

FREQUENTLY ASKED QUESTIONS

Answers and recommendations to the following frequently asked questions are by Don Dwiggins Associates LLC (DDA). Terminology is believed to be consistent with the *BOMA Standard*.

1. What is BOMA?

The Building Owners and Managers Association (BOMA) is an international organization with many affiliated local associations. Its primary purpose is to provide resources, education and advocacy to property owners and building managers. BOMA Anchorage has 140 members who represent approximately 30,000,000 SF of commercial real estate in the Anchorage area. More information is available at www.bomaanchorage.com or www.boma.org.

2. What is The *BOMA Standard*?

BOMA, along with the American National Standards Institute (ANSI) has developed a document titled *Standard Method for Measuring Floor Area in Office Buildings* (ANSI/BOMA Z65.1-1996). It has become the de-facto standard for measuring space and pro-rating common area to establish the Rentable Area of office space.

3. What is the difference between Usable Area and Rentable Area?

Usable Area is the measured (actual) area of a lease space or 'Office Area.' Rentable Area is the sum of Office Area plus its pro-rated common area in the building.

DDA recommends using Rentable Area for leases so tenants pay for all the space they use, not just what they occupy. Leases based on Usable Area are giving up potential income.

4. Why should I use the *BOMA Standard* instead of a Load Factor?

Theoretically, using either a load factor or the *BOMA Standard* will yield square footages that include pro-rated common area. The primary difference is that load factors are constant and they can have drastic effects on your lease roll **and the value of your real estate** if common areas change.

A load factor is established by dividing the total area of a building by the lease area in the building. This factor is then applied to all Usable Areas to create square footages which pro-rate the common area. *This will work as long as the common area in the building never changes.* When it does change, as it always seems to, the load factor applied to the sum of the usable areas yields a building total area that no longer equals the actual area of the building!

For example, assume you have a building with 100,000 SF that is 86,000 SF lease space and 14,000 SF common area. This would result in a Load Factor of 1.16279 or 16.279% ($1.16279 \times 86,000 = 100,000$). If you were to convert 500 SF of common area to lease space by reconfiguring a corridor, the same load factor applied would result in the building growing by 581 SF. Using a construction cost of \$300 per SF, the value of the building increased \$174,300!

On the other hand, if you were to add corridor and convert 500 SF of lease space to common area, the building size would decrease by 581 SF for a decrease in value of \$174,300! That will drive an asset manager crazy.

If you use the *BOMA Standard*, the Building Rentable Area will never change unless there are actual changes in the size of the building. If you change the corridor configuration on a floor, the Rentable Area of only the tenants on the respective floor will change.

If you really want to know the average Rentable/Usable ratio, you can simply divide the Building Rentable Area by the total lease area. This is ill advised as this number is not a constant, but just a snapshot of the current building configuration.

The added benefit to using the *BOMA Standard* is that it is a recognized ANSI Standard, and thereby less likely to be challenged than a load factor.

DDA recommends using the *BOMA Standard*.

5. What is Net Rentable Area?

This term is an oxymoron as it consists of contradictory terms, “Net” implying Usable Area and “Rentable” meaning inclusive of common area. It should not be used.

6. What is included in Floor Common Area?

The elevator lobby, janitor closets, electrical and communication rooms, toilet rooms and other common spaces, including corridors that are used primarily by the tenants on a specific floor.

7. What is included in Building Common Area?

Spaces that provide services to all building tenants, including the main lobby, atrium spaces, mail room, sprinkler room, mechanical rooms and penthouses, conference center, athletic facilities, vending or break rooms and similar spaces. These may be located on any floor and are in addition to any Floor Common Area on a given floor. Parking garages and unenclosed mechanical spaces are excluded.

8. Why is the Rentable area less than the gross area of the building?

The gross area of the building includes exterior walls and shafts which are not usable floor space so they cannot be included in the Rentable Area. The *BOMA Standard* does not use Gross Building Area for any purpose.

9. Why can't I calculate the Rentable Area of a tenant suite without knowing the area of all spaces in the building?

You must establish a Building Rentable Area before you can calculate the Rentable Area of an individual suite. Once established, no matter how you define common area, when it is pro-rated to the tenant spaces, the sum of the Rentable Areas will always equal the Building Rentable Area.

Doing only part of a building will GUARANTEE errors in the Rentable Area of individual suites.

10. What is the difference between the Floor Rentable to Usable (R/U) ratio and the Building R/U ratio?

The Floor Rentable to Usable (R/U) ratio is the ratio of Floor Rentable Area to Floor Usable Area:

$$\frac{\text{Floor Rentable Area}}{\text{Office Area} + \text{Building Common Area}}$$

When applied, it pro-rates the Floor Common Area to the Office Area and Building Common Area on that floor, yielding the Basic Rentable Area for each.

The Building R/U is the ratio of Building Rentable Area to the Building Rentable Area less the Basic Rentable Area of the Building Common Area in the building:

$$\frac{\text{Building Rentable Area}}{\text{Building Rentable Area} - \text{Basic Rentable Area of Building Common Area}}$$

When applied, it pro-rates just the Building Common Area to the Basic Rentable Area of each Office Area, yielding its Rentable Area.

