

HOW TO FIND A MILLION DOLLARS

The *BOMA Standards* and their use in valuation – how to add value for clients as an appraiser



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BENEFITS OF SPACE CERTIFICATION

- Maximize asset value
- Increase asset performance
- Prevent and resolve landlord-tenant disputes
- Accurately calculate and allocate expense recoveries
- Confirm correct areas for leases

WHAT IS A BOMA STANDARD?

What are the *BOMA Standards* and why are they important? *The Building Owners and Managers Association Standard Methods of Measurement (BOMA Standards)* are a set of guidelines used by real estate practitioners of all walks in order to consistently measure and describe the areas of a wide range of property types. They are the preeminent guide to space measurement. But what does that mean in practice for an appraiser? The *Standards* are an important tool for measurement, research, data collection, analysis, and comparison; however, their benefit goes well beyond that: proper application of the *Standards* has a direct impact on the value of the underlying property. As an appraiser, this is where you can

provide added value to your clients. Buildings that have not been measured in accordance with the relevant standard are often underperforming. As real estate practitioners and professionals, it is our duty to act in our clients' best interests, identifying issues and providing solutions.

Most importantly, however, the *Standards* enable the opportunity as appraisers for added value for your clients, improving your ability to proactively advise. They help to maximize performance, thereby increasing income and value of assets. They ensure accurate allocation of areas and operating expense recoveries. They help protect your clients from tenant disputes. The *Standards* are an integral part of modern real estate management and valuation.

BOMA STANDARDS – The who’s who of space measurement guides

Like your favourite wine, the *BOMA Standard Methods of Measurement* come in a variety of flavours and vintages: Office Buildings (1996), Office Buildings (2010), Industrial Buildings, Retail Buildings, Gross Building Area, Mixed-Use Buildings, Multi-Unit Residential ... the list goes on. Whatever the type of property, there is likely a standard to measure it. While you do not need to memorize the intricacies of each standard, it is important to know how they generally work and the key differences between them.

Office Standard – the *Office Standard* is the oldest and most recognized of the various measurement standards. The basis of the *Office Standard* is that tenants derive a benefit from the various common areas throughout the building (lobbies, hallways, washrooms, etc.) and, as such, these areas should be grossed up to each tenant (allocated back to tenants on a proportionate basis. As a result, a tenant will have a Usable (or Occupant) Area (the space that the tenant physically occupies) as well as a Rentable Area (the Usable Area plus the tenant’s pro rata share of common space). Typical office buildings have a total gross up of 12%

to 19%. So well known is the *BOMA Office Standard* that its use began to leech into other property types for which the Standard was not originally designed, and so additional *Standard Methods of Measurement* became necessary.

Industrial Standard – similar in operation to the *Office Standard*, the *BOMA Industrial Standard* works on the basis of grossing up common areas to tenants on a proportionate basis. As such, this *Standard* also yields each tenant with a Usable/Occupant Area and Rentable Area, though, in practice, industrial buildings typically have a nominal amount of common area – typically between 3% and 5% – and so gross ups are frequently left out.

Retail Standard – applies to shopping malls, strip centres, free standing retail buildings and the like. Tenant spaces are measured with a Gross Leasable Area, which does not have a provision for the inclusion of a common area gross up.

WHAT IS IN A SQUARE FOOT – How to apply the BOMA Standards in practice

One square foot is not equivalent across the *Standards*. One square foot of Gross Leasable Area under the *Retail Standard* does not equal one square foot of Rentable Area under the *Office*

Standard, or one square foot of Rentable Area under the *Industrial Standard*.

Each standard has its own methodology, which leads to differences in certified areas. For example: under the *Retail Standard*, the ‘measure line’ extends to the *outside* face of all exterior walls, whereas under the *Office Standard*, the measure line extends to the *interior* face of exterior walls. These subtleties make a big difference in certified areas and are relevant within all facets of real estate: leasing, appraisal, management, construction and planning, etc.

The use of the *BOMA Standards* facilitates consistency and accuracy. Two office properties certified to the *Office Standard* will be measured in the same way, and an apples-to-apples comparison can therefore be made. However, if you compare the Rentable Area of an office building to the Gross Leasable Area of a retail building, you are comparing two very different measures of area. This is akin to comparing a gross rent and a net rent: you would expect to get very different results in the same market for rental rates. In much the same way, comparing different measures of area is not a foot-to-foot comparison, and will cause the inability to draw meaningful conclusions.



