

# Parking System Monetization

## What it Is and What it Isn't

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# Agenda

- Definitions
- Who, How, When and Why
- Questions

# Definitions

- Parking System
  - An integrated group or portfolio comprised of parking infrastructure (assets)
- Monetization
  - To convert into money

# Definitions

- Net Operating Income (NOI)
  - NOI is gross revenue minus expenses and prior to debt
- Net Present Value
  - The difference between the present value of cash inflows and the present value of cash outflows. NPV compares the value of a dollar today to the value of that same dollar in the future, taking inflation and returns into account.
- Discount rate
  - For our purposes, the discount rate is used in the NPV calculation to assign risk and is initially zero or the Federal funds rate plus level of certainty or risk that the investment will meet the projected levels. Ranges from 2.5% to double digits.
- Defeasance
  - A provision that voids a bond or loan when the borrower sets aside cash or bonds sufficient enough to service the borrower's debt. Also called “defease”.

# Definitions

	2010	2015	2020	2025	2030
Growth		4.0%	4.0%	4.0%	4.0%
<b>REVENUE</b>					
Garages	\$2,000,000	\$2,433,306	\$2,960,489	\$3,601,887	\$4,382,246
Lots	\$800,000	\$973,322	\$1,184,195	\$1,440,755	\$1,752,899
On-Street	<u>\$1,200,000</u>	<u>\$1,459,983</u>	<u>\$1,776,293</u>	<u>\$2,161,132</u>	<u>\$2,629,348</u>
<b>Total</b>	<b>\$4,000,000</b>	<b>\$4,866,612</b>	<b>\$5,920,977</b>	<b>\$7,203,774</b>	<b>\$8,764,493</b>
<b>EXPENSES</b>					
Inflation		2.5%	2.5%	2.5%	2.5%
M&O	\$1,600,000	\$1,810,253	\$2,048,135	\$2,317,277	\$2,621,786
Other	\$250,000	\$282,852	\$320,021	\$362,075	\$409,654
CapEx	<u>\$500,000</u>	<u>\$565,704</u>	<u>\$640,042</u>	<u>\$724,149</u>	<u>\$819,308</u>
<b>Total</b>	<b>\$2,350,000</b>	<b>\$2,658,809</b>	<b>\$3,008,199</b>	<b>\$3,403,501</b>	<b>\$3,850,749</b>
<b>NOI</b>	<b>\$1,650,000</b>	<b>\$2,207,802</b>	<b>\$2,912,778</b>	<b>\$3,800,273</b>	<b>\$4,913,744</b>
	<b>ALT 1</b>	<b>ALT 2</b>	<b>ALT 3</b>		
DISCOUNT RATE	4%	9%	15%		
NPV	\$39,574,820	\$23,944,054	\$14,838,662		
CAP RATE	4%	7%	11%		

# Definitions

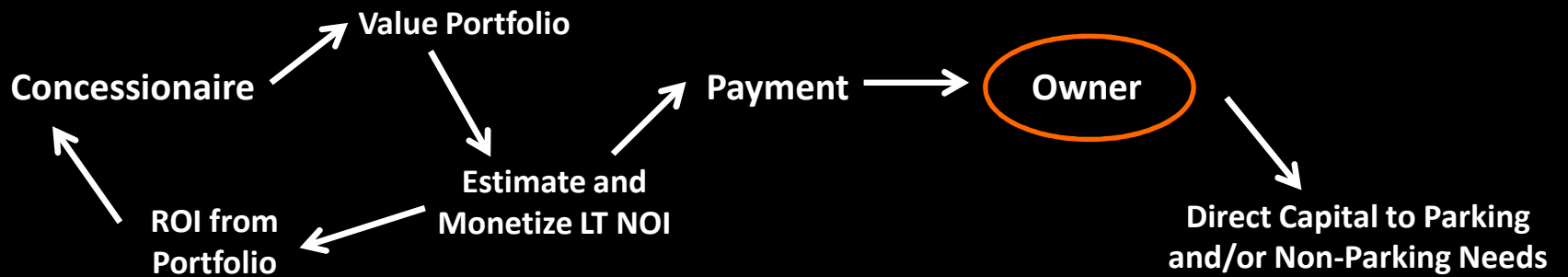
- Privatization
  - The transfer of ownership of property or businesses from a government to a privately owned entity.
- Leaseback
  - An arrangement where the seller of an asset leases back the same asset from the purchaser.
  - The lessor benefits in that they will receive stable payments for a specified period of time. Also known as a "sale and leaseback."
  - The lease arrangement is made immediately after the sale of the asset with the amount of the payments and the time period specified.
  - A leaseback arrangement is useful when companies need to untie the cash invested in an asset for other investments, but the asset is still needed in order to operate. Leaseback deals can also provide the seller with additional tax deductions.

