

Breakeven Analysis

The break-even point tells you how much space must be leased in order to cover all costs. The property manager uses the break-even point to determine when the building will begin to show a profit. To calculate break-even, use the following formulas:

$$\text{Break-even Occupancy} = \frac{(\text{Total operating expenses} + \text{Annual debt service})}{\text{Gross potential operating income}}$$

Example
$$\text{Break-even square footage} = \frac{\text{Total Square feet}}{\text{Break-even Occupancy rate}}$$

Break-even Analysis

You are the property manager for the Zippy Building which has 100,000 square feet of rentable area. The gross potential total income for this building is estimated to be \$1,500,000. The annual debt service amounts to \$300,000. Annual operating expenses are expected to be \$875,000, none of which are passed through. What is the minimum amount of space that needs to be rented to break even?

Solution:

Using the formulas from above,

$$\begin{aligned} \text{Break-even occupancy rate} &= \frac{\$875,000 + \$300,000}{\$1,500,000} \\ &= \frac{\$1,175,000}{\$1,500,000} \\ &= 0.783 = 78.3\% \end{aligned}$$

$$\begin{aligned} \text{Break-even sq.ft. RA.} &= 100,000 \text{ sq.ft. RA.} \times 0.783 \\ &= 78,333 \text{ sq.ft. R.A.} \end{aligned}$$

78,333 square feet of rentable area would have to be leased to break-even.