

LOSS IN VALUE DUE TO INADEQUATE PARKING

by Tom J. Keith, MAI

The value of retail and office buildings is greatly affected by the available land area to accommodate adequate parking for the customers and patrons doing business with the occupants of an office or retail building. If there is inadequate parking, the occupants of the building may not be able to compete with other office and retail buildings in the market area which have adequate parking.

With the advent of shopping centers in the 1950's, adequate land area for customer parking was easily achieved because many of the centers were located in the outlying areas of the central business districts (CBD) of the cities. Many national chains and the local businesses had been plagued by inadequate parking in many of the central business districts and the shopping center concept with more plentiful parking was a great improvement. Customers could find parking any time at a shopping center without having to "circle the block" several times as had been the case in the CBD.

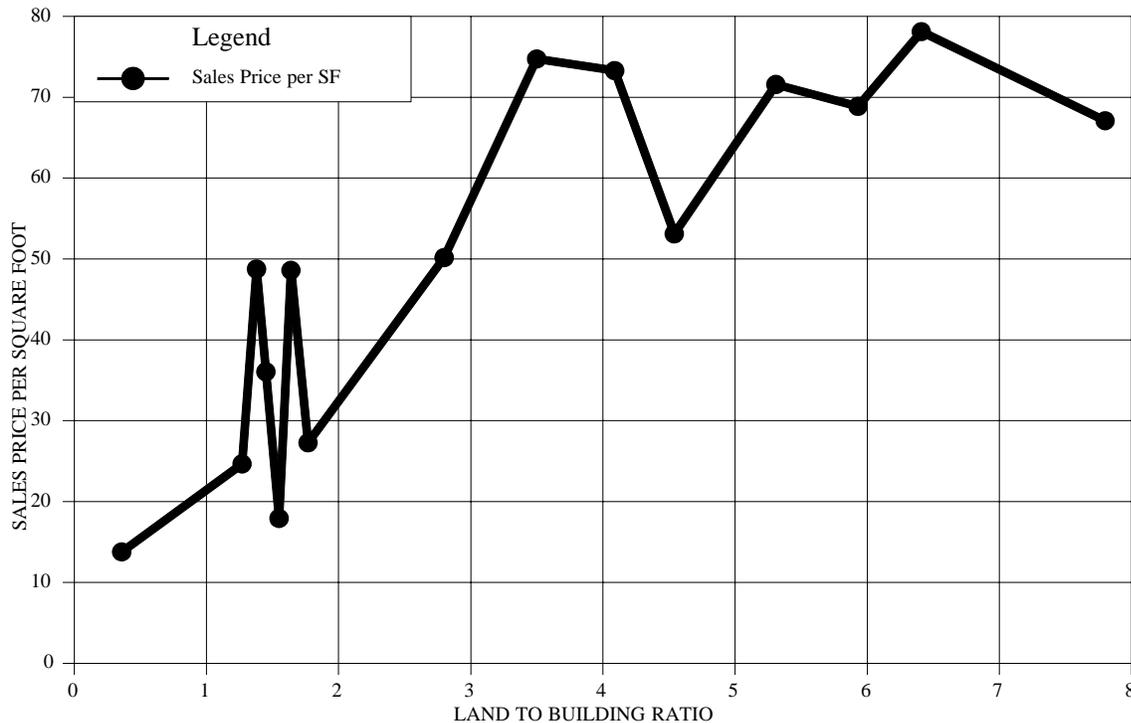
What then is adequate parking? The Urban Land Institute conducted a study in the mid 1980's and found that if a shopping center had 4.85 times as much land area as building area, then the shopping center could accommodate the peak holiday shopping during Thanksgiving and Christmas when the merchants make up to 50% of their profit for the year. If a business can not accommodate its customers during that time, then the property may not have adequate parking and the property may suffer from obsolescence. Other studies have been done which show a need of 5 parking spaces for every 1,000 square feet of building area. The local zoning ordinance may require one parking space for each 200 to 300 square feet of office or retail space.

Different retail and office uses may have different requirements for parking. For instance, a grocery store may require the greatest amount of parking because the business is a high volume low margin business and the customers shop at the store for an hour or more. A movie theater may also require a parking lot to accommodate patrons for two hours or more. On the other hand a bank, insurance, or appraisal office may require less parking since patrons of these businesses may be able to use a drive thru window or conduct most of their business over the telephone. A retail building or office building may not be suitable for one type of use, but may be quite suitable for another type. How then, do we have loss in value if a property with very little parking can be used for a bank, insurance, or appraisal office? There is a market for these properties.

From the research of market data, no loss in value due to inadequate land area for parking appears to exist for properties with a land to building ratio greater

than 3:1. This ratio means that the property would have three times as much land area as building area. For instance a building with 5,000 square feet would need 15,000 square feet to have a 3:1 land to building ratio. This does not mean that a property with a 3:1 land to building ratio would be suited for a competitive grocery store but the market may find another use such as for a

LAND TO BUILDING RATIO vs SALES PRICE PER SQUARE FOOT



bank service center not requiring as much customer parking. The previous chart is developed from actual sales of office and retail buildings. Their land to building ratio is compared with their sales price per square foot. All sales included in the study have been adjusted for time of sale and age/condition. You will note that the optimum is reached when the land to building ratio is about 3:1 and that buildings with a land to building ratio of less than 3:1 suffer significant loss in value. Ratios greater than 3:1 have little, if any, affect upon value. For instance a building with a land to building ratio

of 2:1 sells for about \$33.00/SF compared to about \$70/sf for a building with a land to building ratio of 4:1. This represents a 53% loss in value. A building with a 1:1 ratio suffers a 69% loss in value.

Once the land to building ratio reaches 3:1, the value tends to "level out" indicating no apparent loss in value.