

Parking and Real Estate Development

What factors influence parking provision?

To: City of Indianapolis to support the American Cities Climate Challenge

From: Urban Land Institute

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Background

How do developers and investors make decisions about the amount of parking to include in projects? Who influences the decision-making process? And how does the growth of new mobility options affect investment in parking infrastructure?

Since the 1940s, cities have required new developments to provide a set number of off-street parking spots, but research has shown that these requirements can lead to an oversupply of parking and increased development and housing costs.

Cities across the United States (and beyond) are eliminating parking minimums and implementing policies to allow shared and unbundled parking. Some

cities are going a step further by establishing parking maximums—limiting the amount of parking allowed in new development projects.

As cities are changing their approaches to parking—with the goals of enhanced quality of life and healthier, more sustainable development—it is important to understand the factors that are involved in decisions about how much parking to include in projects and buildings.

The content below summarizes key findings from initial Urban Land Institute (ULI) research examining the intersection of development, capital markets, underwriting, and parking.

Research Approach

ULI is a 501(c) (3) nonprofit research and education organization supported by its members. Founded in 1936, ULI has more than 46,000 members worldwide, representing the entire spectrum of land use and real estate development disciplines working in private enterprise and public service.

To examine the intersection of development, capital markets, underwriting, and parking, ULI engaged in a variety of research efforts, including:

- Scanning research and news articles related to parking and development;
- Performing a series of interviews with Indianapolis-based developers and capital markets professionals; and,
- Distributing a “parking survey” to ULI Key Leaders—senior-level ULI members experienced in real estate development, investment, lending, and underwriting working across the United States.

Key research questions:

- Other than zoning, what factors do lenders, investors, and/or developers consider when determining the amount of parking to include in projects? Do these factors differ among building type, by location, or by other considerations?
- When determining the amount of parking needed, who are the primary decision-makers?

- Under which circumstances would lenders, investors, and/or developers finance or build a development with no parking? Does the growth of shared mobility, micro-mobility, etc. play a role in decision-making?

Findings—including anonymized quotes, expert opinions, and evidence-based research highlights—are summarized below and provide insights from a limited number of real estate decision-makers. For reference, interview and survey questions are included at the end of this document.

Future ULI research will include additional interviews with members of the development and lending industries and the distribution of the parking survey to other ULI members. This updated research will be shared with the City of Indianapolis and other cities participating in the Climate Challenge.

Findings

1 Developers consider a variety of factors when determining the number of parking spaces to include in projects. Tenant demand is a primary consideration.

Decisions about parking are primarily determined by developers and are based on a combination of factors, including zoning regulations, company philosophy, views on market considerations, and requests by future tenants. Tenant demand appears particularly critical to parking decision-making in multiple markets, including Indianapolis.

Influence of tenants/clients on parking provision decisions:

“No one from the lending community is driving [decisions on parking provision]. It’s all driven by the tenant or client.”

–Developer (all product types); Indianapolis

“Some tenants need 4 spaces per 1,000 square feet, but others want 9 spaces per 1,000 [square feet]. The customer is always right.”

–Developer (all product types); Indianapolis

“[Office] clients are asking for more parking than is required by code.”

–Capital markets/Investments (multiple product types); Indianapolis

Englewood, Colorado TOD

“Englewood, CO’s TOD (Transit-Oriented Development) project was among the first projects in the U.S. to replace an enclosed regional shopping mall with an open air, mixed-use development, and created ‘hybrid-TOD’ that divides the development into zones of TOD and of big box retail.”

Englewood’s TOD area had a peak parking occupancy rate of 58.3%. “Part of this oversupply is a result of negotiations with Wal-Mart, which insisted as a condition of locating there that the residential development be parked at 1.5 spaces per dwelling unit (rather than the 1 space per dwelling unit that the city favored) to prevent residential parking from spilling into the retail lots.”

