

THOUGHT LEADERSHIP SERIES

# PAID PARKING ARRIVES IN TYSONS

## How are Owners and Tenants Reacting?



Newmark  
Knight Frank

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# Fee-Based Parking is the Latest Change in a Rapidly Evolving Submarket

Tysons, once a rural intersection anchored by a regional shopping center, has grown into the 12th-largest employment center in the United States, encompassing over 28 million square feet of office space. Fairfax County officials have long sought to transform Tysons from a car-focused, suburban crossroads into a dense, walkable and urban agglomeration. One result of Tysons' shift from a collection of office parks into a city of its own right has been an increased demand for parking. While historically Tysons office owners included free parking as part of tenant packages, recent changes within the Tysons submarket, in particular the opening of Metro's Silver Line, have increased demand for office space in the submarket. This increased demand for office space has made parking more valuable – even with the Silver Line offering some commuters a viable alternative to driving – and allowed asset owners to begin charging tenants per parking space. With these major changes in mind, it is important to determine the effect introducing paid parking is having on Tysons. How much does parking cost tenants? How are tenants and owners reacting to the changes? Lastly, how do parking fees in Tysons match up with other nearby submarkets, such as the Rosslyn-Ballston Corridor?

Fee-based parking allowances are commonplace in office submarkets within the District's downtown core, and in denser suburban markets like Bethesda or the Rosslyn-Ballston Corridor. However, further west in Fairfax County, charging tenants to park is a new concept not immune to controversy. The well-publicized lawsuit emanating from the introduction of paid parking at Reston Town Center comes to mind. Owner Boston Properties began charging patrons of the mixed-use town center after offering free parking for 26 years. While intended to deter park-and-ride commuters from using garages to access Metro's nearby Wiehle-Reston station, the switch to paid parking has hurt retailers' business at Reston Town Center and ultimately led to a lawsuit filed against Boston Properties. In response to the backlash, Boston Properties ended up modifying the parking fee structure to allow for free parking after 5 PM. What makes the Tysons paid parking situation different is that the Reston Town Center lawsuit related to retail customers no longer being able to park for free. Charging office tenants for parking is a less drastic change, as it is much less likely to affect office tenants' business and tenants may be able to pass the cost on to employees who drive to work. Additionally, many owners in Tysons offer an initial abatement of parking costs, sometimes as much as three or four years. For these reasons, it appears that thus far, introducing paid parking in Tysons has been much less controversial.



## 21 OF 40

COMPETITIVE CLASS A PROPERTIES  
IN TYSONS CHARGE FOR PARKING

THE OVERALL AVERAGE COST  
PER SPACE IN TYSONS IS

## \$99/MO

THE TROPHY AVERAGE COST  
PER SPACE IN TYSONS IS

## \$108/MO

THE CLASS A AVERAGE COST  
PER SPACE IN TYSONS IS

## \$90/MO

TYSONS' OVERALL AVERAGE  
PARKING RATIO IS

## 3.3/1,000 SF

WITH TROPHY ASSETS TENDING TO HAVE  
LOWER PARKING RATIOS AND CLASS B  
ASSETS HAVING HIGHER PARKING RATIOS

PROJECTED PEAK IN TYSONS  
MONTHLY PARKING COSTS:

## \$125-\$130/MO

(UNRESERVED)

