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About Real Estate
Parking Lots Are Drawing Speculators, Not Just Cars

By MARK McCAIN

What parking lots lack in prestige, they make up for in potential — which is why real estate speculators continue to be enamored of them.

Overnight, parked cars can give way to backhoes and bulldozers, preparing the way for an office or apartment tower. Of course a parking lot may sit for decades without development pressures pushing up its value, but astute parking companies often do better selling land than parking cars.

Kinney Systems, a Manhattan-based parking company that went private in a leveraged buyout last year, put seven sites up for sale in August to raise about \$12 million. The bids were so high that the company decided to sell only four sites — two in Philadelphia and two in New York.

"When any parking lot or garage comes on the market, there's almost a feeding frenzy among a pool of real estate investors who have tremendous amounts of cash," said Robert A. Knakel, an investment property specialist at Coldwell Banker Commercial Real Estate Services, a Manhattan brokerage firm, which sold the Kinney properties. "In seven weeks we had 702 inquiries — a huge number when you consider that a typical investment property generates about 20 inquiries a week."

Lately institutional investors have begun to bid against speculators and developers. LaSalle Partners, a realty consulting firm based in Chicago, raised about \$50 million last summer from nine pension funds to buy parking lots and garages in major cities. In a similar venture LaSalle invested about \$13 million in parking properties three years ago.

"We bought a garage at 320 North LaSalle Street from the City of Chicago," said Bert Meers, a vice president of LaSalle, "when conventional wisdom said development wouldn't go north of the river. But it has — and now everyone asks us, 'How did you steal that property?'"

LaSalle paid \$8.1 million for the four-story garage, which stands on more than an acre of land and could be replaced by a skyscraper containing more floor space than the Chrysler Building in Manhattan. The garage will be put back on the market shortly, and Mr. Meers expects the sale price to exceed \$30 million.

"Of course, the risk was we might have been dead wrong about the area," he said. "That's why we try to pay as close to a property's current-use value as possible. If six or seven years later a site has no development

potential, we can at least sell it for its income stream and get out alive."

Usually, however, a parking lot or garage that holds even a glimmer of development potential sells for well above its current-use value. "So parking operators really can't bid against the speculators," said Mr. Knakel of Coldwell Banker. "An operator has to make financial sense of the property as a place to park cars. But a speculator can live with a 4 or 5 percent return on his money because that's more than he'd get from a vacant piece of property."

Like most investors, the LaSalle group hires a parking company to manage each of its sites until the bulldozers move in. "Parking is a cash business," Mr. Meers said, "so the key to the short-term side of this business is to find good operators." He added that "some of them just aren't as professional as others, and quite a few operators have prospered handsomely" by selling real estate holdings and favorable long-term leases.

After Lawrence and Melvin Friedland, two Manhattan real estate investors, bought one of Kinney's parking lots a few weeks ago, they turned around and hired Kinney to manage it on a month-to-month basis.

Kinney received \$1.8 million for the 60-by-100-foot site, on West 47th Street near Broadway, even though a substantial share of the development rights had been previously transferred to a 1.2-million-square-foot office tower that Salomon Equities is building directly east on the corner.

In Jamaica, Queens, across from the State Supreme Court on Sutphin Boulevard, Kinney has signed a contract to sell a 100-by-100-foot lot to a developer who envisions a three-story retail center on the asphalt site.

"Going way back, parking companies were an effective economic method to warehouse investment properties," said Andrew N. Heine, Kinney's chairman. "For us, and a lot of our competitors, that's still the case today."

"We analyze all of our properties to see when they're worth substantially more as real estate plays rather than parking lots or garages."

Although Kinney operates about 375 parking facilities across the country, it owns the land beneath barely a dozen of them. The rest are leased or under management contract.

"A lot of parking operators have come to realize that real estate transactions are the key to much of their success," said Paul J. Massey Jr. of Coldwell Banker.