

THERE'S NO SUCH THING AS A FREE PARKING SPACE

Minimum parking regulations ensure there's plenty of space for our cars at the shops, writes **Christian Seibert**, but we pay a hefty price for it

Congestion and urban sprawl are major topics of debate in Australia. Newspapers carry dramatic headlines such as 'Heavy Road Congestion is Killing Us, Study Finds.'¹ Government reviews, such as Rod Eddington's report *East West Link Needs Assessment*, released earlier this year, offer multibillion-dollar solutions. It is an important issue, but the discussion tends to ignore a major reason why our cities are congested and sprawled. Like many public policy issues, it relates to regulation, and in particular to the unintended consequences of the parking regulations that are a standard component of the urban planning frameworks of our towns and cities.

Reforming parking regulation in Australia may not be the most obvious method for addressing congestion and urban sprawl, but its potential benefits are substantial. In 2005, Donald Shoup, an economist and professor of urban planning at the University of California Los Angeles, published a book titled *The High Cost of Free Parking*.² It details the problems associated with parking regulation, largely in the United States, and proposes reforms to address them. This article highlights and discusses some of the main points Shoup makes in that book and elsewhere, relating them to an Australian context.

Parking regulation in Australia

Minimum parking regulations exist in just about all Australian towns and cities. They dictate the minimum amount of off-street parking spaces that any land use must provide. To obtain permission from the relevant development approval authority (such as a local council), a development application must generally comply with these requirements. In certain cases, the development approval authority may reduce or waive the requirements.³ Sometimes, an application will be approved if a payment is made in place of providing off-street parking, particularly where it would be highly impractical for the development to include it.⁴ These payments are supposed to be used by the development approval authority to provide parking in the vicinity of the development.

Such regulations are meant to ensure there is an adequate supply of parking for every land use. The logic behind them is that if a developer

Christian Seibert is a Melbourne economist.

Endnotes for this article can be found at www.policymagazine.com.

is, for example, building a new row of shops on a vacant lot in the suburbs, it will attract shoppers. Some of these will walk or take public transport to get to the shops, but many will drive there. Given the limited amount of on-street parking available, off-street parking needs to be provided to accommodate the additional cars attracted by the development.

Different minimum parking requirements apply to different types of development. For example, under the Victoria Planning Provisions, upon which the state's numerous planning schemes (those applying to particular local government areas) are based, an office requires 3.5 car spaces per hundred square metres of net floor area, and a shop requires eight car spaces per hundred square metres of leasable floor area.⁵ Minimum parking requirements in Victoria are very specific. They detail requirements for an extensive range of developments such as restaurants, motels, timber yards, display homes, and squash courts, amongst others (the details are available online in endnote 5). The requirements are similarly specific elsewhere in Australia.

Minimum parking regulations have unintended consequences that are largely hidden and often go unnoticed.

Why minimum parking regulations are a problem

On the face of it, minimum parking regulations may appear quite sensible. If a new development is going to attract additional cars, and the availability of on-street parking is limited, why not require the development to supply parking to meet the additional demand? The reason is that minimum parking regulations have unintended consequences that are largely hidden and often go unnoticed by government, policymakers, and the public. But despite being hidden, their impact is significant and widespread.

Most off-street parking provided in our cities is free. At least, it appears free: drivers themselves don't pay to use this parking. Minimum parking

regulations don't require parking to be free, and providers of off-street parking can charge for it if they want to. But minimum parking regulations are set with the intention of satisfying the peak demand for parking at a particular land use.⁶ If there is a sufficient amount of parking available to satisfy peak demand when parking is free, charging would lead to there being some unused parking at times of peak demand, and even more at times of off-peak demand.⁷ Less people would be attracted to the land use: fewer customers would visit the row of shops in the above example. The urban economy is highly competitive, so most customers would just do their shopping down the road where parking is free. And if you lose most of your customers because you are charging for parking, you not only lose retail revenue, but it makes it even harder to offset any such losses with parking revenue obtained from a much smaller customer base. In effect, minimum parking regulations create a strong disincentive for providers of off-street parking to charge for it. Those that do charge are generally land uses with few competitors located nearby, such as some inner-city shopping centres, and even these offer dual-fee structures in many cases, with free or heavily discounted parking for people who can show they made a purchase at the centre, and market rates for other users.

