

WHY IS MY OFFICE SPACE **SO MUCH SMALLER** THAN WHAT MY LEASE STATES?

WHY TENANTS PAY FOR MORE SPACE THAN THEY ACTUALLY OCCUPY

"Why is my space so much smaller than what I pay rent on?" is a common question that is asked by commercial tenants AFTER their lease is signed. Some don't even ask the question as many don't even realize that their space is almost always far smaller than what their lease states.

The vast majority office tenants pay rent on more space than they occupy to ensure that landlords obtain rents and offset costs for "common areas" and amenities located within a particular building. As expected, any prudent landlord would want to obtain as much rent out of their buildings as possible.

WHAT IS A GROSS-UP FACTOR?

The proportionate allocation of common areas in a building to tenant space.

R/U (rentable/usable) Factor, R/U Ratio, Gross Up Factor, and Load Factor are generally synonymous. They all refer to the proportionate allocation of common area to tenant space. The use of building measurement standards in commercial real estate transactions is normal, however as a tenant, I'd definitely want to know what and how much space is being allocated to me."

Adam Fingret, Principal, Extreme Measures Inc



Common Areas include all the space within a building that are for the common use of all (or multiple) tenants.

WHAT SPECIFIC AREAS ARE CALCULATED TO DETERMINE THE GROSS UP FACTOR?

COMMON AREAS TYPICALLY INCLUDE:

- Washrooms
- Elevators
- Atriums
- Lobbies
- Hallways
- Electrical & Utility Rooms
- Amenities (i.e. fitness)
- Conference Rooms
- Other....(?)



Virtually all commercial leases are based on “Rentable Area”. This should not be confused with “Usable Area” – which is rarely referenced or discussed with Tenants. Typically, common areas within a building account for 8 – 16% of a building’s total size (and in some cases, substantially more). As a result, your lease will require you to pay your proportionate share of that common area. **Therefore, the rentable area of your office space (and your rent payments) will be 8 – 16% higher than what you actually use (Usable Area).**



WHY HAVEN'T I HEARD OF IT? WHY WASN'T IT DISCLOSED?



Here's a clue: Listing agents (the companies whose “for lease” signs adorn most large office buildings) **work for LANDLORDS***. As a result, many prefer not to highlight the fact that you're paying on far more space than you occupy – along with a myriad of other “landmines” that unsuspecting tenants absorb in a typical commercial lease.

*Some listing agents will disclose that they are willing to act as a dual agent (meaning that they'll try to work for *both* the landlord and tenant). This is akin to letting the plaintiff's lawyer also represent you as defendant in court, which is why regulators are increasingly prohibiting the practice.

CAN I NEGOTIATE OUT OF A GROSS UP FACTOR?



Likely not...and this is another reason it is often not disclosed. Virtually every office building has common areas and amenities – and therefore a proportionate gross-up factor which requires every tenant in the building to contribute their proportionate share of the costs.

Large beautiful atriums and common areas, comprehensive amenities and fast elevators...all make a work environment that much more attractive. Considering the average tenant spends 20,000 hours in their office during a typical lease, having appealing common areas and ample amenities is generally a wise investment into your people and the profile of your firm.

This said, one should be aware of the costs involved given that some buildings in Canada have gross-up factors that approach (or exceed) 30%! Often, unsuspecting tenants do not realize how large the gross-up factor is, while mistakenly thinking the listing agent is going to disclose and address whether it suits their needs and budget.

Utilizing an advisory firm that is 100% dedicated to helping tenants can ensure you are making an informed decision. An expert advisor will also ensure your amenities are proportionate to your needs, ensure a value proposition is established and a favorable lease is signed.



RETAIL TENANTS RARELY IF EVER PAY GROSS-UP FACTORS.

Retail tenants pay their share of common area costs based on the gross rentable area of their premises divided by the gross rentable area of the retail/shopping centre they are located in. Often, utility rooms and connections are located within the tenant space and is therefore included with the rental rate for the space. Ask your advisor about applicable deductions.

Commercial tenants should be aware of how much they are being charged for common areas, amenities and what is included as part of the charge.

Beautiful granite floors, plush leather couches, fitness facilities and soaring atriums definitely enhance work environments, but like all things, they come at a cost.



We are a commercial real estate advisory firm that is solely dedicated to helping tenants.

We focus on companies where location, position and rent has a tangible effect on financial performance. Our mission is to help our clients pay less rent, find great space and sign better leases.

We have offices in Vancouver, Toronto and Calgary, with partner offices in Edmonton, Winnipeg, Montreal and the Maritimes. Our account executives combine industry leading programs, process and analysis with experience to ensure our clients obtain and maintain great locations at favorable terms.

Please visit our website at www.orangegroup.ca or call **Grant Kosowan** at **403.209.4291** for more information or to book a presentation.

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