# What is the Cost for Office Tenants to Park in Tysons Today?

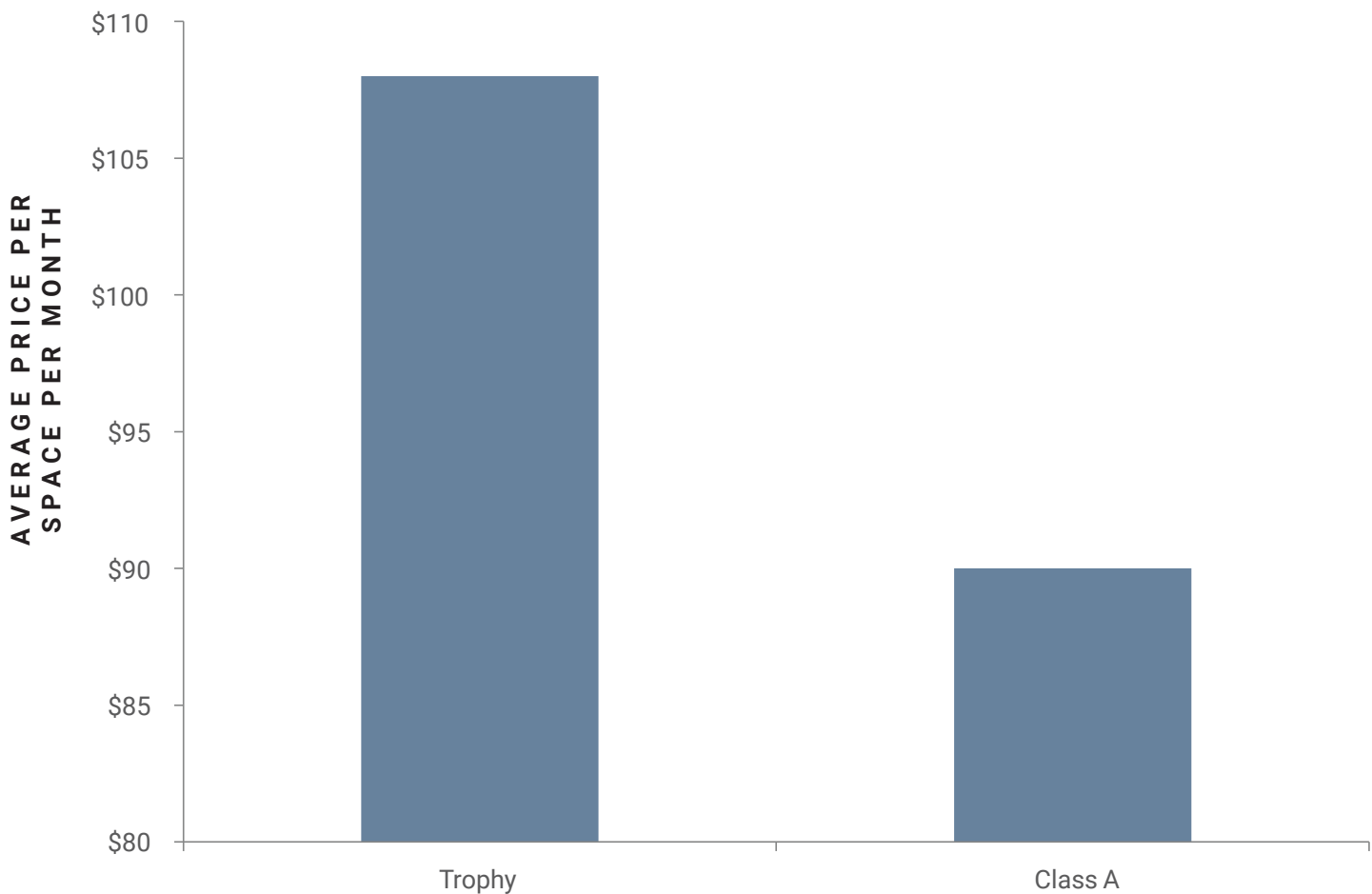
In analyzing a data set of 53 competitive Class A and Trophy properties in Tysons, 34 buildings, or 64%, charge for parking. Across all Tysons properties that currently charge for parking, the average monthly cost per space is \$99/month. As of year-end 2017, most assets defined as Trophy-class charge tenants a monthly rate for unreserved parking, with about half offering reserved spaces. The average monthly cost per space for Trophy assets in Tysons, including both reserved and unreserved spaces, is \$108/month.

Tysons Class A properties have not universally embraced paid parking, but many asset owners have sought to monetize their garages, especially as properties undergo renovations in order to remain competitive. For Class A assets, the average monthly cost per space as of year-end 2017, including both reserved and unreserved spaces, is \$90/month. However, 19 out of 40 Class A properties in the competitive set do not currently charge tenants for parking.

Assets defined as Class B have not yet seen the introduction of paid parking, though it is worth noting that many Class B Tysons assets are located on the fringes of the submarket—far from Metro and a walkable amenity base.

