

What Commercial Tenants Need to Know About Area Calculations

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The process of determining rentable area in leasing space in a commercial building is known in the industry as “area calculations.” It is often ignored by tenants but is a critically important aspect of leasing. The reason is simple; base rent is the product of the rent rate times the rentable area. Tenants usually focus on the rent rate. When they secure a low rent rate, they believe they’ve struck a good deal. This belief is false because there is a long list of other lease terms with significant economic impact on the tenant. Area calculations lead the list.

Landlords in this country are legally free to measure their space any way they want. Unlike many other countries, there are no laws or statutes in the USA governing how the floor areas of commercial space must be measured for leasing purposes. Some spaces like stores or storage areas are sometimes leased on a “usable basis” to the inside face of a tenant’s enclosing walls. Other retail and industrial space may be leased on a “gross basis”, which includes the thickness of enclosing walls as well as any interior stairs and shafts. Office spaces are most frequently leased on a “rentable basis”, which adds a pro-rata share of building and floor common areas to the tenant’s usable area. The Building Owners and Managers Association “BOMA Standard” describes the most common such measurement method.

Measuring on a usable, gross and rentable basis are three very different ways of measuring space that can lead to large differences exceeding 20% in rentable area. Over a five or ten year period and several thousand square feet, this difference can mean a lot of money, commonly six or seven figures.

The lease contains the critical provisions relating to measurement method, usually in the section entitled “premises”. This section may also have a reference to an exhibit that contains a graphical floor plan of the space to be leased. It is always beneficial for both tenant and landlord to incorporate a floor plan of the premises in the lease because it can eliminate misunderstandings about the boundaries of the leased space.

Many landlords and leasing agents do not bring up area calculations during lease negotiations because of their complexity. However, there are a few landlords who hope to gain by this obfuscated process. This is why a tenant should verify that its lease area was correctly calculated. Ideally, this is done before a lease is signed. If the space is under construction, verification of area calculations will not be possible and a “right to re-measure” after occupancy will be important to include in the lease.

A tenant leasing on a usable or gross basis can, with a little time, a tape measure and a little knowledge of geometry, confirm their rentable area by field measuring or scaling dimensions from floor plans. For a few cents a square foot, this task can be outsourced to a measuring firm.

Tenants in space leased on a rentable basis cannot so easily confirm their rentable area. However, they can confirm their usable area by direct measurement or scaling from plans and then asking the landlord for the applicable “floor R/U ratio” and “building R/U ratio”. The product of these three figures (usable area X floor R/U ratio X building R/U ratio) should equal the rentable area shown on the lease. Tenants can also ask for a list of all the floor and building common areas and review it for reasonability. A well-managed property will have graphic documentation of its floor areas that support the calculations of floor and building R/U ratios. To fully verify the rentable area of a suite requires measurement of the entire building, a process that requires the help of a tenant representative, lease auditor or measuring firm. Regardless of how the lease is written, a tenant can demand written certification that their square footage was calculated in accordance with the measurement standard cited in the lease.

It is notoriously difficult for two parties to measure a given floor area with identical results. This has led to the incorporation of a 2% measurement tolerance in published measurement standards. For large leaseholds, a 2% difference in rentable area can translate into a lot of money. Therefore, large tenants may want to consider explicitly requiring a smaller tolerance when appropriate.

In summary, square footage is a major determinant of base rent, so a tenant should pay attention to how its floor areas are calculated and should have explicit agreement with the landlord on this matter. Because US landlords have a lot of legal leeway, they sometimes depart from published standards. There are often very good reasons for doing this, but it is what the tenant pays for the value received that matters most, not the measurement process. That being said, landlords must conform to the any measurement standard that they profess to use, and agreement on measurement method can be as important as any other provision in a lease.

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