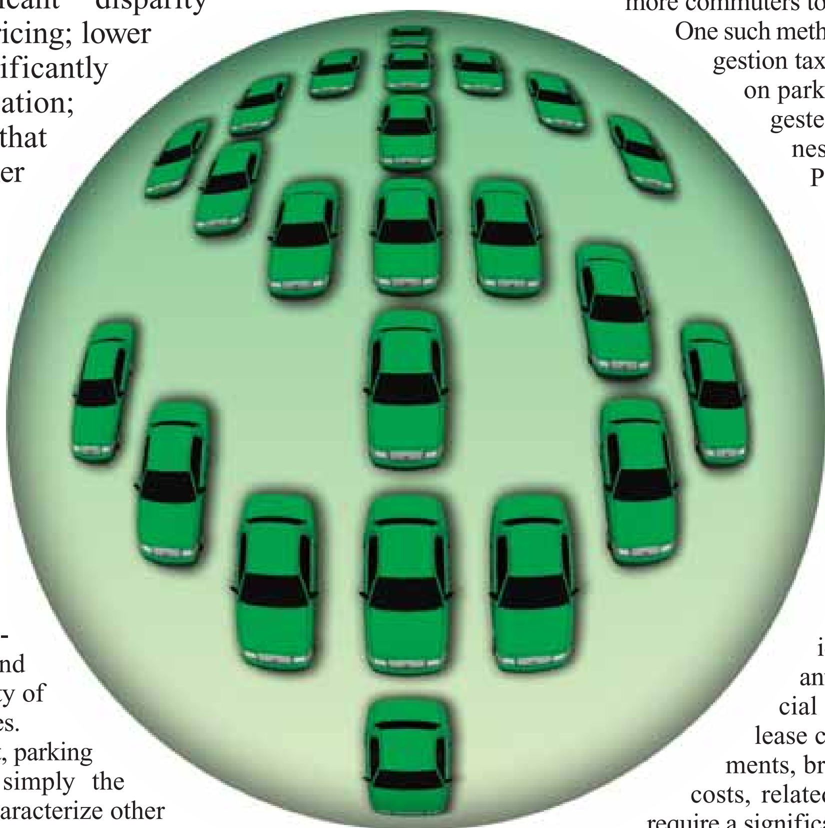
Opportunities Exist in Parking Despite Economy's Challenges

BY ROBERT M. CAPLIN

The upheaval in the credit markets has made investing in parking facilities increasingly more challenging in 2008, just as it has in virtually every other segment of commercial real estate. The changes in the marketplace are manifested as more stringent lending and underwriting criteria; significant disparity between bid and ask pricing; lower LTV requiring significantly greater equity participation; and for acquisitions that move to closing, a higher cost of funds.



In spite of these conditions and the rapidly evolving economic outlook that is as volatile as the stock market, the parking industry presents more than its fair share of opportunities. This is in stark contrast to a variety of other asset classes.

A number of factors and market characteristics allow us to be more optimistic about the short- and long-term economic viability of well-located parking facilities.

Perhaps most important, parking facilities are more than simply the "bricks and mortar" that characterize other property types. A unique and interesting real estate niche, parking operations are hybrids: operating businesses that produce cash flow on a daily basis housed within a real estate asset.

For example, when you invest in an office building with consistently high occupancy levels, there are limited opportunities to increase revenues. The business plan is based on tenant retention and planning for future scheduled lease expirations.

Parking garages are businesses in the traditional sense, rewarding focused management with the ability to impact operations and profitability every day. However, they provide the astute owner or manager with numerous avenues for revenue enhancement by constantly reacting to the market.

Ownership of a parking facility, particularly in downtown markets or adjacent to airports, represents the control of a prime, well-located urban land site. Historically, the parking supply in a healthy central business district is a diminishing commodity, reflecting numerous barriers to entry. This translates into increased opportunity for the remaining properties.

Some cities across the country have restricted construction of any new parking facilities to perimeter locations unless they are "grandfathered" redevelopments, replacing an obsolete facility, or are incorporated within a significant new commercial or residential development.

Other cities may be less direct in their approach to limiting garage construction by creating incentives to encourage more commuters to utilize public transportation. One such method being considered is a congestion tax, applying a surcharge or tax on parking in heavily traveled, congested areas such as central business districts in Chicago, Philadelphia, San Francisco and Boston, among others.