## PARKING COSTS COMMENSURATE WITH ASSET CLASS

AVERAGE PARKING COSTS: CLASS A AND TROPHY ASSETS  
TYSONS SUBMARKET: YEAR-END 2017



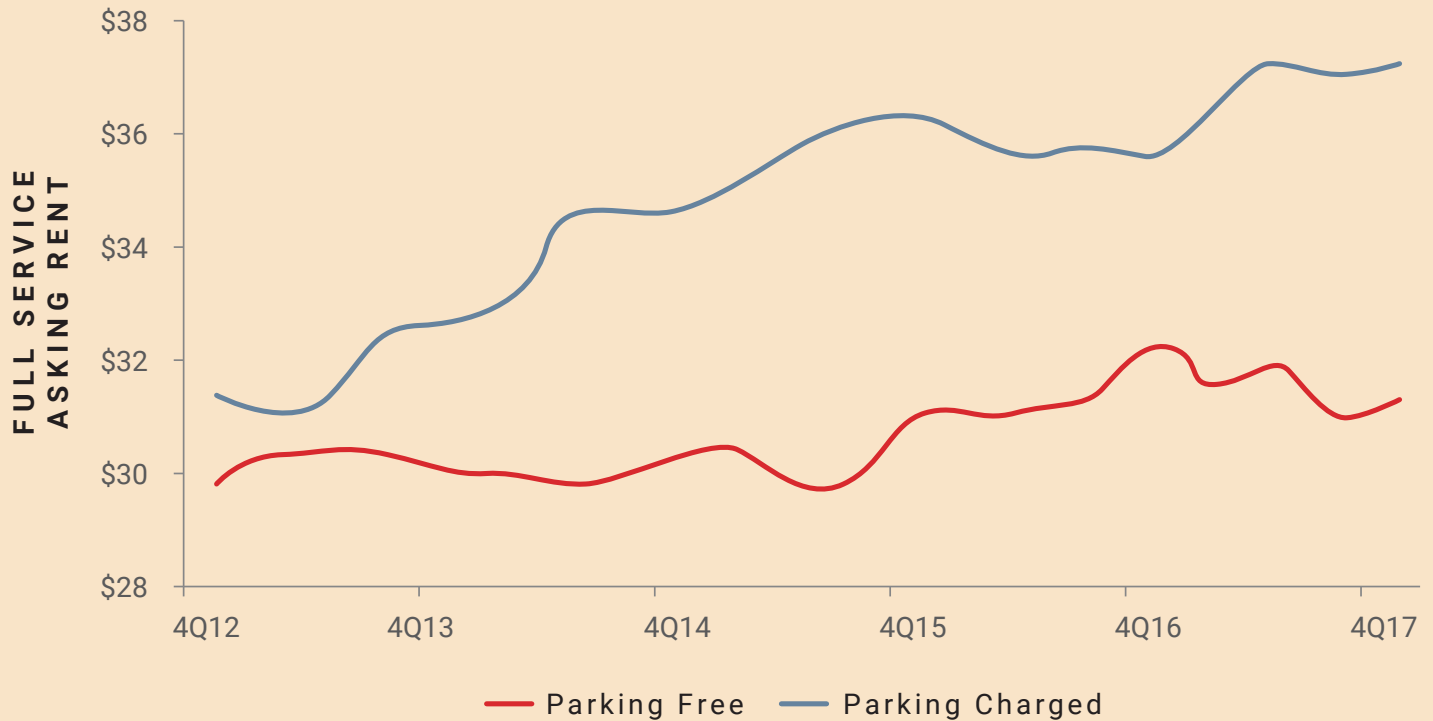
Source: NKF Research; February 2018



## CHARGED PARKING ASSETS COMMAND HIGHER RENTS

CLASS A OFFICE ASKING RENT: FREE VS. CHARGED PARKING

TYSONS SUBMARKET: 2012- 2017



Source: NKF Research; February 2018

In looking at Tysons' competitive Class A properties, there is a gap in asking rents between properties that charge tenants for parking versus those that offer free parking. Average asking rents for both subsets of Class A properties were similar through the third quarter of 2013—about one year before service began on Metro's Silver Line. From then through year-end 2017, average asking rents for Tysons properties that charge tenants for parking rose rapidly, at one point outpacing average rents for properties offering free parking by more than \$6.00/SF in the third quarter of 2015. As of the fourth quarter of 2017, the average asking rent gap is \$5.95/SF. This gap can be explained by examining the concerned properties' locations—most Class A assets that charge for parking are located within walking distance of a Silver Line station, the Tysons Galleria and Tysons Corner Center, or both. The Class A properties that offer free parking are generally located further from Metro and do not offer a walkable amenity base.