While drivers generally don't pay to use parking, 'it would be a mistake to assume that because drivers don't pay, nobody pays.'⁸ There is a saying in economics that 'there is no such thing as a free lunch,' and in the same sense, 'there is no such thing as a free parking space' when it comes to off-street parking in our cities. The main problem with minimum parking regulations is that while the parking provided in accordance with them *appears* to be free, in fact they 'bundle the cost of parking spaces into the cost of development, and thereby increase the cost of all the goods and services sold at the sites that offer free parking.'⁹ As table 1 shows, the cost of constructing parking in Australia can be significant. It is even higher when you factor in the costs of acquiring the land necessary to construct parking, and the opportunity cost incurred when land is used for parking rather than for some other purpose (such as additional shops, in the case of a retail development). These costs are not included in the figures provided in table 1.

Table 1: Construction cost estimates for different types of parking in Brisbane¹⁰

Type of parking	Cost range per car space (\$)
Outdoor open	2,910–3,135
One-level underground	43,000–46,400
Two-level underground	42,000–45,200
Ground plus one level	12,600–13,600
Ground plus two levels	15,200–16,400

For a practical illustration of how minimum parking regulations bundle the cost of parking spaces into the cost of development, consider the example of the row of shops. Initially, the developer pays the cost of buying land and constructing the required amount of parking on it. But this cost is passed on to the tenants of the shops through higher rent payments, and then to customers through higher prices for goods and services, regardless of whether those customers drive to the shops or get there another way.¹¹ As Shoup points out, this process continues until the cost of parking is distributed across the whole economy:

When we shop in a store, eat in a restaurant, or see a movie, we pay for parking indirectly because its cost is included in the prices of merchandise, meals, and theater tickets. We unknowingly support our cars with almost every commercial transaction we make because a small share of the money changing hands pays for parking. Residents pay for parking through higher prices for housing. Businesses pay for parking through higher rents for their premises. Shoppers pay for parking through higher prices for everything they buy. We don't pay for parking in our role as motorists, but in all our other roles—as consumers, investors, workers, residents, and taxpayers—we pay a high price. Even people who don't own a car have to pay for 'free' parking.¹²

Bundling the cost of parking into the cost of everything else has the effect of hiding and also externalising it, which means that it is shared by everybody and you can't pay less for parking

by deciding to use less of it.¹³ This has negative flow-on effects. 'Free' parking distorts transport choices, encourages urban sprawl, makes housing more expensive, harms those on low incomes, and blights our urban landscapes.

Five ill effects of 'free' parking

1. Distorting transport choices

In an efficient market, prices are a signal of relative costs. When we make decisions on how to allocate our finances and our time, we evaluate the terms on which alternatives are offered by considering these relative costs. One of the problems with minimum parking regulations is that by bundling the cost of parking into the cost of everything else, they distort the relative cost of using a car compared to other ways of getting there, such as public transport. They discourage people from walking, cycling, or taking a train, bus, or tram.¹⁴

'Free' parking encourages urban sprawl, makes housing more expensive, ... and blights our urban landscapes.

When you drive to the row of shops, the only immediate expense you incur is for the petrol you use. You can park out front without paying up front. But you *do* pay for parking, through increased prices for what you purchase at the shops. To you, the driver, parking at the shops appears free and you don't factor it into the cost of your visit. So, when you compare the cost of driving to the shops to walking, cycling, or taking public transport, the relative cost of driving *appears* lower than it would be if the cost of parking were factored in. I emphasise the word *appears*, because the actual cost of driving isn't lower, it just looks like it is, because it is hidden in the cost of what you purchase at the shops. To illustrate this further, imagine if you had to pay \$2 to park at the shops for an hour. This additional cost would make the relative cost of driving higher, and might make you decide that walking, cycling, or taking public transport is a better option.