Despite these obstacles, parking has exhibited a certain resiliency not found in other segments of the industry.

When a major office building, for example, loses an anchor tenant, there is an immediate and significant economic impact. It takes a comprehensive modernization program and months of marketing to identify and secure a new tenant. There are additional financial considerations, including lease concessions, tenant improvements, broker commissions and legal costs, related to the lease, all of which require a significant outlay of capital.

Parking facilities tend to be buffered from these sudden changes in the marketplace. Certainly, when a neighboring building loses a significant tenant, there will be a residual impact on surrounding businesses. However, parking-based assets do not face the same costs related to re-tenanting; there are no building improvements to consider, no lawyers involved, and no dependence on the brokerage community to deliver potential users, eliminating commissions. Backfilling empty spaces can be accomplished through an aggressive, targeted, internally driven marketing campaign.

Like any real estate asset class, the financial picture that has evolved throughout much of 2008 has changed acquisition underwriting.

Acknowledging the fluidity of the current debt market as of this printing, an acquisition that would have required 20% to 25% equity participation in early 2008 now requires a 35% to 40% commitment.

Additionally, the cost of this debt has increased significantly.

Early this year, debt was available below 6%, often with several years of interest-only payments. Today, quotes are closer to 8%, often with no interest-only period.

This is not because parking garages are perceived as a riskier investment opportunity today than before. It is reflective of the cautious outlook of those lenders who are still active. The increased cost of money impacts the underlying value of assets, which can be reflected in appraisal valuations. This often results in additional reductions in total loan proceeds leading to additional increases to the equity required to close.

In this challenging environment, there are still opportunities for the perceptive buyer. These potential acquisitions are more difficult and time-consuming to complete than in the past, and maintaining a disciplined investment strategy is essential.

To the industry's credit, we have not seen many distressed sales in the parking world to this point. The profile of a parking facility buyer tends to be different than for other asset classes. Parking buyers are not generally high-leverage buyers. As the financial situation continues to evolve, it is possible there may be greater numbers of distressed sales. The effect on portfolio assets will be specific to market and location.

As long as people have a reason to drive downtown, they will need to park. Traffic levels will depend on how much the consumer (the driving public) is willing to alter his habits. If the price of a gallon of gas surges beyond $3 or $4 a gallon, we are likely to see more people gravitate toward public transportation options and test those alternatives. For some, it will be an easy transition. There is a large segment, however, for whom flexibility and control prevail and keep them back on highways and in parking garages.

Parking has exhibited a certain resiliency not found in other segments of the industry.

Other operational impacts will include how improvement dollars are allocated. Non-essential cosmetic changes to a property may be deferred if they don't immediately translate into maintaining or improving cash flows.

For example, pay-on-foot conversions may increase as owners look to automation to improve cash from operations. For some owners, this can represent a significant capital expense. But even if parking occupancy goes down in the near term, the long-term savings and potential for income growth may be substantial enough to justify the expense of installing automated systems.

Finally, buyers will need to be both disciplined and creative. Sellers have different motivations and needs. Understanding and addressing these issues, particularly in a challenging economic environment, can mean the difference between losing out on an opportunity or making a solid acquisition.

Robert M. Caplin is Principal of Next Parking, a division of Chicago-based Next Realty. He can be reached at rcaplin@nextrealty.com.

PT

Parking Industry Remains Attractive for Investors

BY DUNCAN MURDOCH AND TOBIAS BACHTELER

The current economic and financial market conditions provide challenges to car parking operators, and to potential investors in the parking industry.

A recession of the U.S. economy may impact cash flows in the near-term through office occupancy, travel activity – including airport and off-airport parking – and general economic activity. It is important to understand the impact of these changes.

Even with the recent meaningful reductions of gas prices, driving behaviour and traffic patterns seem to have been altered for the medium-term through the substantial run-up of oil prices earlier this year.

These short-term adjustments and difficulties do not alter the long-term growth trend of the industry. Its essential service nature provides resilience and helps the parking industry weather the current crisis better than others.

Most parking operating businesses are not capital intensive, which reduces the impact of the current difficult credit markets. However, debt is required for acquisitions, real estate deals, development projects and to refinance existing debt.