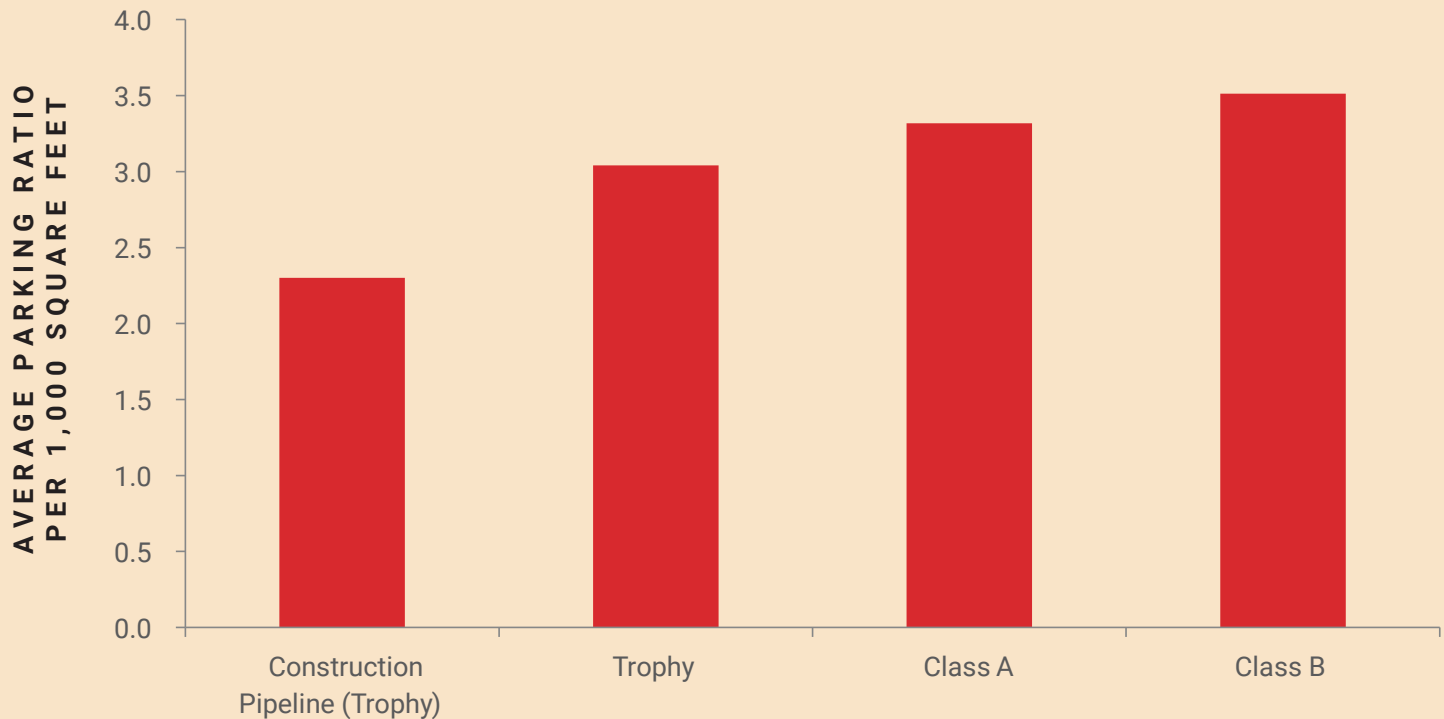
## EDGE-CITY SUBMARKETS NATIONWIDE ARE INTRODUCING PAID PARKING FOR OFFICE TENANTS

Tysons is not the only burgeoning edge-city submarket that is experiencing a shift in office parking policy. Consider metro Atlanta's office market, largely concentrated between two distinct submarkets—the CBD/Midtown and Buckhead. Comparisons between Buckhead and Tysons abound: Buckhead is 10 miles from Atlanta's downtown core, while Tysons is approximately 13 miles from the District's downtown core, with similar drive times for both. Tysons became a regional employment center due to the popularity of its high-end shopping center, Tysons Corner Center. Buckhead experienced similarly rapid office development after the Lenox Square mall was built in 1959. In 2015, the *Atlanta Business Journal* reported that certain office owners with portfolios in Buckhead were planning to implement paid parking for tenants. Local pedestrian improvements and a connection to nearby MARTA rapid transit both contributed to the implementation of paid parking, along with the Buckhead submarket's strong rent growth and occupancy rates, phenomena that have recently occurred in Tysons as well.

## BEST IN CLASS PROPERTIES OFFERING LESS PARKING

### AVERAGE PARKING RATIO BY ASSET CLASS

TYSONS SUBMARKET: YEAR-END 2017



Note: Construction pipeline includes The Boro, Tysons Central and City View at Tysons  
Source: NKF Research; February 2018

A contributing factor to the introduction of paid parking in Tysons has been the gradual reduction in parking ratios. Currently, the overall average parking ratio in Tysons is 3.3 spaces per 1,000 rentable square feet (RSF). As the submarket densifies and with the introduction of Metro's Silver Line in 2014, newer trophy assets have built less parking. This is largely a result of the new comprehensive plan for Tysons, as properties that have received additional density have been required to build less parking, per zoning requirements. All existing trophy assets in Tysons have a parking ratio of at least 3.0/1,000 RSF, yet the Boro Tower currently under construction will offer a parking ratio of 2.5/1,000 RSF. Both Tysons Central and the City View at Tysons projects, currently in the planning stages, are set to offer tenants parking ratios of 2.2/1,000 RSF. These new trophy projects may eventually end up charging more for parking since it will be scarcer.

