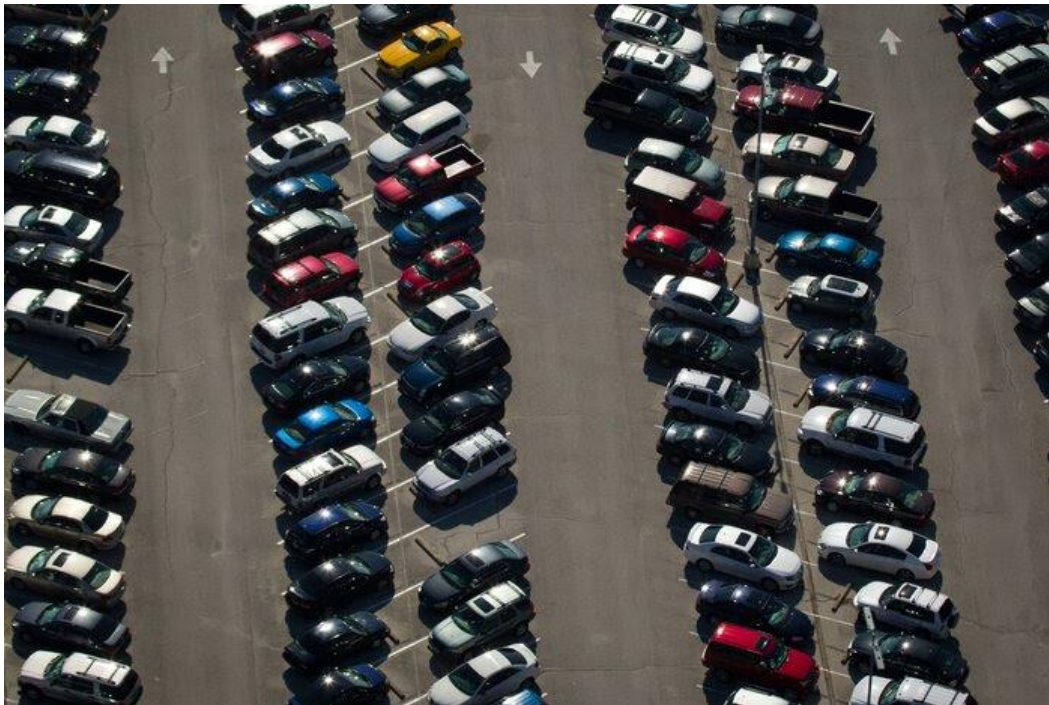


Lenders Warm To Reducing Parking Minimums For Housing

By [Emma Kennedy](#) · 2023-06-16

Houston is slated to become the latest U.S. city to reduce requirements for parking spaces in a bid to spur housing development, and experts say it's doing so at a critical time when there may just be enough data and public understanding to overcome what has historically been the reform's biggest hurdle: lenders worried about shunned buildings.

The city will hold its last public hearing on Wednesday on the proposal to abolish parking minimums in most transit-adjacent areas of the country's fourth-largest city, and a vote will likely follow before the end of the month.



A crowded parking lot at the Johnson Space Center in Houston is shown in an aerial view. Houston is slated to become the latest U.S. city to reduce requirements for parking spaces in a bid to spur housing development and to nudge along goals of less car dependency, affordable housing, public transit utilization and walkable neighborhoods. (Photo by Smiley N. Pool/[Houston Chronicle](#) via [Getty Images](#))

Houston's motivation, like many other cities that have come before it, is to offer developers flexibility to let the market decide how much parking is needed for their projects, and to nudge along goals of less car dependency, affordable housing, public transit utilization and walkable neighborhoods.

But developers, attorneys and housing advocates have said that while cities favor parking reform because it encourages more units at different price points, and developers tout it for flexibility to reap more profit from the same amount of space, risk-averse lenders have been hesitant to approve financing in these deals for fear they'll be stuck with a product that's unleaseable in a car-dependent market.

"The lenders are the obstacle to delivering a building with less parking, particularly in larger-scale projects and very conventional formats, and it's because they're risk averse," said Daniel Herriges, a co-founder of smart development advocacy nonprofit Strong Towns.

Herriges, a Minneapolis-based urban planner, is currently co-authoring a book about the country's housing crisis and the public policy that has caused it.

"The reason you see big development monocultures — the standard boxy apartment building that pops up in every big city in America — has a lot to do with the centralization of finance across these projects," he said. "When you're dealing with a lender that is national and doesn't really have an intimate knowledge of the local context, they're going to want to see a very standard checklist of things and have a very standardized criteria."

[Winstead PC](#) real estate development and investments practice group attorney Mark Grobmyer, who is based in Austin, Texas, said there's a perception that when parking minimums go that it means there won't be any parking at all, and drivers will be left circling blocks trying to find a space. But it's more about letting the market dictate need, he said.

"It's an interesting intersection of public policy and real estate because people don't necessarily think about parking, but it's such a huge driver of project cost and project type and what we see in the built environment, and part of that is because it's been public policy for so long," he said.

"At the end of the day, all developers really want is the flexibility to make a product they think matches the demand and not necessarily one that falls in line with a rigid calculus of the amount of parking spaces per door, per square foot, per hospital bed or what have you," Grobmyer said.

Concept Starting to Sway Naysayers

The idea of parking reform has now been around long enough for many of its opponents to see proof of the concept, experts say.

San Francisco, Seattle and Buffalo in upstate New York all eliminated parking minimums as early

as 2012, and cities including Minneapolis; Raleigh, North Carolina; Burlington, Vermont; Nashville, Tennessee; and Richmond, Virginia, have all since followed suit.

"I think simply having the precedent and having cities saying, 'Not only has this gone great, but look at the economic activity it's created and the housing opportunities that exist now,' that's really persuasive. ... I predict we'll continually see a greater number of cities taking this step, and at some point it'll be persuasive to lenders," Herriges said.

