

Rentable vs. Usable

When it comes time for office tenants to start previewing alternative spaces in which to place their businesses an often overlooked, and certainly undervalued, concept is the difference between “rentable” square footage, and “usable” square footage. Unfortunately, not paying attention to this detail can be an expensive mistake.

Office buildings are essentially made up of two different categories of space; office area and common area. Office area is the actual space occupied by the tenants of the building, while common area is every other square foot of the building. Shared bathrooms, hallways, the building lobby, and electrical rooms are the most obvious examples of “common area” space. One might think that having a big, gorgeous lobby is therefore a burden to the landlord because they could be using the lobby square footage as an additional office space to lease out, thereby creating revenue. However, the landlord already is leasing that space out, and if you are in the building, you are paying for it.

In the San Francisco marketplace, tenants pay for more square footage than they have the exclusive use of. They also pay for their share of the common areas of the building, based on the percentage of square footage they take up in relation to other tenants. For example, if your company leases 5% of the total available office space in the property, you are paying for 5% of the lobby every month, as well as 5% of the bathrooms, hallways, electrical rooms, and all other shared areas. Landlords do this by adding square footage to the lease, even though the square footage added is not exclusively used by your company.

This increase in square footage above what you call your own space is the “load factor”. Knowing how to find a building with a lower “load factor” can save your company a lot of money. Importantly, the more common area a property has, such as a large lobby, the more painful your 5% of that cost is going to be. This is because the landlord is adding more shared square footage to your lease than if the lobby was much smaller. In fact, your 5% share of the common area may add between 10%-30% to your monthly rental payments.

For instance, a 10,000 square foot user with a 25% load factor has actual use of only 8,000 square feet. If you are paying \$50 per foot per year on a 5 year lease, you will pay \$500,000 over the life of the lease for space that is not yours.

How are usable square footage, rentable square footage, and the load factor calculated? Usable square footage is fairly straightforward; it is the area you are able to exclusively occupy within your actual office space. There is a professional organization called BOMA (www.boma.org) that sets standards for these measurements, but you can come very close by taking a tape measure and sketching out your space wall to wall. If every office tenant did this in a particular building, the resulting number would represent the total usable square footage in the project.

Rentable square footage is also determined by BOMA standards, and it is measured by taking the entirety of the building’s floorplates, exterior wall to exterior wall. There are caveats to allow for penetrations, such as stairwells and air ducts, but the idea is to capture the square footage of every floor if there were no interior improvements in place. In other words, simply a blank canvas.

The difference between these numbers is the common area (i.e., hallways, bathrooms). If you divide the common area for the building by the usable square footage of the building, the result is the load factor. In the example above, a 10,000 square foot user is paying for 2,000 square feet of common area, which means they are paying a 25% premium (load factor) on top of their usable square footage. In this example, over five years, the tenant pays \$500,000 extra in rent. That is a large number for not a very large tenant.

What can be done to control these costs? Fortunately, this is an example of tenant cost that can be controlled, but only if it is dealt with before you choose a property. As I mention at the top of this post, these extra expenses are completely customary and accepted in the San Francisco marketplace. There is no point in complaining to the landlord community, but there is a point to paying attention to these numbers when touring prospective buildings. Every office building is laid out differently with different size bathrooms, hallways, and entryways. Therefore, every property has a different load factor and extra cost associated with your potential space. Now that we have seen the math, it is simple to compute the load factor and determine an actual “cost per usable square foot” for each option on your tour list, as opposed to a “cost per rentable square foot,” which is the commonly quoted rental rate in San Francisco.



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Thomas Poser
Leasing Director, LEED AP
1 Front Street, Suite 300
San Francisco CA 94111
+1 415 395 4941 direct
+1 415 421 3058 fax
thomas.poser@am.jll.com

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Another way to deal with this issue on the front end is to make sure your space is measured in a fair way when compared to competitive space, or other spaces in the building. Landlords can charge a different load factor to different tenants on a floor by floor, or space by space basis. This point is somewhat negotiable during the leasing process. For instance, a tenant occupying an entire floor will not have shared hallways or shared bathrooms. They will have exclusive use of these items, and should therefore be charged a lower load factor than a tenant on a multi-office floor. Of course, a full floor tenant still shares the building lobby and some other areas, but a cautious Tenant Representative should be on top of this concept and attempt to lower the load factor for his or her clients.

What is the take away lesson from this cost analysis? I explained an integral part of the leasing process from a tenant's perspective. My goal is not to direct my clients away from properties with high load factors. Rather, I am trying to educate them as to what costs to expect when they ultimately sign a lease. Certainly there are some benefits to choosing a property with a large lobby and more common area, most notably, presentation and prestige. To some tenants, there is value added by having a high profile, glamorous building for their business. For example, law firms find it important to show first class service and amenities to clients and potential clients. To those that need the image for prospects or employees, there is a real dollar value associated with well-built common areas.



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