Source: [Empty Spaces: Real parking needs at five TODs](#); Smart Growth America and University of Utah Department of City & Metropolitan Planning

NAIOP Survey on Tenant Parking Ratio Requests

In 2016, NAIOP, an association focused on commercial real estate, conducted a survey asking suburban office developers, architects, and engineers across the U.S. about their experiences with parking provision. “Nearly 90 percent of developers reported that, within the past 24 months, at least half of all prospective tenants were requesting ratios of more than 4.0/1,000 for suburban offices. Twenty-three percent of developers said potential tenants wanted 6.0/1,000.”

Source: [Are Suburban Office Parking Ratios on the Rise?](#); NAIOP Commercial Real Estate Development Association

2 Lenders and investors have limited influence over parking decisions, yet they are increasingly likely to support projects with lower parking ratios.

Lenders and investors generally do not require developers to build a particular amount of parking—with limited exceptions. While evidence that lenders and investors *control* parking provision decisions is limited, they exercise some influence in certain markets and projects.

As more financially-successful projects are built across the U.S. with limited or no parking, lenders and investors are increasingly likely to fund comparable projects.

Perspectives on parking provision decision-making:

“Lenders and capital partners trust us—they trust our expertise in the markets in which we operate—including on parking. The reality is, once we’re ready for debt and equity [financing], there’s not a whole lot of manipulation that can happen to the plans. We generally will already have our construction documents and the project will be zoned and entitled.”

—Developer (multifamily residential, mixed-use); Indianapolis-based; operates in multiple markets

“Investors have influenced the number of parking spaces included in projects only very slightly...I have not been scored on parking [in project funding applications] to-date that I am aware of.”

—Developer, investor, and leasing broker (office, industrial, and retail); Texas-based; operates in multiple markets

Parking provision is “market driven”. Investors, lenders, underwriters, etc. haven’t influenced the number of parking spaces included in projects. “You have to follow the code and look at what the market demands. If the market does not require parking, we would not build parking.”

—Developer (all product types); operates in multiple markets

Perspectives on lender/investor support for projects with lower parking ratios:

“[We’re] in a very liquid environment from a capital and debt perspective. It’s possible the rhetoric from lenders about parking might change if we have a recession and the market tightens up—but currently lenders can get behind low parking ratios.”

—Developer (multifamily residential, mixed-use); Indianapolis-based; operates in multiple markets

“Lenders can get comfortable with one space per unit in any city or neighborhood.”

—Developer (multifamily residential, mixed-use); Indianapolis-based; operates in multiple markets

“There is an evolution happening with the investment community to accept no parking or low parking...We are seeing parking utilization rates go down in new buildings and technologies like ride share expanding. So, investors are increasingly buying into the story that most people don’t

need parking day to day, especially if they are in an area that is near to transit and where traffic is bad.”

—Will Goodman, vice president, Strada Investment Group; quoted in [Toward Zero Parking: Challenging Conventional Wisdom for Multifamily](#), Urban Land Magazine

“...lenders are starting to understand that in some of the denser, more transit-rich markets there is not as much need for parking. And they know the enormous cost of parking. So there is beginning to be a changing of the status quo...Midwestern cities like Minneapolis are different from denser, more transit-rich cities...There is more need for a car. So, I think there will still be a lot of auto mobility in the future, but many more alternatives to private ownership like Uber and car-sharing services. This will significantly reduce the need for parking.”

—Michael Lander, founder and president, Lander Group; quoted in [Toward Zero Parking: Challenging Conventional Wisdom for Multifamily](#), Urban Land Magazine

3 Views on the return on investment from parking are mixed.

For certain markets and product types, providing as much parking as possible is viewed as a competitive advantage—or necessary for projects to be commercially viable, especially in auto-dependent markets. Multiple interviewees affiliated with office or mixed-use projects in Indianapolis shared that they viewed providing more parking than their competitors as crucial to project success.

At the same time, building parking is expensive and others in the real estate industry are choosing to provide less parking to lower project costs or free up funds to invest in other revenue-generating amenities.