The Floor R/U can vary significantly between otherwise similar floors because the floors may have different amounts of Floor Common Area. Once established, Building Common Area and the Building R/U rarely change.

11. Why are the Floor R/U factors different between floors?

The amount of lease space and common area on a floor can vary significantly. Single floor tenants may have very little Floor Common Area and multi-tenant floors can have radically different corridor configurations.

If there is a large amount of Building Common Area on a floor, that Floor R/U

may be quite small as the Floor R/U only includes Floor Common Area.

12. Why don't all the individual Rentable Areas add up to the actual floor area?

Floor Common Area is applied to only the tenants on a given floor. Building Common Area is applied to every tenant in the building. Generally speaking, the sum of the Rentable Area on floors with Building Common Area is less than the actual area of the floor. Conversely, the sum of the Rentable Area on floors with no Building Common Area is greater than the actual area of the floor.

The best way to visualize this is to consider a building with a large lobby on the first floor. This is Building Common Area which must be pro-rated to all tenants. This means that Building Common Area on the first floor is ADDED to the tenants on the upper floors. Naturally, if this area is pro-rated to tenants on upper floors, they total more than the actual area of the floor and the area of the first floor must be decreased accordingly.

Nonetheless, the sum of all the Rentable Areas in the building will ALWAYS equal the Building Rentable Area. This is the whole point of the *BOMA Standard*.

13. Why has the Building Rentable Area changed?

Once a building is properly measured and square footages are calculated, the Building Rentable Area will not change. However, when you undertake such a process for the first time, you may find the Rentable Area is significantly different than you expected. It usually gets down to changing the way the building is measured:

- A. Measuring to the Dominant Portion of a wall which is the glass instead of the face of the wall.
- B. Deducting shafts and their enclosing walls.
- C. Adding floor space at the lowest level of unenclosed stairs when they are not Major Vertical Penetrations.
- D. Including new spaces not previously included, such as a mechanical penthouse or basement storage.
- E. Discovery of new floor space and shafts during the As-Built. If you have never done a complete As-Built, you may have simply missed portions of the building that should have been included.

Note that if you have different people doing different spaces, there could be inconsistencies in the As-Builts and measuring methodology. In this case, it is not possible to know what values to use.

DDA recommend a single firm be in charge of the initial As-Built and area tabulations as well as keeping the master drawings up to date even if several firms are otherwise involved with Tenant Improvements.

14. How do I convert leases from Usable to Rentable?

The steps include a full As-Built followed by proper use of the *BOMA Standard* to establish the new Rentable Areas. Key to this process is educating your management personnel and leasing agents so they do not revert to the old way of doing things.

It may take time for the lease roll to 'catch up' as leases may remain in force with incorrect values for years.

DDA recommends establishing the correct Rentable Area and updating leases as they are renewed. As vacancies occur, update the lease roll to the proper Rentable Area. You may also be able to convert when renewing if the tenant is knowledgeable of the *BOMA Standard*.

15. Why has the Rentable Area of a suite changed when nothing has physically changed?

Starting with the premise that you have fully As-Built and applied the current *BOMA Standard* you may encounter the following:

- A. Prior to 1996, the *BOMA Standard* did not pro-rate Building Common Area to all the tenants in a building, just to the tenants on their respective floor. Tenants on floors with large amounts of common area paid for a disproportionate amount of common area, or none at all. The 1996 rewrite of the *BOMA Standard* created two types of common area and a more appropriate, two step process for pro-rating it.
 - B. The Building Rentable Area has changed as a result of the As-Built such as inclusion of space not previously included. Prior to 1996, floors with no lease space, such as the penthouse or other enclosed heated spaces were simply not counted. Adding these increases the amount of Rentable Area in the building and that, in turn, affects every lease.
 - C. Changes in the amount of Building Common Area in the building such as creating a building conference center out of Office Area.
 - D. Changes in the configuration or amount of Floor Common Area such as capturing or giving up corridor space when you convert a single floor tenant to a multi-tenant floor or vice versa. A change in the Floor Common Area affects the Rentable Area of all the tenants on THAT floor, not just the one whose space actually changes.
16. Should I eliminate the Floor Common Area and include all of it in the tenant's Usable Area when a floor is converted to a single floor tenant?

You can, but DDA recommends against it.

Since common area is pro-rated, a tenant that occupies an entire floor gets

100% of the Floor Common, yielding exactly the same Rentable Area. Converting Floor Common Area to Office Area can mislead you as to how much common area is in the building; your average total R/U can be skewed by several percent, depending on how many floors are single-tenant. It also makes the transition back to multi-tenant floors easier.

17. What do I do if a tenant demands that the lease be based on Usable Area?

If a prospective tenant demands that the lease show Usable Area instead of Rentable Area, you have the following options:

- A. Simply create a lease stating so and give them the same rate as for tenants that have Rentable Area as their basis.