For companies that are attempting to raise debt in this marketplace, it is important to partner with a financial advisory team capable of navigating through these unprecedented times.

A debt structuring and advisory team should comprise leaders within the debt capital markets who have been successful in sourcing debt from lenders around the world and continues to secure committed debt financing for transactions even through the current economic turmoil.

Since August 2007, Macquarie Capital Advisors' global debt team of 60-plus people has arranged more than U.S. $86 billion of

Continued on Page 30

WHAT HAPPENS TO YOUR PARKING SYSTEMS WHEN THE POWER GOES OUT?

When the power goes out, parking gate controls, revenue systems and security systems are all compromised. Ensure your systems continue to operate during power fluctuations or power outages by using Alpha indoor and outdoor backup power solutions.

To learn more about power solutions for parking, visit *www.alpha.com/parking.*

Alpha - Power when there isn't power.

toll free: 800.667.8743 direct: 604.430.1476

alpha®

Parking Industry Remains Attractive for Investors

from Page 28

debt financing for both its funds and third-party clients.

While it is crucial to analyze current operating performance trends, the circumstances have not closed the window for attractive car parking transactions.

Automobile parking capacity will be the major driving force in the feasibility, design and configuration of buildings…

We at the Macquarie Group (see sidebar) remain firm believers in the attractiveness of the parking industry.

What makes an attractive opportunity from an investor's perspective?

Screening potential acquisition targets requires a case-by-case approach. However, certain central characteristics typically have a meaningful impact on how attractive a particular car parking business is to private investors.

• Demonstrated ability to retain locations and grow the portfolio. The key to the attractive, stable and long-term cash-flows thesis is to demonstrate that the existing portfolio of locations is stable and, ideally, growing. A track record of solid retention rates and new locations may indicate to investors that the business is a reduced risk of material reduction after acquisition. Meaningful market share in any given market provides evidence that operations can be successfully maintained and grown.

• Appropriate balance of leases and management agreements. From an investor perspective, leases are more attractive because they provide longer-term visibility to cash flows, as opposed to the risk of losing a management agreement at short notice. However, it is crucial that leases are structured and priced to fit the local market. A lot of markets and locations provide a higher level of demand risk and lend themselves more to management agreements, where the ability to retain locations over time becomes increasingly important.

• Proven management team. We at the Macquarie Group seek businesses with a proven management team that have created a successful business. Macquarie seeks to partner with existing management to help them further the business.

These are examples of key criteria that the Macquarie Group expects to apply to most car parking companies. We are excited about continuing to invest in and partner with excellent car parking operators.

Duncan Murdoch can be reached at duncan.murdoch@macquarie.com and Tobias Bachteler at tobias.bachteler@macquarie.com in Macquarie's New York office.

PT

The Macquarie Group is a global provider of banking, financial, advisory, investment and funds-management services. Headquartered in Australia, it also is an active and leading financial investor in the car parking industry worldwide.

In 2006, a Macquarie-led consortium purchased Icon Parking, the leading car parking company in Manhattan. Macquarie Infrastructure Co. owns FastTrack, the largest off-airport parking network in the U.S. Another Macquarie-managed fund acquired the largest parking company in the UK, National Car Parks.

The Macquarie Capital Advisors division provides a wide range of financial advisory services, including mergers and acquisitions, equity capital markets, restructurings, project finance, and tailored strategic and financial advice across five offices in the U.S.

Validation: Enemy or Very Wealthy Friend?

Sometimes the parking operator or the facility owner cuts special deals with merchants in the area so that the merchant pays for some or all of the cost of parking. As you know, we call these little deals validations.

When I do audits, I find that this is one area that is typically overlooked or sloughed over by the operations staff and the owners when they look at a monthly report. So let's take a moment and review the bidding …

The validation can take the form of a signature (bad); rubber stamp (bad); peel-off postage-type stamp (better); a peel-off postage-type stamp that is cut so it cannot be removed from the ticket intact (better still); a validation machine that places a numbered stamp on the ticket (even better still); an off-line validator that encodes the validation on the ticket for a machine-readable system (marginally better still); and the best – an online real-time validation system, where the validator in the merchant's store is connected to the revenue control system and the ticket is validated online.

