



# No Parking!

## Measuring Damages Attributed to Lost Parking

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A common result of a partial acquisition from a commercial property is that the remainder parcel is left with reduced parking. Appraisers are often charged with measuring the damage, if any, to the remainder property. Such an analysis requires the consideration of many factors, including market resistance to reduced parking, potential to create additional parking on the remainder, possible jurisdictional requirements to replace lost landscaping at the expense of even more parking and current improvements representing interim use or highest and best use.

### The Assignment

My company, Associated Value Consultants, Inc., was hired by several owners to appraise their properties that were to be impacted by a street-widening project. The proposed acquisition in this case involved a fee strip along the front of the site. Building setbacks in the study area ranged generally from 5 to 20 feet.

Any strip taking will typically result in a reduced building setback, and this will often impact the on-site parking for the affected properties. However, a comparative study indicated that a building setback did not impact rents or sales prices in the area. Therefore, our study focused solely on the issue of parking.

One of the assignments involved a property where the acquisition would substantially diminish the off-street parking. We needed a basis for estimating the diminution to the remaining property value, if any, which was attributed to reduced parking.

### The Subject Market

The street-widening project for which the acquisition was required was along a portion of Federal Boulevard in Denver, Colorado. The principal arterial in this neighborhood, Federal Boulevard (State Highway 88) extends for twenty miles, north to south, along the west side of the Denver metropolitan area. At the time, roughly 43,000 vehicles a day were using this route.

The area was considered a well-established commercial corridor, comprised of largely homogeneous properties. Building improvements were typically one-story commercial buildings that were 30 to 60 years old. Several properties were single-family units, long-since converted to commercial uses. Some buildings were dated and obsolete, but others received major rehabilitation and a few were removed and replaced with modern structures.

The subject property was typical for the neighborhood, where most properties included land areas of two to six lots (6,250 – 18,750 square feet), and building sizes ranged from about 1,200 to 8,000 square feet. Land value was relatively high and typically represented 40% - 50% of the total property value.

The affected properties included a diverse range of retail uses. In addition to a restaurant, insurance office and beauty salon, other retail establishments included glass stores, auto repair and service, auto accessories and sound system sales, tire sales and gas stations.

These businesses served both local transit-dependent residents, as well as residents throughout the city.

Regardless of the type of business, this particular market accepted a very modest level of finish in commercial buildings. As a result, buildings were easily and commonly converted from one use to another with minimal renovation required to accommodate new tenants.

Because there was no street parking available along Federal Boulevard, vehicle access and parking was especially important to these local businesses. Many curbs cuts allowed direct access to the properties and secondary access through alleys at the rear of the sites. But the sidewalks in this commercial corridor were narrow, and because they were adjacent to the traveled roadway, they were not considered pedestrian-friendly. Not only were the pedestrian crossings limited, they were spaced nearly a half mile apart.

Most of the properties along this corridor had limited off-street parking, and what they did have was typically located at the front of the property. With limited spaces available on side streets, the off-street parking was very valuable to property owners in the neighborhood. Any loss in the number of already limited parking spaces could result in a loss in value to the property.

While a quick glance at the project plans revealed that the subject would lose only three or four parking spaces, in this particular market, that could mean half of their existing spaces, and that would present a problem.

### **Market Norm for Parking**

At certain levels of parking availability, adding or losing a space may have no diminution whatsoever to the remaining property. However, when there are severe space limitations, the property value may be impacted significantly.

For this analysis, the unit of comparison was based on the number of parking spaces relative to the size of the building. The number of parking spaces per 1,000 square feet of building area is referred to as “ppk” and will be used for comparative purposes.

Parking requirements are typically established by city zoning regulations and represent the minimum parking requirements. To establish a starting point, Denver zoning regulations were consulted. Next, the minimum parking requirements were established for developing new commercial property in the B-4 zoned neighborhood.

