 2008/09 are being compiled and will show further increases.

Each parking space has its own unique valuation in terms of its geographic location and location within a city as well as its location within a parking garage. A parking garage has its own "micro-economy," in the sense that the convenience of nearby elevators and lower floor parking may increase the value of a space. Amenities such as heating and security can also add value.

There are a number of advantages to owning a parking space, first, parking spaces require minimal maintenance, second, in the case of parking spaces in garages, eviction is an easy process, delinquent leasers are simply locked out. Finally, parking spaces are cheap compared to housing and present a more affordable opportunity for real estate investment. "It is actually a very good investment for small investors," said Sinclair.

Furthermore, Buying and selling parking spaces is a relatively simple process and transactions can take place relatively quickly in comparison to larger real estate deals such as apartments and houses.

Parking spaces make sense as a hot new investment, but investors should also take heed of possible factors that might suppress parking space values. Parking space appreciation is contingent upon a city's growth and development plans, if a city has no plans to attract 'users' then it is probably not a good idea to invest in parking spaces there.

In America spaces have now developed their own resale market and attract attention from private and professional investors along with institutions. Pricing of spaces varies based on a number of factors such as average yield rates, locality, management operated or not.

The average price to purchase a parking spot in Chicago is \$27,468, according to Stephen Sinclair Jr., founder of ParkingSearch.com, a Chicago-based company that links buyers and sellers on the Web. But the price of some spaces could cover a small house. One reportedly sold for \$148,000 at 111 E. Chestnut St whilst in some densely populated commercial towers, some spots are priced in the \$60,000-to-\$75,000 bracket. – source 'Crains Business – Chicago'

### So where to invest?

The USA is now a fairly matured market for car park investments and as such will see modest growth with experienced purchasers cornering the most lucrative spots. London is by far the most advanced location in terms of pricing but will likely continue to show some growth in values, although entry level pricing in the most sought after locations could go well in excess of £100,000 for a space in Central London so is more for professional investors.

Colliers International's latest annual survey on parking rates in the Central Business Districts (CBDs) worldwide revealed that Dubai is still one of the lower-priced cities to park a car based on average monthly car park rates, compared to other cities around the world.

The latest survey tracked monthly median unreserved parking rates and daily median parking rates in 140 cities across Asia, North America, Europe, Middle East and Africa (EMEA), and Latin America.

The survey methodology varies by country but in almost all cases Colliers' researchers have surveyed the majority of parking garages with the central business district (CBD).

With data for both 2008 and 2009 year-over-year pricing trends are now available and something that will be a key feature in researching emerging locations for investable opportunities.

When researching potential investment spots it's important to have in mind the eventual 'exit' strategy, as with any proper investment. Almost all car park investments will provide a decent yield and positive cash flow, provided the user base exits, but for professional investors it's also important to see the liquidity aspect when exiting the investment and to ensure that capital values stay strong at this point.

The following research from Colliers International provides an excellent research tool for evaluating investment opportunities.

The study shows that no one region dominates with a smattering of cities from North America, Europe and Asia Pacific all represented in the top 10. Regions such as Latin America, Africa and the Middle East, while at present relatively inexpensive, all show signs of becoming more expensive (to park in) as demand appears to be holding steady despite the global downturn.

**TOP 50 MONTHLY UNRESERVED  
PARKING RATES – MEDIAN (US\$)**

London – City	1,020.29
London – West End	955.51
Amsterdam	805.36
Hong Kong	748.20
Sydney	587.72
New York, NY – Midtown	550.00
Brisbane	529.19
Tokyo	525.00
Perth	517.16
Zurich	515.74
New York, NY – Downtown	500.00
Milan	495.39
Oslo	477.30
Copenhagen	472.75
Dublin	467.08
Stockholm	447.44
Geneva	431.34
Calgary, AB	421.36
Boston, MA	402.50
Vienna	396.31
Helsinki	396.31
Munich	370.55
St. Petersburg	350.00
San Francisco, CA	350.00
Melbourne	340.77
Hamburg	336.87
Chicago, IL	325.00
Paris	319.88
Philadelphia, PA	314.00
Athens	311.39
Prague	311.39
Stuttgart	302.90
Frankfurt	298.65
Utrecht	297.23
Budapest	295.00
Rotterdam	290.16
Seattle, WA	290.00
Sofia	283.08
Bogata	280.00
Toronto, ON	279.38
The Hague	268.93
Madrid	261.85
Montreal, QC	256.48
Auckland	256.28
Edmonton, AB	251.90
Moscow	250.00
Kiev	250.00
Wellington	249.87
Dubai	240.00
Düsseldorf	232.13

Leading the list of most expensive cities to park a car is London; both The City and West End. Monthly parking rates in The City topped the list at \$1,020 with the West End in second place at \$956. Highlighting how parking appears to be somewhat immune to the economic downturn, in local currency terms, both London markets registered an increase from 2008 levels.

