



Hunt Corp. Commercial Real Estate Q&A: Usable and rentable square feet - by David Hunt

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Q: Brokers seem to quote space as both useable and rentable square footage. What is the difference between rentable and useable square feet (s/f), and how are they both calculated?

A: The space that a tenant can actually use is called “useable,” or sometimes “carpet-able,” square footage. This may be very important to the tenant in laying out his furniture, but it is not the critical component in calculating rent. The rent in most leases incorporates both the useable square footage, plus the tenant’s proportionate share of common areas in the building. The sum of these two is known as the rentable square footage. The difference between the rentable and useable square footage in a building is commonly known as the loss or load factor. As an example, if by measurement it is determined that 15% of a building is devoted to common areas, e.g. lobbies, hallways and lavatories, then this will become the loss factor for every lease in the building. Industrial leases may also have a loss factor to incorporate common sprinkler, power, or storage rooms.

The measurement and calculation of these figures is by no means an exact science, and a number of standards have been established to bring objectivity into the marketplace. The major standards used in the New York metropolitan area and Long Island are: BOMA (Building Owners and Managers Association), REBNY (Real Estate Board of New York) and AIA (American Institute of Architects). Each has a slightly different method on how to measure common areas and perimeter walls.

If you are a tenant, you should be aware that landlords are often deliberately vague on the measurement of loss factor, to the point that it sometimes just becomes another item to be negotiated, like the rent or a work-letter. From a space utilization point of view, it is critical that a tenant knows that the useable square footage will be sufficient for his needs. And in our experience, this assurance is only possible with the preparation of a tenant space plan, showing the exact location of each piece of furniture or equipment.

You will most often be quoted rentable square footage by a broker or landlord. The approximate useable square footage may be calculated by multiplying the rentable square footage by the loss factor, and subtracting the result from the rentable square footage. For example, if the landlord quotes the size of a suite at 5,000 s/f “rentable,” with a 15% loss factor, you would first multiply 5,000 by 15% to compute the “lost” area of 750 s/f. Subtracting 750 from 5,000, gives you an approximate useable size of 4,250 s/f.

It is very important for a tenant to address this issue before a lease is signed, as there is usually little or no recourse after lease execution. Most leases have no direct calculations of either useable or rentable square footage, and if a rentable figure is provided, it is almost always modified with the word “approximate.” It is incumbent on a tenant, therefore, to first determine that the suite under consideration is adequate for the proposed use by means of a space plan, and secondly, have some reasonable assurance that the loss factor represented by the landlord approaches reality.

In the end, there are no set formulas or rules that must be followed. The solution is a clear understanding of the actual square footage to be occupied, along with a satisfactory agreement on the rentable square footage in the lease document.

Do you have a question regarding commercial real estate? Email your question to Commercial Real Estate Q & A at email@huntcorp.com for possible inclusion in a future column.

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