## WILL OFFERING A COMPLIMENTARY SHUTTLE HELP PROPERTIES FURTHER FROM METRO COMPETE IN TYSONS?

As Tysons property owners seek to improve their assets in order to remain competitive, certain properties have begun to offer tenants a free shuttle service as an amenity. The on-demand shuttles offer tenants who wish to commute to work via Metro a last-mile connectivity solution, as most properties currently offering shuttles are not within easily walkable distance of a Metro station. However, according to some Tysons office owners surveyed, the utility of complimentary shuttle service may be limited. A common theme in Tysons is walkable proximity to Metro, which both owners and tenants have stressed is of utmost importance.



## Tysons Asset Owners' Perspective and Outlook

We interviewed a sample of notable Tysons office owners whose portfolios include more than 2.5 million square feet of space within the submarket, as well as other local market experts, to get their take on how paid parking has been received and to gauge key metrics, such as a projected peak price per space.

- Asset owners stated that the introduction of paid parking bolsters Tysons' strength as a submarket, especially now that Metrorail's presence has fortified the amenity base. Property owners whose sites are Metro-adjacent can rationalize building less parking overall and charging more per space.
- Some Tysons properties currently charging for parking are offering tenants parking fee abatements of as much as four years. Many properties offering abatements are doing so as a stopgap measure. As the pace of construction increases in Tysons and the submarket becomes more walkable, paid parking abatements will likely decrease, and most properties will begin charging tenants per space. However, should the submarket see an overall downturn, owners expect parking abatements to be one of the first concessions offered in order to secure a lease.
- As Metro's Silver Line extension to Dulles Airport and Loudoun County nears its 2020 completion date, expect properties surrounding Tysons' four stations to experience rising values, as potential tenants and their employees will have even more access to rapid transit.
- It is likely there will be an eventual cap on price per parking space in Tysons. This will be driven by what owners of Trophy product, such as Lerner and Macerich, can achieve. This, in turn, is driven by what owners of Trophy product in denser submarkets like the Rosslyn-Ballston Corridor and the District's core are achieving per space.
- Owners surveyed have pegged Trophy assets' price per space topping out at \$130/month. Market experts foresee parking rates for Tysons topping out near Ballston's current average of \$125/month, yet not quite reaching Rosslyn's average of \$165/month. Rosslyn asset owners have charged tenants for parking at least since the area became a defined, dense office submarket in the 1970s, and parking fees in the submarket are no longer tied to market fundamentals. This is the likely future for paid parking in Tysons.



# Tyson's Tenants' Perspective and Outlook

In order to get a balanced perspective on the impact of paid parking on Tysons, we interviewed several prominent tenants who occupy space in Tysons as well as local tenant-representation experts to get their take on how tenants are reacting to this change.

- The introduction of paid parking has added a factor for tenants to consider when comparing overall lease costs between properties. How great an effect it has depends on the tenant—if the majority of that tenant's employee base drives to work, then the total cost of paid parking becomes a larger line item on the overall cost of real estate.
- Since there are so many factors that go into choosing one building over another, the cost of parking is not usually high on the list of considerations for most tenants.
- Tenants closer to Metro may not feel obligated to provide employees with free parking, or may reduce their parking ratio requirement.
- Some tenants require employees to pay for their own parking, so parking charges do not increase the overall occupancy costs for the company.
- Many tenants surveyed stated that thus far, the Silver Line has not had a major impact on the number of employees who drive, but having the additional transportation option makes a Tysons location more valuable.
- When asked if there was a maximum price tenants would be willing to pay for parking, both tenants and tenant-representation brokers noted that parking costs are not generally compartmentalized when reviewing overall lease costs. Thus, there is not a maximum price per space they will consider. Rather, parking costs will be factored into the overall cost of the lease and considered along with numerous other factors that go into choosing a building, such as location and availability of amenities.



## Sources

In addition to consulting with prominent owners and tenants of Tysons properties and local brokerage professionals, as well as NKF's proprietary database of lease transactions and market statistics, sources include:

- ♦ *Atlanta Business Journal*
- ♦ CoStar
- ♦ *Washington Business Journal*

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