

News & Information

CRE Terms: Defining Space



Commercial real estate (CRE) is full of ways to slice and dice the numbers around occupation, yields, usable areas and more. In-demand brokers and dealmakers develop a sense and gut instinct for these figures over years of exposure and experience, but let's revisit three key definitions we typically use in calculating space within CRE: usable area, total inventory and net absorption.

#1 - Usable Area

This is one of those terms that has an apparent "common sense" understanding – what area (usually measured in square feet) is usable by a tenant. To understand it a bit more specifically, it must be noted that this is a relative term, meaning measured against other metrics – most commonly, rentable area.

The NAOIP 2017 Terms and Definitions document – which has been referred to because of its ease of use and accessible explanations – gives the example of columns inside a space. They write: "columns inside a tenant space are counted in the measure of rentable area, but the space occupied by the column cannot be used by the tenant". Additionally, the document points out that a usable area measure typically does not include shared or common areas within the building.

Rentable area, or rentable building area (RBA), on the other hand does include common areas such as bathrooms, lobbies, hallways, and so on. This figure is expressed as total occupiable square footage, assigned to a tenant in order to calculate their rental obligation.



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#2 - Total Inventory

Inventory is a very useful measure for the savvy CRE professional. Total inventory can be expressed as a number of buildings and total square feet (as the net rentable area). It does not, however, typically include buildings still under construction – meaning that inventory goes up as new developments and buildings are completed and delivered, and consequently it will decrease as a building goes "offline" – when it is demolished or its use changes. It is important to note that buildings being renovated may form part of the total inventory if they are still occupied or inhabitable during said renovations.

When expressing total inventory, the best practice is to provide a key or description of the "characteristics and numeric thresholds," advises NAIOP.

#3 - Net Absorption

Absorption is a changing figure, one that reflects change over time. Again, square feet are used as the base metric (although naturally in some markets square meters may be substituted). It is also directly related to the total inventory figure, as above.

"Net absorption," writes NAIOP, "can be either positive or negative and must reflect increases and decreases in inventory levels." And it can be expressed or stated as a measure of the market, submarket or building levels.

Definitions are from the NAIOP Research Foundation. NAIOP is the Commercial Real Estate Development Association.