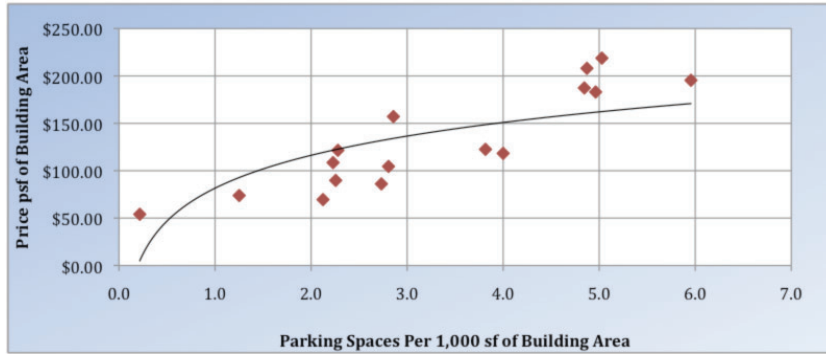
**“...analyses provided evidence of a clear correlation between parking ratios and values.”**

The requirements will usually vary depending on the use of the property. For example, the parking requirements for retail properties are one space per every 200 square feet of gross building area. This equates to 5.0 ppk (1/200 x 1,000). In comparison, the parking requirement for auto repair facilities is one space per 300 square feet of gross building area, or 3.3 ppk. For office use, the requirement is one space per 500 square feet of gross building area, or 2.0 ppk.

Yet, despite the parking requirements established, this particular area was unique. Because the subject neighborhood included a variety of retail, office and service structures, and it was not uncommon for buildings to be converted from one use to another between tenant occupancies, there was no clear trend regarding parking availability and current use. There was therefore no distinction made among the various uses relative to market acceptance of parking.

A sampling of properties in the neighborhood revealed typical parking ratios for existing properties. After eliminating the extremes, most properties had parking ratios between 2.0 and 7.0 ppk. Properties exceeding a parking ratio of 7.0 ppk generally included small buildings or relatively large land areas. A parking ratio of 7.0 ppk clearly exceeded the highest requirement of 5.0 ppk that was established by zoning.

After careful analysis, we concluded that a parking ratio of 5.0 ppk was adequate for any use within that neighborhood, and additional parking beyond 5.0 ppk would not add substantial incremental value. This conclusion was also supported by an analysis of the relationship between ppk and rental rates or sales prices per square foot. In any event, the subject parking ratio was less than 5.0 ppk both before and after the acquisition.



### Parking v. Pricing

This graph shows the relationship between parking spaces per 1,000 square foot of building space and sales price per square foot.

### The Data

In order to analyze the relationship between parking ratios and values, both rental rates and sales prices were measured, relative to the ppk for each property and adjusted for time to the date of valuation. The rental rates were further adjusted for lease terms. Sold or leased properties, which included unusually large or small land or building areas, were eliminated, along with properties with parking ratios that exceeded 6.0 ppk. While many factors influenced rental and sales rates, the comparable data available was filtered to include the most similar 16 rental comparables and 16 sales comparables, which were then plotted on graphs.

This data was not adjusted for noted property differences, such as age, condition, quality or size. If modest judgmental adjustments were made for such elements, the trend lines were not materially affected, but the data are less dispersed. For the purpose of this discussion, the raw data, adjusted only for time and lease terms, is used. The relationships between unit prices and ppk and rental rates and ppk were quite similar, as shown in the two charts.

### The Market Evidence

The graphs illustrate that changes in parking availability have a very similar impact on prices and rental rates. Of particular interest is the consistency of the trend line reflecting the impact on values and rents when the parking ratio falls between 1.0 and 5.0 ppk. These graphs allow the measurement of changes in values and rents as parking ratios are reduced or increased.

The chart below summarizes the observed changes in rental rates and unit prices as ppk is reduced below 5.0.

As parking ratios fall below 5.0 ppk, the diminution in value is measurable.

- When ppk is reduced from 5.0 to 4.0 (a 20% decrease in parking), rental rates decline by 8% and prices decline by 7%.
- When ppk is reduced from 4.0 to 3.0 (a 25% decrease in parking), rental rates decline by 10% and prices decline by 9%. The rate of decline in price and rental rate increases as parking nears zero.
- When the parking ratio is reduced from 5.0 to 1.0 spaces per 1,000 square feet of building area, rental rates are reduced by 49% and the sales unit prices are reduced by 51%.