DDA recommends against this as you will be giving up rent on all the common area that should be pro-rated. Of course that is their intention.

- B. Calculate the rent based on the Rentable Area and convert it to a Usable Rate. For example, assume you have 10,000 Rentable SF for lease and the rate is \$2.00 per SF/month resulting in a rent of \$20,000 per month. Now assume that the Usable Area of their suite is 8,500 SF. Their rent should not be reduced. Instead, their rate should increase to cover what the rent should be. In this case $20,000 / 8,500 = \$2.35+$ per SF per month. How they can feel good about paying a rate per SF that is approximately 17% higher than their neighbors is a puzzlement.

18. What do I tell a tenant who has done his own measurements and claims I am charging for too many square feet?

A tenant with a tape measure will typically not include everything that is included in Usable Area; they will not measure to the dominant portion of the exterior walls and will not measure to the center of demising walls. Beyond that, they will have no way of properly pro-rating common areas. The notion that they feel they can measure the space themselves shows they are unaware of what Rentable Area is. You will need to educate them about how the Rentable Area includes common areas and that it is not possible for them to do this calculation without more knowledge of the building than you care to give them. DDA can show them how the *BOMA Standard* works with color computer screens to assist you in this matter.

19. According to the *BOMA Standard*, stair shafts and their enclosing walls are not to be included. What about in two story buildings where the stairs are open?

In buildings where stairways are open to atriums or first floor lobbies, they are not considered Major Vertical Penetration because they do not have enclosing walls. In these instances, the floor space under and around the bottom of the stairs on the lowest level is included in the floor area. On the floor above, the stair opening and the walls surrounding it will be deducted, but landings will be

treated as floor space.

20. How is area measured when the exterior wall slopes?

The Dominant Portion of a wall is typically measured to the point where the slope begins. If the slope is inward, the slope encroaches into the occupiable space. If the slope is outward, the floor space does not extend beyond the bottom of the slope.

21. Are columns included in the rentable area?

Yes, although there are times that a column may become a wall in which case the Dominant Portion comes into play.

22. Are baseboard heaters included in the rentable area?

Yes.

23. Does the *BOMA Standard* apply to retail or warehouse?

BOMA does not have a specific standard for retail space. The *BOMA Standard* can be adapted and applied as directed by the client, but it is specifically written for Office Buildings.

24. Is there a way to pro-rate shared common spaces and internal circulation to individual offices within a suite such as for an executive office suite?

When a tenant has multiple businesses or sub-tenants, they may want to break the rent down by their respective uses. In such an example each office within the suite would pay for the actual office space plus a pro-rated share of the conference room, reception/waiting area, the copy room, the coffee bar, etc.

While this sounds great, this would only account for the suite's Usable Area. An additional set of calculations is needed so each individual office pays its share of Rentable Area for the suite so the sum of the parts equals the whole.

DDA has developed proprietary software that allows this to be done very easily. The shared spaces and internal circulation is pro-rated to just the individual offices or sub-tenants within that suite. In this instance, each office (or sub-tenant) has a Usable Area, a pro-rated internal circulation, a pro-rated Floor Common Area and a pro-rated Building Common area. The result is that the sum of all the Rentable Area of the individual offices will equal the Rentable Area of the Suite.

DDA uses the same methodology as the *BOMA Standard* to break down the suite. It is just done as a separate process once the Rentable Area of the suite is established.

Alternatively, you can treat the suite as a separate, single floor building whose Building Rentable Area is that of the suite's Rentable Area and apply the *BOMA Standard* in normal fashion.

25. What do the different columns mean in the DDA report.

A typical report by DDA contains several columns:

Measured (or Usable Area):

The Measured Area (actual area) of the space. Most typically, the Office Area of a suite, but also the actual square footage of each space measured, including Floor Common Area and Building Common Area if they are included in the report.

Total Pro-Rata Common Area:

This is the sum of all the common area that have been pro-rated to the respective tenant. The multiple stages and various pro-rations are not broken out although they can be if desired.

Rentable Area:

The sum of the Office Area plus all of its pro-rated common areas. This is the amount that the lease should have on it, if you show it.

Amount on Lease (or 'Existing Lease Area' or 'Lease Roll Area'):

This is a non-calculated figure that is taken from a tenant's existing lease and is reported to show what the current lease shows if provided to DDA.

Difference:

This is simply the difference between what the lease currently reads and what the lease **should** read.

Percent of Building:

This is the percent of the entire building (or project if it has more than one building) that a tenant occupies. It is derived by dividing the tenant's Rentable Area by the project or Building Rentable Area. The sum of all such percentages will always equal 100%. It is used for charge backs and pass throughs for operating expenses and the like.

26. What data can I have in my reports.

DDA uses drafting software that can track non-graphical data along with the graphics so any data you want to track such as lease rates, dates, contacts, and the like is possible.

DDA recommends that beyond area calculations, only minimal tenant data be tracked in our reports as it is usually more economical to track this type of information with management software.