

Real Estate Strategies

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The Tale of the Rubber Ruler, or:

How to Grow a Building— Without Moving a Brick

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MANY OF OUR READERS HAVE PROBABLY HAD THIS EXPERIENCE. YOU LEAVE YOUR OFFICE ONE MORNING, AND WHEN YOU RETURN LATER THAT DAY, THE BUILDING IS 20% “LARGER”. YET, NOT A BRICK HAS BEEN MOVED.

You know that your building is growing because your office lease is up for renewal. Your landlord is not only seeking to increase your rent per square foot, but is also insisting that you pay for more square footage in the same space!

Ouch! That adds up to one big rent increase.

In the commercial real estate world, we call this method of manipulating the difference between a building’s “rentable area” space (gross area) and “usable area” (net area) the “loss factor.” It is also known as the “load factor.” In some places, this difference is expressed in a reciprocal way, as an “add-on factor.”

The “lost” area includes public stairwells, hallways, lobbies, public washrooms, elevators and mechanical areas. Then this



number is inflated to meet market conditions. By raising a building’s gross or rentable area, landlords can increase their rental income while still being able to quote a competitive rental rate on a per square foot basis. How can a tenant in the market for office space arrive at a fair comparison between the widely varying measurement standards of different buildings?

To best evaluate and compare the loss factors of different spaces:

- Accurately measure the usable square footage from a scale plan, following the same procedure on each plan.
- Make sure to rely on your own independent measurement, or one from your own architect.
- Landlord agents have an incentive to use low and

misleading loss factor numbers. It is important to remember that the landlord's broker (as opposed to the tenant broker) serves only one master—the landlord.

How does one arrive at a correct loss factor number?

Divide the usable (net) area by the rentable (gross) area, and one can arrive at the portion or percentage of the total area that may be occupied. The difference is the loss factor.

An example of another calculation method for space with 10,000 square feet of rentable space, is to subtract the 7,000 usable square feet from 10,000 rentable square feet. Then divide the difference, 3,000 square feet by the rentable amount (10,000 SF). The loss factor is 30%.

You may ask, "Why isn't there a single industry standard for measuring space? Why doesn't the real estate industry have a set of benchmarks or best practices that everyone would follow?"

The answers are as varied as the different groups and types of buildings, their owners and locations.

At the end of the day, landlords do what is best for their building owners. In New York, up until the late 70's, everyone followed the Real Estate Board of New York guidelines. At that time, only 20 families and individuals dominated the market. Then building owners from Europe and elsewhere entered the market, tossing aside the Board's measurement standards and fixed formulas for loss factors.



Today the BOMA (Building Owners' and Managers' Association) guideline is the closest thing to an industry standard, although it's often subject to wide interpretation and not universally accepted. While the practice of "stretching" space measurements is common in most North

American markets, landlords in some markets do adhere to BOMA.

The situation leaves tenants to compare apples and oranges where not everyone agrees on what an apple or an orange is. To clear away this haze, tenants should choose a tenants-only representative; such as ITRA affiliates who exclusively represent tenants and are experienced in helping companies get the best deal for their bottom line.

Using its exclusive tenant-oriented approach, ITRA professionals analyze rental options based on what works best for your bottom line, not the landlord's.

This analysis will review the comparative cost per employee in different spaces as well as the cost of every lease clause and the value of every landlord concession.

Ultimately, the most effective way to evaluate space is to ask your ITRA tenant representative to compare annual costs per employee for each building.

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