One key benefit of the *BOMA Standards* is its ability to evaluate building efficiency (especially important in the office sector). A building with a high proportion of its area covered by common space, such as lobbies, hallways, and entries, is less efficient and will have a higher gross up factor. These differences become even more evident when comparing two similar size units in two different buildings, which have different amounts of common area. While each unit may have a Usable Area of 1,000 square feet, the less efficient building will have a higher gross up. The result of this is the two units will have different Rentable Areas: while the same-sized unit has 1,100 square feet of Rentable Area in one building, it may have a Rentable Area of 1,300 square feet in another. What that means for tenants is that, while one building may have a lower face rent per square foot of Usable Area, the total rent payable may actually be higher due to the larger Rentable Area following gross up.

MORE THAN JUST A NUMBER – Make the *BOMA Standards* work for you

While the aforementioned is a good introduction in how to apply the *BOMA Standards*, what does this mean for appraisers? More importantly, how can you, as a valuation expert, leverage the *BOMA Standards* for their maximum potential? Take a large office tower for example: its value to a potential purchaser is as an investment vehicle. Potential owners of this type of building are concerned with the income stream; everything else is in the details. That income stream is a function of two things: the rental rate per unit (square foot) and the total area rented. Just as the rental rate is dictated by the local market, the Rentable Area of a building should be dictated by the applicable measurement standard. If a building has not been measured in accordance with the applicable *BOMA Standard*, the appraiser should be making such a recommendation to the owner. Accurately measured buildings will help maximize value, minimize landlord-tenant

“The *BOMA Standard Methods of Measurement* set out clear and consistent definitions for all types of properties, allowing buildings to be compared on a like basis and appraisers to provide added value for clients who may otherwise fail to recognize the underperformance or missed potential of their real estate assets.”

Building	Rent Roll Area (ft ²)	BOMA Certified Area (ft ²)	Ft ² ‘missing’	% ‘age ‘missing’
Building A	52,266	58,751	6,485	11.00%
Building B	59,025	66,690	7,665	11.50%
Building C	29,085	32,962	3,877	11.80%
Building D	29,677	32,364	2,687	8.30%
Building E	69,209	70,833	1,624	2.30%
Total	239,262	261,600	22,338	8.50%

disputes, facilitate common area recovery calculations, and aid in planning for new tenants and current tenant expansion and contraction. Your assignment may have started out with the objective of determining market value; however, by identifying the lack of certified building areas at the subject property, you can add an advisory function – identifying new opportunities on which your client can capitalize.

HOW TO FIND A MILLION DOLLARS – Use in valuation and income capitalization

Now that we have established how the *BOMA Standards* and certification can benefit valuation work, let’s look at the real-world effects. Take the Halifax market, where Turner Drake’s head office is located. Through our semi-annual market surveys and LaserCAD™ space measurement audits, we discovered that the average lease area was off by about 10%. With the average office tower in the Halifax downtown being approximately 85,000 ft.² and average rents running north of \$14/ft.², the loss in rental revenue over five years is roughly \$600,000. From a valuation standpoint, the question becomes what will be the effect on overall value? Based on the current market parameters using a direct capitalization approach, that office tower would suffer from a loss in value of almost \$1.4 million dollars. These are staggering numbers that should jump out at any real estate professional.

For another ‘real life’ example, consider the following scenario where a client was looking to purchase a portfolio of office buildings. As part of their due diligence, the purchaser measured a random sample of units and compared the calculated areas against the rent roll. The result was startling – they matched. By undertaking this simple exercise, the purchaser determined the leases had all been written on Usable Areas and no common areas were being grossed up to the tenants. The buildings were, in fact, much larger than advertised

The vendor thought he was selling 240,000 square feet of office space, whereas the purchaser was savvy enough to know he was really buying 260,000 square feet. Over time, leases were updated with the accurate BOMA-certified areas and the performance of the portfolio improved.

CONCLUSION

The *BOMA Standard Methods of Measurement* are an invaluable tool to the real estate practitioner. They set out clear and consistent definitions for all types of properties, allowing buildings to be compared on a like basis. Furthermore, they allow you, as an appraiser, to go above and beyond and provide added value for clients who may otherwise fail to recognize the underperformance or missed potential of their real estate assets. As appraisers, it is vital to at least have a working knowledge of the *BOMA Standards*, how to use them, and, most importantly, how to leverage them in order to provide the best service possible to your clients. 🌈