



A REMINDER RE: I.C. & I. CALCULATIONS

There are three input items on the I.C. & I. Industrial/Commercial and the I.C. & I. Multi Family input forms which deal with ratios to be calculated. These are **205** EXPENSE RATIO, **206** CAPITALIZATION RATE, and on Multi Family only, **209** GROSS RENT MULTIPLIER. In order that this information may be consistent, the anticipated method of calculation for these would be as follows:

Let us use the example of a Multi Family apartment with an effective gross income of \$100,000 (from **284** on the data input form), total expenses of \$34,000 (from **285** on the input form), leaving a net operating income of \$66,000 (**286** on the input form). The list price is \$660,000.

CALCULATIONS:

1. **205** EXPENSE RATIO

The formula to calculate this ratio is:

$$\text{EXPENSE RATIO} = \frac{\text{TOTAL EXPENSES}}{\text{EFFECTIVE GROSS INCOME}}$$

Where TOTAL EXPENSES is *before* debt service and income tax, and EFFECTIVE GROSS INCOME is gross income *less* vacancy allowance. In this example:

$$\begin{aligned} \text{EXPENSE RATIO} &= \frac{\$34,000}{\$100,000} \\ &= .34 \text{ or } \underline{34\%} \end{aligned}$$

2. **206** CAPITALIZATION RATE

In real life the capitalization rate is calculated as:

$$\text{Capitalization Rate} = \frac{\text{NET OPERATING INCOME}}{\text{MARKET VALUE}}$$

However, because market value (sale price) is uncertain at the point of listing, LIST PRICE is to be substituted for MARKET VALUE for the purposes of completing these forms. Therefore, in this example:

$$\begin{aligned} \text{Capitalization Rate} &= \frac{\text{NET OPERATING INCOME}}{\text{LIST PRICE}} \\ &= \frac{\$66,000}{\$660,000} \\ &= .10 \text{ or } \underline{10\%} \end{aligned}$$

3. **209** GROSS RENT MULTIPLIER

$$\begin{aligned} \text{Gross Rent Multiplier} &= \frac{\text{LIST PRICE}^*}{\text{EFFECTIVE GROSS INCOME}} \\ &= \frac{\$660,000}{\$100,000} \\ &= 6.6 \end{aligned}$$

Another way of saying this is that the list price is 6.6 times the effective gross income.

* Again, list price is substituted for market value (sale price).

RE/MAX® Crest Realty (Westside)

1428 West 7th Avenue,
Vancouver, BC V6H 1C1
Fax: 604.688.8000

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www.6717000.com

Les Twarog - 604.671.7000 - les@6717000.com
Sonja Pedersen - 604.805.1283 - sonja@8051283.com

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