"Once you have a critical mass of precedent where they did build an apartment building with no parking in a neighborhood similar to the neighborhood you're proposing and the sky didn't fall, it's persuasive," he added.

In Miami, the neighborhoods that have seen the most transformative redevelopment over the last decade are the ones with fewer parking restrictions, according to land use and zoning attorney Steve Wernick of [Wernick & Co PLLC](#).

Those are areas like former industrial or disinvested neighborhoods where governments are more likely to loosen development mandates to attract new tenants and economic interest, he said.

"That's where we can be more flexible with the parking restrictions and start to create more walkable neighborhoods, and then hopefully, as the transportation system evolves and becomes more usable and helpful to people, then we can start updating some of the parking requirements in these transitional neighborhoods and then established neighborhoods. But that'll happen very gradually," Wernick told Law360.

Persuasive Local Data

In 2021, Denver's city council slashed its parking minimums to only one space per 10 units, and since then, Chessy Brady, the [Regional Transportation District](#) transit-oriented development manager, has been dealing with the lender pushback to get housing built around the region's train and bus lines.

A touchstone data point she uses in presentations to commissions and developers is that a family can generally be housed in the space it takes to park two cars, and many of the existing parking spaces aren't being used, anyway.

The agency recently commissioned a study where an RTD employee used in-line skates to roll through the parking lots of 86 residential developments — with their permission — and found that in the middle of the night, parking lot utilization was often less than 50%.

"They're building twice as much parking as they actually need, and we've found that this study is very useful to share with lenders and planning commissions because we have this very good data that says around transit stations you may think you need two spaces per unit, but market

rate units around transit are providing 1.23 spaces per unit and only using 0.74 spaces," Brady told Law360.

"I wouldn't suggest they build only 0.74 spaces per unit, but they could build one and they'd still have enough parking," she said. "This local data we've found actually really does help convince the lenders that are worried about the ability to lease out the building."

Attorneys and experts say that with this proof of concept and local data, and with the backdrop of a national housing crisis, lenders are starting to back the nontraditional housing model.

Eric Guttormson, a commercial lending manager at Minneapolis-based Sunrise Banks, said parking isn't as much of a concern in projects anymore, whether the development has an abundance of it or not.

"We're happy to have less parking, but we don't have a stance on parking. We're not going to say, 'No, thank you' to a project with 150 parking spaces," he said.

Banks like Guttormson's — a smaller local lender that markets itself as a "socially responsible bank" — are the type advocates say have recently been more likely to be flexible and represent the start of the culture shift to a more flexible look at developments.

"In our underwriting, parking doesn't come up as a concern," Guttormson said.

"I guess that makes sense in that we are an urban lender. We've seen a lot of multifamily in our inner suburbs, and we've been more skeptical about [investing] there, but now we're understanding there is a housing need there as well," he said. "Those projects obviously have parking."

Clay Fischer, director of Footprint Development, a transit-oriented developer that uses Sunrise as its lender, said that for smaller-scale projects near transit, on-street parking makes sense.

Fischer also said he shared local parking study information with his lender to help gain support of the decision to offer less parking, counting on the nearby transit to offset demand.

"I'm not doing 100- to 200-unit projects; my current development is 25 units," he said.

"At that scale, there's ample transit service, it's in a walkable area, and there's copious amounts of on-street parking that can absorb my kind of project," Fischer said. "I'm also focused on renters who aren't looking for structured parking. Their rents are slightly lower and the project costs are slightly lower. I think for people who invested equity in larger-scale projects, that's kind of unfamiliar territory."

Biggest Impact Seen in Smaller Developments

Harriges of Strong Towns said that in most cases, it doesn't make sense to have a 30-story inner-city tower without parking.

But where parking reform will likely have the most visible impact in boosting production and lowering cost is in the fourplexes, townhomes and similar smaller-scale developments.

Also known as the "missing middle," many cities are pushing for development of these complexes that are somewhere between a single-family home and a high-rise. They often can fit as urban infill lots in existing neighborhoods, but are stifled when cities require parking minimums that just aren't feasible in the space or configuration.

"That's where the dire need is, and that's inevitably going to be delivered through a lot of scattered infill projects which are smaller in scale," Harriges said. "I think it's unlikely that you're going to see a flood of 300-unit apartment complexes going up without parking."

In Houston, there hasn't been a fourplex permitted in at least 20 years, according to research by the city's planning and development director, Margaret Wallace Brown.

The city's redevelopment requirements, in which parking minimums played a large role, made it too costly to redevelop the courtyard style homes or multiplexes that were more common between the 1950s and 1990s, she said, so most have now disappeared.

With its proposal Wednesday, the city would relax multiple development restrictions, including parking minimums around transit, unit sizes and styles of development, to allow for projects like courtyard units that face into a common green space rather than the street.

"We're going through this whole livable places process of looking for ways to reduce the regulatory environment on parking, and expanding market-based parking for residential seems to be the appropriate next step," Brown said, adding that the city has been careful to word proposals as removing parking minimums, not imposing a maximum.

Although Houston is typically known as a car-dependent city, Brown said most people are shocked when she tells them 9.1% of Houston households don't own a car and another 41% own only one car. It's that market the city is hoping to unlock new housing options for.

"Maybe it's that the developer's going to say, 'I'm building for a market that can't afford a car, and this is a way to make property even more affordable to them,' or maybe they're building for a market of 20-somethings who don't want to own a car and this makes their properties less expensive. ... But it just gives more flexibility, more freedom to property owners, and it moves Houston in the direction we want it to be," she said.

--Additional reporting by David Holtzman. Editing by Jill Coffey and Lakshna Mehta.