I would guess that half of the validations done worldwide fall in the first two categories. The parker hands his ticket to the merchant, who either signs the ticket (most often done in office buildings) or stamps the ticket with a rubber stamp.

There are two problems with this.

First, you don't get your validation money up front. (Bad)

Second, there is a great possibility of fraud. Unless you have a handwriting expert working for you, there is no reason someone working in the booth can't simply scribble a name on the back of an unvalidated ticket and keep the money.

Signed validations should not be used under any circumstances, even by the CEO or the garage manager.

Rubber stamps are almost as bad. There is nothing keeping a cashier from going to Kinko's and getting a duplicate stamp made. Then they become your partner.

The problem with this: You don't get your validation money up front. (Bad)

Peel-off stamps are a problem in that not only can they be peeled off the stamp book, they can be teased off the ticket and then used again on another ticket. I once discovered a cashier sitting in the storage room (where used tickets are kept) taking stamps off old tickets and putting them in an empty stamp book. No telling how much had been stolen.

You might think this doesn't matter, since the owner has been paid for the validations. Think again. It means that nonvalidated tickets are being processed as validated ones, and the amount of the validation – often the total amount of the all-day ticket – is being stolen.

I'll let you worry your way through the rest of the validation types; just stay away from the three above.

But one helpful hint: Use the stamps that peel off and are self-adhesive. Many people don't like to "lick" stamps, so instead of gluing them on (by licking), they staple them to the ticket or, worse, just hand them to the parker. No security there at all.

A validation can be either time or money. It can be worth, say, one hour, or it can be worth $1. Which is better? For the owner, time; for the parking, money.

Let's say your rate is $1 per hour, maximum $4. That means your ticket maxes out at three hours and one minute. If it has a one-hour validation on it, and the car has been there for five hours, even with the validation the ticket pays $4. You receive $5 ($4 for the ticket and $1 for the validation). If the ticket has a $1 validation, the ticket pays only $3, and you get only $4.

It gets a lot more complicated if you say the validation is valid for only the first two hours. In other words, if the parker stays for one hour and 59 minutes, the validation makes the ticket free. If the parker stays for two hours and one minute, the validation has no value and the parker pays the entire rate. (You get the cost of the validation if you sell them in advance. However, many merchants are becoming wise to this and agree to pay only those that have affected the cost of the parking.)

This type of validation might be used for a restaurant to ensure that the validation isn't used for merchants other than the restaurant.

There are validations that work only at certain times. A restaurant, for instance, may provide validations that work only while it is open. So if a parker stays past a certain hour, or leaves their car overnight and goes home with someone else, when they return the next day, they pay the full rate.

I know a garage in Manhattan that uses its rate structure as a validation. If you come in before 5 p.m. – even one minute – you pay $15 an hour, maximum $45 plus tax. If you enter at 5 p.m. or after, you pay $5 an hour, maximum $20. This was to attract those going to the theater or dinner.

This particular garage was a couple of blocks off Broadway, but it did a land office business after-hours when it would normally have been empty.

Woof!

PT

Product Focus

TALK-A-PHONE

WEBS® Indoor and Outdoor Mass Notification System

Talk-A-Phone Co.'s Wide-Area Emergency Broadcast System (W.E.B.S.") is a family of mass notification devices that can be integrated into a comprehensive emergency communication system. Towers and wall-mounted units can be directly integrated with emergency phones providing two-way communication between security and end users. Indoor and outdoor paging units can augment towers and wall-mounts, or can be installed separately. The wide-array of installation options makes WEBS® a valuable security instrument for parking facilities of all sizes.

For more information on this or any other products from Talk-A-Phone's complete line of Security and Emergency Communications products and services, visit www.talkaphone.com

For more information, contact Talk-A-Phone
tel: 773-539-1100; fax: 773-539-1241
e-mail: info@talkaphone.com
www.talkaphone.com

DEATH BY PARKING – Episode 4 – Stack Parking

Too Many Questions…

BY JVH

Private investigator Paul Manning and his family had a wonderful time at the Hollywood Bowl. But their parking adventure had turned into a nightmare. They were trapped in the Bowl's stack parking lot, and the car behind them wasn't going to move. There was a body in the trunk. Something bothered Paul, beside the fact that his business card was next to the body. That woman looked vaguely familiar. Once back home, he found an envelope lying on his front step. Inside was a picture of the person in the trunk, very much alive, and a note saying that for her release, they wanted $1 million in small bills. As he walked through the front door, the phone rang. It was his wife's brother, Sam. He was crying. "Paul, you have to help me. They have Sarah. They said to call you and you would know what to do." Huh? Who were they? And Sam's wife was JoAnn, so who the heck was Sarah? But I was pretty sure I knew at least where Sarah was – at the Los Angeles County morgue.