# Definitions

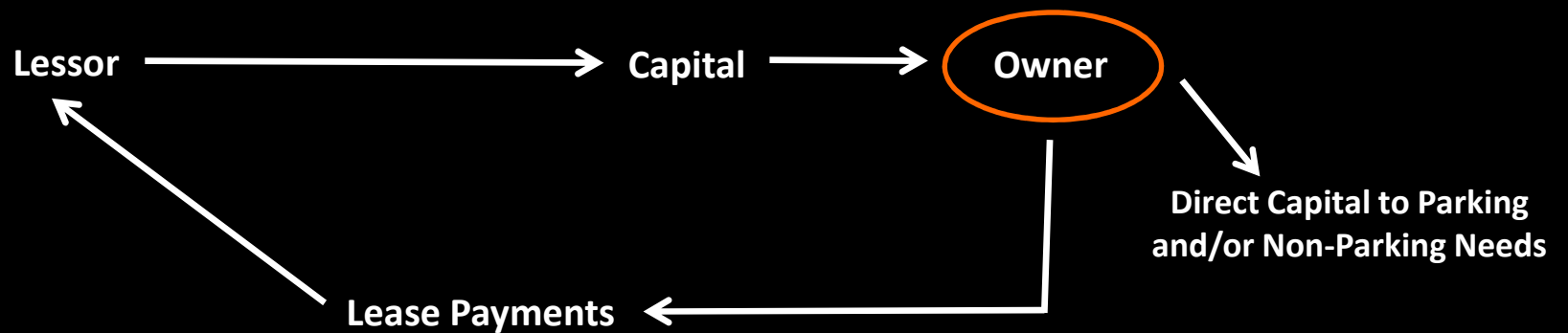
- Concession

- A concession is a business operated under a contract or license with a degree of exclusivity within a certain geographical area.
- A concession involves the transfer to the concessionaire, by the entity, the right to use some existing infrastructure required to carry out a business (such as a water supply or parking system in a city).
- A price is determined and paid for the concession by the concessionaire.

# Definitions



Parking Concession



Sale Leaseback

# Parking Monetization

Doesn't really matter what you use; its about:

- Shifting risk;
- Working with a monopoly; and
- Covering your assets.

1. Who – is a candidate for monetization?
2. How - do I value my system?
3. When - does parking monetization make sense?
4. Why – monetization and rather than standard financial models?

# 1. Who is a Candidate?

- Investment Grade Asset Characteristics

1. Infrastructure assets generate a fairly consistent cash flow that generally grows with inflation
2. The cash flow is derived from daily transactions from selling essential everyday services to businesses and individuals
3. There are long-term barriers to entry (upfront capital investment, land availability, regulations) that provide a measure of security that the current supply/demand environment will remain stable providing a measure of asset protection.

# 1. Who is a Candidate?

- How Does Parking Measure Up?

Quality CBD, medical, higher ed, transit and airport parking assets share the following characteristics of infrastructure

1. Consistent Cash Flow

- Parking rates and operating costs generally track inflation which yields a predictable long term NOI

2. Essential Services

- In the United States, private vehicles account for 90% of all trips

3. Barriers to Entry

- Real estate availability, construction costs, competing higher land use development opportunities and regulatory barriers generally provide a consistent long term supply/demand environment.

# 1. Who is a Candidate?

- Need to Generate Capital
  - Public Sector - raise taxes and issue tax exempt bonds
  - Authorities/institutions - User fees and debt
  - Investments in parking (new construction or renovation) take resources away from other core priorities such as education, police/fire safety, medical care.

## 2. How Do I Value My Assets?

- Bonds and associated caveats are defeased for the portfolio
- Concession is granted to operate the portfolio
- The right for the concession is based on, in part, monetization of the portfolio assets
- Constraints and operating parameters
  - Non-Compete
  - Rates
  - Operating standards
  - Revenue sharing

## 2. How Do I Value My Assets?

- NPV
  - A garage or lot is worth the value of the revenue stream
  - Not as real estate (can be a one-off deal)
  - Design a financial model taking into NPV, debt, risk, and other factors

### 3. When Does Parking Monetization Make Sense?

- Today's Climate
  - By 2011, our nation's 50 states will be facing a combined fiscal deficit of \$350 billion
  - Limited resources from Federal Government
  - Continued reluctance by elected officials to tax/spend
  - Momentum is building towards greater use of private sector funding and operation of public infrastructure, including parking assets
  - Successful European and Asian models; success of Chicago parking concessions, Chicago Skyway, Denver/D.C. beltways, Indiana toll road transactions

### 3. When Does Parking Monetization Make Sense?

- New Parking Infrastructure Investments
  - Public Private Partnerships (3P) – release the embedded equity value inside non-core assets to be reinvested
  - Shift risk and resource requirement to the private sector
  - Government and institutions transition from day-to-day management to Chairman of the Board role using operating standards to achieve service objectives

### 3. When Does Parking Monetization Make Sense?

- A Matter of Goals and Objectives
  - Parking Services versus
  - Political/Budget Realities
- If You can Live with Constraints and Limitations then You have Unlimited Use of Funds
  - May be at a loss of control
  - May have unforeseen consequences such as impact on redevelopment
- When You Can't Do It Yourself
  - Miami
  - Pittsburgh
  - Harrisburg
  - Chicago

## 4. Why Monetization vs Standard Financial Models?

- When the political environment dictates that it's beneficial to lever the parking system to obtain cash, at a higher cost, for non-parking uses.
- When an owner has either limited or self-imposed capacity to issue bonds.
- When the use of funds needs to be unconstrained.
- To-date this has been rare. However, future budget crises may dictate this approach as a last resort to fill holes in budget such as unfunded pension obligations.

# Questions.....

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