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Hotel
Newswire

Hotel Parking Asset Management: Maximize the Value of Your Real Estate

By Joshua Miller, Principal and Managing Director, Niche Advisors



Mr. Joshua Miller

As the hotel industry faces increasing supply, rising energy costs, and the resulting impact to national travel behaviors, hotel owners must look to every opportunity to maintain their bottom line. One method for doing so is to retain an Asset Manager – a hotel specialist who can provide the resources and expertise needed to maximize a property's cash flow and hence overall asset value. Such experts review every aspect of financial and operations management to ensure no profit-producing stone goes unturned by the property's management team.

While hotels spend tremendous time and energy looking for strategic ways to make the most of their operation, they often fail to look at the fact that the property sits in the middle of a large parking facility. This facility often takes up as much real estate as the hotel itself, but because parking is outside of the core focus of the industry, hotel parking facilities are rarely strategically managed. Utilizing an asset management approach for parking is equally as effective as it is for rooms income, and can often

make a significant improvement to an asset's overall value.

Most hotel companies look at parking as an amenity. Service is the focus, and as long as customers are not complaining, the department is considered a success. It is for this reason that service-oriented line associates are often promoted to Parking Manager. While these associates may be able to ensure a pleasant guest experience, they rarely have financial management training despite being put in charge of what can be a multi-million dollar operation. Those companies which do emphasize financial management usually focus on controlling costs. By managing payroll, overtime, and liability claims, profit margins can be maximized and the management team considers itself successful.

What these properties fail to recognize is that parking revenue needs intensive revenue controls in order to ensure full capture. Consider the following conversation between a General Manager and his Front Office Manager. "Sir, unfortunately 15% of our guests were never charged for their rooms last night. The guest service agents forgot to add the charges at check in and I never caught it. Oh, and by the way, this has been going on since the last Front Office Manager was here. He was better at accounting than I am." This may sound like a far-fetched story for rooms revenue, but for parking it is commonplace. The difference is that the conversation rarely happens in parking because few hotels ever discover the problem. Because multiple players are involved in revenue posting and most of the non-guest revenue is paid in cash, hotels lose money on a daily basis to error and theft. We have seen revenue leakage rates varying from 5% to more than 50% of earned revenue.

In addition to revenue leakage, hotels miss opportunities by failing to use revenue management principals as they do in other areas of the property. Failing to charge for parking (or undercharging) in markets which support doing so is a prime example of this. Non-strategic discounting and "comping" of parking revenue also contributes to this loss. Some hotels have excess parking inventory and make no effort to market it to non-guest interests. Other hotels don't have enough inventory and pick the most convenient off site location rather than the financially beneficial one.

Many hotels realize that parking is outside of their expertise and chose to outsource their operation to a parking management company. In addition to providing financial expertise, an effective operator can bring flexible staffing options, traffic flow management experience, and the transfer of liability claims. For a large

or complex operation, the fee charged by an operator is usually more than justified by the impact made over the long run. However, the lack of expertise that leads management to outsourcing often causes them to make poor deals with parking management companies. Many hotels never realize this because the improvements the operator generates over the hotel's prior internal management are so large. Taking an unbiased look at the compensation generated by the operator in a revenue sharing deal, or the corporate overhead "slid" through a management agreement can make the deal less appealing than originally estimated.

Parking asset management is a means for a hotel to address all of these pitfalls. Successful parking asset managers will have both hotel and parking expertise so that they can navigate the needs of parking within the hotel environment. A typical asset management approach begins with data collection and an on-site assessment. The result of the initial analysis is the creation of an asset management plan (AMP) which is submitted for approval by the property management team. Some of the initiatives included in an AMP may include:

- Increases to or reconfiguration of rate structures.
- Implementation of revenue control best practices.
- Procurement and implementation of parking technology.
- Renegotiation or outsourcing of the operation with parking operators.
- Renegotiation of off-site vehicle storage agreements.
- Revisions to the facility's sales and marketing plan.
- Revisions to financial reporting process.
- Redesign of traffic flow and signage plans.
- Revisions to parking staffing standards.
- Parking management training.

Once the AMP has been finalized with the property management team, the asset manager takes responsibility for implementing all of the recommendations. This can mean anything from high profile contract renegotiations to retraining a night auditor on the nightly reconciliation process. The hotel team does not need to expend the resources to implement these projects, and the asset manager's expertise makes everyone involved much more successful. The implementation process for an AMP takes anywhere from several weeks to six months to complete.

Once the operation has been improved in this manner, the hotel should see major financial improvements. As turnover and various changes in the market place occur, it becomes the asset manager's role to maintain the gains and continuously look for new opportunities. This is done through review of reports and financial statements generated by the hotel and its parking operator (if there is one), as well as through regular site visits and audits. Most asset managers provide monthly or quarterly reports of progress which document all activities and results.

One of the greatest aspects of parking asset management is that asset management firms charge on a success based fee structure. There may be some initial or smaller fee-based compensation, but in general the asset manager keeps a percentage of the improvement they create. This means that the hotel has minimal risk involved in the endeavor. In the worst case scenario, the asset manager makes no improvement and the hotel pays nothing. In the best case scenario, the asset manager makes a tremendous improvement and the net impact after the asset management fee falls completely to the hotel's bottom line.

Consider a large airport property that retained a parking asset manager several years ago. The initial assessment identified tremendous revenue opportunities: parking control technology was failing, less than 60% of hotel guests with a vehicle were paying for parking, no one was aware that many monthly customers were simply not paying, there was a tremendous risk for theft by the valet and cashiering staff, rates were below market, contract parking agreements were outdated and being abused by clients, etc. The asset management team addressed all of these issues and more over the course of approximately six months, resulting in an annual bottom line improvement of over \$500,000. A year later, the property was sold as part

of a large portfolio wide transaction. Cap rates at the time were approximately 10% which means that the asset management program increased the property's sale price by over \$5 million.

Hotel parking asset management gives hotel owners and managers access to the resources and expertise needed to maximize the financial performance of a hotel parking operation. It is a low and sometimes even no-risk investment which has the ability to generate substantial returns. If your property generates parking income, or if your local market supports charging for parking, consider parking asset management as an investment and operating strategy. Just as in the case study above, you might benefit from millions of dollars of new and unanticipated profit.

Joshua Miller is Principal and Managing Director of Niche Advisors, a hospitality consulting firm specializing in ancillary areas of the industry. Mr. Miller has completed hundreds of assignments for hotels and resorts of all brands, service levels, and market segments. Mr. Miller developed his hotel operational acumen at the Mirage Casino Resort in Las Vegas, as well as for Hyatt Hotels and for Destination Hotels and Resorts in San Diego. In his last role in hotel operations, Mr. Miller was the Rooms Executive for the Hotel del Coronado where he increased parking revenue by 50% in an 18 month period without the benefit of new parking technology. Mr. Miller earned a B.S. from Cornell University's School of Hotel Administration. Mr. Miller can be contacted at [619-254-4245](tel:619-254-4245) or joshua.miller@nicheadvisors.com

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