The average cost of building a single surface parking space is between \$5,000 and \$10,000. A structured parking space generally costs around \$25,000, with significantly higher costs in certain cities or for underground parking structures.ⁱ With such significant costs, investments in parking may not provide the best return on investment, especially compared to lower-cost amenities that may be in greater demand.

Perspectives on parking as a competitive advantage:

“From a competition perspective, being able to build more parking is an advantage.”

—Developer (all product types); Indianapolis

“There’s more interest in buildings with a large amount of parking because they provide more options for the tenant base. For example, leasing momentum for a rehabbed professional office building is better than surrounding assets due to the building’s high parking availability.”

—Capital markets/Investments (multiple product types); Indianapolis

“Cars are important in Indianapolis and will be for a long time. Parking is a conversation in every single asset—the more the better.” “Suburban cities are willing to fund TIF bonds to build more parking to get companies to move to those towns—it’s a major incentive, so cities are building it.”

—Capital markets/Investments (multiple product types); Indianapolis

“When developing a project with more parking than required, “...we generally do not pay a premium, but are happy to have the additional land.” “If [we build] less [parking] than code, we would expect a discount related to the leasing risk.”

—Developer, investor, leasing broker (office, industrial, and retail); Texas-based; operates in multiple markets

Perspectives on why parking is unlikely to provide the best return on investment:

“Parking is not the most exciting use. It doesn’t yield the best return on cost. We have to carefully balance the amount of parking to match the market.”

–Developer (multifamily residential, mixed-use); Indianapolis-based; operates in multiple markets

“The idea that parking should naturally come with every development and take up substantial space feels alien for younger demographics—especially millennials who live in urban centers.”

–Market researcher; operates in multiple markets

“More and more frequently, developers are telling us that the difference between a new construction deal working financially or not working comes down to the parking requirement.”

–Greg Willett, chief economic, RealPage; quoted in [Apartment Developers Try to Figure Out the Parking Equation in a World with Fewer Cars](#), National Real Estate Investor.

4 There is widespread—but not universal—belief among the real estate industry that the popularity of new mobility options will lead to projects with less parking.

Many developers and lenders believe that new developments should include less parking due to the availability and popularity of new mobility options, including scooters, bike-sharing, car-sharing, and ride-hailing.

At the same time, the effect of new mobility options on parking demand is not yet fully understood. Some in the real estate industry are reluctant to base parking-provision decisions on new mobility options, especially in the near term. The perspectives of those working in Indianapolis on this topic are mixed.

Perspectives on the effect of new mobility options on parking provision:

“Cars should not be the expectation when ridesharing, biking, scooters, and ride-hailing are much more prevalent...”

–Market researcher; operates in multiple markets

Determining the amount of parking to include in projects is “...usually constrained by outdated city hall requirements that ‘over park’ projects in a world where parking is less desired due to Uber, etc.”

–Developer (multifamily); operates in multiple markets

“We had to get in front of the neighborhood and say that [our project] would not provide enough parking for the next five years, but that [the amount of parking] made sense in the longer term, due to additional transportation options, including, micro-mobility, bikeshare, and car-sharing.”

–Developer (multifamily residential, mixed-use); Indianapolis-based; operates in multiple markets

“If people live about a mile from work, it’s easier to scoot than use a car. [Scooters are a] huge help for connecting neighborhoods near downtown...[but they] won’t impact the amount of parking needed.”

–Capital markets/Investments (multiple product types); Indianapolis

5 There is a tentative openness to building projects with no parking depending on the market, project size, and availability of shared parking options.

Many developers and lenders are open to the idea of building projects with no parking, but only in certain markets and submarkets. There is also an openness to projects with shared parking, but some expressed

concern over not directly controlling parking spaces—even if they were open to projects having off-site parking in existing facilities. The perspectives of those working in Indianapolis on this topic are mixed.