If the distorting effect of minimum parking regulations were removed, it is likely that car

use would decrease, and congestion with it. There would then be less of a need to expand the road networks in our cities. Consequently, it is likely that there would also be increased public transport use, and an added justification to expand public transport into areas where use would currently be too low to make any such expansion economically viable.

2. Encouraging urban sprawl

Shoup acknowledges that even without minimum parking regulations, 'cars would have reshaped cities during the past century, because they greatly reduce the time and monetary cost of travel.'¹⁵ The lower cost of mobility decreased urban density, as people could conveniently live further from the city centre. This led to urban sprawl. While minimum parking regulations do not cause urban sprawl in themselves, they have worsened it by distorting the relative cost of car use, making it appear less expensive than it actually is.¹⁶ In addition, requiring new developments to set aside a certain amount of space for parking has further decreased urban density by using land for parking and at the same time making it more expensive to build higher-density developments such as apartment blocks because of the high cost of providing the required amount of parking.¹⁷

Minimum parking regulations ... subsidise car use so the 'prices we pay for mobility and low density do not reflect their full costs.'

There is no rule stating that an ideal city is a high-density city. A low-density city is not a bad thing if the city's urban form reflects its inhabitants' true land-use preferences. But minimum parking regulations distort these preferences. They subsidise car use so the 'prices we pay for mobility and low density do not reflect their full costs.'¹⁸ This makes our cities less dense than they would otherwise be. The unnecessary sprawl has negative effects such as higher levels of carbon emissions from transport and increased infrastructure provision costs.

3. Making housing more expensive

Minimum parking regulations also apply to residential developments such as individual houses. For example, under the *Residential Design Guide* for Kogarah in suburban Sydney, a single dwelling must have two car spaces, with different requirements for other residential developments such as dual-occupancy dwellings, townhouses, and residential flats.¹⁹

Shoup argues that such minimum parking regulations 'bundle the cost of parking spaces into the cost of dwelling units, and therefore shift the cost of parking a car into the cost of renting or owning a home—making cars more affordable but housing more expensive.'²⁰

Some people may want to have a couple of off-street car spaces to park their cars, but what if you are building a house and don't have a car or any plans to buy one, because you are happy using public transport to get around? Or what if you only own one car, and don't need two car spaces? Under the minimum parking regulations that apply in cities all around Australia, you still have to provide the minimum number of car spaces specified even if you don't plan to use them. In effect, you have to pay more for your house so you can have something you don't want and won't use. Given that housing affordability is such a major issue in Australia, it doesn't make sense to have regulations that increase housing costs and don't benefit people who don't have a car or don't need two car spaces.

4. Harming those on low incomes

Minimum parking regulations have a larger impact on those on low incomes. First, they increase prices as a consequence of bundling the cost of parking into the cost of everything else. This has a disproportionate impact on those on low incomes, because they consume a larger percentage of their income than those on high incomes.²¹ In that sense, the financial effects of minimum parking regulations are regressive.

Second, those on low incomes own fewer cars, and therefore benefit less from the availability of off-street parking.²² The most recent Australian Bureau of Statistics figures measuring motor vehicle ownership against socioeconomic disadvantage, which are from 1999, show that 81% of households in areas of high disadvantage²³ owned at least one

registered motor vehicle, compared with 93.3% in areas of low disadvantage,²⁴ with an average of 89.6% across all households. Only 32.6% of households in areas of high disadvantage owned more than one registered motor vehicle, compared with 58.7% in areas of low disadvantage, with an average of 48.8% across all households.²⁵ This is particularly inequitable, because not only do those on low incomes consume a higher percentage of their income paying the increased costs for goods and services that are a result of minimum parking regulations, but those with no car or only one also subsidise the parking costs of those on high incomes who have one or more cars.²⁶

5. *Blighting our urban landscapes*

This is an aesthetic issue rather than an economic one, but minimum parking regulations also affect how our cities look.²⁷ As figure 1 shows, multilevel parking lots are a blight on our cities, sometimes taking up prominent real estate close to residential areas. Parking lots serving offices and shopping centres can often sit empty outside of business hours, making for a depressing sight. Even though they may only be used for a few hours a day and sometimes not at all on weekends, they tarnish the urban landscape twenty-four hours a day, seven days a week.²⁸ They often have the added effect of 'disconnecting' an office or shopping centre from its surroundings, making it an unpleasant experience to walk there.