Based on annual median cost therefore of \$12,240 in Central London to park, at a below average 80% occupancy rate the owner would receive \$9,792. After accounting for a fair 30% cost for management/rates and associated costs the net return would be \$6,854. For a median estimated cost of a space in Central London at \$75,000 this represents a conservative net yield of over 9%.

Then there is the year on year capital increases that these assets have been experiencing, which if factored in could equate to a 15%+ a year return (9% cash flow and 6%+ annual capital growth estimates).

### **Case Study**

What is probably the biggest surprise in the Colliers study is that the flamboyant city of Dubai lies in a lowly position of 49<sup>th</sup> on the 50 city list. For a city that has shown tremendous growth in the past 10 years in terms of infrastructure and master developments across the emirate, the car parking prices have not kept pace with the rest of the economies break neck growth.

This is a sure fire sign that the lag in the car parking prices in Dubai will catch up sooner rather than later to bring them in line with comparable global cities.

Dubai is seen as being a regional hub for global trade and now houses some of the world's largest companies. Furthermore, its long term growth plans are focussed on becoming a global financial centre. With the DIFC (Dubai International Finance Centre) already leading the way in the MENA region.

Dubai also operates one of the world's busiest airports with more than 30 million people a year travelling in and out of the city via the airport.

The real estate boom in the past decade demonstrated an unprecedented growth barely seen in the last 100 years and whilst prices have softened and come down since 2008/09, they are still at a significant premium to the point where the price boom took off early in 2002.

Key communities such as the Palm Jumeirah, Marina and Downtown Dubai are still registering increases in value as demand continues to outstrip supply in these exclusive communities. Business Bay (close to the newly opened Burj Khalifa, the world's tallest tower, is another community expected to have similar impact on commercial real estate prices due to its geographical location within Dubai and being a stone's throw distance from the Dubai International Finance Centre and the Central Business District of Dubai, along the key Sheikh Zayed Road.

A year on year comparison of median rates shows that in 2008 Dubai's monthly average parking cost was at \$198.48 and in 2009 (as above) has risen to \$240 – thus demonstrating a huge 20% rise in just one year. However, even after this 20% rise, it still lies in 49<sup>th</sup> place on the global city list and a massive 75% cheaper than its peer – Central London.

Furthermore, Dubai is still almost half the price for car parking costs compared to cities such as Oslo, Perth, Stockholm and Copenhagen. It would be unthinkable to believe that Dubai will not catch up these cities and at least equal their pricing structures. In fact if we are to follow the general real estate trend over the past 5 – 10 years where Dubai's real estate pricing rose dramatically to bring it into line with the major cities of New York, London and Hong Kong, then it's more realistic to suggest that the car parking prices will follow in much the same pattern and will head towards the \$1,000 per month cost sooner rather than later.

With the rise in parking cost there is a natural and often fixed correlation with the capital value of the spaces so an investor should see annual yields rise year on year for the foreseeable future (an investor would have seen a 20% increase in yield from 2008 – 2009 based on Colliers study) and also a linked increase in the capital investment.

A good indicator that monthly rental price are likely to shoot up (other than that fact they are already proving this with the 20% last year) is the fact that by looking at the Top 20 list below derived by Colliers International, it shows that on the 'daily' median parking rates Dubai is already catching up and is in 12<sup>th</sup> place, in contrast to the lowly 49<sup>th</sup> place in the monthly list.

This suggests that car park prices are already going through transition and as would be expected the short term prices (daily) are being corrected first and then the long term (monthly/annual) charges will follow as lease agreements come up for renewal year on year with tenants.

Based on a daily parking charge of the below \$40 on a 24 day working month in Dubai it would bring an income of \$960 a month. When this is compared to the actual median monthly of just \$240 in 2009 it shows that this gap is far too wide and that the monthly rental prices will come into line and rise accordingly to fit with the daily costs in Dubai and also to bring it in line with comparative cities around the world.

## GLOBAL COMPARISON

### TOP 20 **DAILY** PARKING RATES – MEDIAN (US\$)

Amsterdam	70.77
London - City	56.68
Vienna	56.62
The Hague	56.62
Oslo	55.69
Tokyo	52.50
London - West End	51.82
Copenhagen	47.28
Sydney	44.10
New York, NY - Midtown	44.00
Helsinki	41.05
Dubai	40.00
Rotterdam	38.22
Brisbane	38.09
New York, NY - Downtown	38.00
Zurich	37.51
Utrecht	36.80
Honolulu, HI	35.50
Düsseldorf	35.39
Madrid	35.39

A purchase of a \$30,000 car park space in the business district of Dubai in 2008 would have seen a median income of \$2,178 (\$198 x 11 months to account for an idle month) representing a gross yield of 7.26%.

