

What's Your Rent/Revenue Ratio?

My fellow citizens,

I've been wondering whether I am paying too much for rent for my office when taking into account my revenue.

What is your ratio or rent/revenue?

For instance, If I make \$10,000 a month and my rent is \$1,000, then the percentage is 10.

Is there normal or average ratio or percentage of such thing?

Obviously no one wants to have such high percentage but what constitute a high percentage? 15%? 20%?

I am curious to find out. Currently mine works out to be about 13.6%

Is this way too high you think? About right?

Anyone cares to comment?

Mine is zero because my office is in my home. Sometimes I worry that clients are put off by that -- especially if they drop by without an appointment and see me stripping exterior paint in my IHTFP (I Have Terrific Fun Painting -- graduates of a well-known East Coast university who think it means something different have now had a teachable moment) T-shirt.

Walter Oney, Massachusetts

I think your question is interesting and I hope you get some responses. However, I only think it is interesting for curiosity's sake.

For my 2 cents, the better question is simply, what is the CHEAPEST rent you can find that won't negatively impact your business? If you've found it, then the percentage doesn't matter because you can't do any better. If you haven't, keep looking. You are taking money out of your pocket to put into your landlord's and getting no benefit to your bottom line. I realize there can be many other benefits to a nicer office. At my stage (true solo with two young kids), I don't much care about them.

I work from home and use a virtual office for mail and meeting clients. Almost all the rent money I would otherwise spend is profit to me. My percentage is somewhere around 3 percent.

Dave Truman, Ohio

There is no ratio that has meaning. The question is the justification for the expense.

What BUSINESS or business advantage do you get for your present rent? How would that change if you move to lower rent offices?

THAT'S WHERE THE BUCK STOPS.

John Page, Florida

I just started, so it's hard to say what my income is. My partner and I spend about \$1350/month on rent plus internet for two offices. We are in a Regus office, which means we're in a very nice building with a receptionist (although we answer our own phones by choice). We are trying to build a practice of business clients, so it's important for us to have nice offices for our clients to meet. Because there are two of us sharing resources, it's not really feasible for us to work from home (although if we really had to we could make it work). My guess is that for the foreseeable future, our gross revenue won't be that much since we are still starting out. We've been in business for about 3 months now, and on average, we have only brought in around \$8k a month. Hopefully that starts to go up soon.

Hope this helps!

Butcher & Callaghan

I agree with Dave's analysis. I just moved from 1000 square feet down to 200.

My rent is less than 3% of my gross. In the last place it was nearly 9% of my gross. I felt like I was choking on that. I actually enjoy writing my rent check now. Although the new building doesn't have on-site management and it really shows. I fully expect that I will find no soap or paper towels in the bathroom again today (for the fourth day in a row).

Michelle Kainen, Vermont

And here I thought it stood for "I have truly found paradise." Live and learn!

Josh Paulin, Massachusetts

Great question. I think it is helpful for us lawyers / business owners to stop and think about these things from time to time. I know I can get so caught up in the daily minutiae of running a law practice that I forget to take a step back and see the big picture.

Anyway, I am very proud to announce that I purchased my own office space in 2011 in downtown Boston. My "rent" - a portion of which goes toward paying down the principal on my commercial loan - is currently about 25%-35% of revenue. That is too high, but I am so thrilled not to be paying a landlord! I have only had my own practice for 5 years, and I'm hoping that over the next two decades my revenue will go up and up while my "rent" stays put.

Chris Vaughn-Martel, Massachusetts

I can't quite agree with the "cheapest you can find without hurting" suggestion. It's a decent principle, but it's actually answering a different question. If the original poster had asked how much - in dollars - they should spend on rent, then that would be a perfectly good answer. But, they wanted a percentage.

A percentage is the result of TWO numbers. It's about proportion. That's an entirely different matter. And, importantly, if you're planning for the future, percentages become more relevant than raw numbers. For example, we may learn that law firms have difficulty maintaining rent costs of more than 15 percent. That is, given all of the other expenses that must be paid, going over 15 percent (or whatever) in rent makes long term sustainability impossible.

Put another way, suppose I get that "cheapest" rent, and it works out to be 30 percent of my revenue. That tells me that I'd better hustle up more revenue, or else I'd better practice saying "do you want fries with that."

Next, I would encourage you to base your numbers on a percentage of your overhead, not a percentage of your gross. You should carve out your piece before you start divvying up the expenses. On that basis, I spend 15 percent of my overhead on rent, and I'm very comfortable at that level. It's 9 percent of my GROSS. But, again, I don't think that's a terribly helpful number.