Perspectives on developing projects with no parking:

“We would probably build a project without parking if we could get control of spaces in an existing off-site facility. We built a project adjacent to a large parking garage and it would have made sense to get control of some of those existing spaces, but in that scenario, we wouldn’t have been zoning compliant.”

–Developer (multifamily residential, mixed-use); Indianapolis-based; operates in multiple markets

“Smaller projects downtown can happen without controlling parking if a project is surrounded by parking options—but larger projects downtown still need to control parking. Downtown is under-parked—there are not enough spaces for the number of people working there.”

–Capital markets/Investments (multiple product types); Indianapolis

“A project with no parking would depend on the overall market—would make the most sense in Manhattan or another dense city. Even in downtown Indianapolis, competition is important, and everyone still wants a single-occupant vehicle. This might fade in the next 10 years, but it still won’t be like it is on the coasts.”

–Developer (all product types); Indianapolis

“I would consider sharing parking with a compatible use with offset timing.”

–Developer, investor, leasing broker (office, industrial, and retail); Texas-based; operates in multiple markets

“Shared parking agreements are great options for mixed-use developments. If the development is intended for retail or office use on the first floor, and apartments above, the heavy traffic hours are flipped.”

–Jenny Redlin, principal and relationship manager, Partner Engineering and Science, Inc., quoted in [Apartment Developers Try to Figure Out the Parking Equation in a World with Fewer Cars](#), National Real Estate Investor

ULI Parking Questionnaire

Many cities, developers, and investors are changing their approaches to parking. Through this survey, we aim to learn about how developers and investors make decisions about parking in developments and buildings.

These questions are relevant to developers, investors, lenders, and underwriters. We invite you to fill out this questionnaire today and leave it in the marked box.

Survey results will inform ULI research for the American Cities Climate Challenge—an initiative by Bloomberg Philanthropies that provides support to U.S. cities for policy and practice actions that achieve carbon reduction goals.

We thank you in advance for your time and input. If you have any questions, please contact us at health@uli.org.

Participant Name (optional): _____

Would you be open to ULI contacting you with follow-up questions? Yes No

Please indicate your profession and the primary markets in which you and your company work.

What factors do you consider when determining **the amount of parking** to include in projects you develop and/or underwrite? Do these factors differ among building type, by location, or by other considerations?

When determining the **amount of parking needed**:

- *Developers*- Have investors/lenders/underwriters influenced the number of parking spaces included in your projects? If so, how?
- *Investors/Lenders/Underwriters* - How does parking factor into scoring of project funding applications? Have you required developers to build the maximum number of spaces allowed by code? If so, why?

Have you developed or invested in buildings or developments with **more parking than is required by code** (in places with parking minimums), or **less than the maximum allowed** (in places with parking maximums)? If so, where and why?

Under which circumstances would you finance or build a development with **no parking**? Does the growth of shared mobility, micro-mobility, transportation demand management, etc. play a role in your decision-making?

Resources:

[Apartment Developers Try to Figure Out the Parking Equation in a World with Fewer Cars](#)
National Real Estate Investor

[Are Suburban Office Parking Ratios on the Rise?](#)
NAIOP Commercial Real Estate Development Association

[Empty Spaces: Real parking needs at five TODs](#)
Smart Growth America and University of Utah Department of City & Metropolitan Planning

[Parking Requirements: Falling by the Wayside in Many Cities](#)
National Association of Realtors

[Quantified Parking: Comprehensive Parking Inventories for Five U.S. Cities](#)
Research Institute for Housing America – Mortgage Bankers Association

[Toward Zero Parking: Challenging Conventional Wisdom for Multifamily](#)
Urban Land Magazine

[The Transformation of Parking](#)
National Apartment Association

[The Transportation Revolution: The Impact of Ride-Hailing and Driverless Vehicles on Real Estate](#)
Urban Land Institute and Green Street Advisors

[What's the future of parking for multifamily projects?](#)
Colorado Real Estate Journal

ⁱ <https://www.vtppi.org/tca/tca0504.pdf>