Many residential streets are dominated by garages and driveways. Garages often appear to be the main way into a house, rather than the front door.²⁹ A good indication of how mini-

Figure 1: Multilevel parking lots, such as this one at Chadstone Shopping Centre in suburban Melbourne, are a blight on our cities



mum parking regulations have changed our urban landscape is that today, building one of the beautiful old terraces that characterise parts of our inner cities would be forbidden, because it would provide no off-street parking.

An alternative to minimum parking regulations

There is a simple solution to the problems caused by minimum parking regulations: just remove them. To manage the increased demand for on-street parking that will result, we should introduce market pricing for such parking.³⁰

Market pricing for on-street parking

Without minimum parking regulations, many developments will still provide off-street parking. However, the amount of it will be determined by developers' commercial considerations, reflecting demand for off-street parking by prospective tenants, customers, and others who will be attracted to the development.³¹ The fact that minimum parking regulations exist in the first place indicates that developments wouldn't provide the same amount of off-street parking otherwise. So it is likely that without the regulations, the amount of off-street parking would decrease. That is when the problem of spillover parking arises.³²

As Shoup states, spillover arises and is a problem because

If a land use does not provide enough off-street parking, some motorists drawn to the site will park on nearby streets, competing for the scarce curb parking supply ... If spillover parking from a new development congests the adjacent curb parking, everyone nearby will angrily ask planners and politicians, 'How could you let this happen?'³³

But the main reason spillover effects are a problem without minimum parking regulations is that on-street parking is not priced properly. Either it is free or its price is too low. Shoup proposes that upon removing minimum parking regulations, local governments should charge a market price for on-street parking.³⁴ This market price would match the demand for parking with the fixed level of supply for parking, while ensuring that about 15% of parking spaces were

vacant at any given time to ensure that drivers do not have to spend time 'cruising' to find a parking space.³⁵ With such a policy in place, 'motorists could always find a convenient parking space close to their final destination.'³⁶ Given that demand for on-street parking would vary throughout the day or week, the price for parking would also vary with changes in demand.³⁷ On some streets, it could continue to be free for all or part of the day or week, where ample parking remained even though the price was zero.

Market pricing for on-street parking will generate additional revenue for local governments. Shoup proposes that local governments establish 'parking benefit districts' that use the revenue to benefit the neighbourhoods that generate it.³⁸ This money could be used to 'clean the sidewalks, plant street trees, improve store facades, put overhead utility wires underground, and ensure public safety.'³⁹ According to Shoup, 'Returning the revenue generated *by* the district *to* the district *for* the district can convince merchants and property owners to support the idea of market-priced curb parking.'⁴⁰

Shoup proposes that in the case of residential neighbourhoods, residents could be allowed to park for free while non-residents would pay the market price. The revenue generated from non-residents' parking fees could be used to improve public services in the neighbourhood.⁴¹ This would overcome the obvious political problem that would arise if residents had to pay to park in front of their own house.

Shoup points out that his proposal is not to have free-market pricing for on-street parking.⁴² The market itself, by way of the independent interaction of supply and demand, would not set the price for on-street parking. Rather, local government would set the price, with the objective of managing demand and maintaining a 15% vacancy rate for on-street parking given a fixed supply. As with any government price-setting, there are potential problems with this approach. In a large city with many diverse areas and streets, each with varying demand for on-street parking at different times, local government would find it difficult to set parking prices accurately and responsively. There would be hundreds or even thousands of different prices to

be monitored and set. Perhaps technology could solve this problem. If not, a large bureaucracy would be needed to monitor and set prices, and it is uncertain how effective it would be, given the poor record of governments when it comes to setting prices.

Why not privatise on-street parking?