Cheers,
David Allen Hiersekorn, California

Rent is cheap here in Mid-Missouri. I have about 800 square feet consisting of large office with a bay window, conference room, file room, kitchen and bathroom. This is in an old, but completely renovated, 3 story limestone mansion that is within walking distance of the courthouse. Here is a breakdown of my expenses:

Rent: \$375.00

Utilities: \$65.00 (average)

High speed internet: 39.95

Kurt Valentine, Missouri

I spend about 3-4% of my monthly revenue on rent, and rent represents about 15% of my monthly overhead (which is an interesting way to look at it, actually). I have a three year lease agreement that's structured so that I paid 50% of the market rate the first year, 75% the second year, and the full rate the 3rd year (each year it'll be less than \$500). I'm in a pretty ugly building, but of all the offices I looked at, this one had the best layout (two rooms with a door between them--I don't have a secretary, but if I did, I'd have room for a second desk in what is now the reception area), as well as being in a building with an elevator (two others were on the second or third floor with only stairs--I don't have any clients with disabilities at the moment, but if I did I felt like that would be a problem). It was also the cheapest, but if it hadn't met my needs better than the other available spaces, I think I would have paid more in rent (and whether that would have motivated me to work harder to keep the rent at the same percentage of my income remains an open question). The building is pretty ugly, but the landlord was really accommodating about repainting and re-carpeting the office in nice, neutral colors, so it was pretty easy to make it look warm and inviting. It also turns out that people do really respond to throw pillows and one of those baked-good scented reed diffuser things (I always go for a variation on cinnamon or vanilla--something warm and cookie-adjacent). I get a lot of compliments on the way it looks and smells in here, and no mention of how ugly the lobby is, so it works for me.

Christina W. Crudden, Pennsylvania

Another way of looking at it.

A close friend, who's an architect and has dealt with several law firms said that when some people walk into a nice law office, especially a larger firm, the inclination is to think "These people can do anything." YMMV.

William B. Richards

I prefer to control expectations from the outset. I guess I am on the right track, according to your architect friend. The last thing I want is for clients to think I can do anything. I can't. I tell them I can't. I tell them what I believe I can do. Hopefully my modest dwellings here reflect that.

Michelle Kainen

"Rent: \$375"? How do I waive into MO?

John Leonard, Connecticut

I advise clients to target no more than 10 percent of gross revenue for rent. The lower, of course, the better.

Best of luck!

Mo

Mauricio R. Hernandez, Arizona

Wow, this is amazing. Here in San Jose, a 800 sq. ft. office space in a good building near the court house is at least 1500/month (or more). Utilities are much higher too. Internet alone is \$80/month or so.

Rajeev Madnawat, California

Yep. California's a different land altogether. I got a sweetheart deal on my current space. I pay \$2,600/mo for about 1,300 square feet. At my last office, I was paying \$8,900/mo for 3,100 square feet. And, THAT was a good deal, too. (At the time. Leasing rates have dropped about 40% since then.)

Cheers,

David Allen Hiersekorn

Here that's because he's in the middle of nowhere! If your in the kc or stl area expect at least \$500 to \$750 unless your office sharing from someone else (even then those were close to \$500 in places like Clayton).

I believe MOs reciprocity rule is 5 out of last 10 years practice full time, same as IL.

Erin Schmidt

Yup, Hawaii too. I'm in one of the least expensive (decent) office buildings in town. We (I share office space with another solo) pay (rent, CAM and electricity) a total of \$2,450/mo. for 717 sq. ft. This is NOTHING FANCY! But I couldn't find anything cheaper that wasn't absolute slum-ville. And most office space in Lihue is leased at present, vacancy rates are low, so it's not so much a buyer's market (as it was a year or two ago).

My share of that is \$1,450/mo.; the other attorney pays \$1,000. But I also get another \$200 from an out-of-town atty. who uses my conference room occasionally. So, what I actually pay is \$1,250/mo.

I would love that to be under 10% of gross, but it's just not happenin'.
Not yet.

Cynthia Hannah-White, Hawaii

50 a month over here. V office setup. I hardly use conference room starbucks and attheir house. Clients know me cia word of mouth. Always meet my clients in court. Use conference room for when I need to close a little harder.

Hieu Vu, California

I'm working mostly from home still, starting to get busy but I still work from home. Decided I need a more formal office. Rates run about \$2-4/sf on average.

So executive suites run me about \$300-500, real fancy up to \$1,000. 100sf - 200sf.

Well trying to keep my expenses low for this year I come across a building that has a 125sf exec suite (good enough for me for the year) for \$159/month. I almost fell out of my chair. I rented it just because. If I opt for a nicer place this year I'll keep this and make it a video recording room.

Joseph D. Dang, California

Rough cut you can always benchmark based on the "rule of three". $1/3$ revenue = profit to the firm, $1/3$ covers salaries, $1/3$ benefits and overhead. Salary includes your salary, by the way, which is different than profit. Yup. It is. Rule of three is historical, but you know, it really is an adequate way to look at the numbers and get a quick check.

As a ratio, you've gotten good advice, rent:revenue isn't so meaningful as a benchmark. On the other hand, if you can't afford your rent, it is a big expense driver that you can look to reduce. And here we are back again at that key point- the best thing you can do for your ratios is to increase revenue without increasing expense!

Good night all, do watch for the moon, it's gorgeous tonight, and may you have a wonderful week. With plenty of revenue to cover your rent! (and your salary too!)

Barbara Nelson
Notta Lawyer, New Jersey
