

# Parking Study; An Outline

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## INTRODUCTION

**A**ppraising real estate is by its very nature controversial. An appraisal is an "estimate of value". The Society of Real Estate Appraisers requires its members to subscribe to a code of ethics which states that the "estimate of value must be supportable and defensible," that is, based on factual data taken from the market.

The process of market data gathering, analysis and interpretation can produce many different answers to the same question, and the results can be as varied as the personalities applying the economic principles in order to reach that elusive "estimate of value."

More challenging yet is the appraisal of real estate for eminent domain purposes, where damages to the remainder can be sustained as a result of a partial taking by a public entity: local, state or federal government.

## SCOPE OF A PARKING STUDY – THE PROBLEM

In most road widening projects there are going to be some partial takes of commercial properties that

will sustain either severance damages or consequential damages, or both. "Severance damages cause diminution to the market value of the remainder by reason of the taking, and/or the construction of the improvements in the manner proposed." "Consequential damages arise as a consequence of a taking and/or construction on other lands."<sup>4</sup> For the sake of simplicity we will refer to them as "compensable damages." We know that "consequential damages" tend to be subjective, a source of much controversy and in many states "non-compensable."

Loss in parking, change in grade and loss of access to a property by prospective customers of a commercial business enterprise, arising from a partial taking, are common reasons to seek compensation for damages by both the property owner and the owner of the business.

It is very difficult to ascertain the true consequences of a partial taking on the remainder tract. Quite often, the appraiser, hired by the governmental entity to estimate the damages, has a very different view from the appraiser hired by the property owner, that results in a substantial reduction in compensation due the condemnee, at least in the eyes of the property owner's appraiser.

We all are aware of the complaints by some state legislators against the highway and public transportation authorities about "low compensation" awards based on "biased" appraisal work. We are aware also of the high estimates of value arrived at by property owner's appraisers. In some instances, this can be explained as honest differences of opinion, but in other cases they give the impression that the appraiser is acting more like an advocate for the property owner than as an independent appraiser. In an ef-



fort to alleviate the situation, the Florida Department of Transportation has been hiring independent fee appraisers to do appraisal and appraisal review work, for some time now, and that practice has been extended recently to contract with independent companies to do parking studies in order to help appraisers measure compensable damages and to arrive at a "just compensation."

## METHODOLOGY

Parking is "the area of a facility, such as shopping area, industrial plant, supermarket, used to park automobiles of customers and/or employees."<sup>1</sup>

On-site parking is very important to the economic success of today's commercial properties. Security and convenience determine the optimum placement of such parking spaces. Customers and tenants desire direct and visible routes to stores and offices. Consequently a loss in parking ratios, i.e., number of spaces per 1000 square feet of rentable area, or the realignment of the parking spaces will most likely diminish the value of the properties affected.

There are several factors that can be analyzed to measure that loss in value:

- Rental Rates
- Vacancy Rates
- Tenant Mix
- Highest and Best Use Changes
- Sales and Resales of Competitive Properties.

Although all these factors are closely interrelated, we will analyze them separately to get a deeper and better understanding of the problem.

### RENTAL RATES

A good indication of inadequate parking, as it relates to business, will be the drop in rental rates in comparison with competitive properties that have adequate parking. It is easy to figure out why tenants are not willing to pay market rent for commercial spaces which do not offer their prospective customers the convenience of parking and security of travel to and from the stores or offices. The customer wants to park close to the front doors, and wants to get in and out with ease. In a highly competitive market, business owners are forced to operate on a slim margin of profit. Consequently, for a business to be successful, it must rely on volume. Lack of parking, or parking inconvenience, may render a business enterprise unprofitable. Cutting expenses by lowering the rent will be a good start.

### VACANCY RATES

When a retail business does not have the customer traffic needed to operate at a profit, it may fold outright, or it may have to relocate. Although relocating may be expensive, it may be the only alternative which allows the business to continue operating by either increasing exposure to prospective clients, or by lowering the expense ratio (lower rents included).

It is very important to be able to recognize the reasons for the vacancy rates. A good understanding of the economic principle of supply and demand will help us to determine whether a high vacancy rate is caused by parking or access problems, or is a consequence of an over-built rental market. It will not be proper to blame the inadequate parking for a high vacancy ratio when the typical vacancy for similar properties in the neighborhood is 50 percent due to excess available rental space.

### TENANT MIX

An inspection of a commercial section of a neighborhood where a street widening occurred a couple of years before may reveal no signs of distress in the rental market. Some strip centers may show the effects of the taking in the loss of front parking. Some businesses may have bought adjacent property to accommodate new parking at the rear or on the sides. A rental survey may indicate that some tenants are paying slightly lower rents than the ones occupying competitive space in centers that have adequate parking. But the vacancy ratio may not be any greater than typical for the area.

It is important to find out, by interviewing both the owners and tenants, the different steps that took place from the time an announcement was made that the right of way was coming until the final stages of market stabilization:

- Concern and confusion
- Tenants considering moving to more stable locations

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- Landlords making concessions to retain existing tenants, when construction starts
- Some tenants going out of business, or just moving out to other locations, resulting in higher vacancy rates
- New tenants moving in, in spite of lower parking ratios, or just plain inadequate parking
- Market stabilization: Vacancy rates are typical of the neighborhood, and rents are equal or slightly lower than market.

### HIGHEST AND BEST USE

When the damage caused by the loss in parking cannot be cured by redesigning the parking lot, or by creating new spaces, because there is no property available for that purpose, the **highest and best use** of the remainder property may have to change: A multi-tenant strip center may become a single-tenant business or an owner occupied and operated business. An office or retail center may have to become an office warehouse or just a warehouse.

### SALES/RESALES OF COMPETITIVE PROPERTIES

The ideal situation will allow us to get reliable information about properties that sold before the condemnation process took place and a resale of the same property after the project was finished. We say reliable, because there are too many factors that can cloud the issue, distress sale, renovation or remodeling of the improvements, and any other market conditions that could have an effect in changing values but which are difficult to isolate.

## SUMMARY

From our investigation of several neighborhoods where right of way acquisitions have diminished the number of parking spaces, the following conclusions were reached:

- As the number of parking spaces per square foot of building decreases, the rental rate per square foot of area decreases slightly.
- While vacancy rates may increase in the short term, (during the construction period), over the long term, properties with inadequate parking will lease up. However, it is likely that the tenant mix will change.
- There is an indication that multi-tenant properties may change to a single user or owner occupied business.
- Sales and resales of impacted properties did not provide any meaningful data. Factors such as time adjustments and improvements renovation may have affected the sales price.

### REFERENCES:

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- 4 Federal Highway Administration, National Highway Institute Office of Right of Way: *Uniform Appraisal Standards for Federal Acquisitions*.