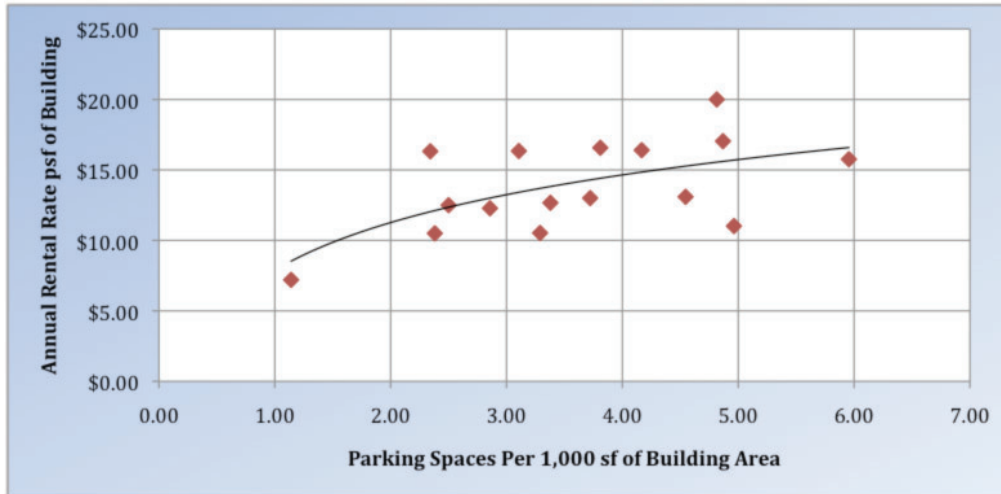
In essence, if a property has less than one parking space per 1,000 square feet of building area, it becomes very difficult to find a tenant. With a reduction in parking from adequate (5.0 ppk) to almost none (1.0 ppk), the indicated diminution in property value is about 50%. With land value representing up to 50% of property value in the neighborhood, this study suggests that the contributory value of the improvements may be reduced to near zero as the number of parking spaces approaches zero. A clear relationship between off-street parking and value is validated by this analysis.

### Anecdotal Evidence

Recently, when faced with very limited parking (1.6 ppk), one of the local property owners within this project area chose to demolish a portion of his building, when the only resulting benefit was to increase off-street parking at his property. His building included both retail and office space with a total building area of 2,527 square feet. By removing the front 417 square feet of the office

### Summary of Parking Space Relationship

Parking Change (ppk)			Rental Rate Change			Unit Price Change		
From	To	%	From	To	%	From	To	%
5.0	4.0	-20%	\$15.80	\$14.60	-8%	\$162	\$150	-7%
4.0	3.0	-25%	\$14.60	\$13.20	-10%	\$150	\$137	-9%
3.0	2.0	-33%	\$13.20	\$11.30	-14%	\$137	\$117	-15%
2.0	1.0	-50%	\$11.30	\$8.00	-29%	\$117	\$80	-32%



## Parking v. Rental Rates

This graph shows the relationship between parking spaces per 1,000 square foot of building space and the rental rate per square foot.

portion of the property, parking was increased from 1.6 ppk to 2.8 ppk.

The loss of 17% of the building area, plus the cost of demolition, was seen as a fair price to pay to increase off-street parking from 1.6 ppk to 2.8 ppk. The owner's opinion that his property value would be enhanced is borne out by the data, which suggests that the unit value of his property may have increased from about \$100 psf for the original 2,527 sf with 1.6 ppk to about \$130 psf for his smaller building of 2,110 sf with 2.8 ppk.

In researching the market data within this particular project area, we had discussions with many property owners, buyers, sellers, tenants and brokers. Almost universally, the topic of parking was prominently mentioned while discussing property attributes. Parking issues in this neighborhood clearly influence decisions regarding purchase, tenancy, renovation and new developments.

## Conclusions

Nearly all of the comparable data reflected parking ratios between 2.0 and 5.0 ppk. The subject property, both before and after the acquisition, also fell within that range.

The data provided a reasonable basis for adjusting comparable sales and comparable rents for differences in parking ratios, both for the larger parcel before and for the remainder property after. The difference between the value of the larger parcel before and the remainder value after represented both the value of the part taken and the damages to the remainder.

The sales data and rental data analyses provided evidence of a clear correlation between parking ratios and values. As parking ratios declined, particularly below 5.0 ppk, a value decline was evident. The credibility of these results is bolstered by the case study wherein a property owner chose to demolish a portion of his building with the sole intent of creating more parking spaces and increasing his overall property value. Discussions with many market participants offered further support to the notion that parking is very important in this neighborhood, and in fact, drives value, to some degree.

It is nearly impossible to isolate the parking ratio as a lone variable to measure the value difference between any two properties. While this data does not provide a perfect fit, the trend lines between prices and rents are quite consistent, and provide persuasive evidence of diminution in value attributed to diminished parking. This type of analysis can provide an appraiser with a reasoned basis for estimating the degree of value diminution attributed to lost parking.



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*With more than 30 years of appraisal experience, Doug is President of Associated Value Consultants, Inc., in Englewood, Colorado, specializing in litigation support. Doug has been a member of the IRWA for 29 years and is a past president of Denver's Chapter 6 and has chaired the International Valuation Committee.*