Shoup doesn't believe that privatisation of on-street parking is an appropriate course of action, stating that 'With curb parking, public property is not the problem, and private ownership is not the solution.'⁴³

But as Daniel Klein points out in his review of *The High Cost of Free Parking*, a lot of Shoup's analysis and arguments do favour more extensive privatisation.⁴⁴ I tend to agree with Klein that on-street parking could be more extensively privatised. There is nothing particular about on-street parking that requires it to be publicly owned. Rather, on-street parking has always been publicly owned and managed, so we don't question why or think about changing it. In terms of how to privatise on-street parking, Klein puts forward the idea that

along designated government streets, the property owners obtain transferable prescriptive rights to the curb parking capacity along the abutting curb. Property owners could then combine to set up associations to manage the resources, or, even better, they could sell the rights to entrepreneurs who would own the prescriptive rights and professionally manage the resources.⁴⁵

A problem with Klein's proposal is that if property owners owned on-street parking in front of their properties, the problem of transaction costs would arise. If every property owner was independently charging prices for parking spaces in front of their property, drivers looking for parking would have to drive up and down the street to compare prices, and would likely just park in whatever space was available, paying a higher price for parking than if there were no significant transaction costs. If, as Klein points out, property owners combined to set up associations to manage all the privately owned parking on a street, or sold

the parking to entrepreneurs who could manage it, problems associated with transaction costs could be overcome. But the question is, would property owners want to combine to set up such associations? Would they be able to function properly? Would neighbourhood politics not stifle their effectiveness?

As an alternative to Shoup and Klein's proposals, why not consider offering long-term leases of all on-street parking by way of a tender process? Such a proposal would have a number of benefits:

- Such leases would be offered on a street-by-street basis, with all parking on a single street leased to the same leaseholder. This would provide for competition between leaseholders of parking on different streets, to ensure there was downward pressure on parking prices.
- There would be a requirement to display parking prices prominently at the entrances to every street. This would overcome the problem of transaction costs, because drivers would know that the price for all parking on a particular street was the same and wouldn't need to go from space to space looking for a bargain. As drivers became familiar with parking prices on particular streets, they would know where to drive first to look for parking that met their needs.
- Leases would give local governments flexibility to set conditions providing for the maintenance of clearways at certain times and preserving existing owners' rights to park in front of their property or be paid compensation, and also to incorporate financial incentives for leaseholders to maintain appropriate vacancy rates to ensure drivers do not have to spend time cruising to find a parking space. They would also give local governments an incentive to invest in things such as maintaining road surfaces and improving public safety, to increase the price of the lease when it is put up for renewal.

How to use the proceeds from leases would be a political issue. They could go towards establishing parking benefits districts, as Shoup proposes, or they could go towards cutting council rates. Different local governments would want to use the proceeds in different ways, and they should be allowed to make decisions that suit the circumstances of their area and the preferences of the ratepayers they represent.

Conclusion

Minimum parking regulations are costing Australia. A standard component of the urban planning frameworks of our towns and cities, they distort transport choices, skewing them away from walking, cycling, and public transport. They encourage the growth of sprawling cities that do not reflect their inhabitants' true land-use preferences. They make housing more expensive, a particular concern given that housing affordability is a major issue in Australia. They harm those on low incomes, because they make basic goods, services, and housing more expensive for those who can least afford cars and so benefit least from parking. Finally, the parking lots built to meet minimum parking regulations blight our urban landscapes.

It is time our parking regulations reflected the reality that there is no such thing as a free parking space.

Despite this, the effects of parking regulation are not taken seriously. Government reports and reviews mention them from time to time, but no government is prepared to consider the comprehensive reforms to parking policy in our towns and cities that are needed to address the ill effects of parking regulation. In *The High Cost of Free Parking*, Donald Shoup details how an alternative system would work. Removing minimum parking regulations and charging market prices for on-street parking could overcome the problems those regulations now cause. The option of wide-ranging privatisation of on-street parking, preferably through the use of long-term leases, should also be considered in detail. It would have its usual opponents, but such a system could work. It is time our parking regulations reflected the reality that there is no such thing as a free parking space.