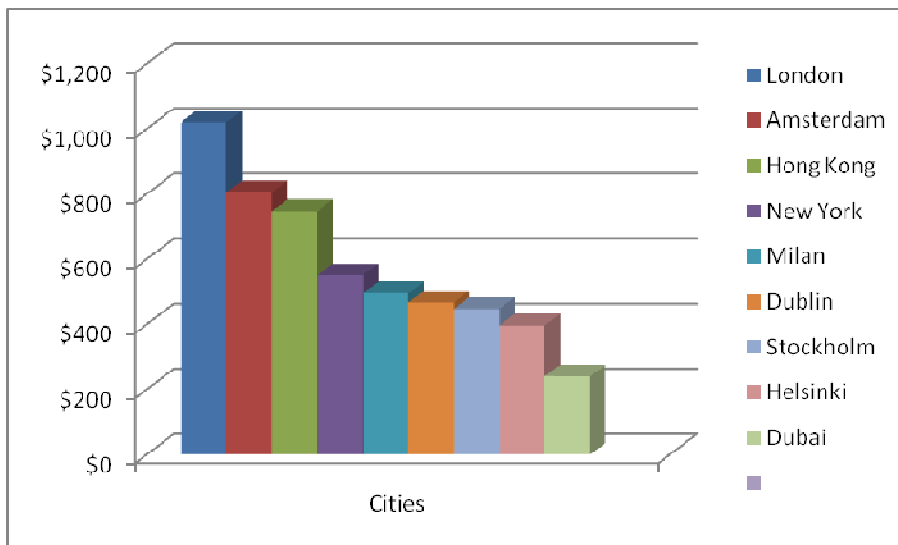
In 2009 the median income of \$240 would have generated \$2,640 (11 months x \$240), being an increase year on year of 20% in yield and an overall gross yield on the investment for 2009 of 8.8%.

If Dubai only catches up with parking costs of cities such as Oslo, Copenhagen and Zurich then it will provide a median income of about \$500 a month. Based on \$500 x 11 months it would provide an income of \$5,500 which would represent an overall gross yield against the investment of over 18%.

It's fair to say that even at this level, if a potential buyer was sourced for the space and a 'good/excellent' yield of 9% was sought by the new buyer then this space would be worth \$60,000 to the new buyer in order achieve the 9% gross yield at a median income of \$5,500.

That would represent a \$30,000 profit for the original investor or 100% return, plus of course the annual yields that will have been collected in the mean time.

It's absolutely not inconceivable to see Dubai come on par with the likes Zurich, Copenhagen and Oslo in the monthly parking cost stakes, especially when you consider it is already at the same level as these cities when comparing 'daily' parking costs and in fact it is already ahead of Zurich in that respect.



Dubai still has huge growth prospects if it is only to just catch up with other 2<sup>nd</sup> tier cities let alone London, Hong Kong and New York. Car park pricing in Dubai is currently severely under valued and under priced.

## Conclusion

When considering a car park investment it's important to draw a distinction between traditional real estate price charts and that of car parking values.

Colliers are one of the world's leading consultancies in real estate, with a global turnover of more than \$1.6 billion and over 12,000 employees, and they provide professional opinion on the car park to real estate comparison.

The USA division of Colliers states that the annual car park survey indicates that despite economic hardship, U.S. parking garage owners and operators have managed to hold rates at last year's levels.

Indeed, despite a loss of six million jobs and a significantly more challenging business environment, few markets have seen a meaningful pullback in parking rates. In fact, Canadian parking costs registered sizeable gains, reflecting a more robust marketplace, also parking rates in regions around the world largely mirrored U.S. pricing trends.

Even though the economy is expected to remain sluggish, and the labour market lacklustre, drivers should not expect this weakness to manifest itself in lower parking rates.

Demand for parking seems to be more recession-proof, and this affords space owners and operators the opportunity to hold prices close to year-ago levels. Moreover, when the economy rebounds, the markedly rising parking rates of years past are expected to return, according to Colliers.

*"However, this year's survey results truly showcase how resilient the parking sector is. We are undergoing an unprecedented time of economic hardship, job loss and contraction in consumer spending. And in the face of such challenges, parking rates nationwide have basically held steady, in many cases posting increases"*

*Ross Moore, executive vice president and director of market research at Colliers International*

With the right car park product, that comes with a strong operator and offers fair management fees in an emerging geographical location – that's where the smart investor will be parking his money.

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