Sam and JoAnn lived about 20 minutes away in Encino, a tony part of the San Fernando Valley. They lived "south of the boulevard," which meant their house cost about 50% more than if it were six blocks away "north" of the boulevard. My wife, Shirley, and I made it to Sam's in 12 minutes.

Sam and JoAnn were sitting in the living room. They were both shaken and crying. I hadn't told them about "Sarah's" demise. I thought that news should be delivered in person. But first, I needed to find out what was going on.

"Who is Sarah?" I asked.

Sam collected himself while Shirley took her sister into the bedroom. Shirley was going to break the news about Sarah as gently as she could. I would handle Sam and get the story.

"How did they know where I would be tonight, AND where I would be parking?"

Sarah was a longtime friend of JoAnn's. They met at school back east. Shirley didn't really know Sarah, since she went to a different school and the distances were great, but JoAnn and Sarah were very close. She was the daughter of a multimillionaire from Long Island.

Sarah had come out to L.A. for the first time that week and was staying with Sam and JoAnn. They had been doing the L.A. tourist things, visiting Universal, Hollywood, Beverly Hills and Disneyland.

I asked Sam why Sarah had taken so long to get out to L.A. Sam said she had been married to a fellow from France, and they had been living in Marseilles. They also had been estranged from Sarah's father. He didn't like the marriage, or at least not her husband.

Sarah's husband had passed away about six months ago under what Sam thought were strange circumstances (I would get to that later), and Sarah had begun a reconciliation with her family.

Sarah hadn't been feeling too well and decided that rather than go out on Friday night with Sam and JoAnn, she would stay home. When they returned, they found the front door open and a note on the mantel:

"We have Sarah. Call your brother; he'll know what to do."

I knew the story from there.

I heard a sharp cry and sobbing in the bedroom. I knew that Shirley had delivered the bad news. There is no easy way to tell this story – you use the band-aid technique.

"Sam, Sarah's dead," I said. "We found her body at the Hollywood Bowl tonight."

He dissolved. I knew that Sam was emotional. It was what JoAnn loved about him. He made friends quickly and obviously had with Sarah. He was just a nice man.

I got him a drink from the bar, and he took it in one gulp and held out the glass. I refilled it and he sipped.

"What's going on, Paul? This is just too much. You know all about this stuff. I'm just a high school history teacher. How am I going to call her father?"

I told him the police would do that as soon as I told them who Sarah was. That seemed to calm Sam a bit.

We sat in silence as each of us pondered the situation.

Sam was right. I do sort of know about this stuff, and one thing for sure, it wasn't pretty and was going to get much worse before it got better.

I told Sam I had to call the LAPD and fill them in on what I had learned. He gave me Sarah's contact details and her father's name.

I phoned LAPD Capt. Bill Vose and filled him in. We chatted about the case for a few minutes, and a thought began forming in my mind.

"This really doesn't make any sense. Why would they kill Sarah if they were going to ransom her? I'm thinking the shooting was an accident, but I have a bigger question," I said to Bill.

"How did they know so much about me that they knew not only where I would be tonight, but where I would be parking? They parked that car so it blocked mine.

"But the biggest question is this: How is it that I parked in virtually the only spot at the Bowl that could be blocked by a single car behind me?"

To be continued …

PT

PT Blog

JVH comments on Parking News every day at PT Blog – log on at www.parkingtoday.com. Each month, there are at least 40 other comments like these, posted daily.

'Mom and Pop'

I ran into Steve Haralambiew from Datapark at the Parking Association of Australia convention in Melbourne. He was there supporting one of his various companies. I have known Steve for decades, but this was the first time we actually took the time to talk.

