MAHLER CAR PARK IN AMSTERDAM

Finding a space in the car parking sector

Although car parks are likely to remain a specialist asset class due to liquidity issues, the sector's long-term potential is accelerating

BY **ISOBEL LEE**

With car ownership in Europe on the wane, and the continent's leading cities increasingly driving private vehicles out of town with green policies, the investment case for car parks might seem to be dwindling. Yet with industry insiders calculating that around half a billion of standalone, investment-grade assets were traded in the sector in 2019, nearly twice the figure for 2018, it is apparent that investor demand is on the rise.

Furthermore, the latest state-driven sustainability initiatives – plus the rising value of prime, down-town land in Europe's leading cities – may actually be boosting the relevance of parking facilities, according to Primevest Capital Partners, one of Europe's leading car park investors.

Today, Utrecht-headquartered Primevest, which was established in 2018, holds about €1 bn in European parking assets across two private Dutch funds and three pan-European institutional funds. Crucially, its sector know-how actually dates back around 15 years, to when the firm had its beginnings in a management buyout of Bouwfonds Investment Management.

When Bouwfonds IM's' Dutch parent bank Rabobank decided to reduce its exposure to fund and asset management, former Bouwfonds IM executives, along with Dutch private equity firm CommonWealth Investments, saw an opportunity to spin off Bouwfonds IM's investment activities in communication infrastructure, car parks and residential real estate, a portfolio worth over €4 bn at the time.

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FLORIS HAENTJENS

Bouwfonds IM had entered car parks in 2005, attracted to steady inner-city demand and its regular cash flows. 'The parking industry was also ripe at the time for the separation of assets and operating models, what we had seen in the 1990s with hotel groups getting into sale-and-leaseback,' explains Primevest partner Ruud Roosen. Groups such as global operator Indigo (Vinci Park at the time) proved happy to comply. 'When Bouwfonds IM started in this market, a lot of operators still owned the real estate. But today it is a much more asset-light business,' Roosen notes.

'Back then, car parks were a really niche asset class which didn't receive much attention from professional investors. We essentially helped institutionalise the segment,' adds Floris Haentjens, Primevest's senior acquisition manager.

INVESTMENT APPROACH

Today, Primevest's funds include two Netherlands-focused vehicles, which initially grew out of a significant sale-and-leaseback deal with Dutch operator Q Park, as well as a collection of pan-European funds. 'Because of diversification issues the Q Park deal did not fit into our institutional fund,' reveals Roosen. 'So we executed the transaction and then placed the assets in a fund designed for private investors.'

In terms of the pan-European funds, 'the first has since merged with fund three, and we have a fourth fund still in the investment phase,' Roosen adds. In 2019, deals in Dublin and Glasgow added to this, with Primevest 'still looking for further car parking investment opportunities'.

As car parks don't often carry 'for sale' signs, Haentjens says that trades are still mostly off-market, and involve a significant amount of 'goodwill hunting' for buyers. 'We are knocking on a lot of doors as brokers do not tend to have them on their books. But we do contact property companies to enquire if they would be prepared to split car parks off from larger assets.'

To date, winning assets have tended to be in city centres – for perhaps obvious reasons of density and a general lack of on-street parking. 'They are mostly right in the centre of town and we mainly look at car parks that have a diversity of demand – so they are used not just by shoppers, but by office workers, or leisure footfall, such as restaurant and theatre-goers in the evening.' This helps to hedge against changing dynamics in the retail trade, for example, but Haentjens notes that other pressures on the industry are also emerging.

CHANGING DYNAMICS

'Apart from the changing behaviour of consumers, pivoting towards leisure rather than shopping, there are two other important trends. One is the rise of government restrictions surrounding cars, and the other, which is related, is a changing attitude towards cars, the declining use of private vehicles, and the rise of car sharing, electric cars, even self-driving vehicles. However, we believe that the right assets can still be defensive in this changing world,' says Haentjens.

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RUUD ROOSEN

The bottom line is that parking remains a 'basic need' for many individuals, and in most cities, driving a car is still the most reliable way of getting around. 'We believe it will stay that way in the future too,' Haentjens underlines. 'Tech isn't revolutionising the sector as much as people might think – it's always been quite conservative. Operators don't necessarily have to innovate, because people still need to park. Sometimes they are adding greater automation or number plate recognition, but mainly to reduce personnel costs. Models are emerging whereby you pay on account or via an app without stopping at a barrier. That actually increases revenues, as it means the parking tariff is applied right up to the physical point of exit – not just when you reach the ticket machine.' Essentially, 'automation is another way to increase net revenues', Haentjens says, 'which eventually leads to higher rental values. Meaning growth is still possible'.

There is also a surprising silver lining in the green trend in Europe's most switched-on cities. 'Oslo is perhaps leading the way in attempts to have a car-free city within the ring-road. The municipality is limiting access to the city and, more importantly, removing on-street parking. But that actually increases the business case for car parks at the inner-city's edge, which is what we're finding. In Oslo, turnover at our car park has risen 30-40%,' explains Roosen. The same trend is now emerging gradually across Europe from north to south, mostly in the capital cities, he adds.

And while the acutely unique parameters of the present crisis are placing downward pressure on demand in general, the signs are promising that the sector will remain defensive, even if an economic slump persists. 'We call it double secured income,' Haentjens notes. 'Even if operators fail, we would still have the underlying revenue stream, the actual car park income.' Roosen adds: 'We also have data from the last economic downturn which shows that turnover levels are pretty resilient whenever the wider economy is struggling.'

And in some given future, where personal vehicles and even parking looks quite different, the assets remain interesting for their prime, city locations. 'Even now, we are also being approached by developers who are interested in the car park land, with a view to planning new uses, like offices and/or residential, which have a higher residual value,' Roosen says. It turns out that car parking really is a multi-level investment case, equipped for any weather. ■

PARKING REMAINS A 'BASIC NEED' FOR CITY DWELLERS