

What the BOMA Standard Really Does

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For those unfamiliar with it, the BOMA Standard (ANSI/BOMA Z65.1-1996, published by the Building Owners and Managers Association) is a bewildering document. At 27 pages of text and illustrations, it is difficult to discern the “big idea”, which is why I offer this explanation.

The big idea starts with the initial goal of attracting capital to make it possible to finance a commercial office building. From a property manager’s perspective, a building is an asset that has to be managed (along with other “properties” in a “portfolio”) to provide the promised returns to its investors. When the total costs of developing and operating a property are known, along with the amounts needed to compensate investors for the use of their capital, the issue becomes how to recover those costs fairly from the tenants.

Occupancy, expressed by square footage in the US, is the basis for this recovery. This is where the BOMA standard comes in, since the most of the development costs are recovered through a base rent rate applied to occupied square footage. A pro-forma reduces a building’s total costs to an annual cost per square foot, and then uses that to set a base rent rate per square foot occupied by each tenant. To accomplish this, a measure of occupied square footage is needed that does not vary. Usable area, or the space actually dedicated exclusively to tenants, is unsuitable because it varies dramatically over the life of a building. Gross area is constant, but is hard to measure from the inside in tall buildings and includes space in which there is no floor, which provides no benefit to tenants. Rentable Area, or fully enclosed space that has a floor, is the measure of choice because it can be measured from the inside, correlates well with the cost of a building, and is constant.

There are two steps in determining Rentable Area of a building; First, determine the total gross measured areas of all floors, and second, subtract the total major vertical penetrations. The BOMA Standard includes many detailed rules for doing this that won’t be repeated here except to restate the importance of measuring the whole building, not just part of it. If you measure less than the whole building, the resulting cost per square foot referred to in the previous paragraph will not be valid and it won’t work for the financial stakeholders. This is the most crucial step for the financial success of the property.

The next step is to allocate the building’s rentable area to each tenant suite. This is done by measuring the usable area of each tenant suite and establishing the ratio between the usable area and the rentable area, called the R/U ratio (some call it the “load factor”). The BOMA Standard actually used two kinds of R/U ratios – floor R/U ratios (unique to each floor) and a building R/U ratio (only one). On any given floor you can combine them through multiplication but a single combined R/U ratio for all floors of a building is not possible under the BOMA standard. Floor Common Area (toilets and, on multi-tenant floors, corridors) are actually not measured but are a remainder resulting from the subtraction of tenant usable areas and building common areas from the rentable area of each floor. Again, the BOMA Standard includes many detailed rules for doing this that won’t be repeated here.

Viewed top-down the process of building area measurement is a simple three-step process:

1. Classify all space in the building
2. Determine the boundaries and raw area of each class of space
3. Perform calculations to determine the rentable area of the building and allocate it to each of its tenants.

In order to conform to the BOMA Standard, a measurement methodology must conform to BOMA specifications for all three steps. Careful reading and unbiased application of the BOMA Standard leaves little leeway in applying these steps, which is why it specifies a 2% tolerance.

Communication on a clear and understandable basis is the stated objective of the BOMA Standard. This helps immensely in the operation of real estate markets where landlords compete for tenants using the same measure of floor area but base rent rates that vary to reflect the unique location and amenities of individual properties. However, serving the interests of the real estate industry by making real estate investments financially successful is an unstated objective. Without capital, there would be no buildings, and successful application of the BOMA Standard helps to generate the return on investment that will attract the necessary capital.

Another unstated objective is to provide a basis for allocating common area maintenance (CAM) expenses to tenants. Under many leases, the costs of maintaining grounds, parking lots, roofs and the like are apportioned to tenants based upon each tenant's rentable area. For this to work, a consistent measure of total rentable area is needed. The BOMA standard is structured to maintain the total rentable area of a property at a fixed level regardless of changes over time in occupancy. And, because rentable area is an important input to the appraised value of a property, maintaining the rentable area of a building helps to maintain its value as an asset.

Finally, the role of the BOMA Standard in the BOMA Experience Exchange Report (EER) should not be forgotten. The EER is a database updated annually by BOMA that documents costs per square foot for operating commercial properties. It is used by property managers to benchmark their operating expenses and thereby manage them. To be comparable, the measure of square footage needs to be the same in every building. This was one of the reasons for the development of the BOMA Standard in 1914 and is still an important reason for using the standard today.

If, as the saying goes, square footage is the currency of real estate, then BOMA Standard is the equivalent of Generally Accepted Accounting Principles (GAAP) and is important to all who are involved in real estate.

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