He was regaling me with a concern he has for smaller "mom and pop" parking operators and their liability in dealing with PCI compliance.

For you who don't track the latest impending disaster to overwhelm your industry, here's the story. Visa and the rest of the credit card companies are concerned about security. So they have set up rules that a company that takes their cards must follow or be liable for losses, which could amount to millions. Fair enough – you follow a few rules, and you are not in trouble. Not so fast!

Not only must the equipment you buy be certified as meeting Payment Card Industry requirements (there are companies that do nothing but certify hardware and software), but your "systems" – your back office, the way you deal with credit card information you collect – must also meet their requirements. So just because your equipment supplier is certified, that doesn't mean you are. See the problem?

Steve's issue is that the "big boys," as he put it, the Standards, Centrals, Imparks and the like, can afford to have whole departments that do nothing but ensure that their locations meet PCI requirements. However, the little guys, the "mom and pop" operations, simply don't have the resources to make these changes happen. He's concerned that these smaller companies may get "rolled over" by the credit card companies and be put at risk.

It's something to think about. How do small companies allocate resources so they can protect themselves against huge entities like Visa?

Steve noted that the rumors in the marketplace are that the credit card companies may be offering bounties to people who find problems in parking (or other) operations. He said he had heard there are firms that make it a point to "research" operations and if they find issues, turn them in. Now that's scary.

As an aside, consider this problem: A small operator notes that their revenue control equipment is not PCI compliant. They are told that to upgrade would mean replacing the entire system. Now what? They go to their owner with the bad news, but the owner doesn't want to hear it. This puts the operator in a very tenuous position.

Solution anyone?

'Drunk Runs' on Campus

One of the parking and transportation managers for a major university is beginning a late-night bus service. She was noting that it will most likely turn into a "drunk run" and was asking if there are any ideas for fine-tuning the program to run on a specific schedule or make it an "on call" service.

When discussions like this come up, I always think of "in *loco parentis" – in place of the parent. Just how much responsibility does a university have in replacing the parenting that ends the moment the their car disappears around the corner from the dorm at the beginning of freshman year? Personally, I think that turning most 18-year-olds loose by themselves with no supervision is looking for disaster. Sure, you parents watched over them every moment they were in high school, but now they are on their own with siren calls of parties, beer busts, and good-looking young men and women. Wow!*

Most schools now have boys and girls (men and women) living on the same floors in the dorms. "Lockout," where if you didn't get back to the dorm by a certain time, you were locked out until morning (this gave everyone an excuse to get home) is a thing of the past. And the social pressure of keeping the drunks in a few "well known" frats and the glare of house mothers that could stop a fullback in full gallop are, too, gone with the buggy whip.

Now we are thinking it's a good thing to provide a bus service for drunks. Or the late- night bus service just becomes, by definition, a bus service for drunks.

Granted, when I was in school, Darwin was writing his books and some of the pets were baby T-rexes, but I don't remember the binge drinking and the social disasters we see today. Sure, there were parties. But most of them were more legend than fact. Our practical jokes amounted to rerouting Sunset Boulevard through the campus on Friday night or painting Tommy Trojan at USC a nice bright shade of blue and gold. No harm, no foul. There was a group of crazies, and the rest of us just made sure that they were "over there" and we were "over here."

You got drunk once, got very sick, and then didn't do it again. Now it seems a way of life.

OK, sermon over – but what is the responsibility of the university? Here's what I think, for what it's worth. Boys and girls on campus should live on separate floors, if not separate wings, if not separate dorms. The opposite sex should be allowed on their floors between 2 and 4 p.m. on Sunday, with mucho supervision. Binge drinking should not be tolerated. Period.

Hey, by the time you students are juniors or above, get a part-time job, get a roommate and get an apartment if you don't like the dorm. At least by then you have grown up a bit and have some guidelines to keep within. Of course, you will stray from time to time. But at least you know when you have strayed and where to return after you wise up.

As for the drunk runs, I would run scheduled buses for people who need to ride them. If a drunk gets on and as long as they are civil, so be it. If they create a scene call a cop.

Just sayin'…

You could have read these entries when they were originally posted at Parking Today's Blog – and commented, if you liked – by logging on to www.parkingtoday.com and clicking on "blog." JVH updates the blog almost every day.

PT