Ratios Definition

Definitions and Formulas

Gross Rent Multiplier (GRM):
This ratio shows how many times the gross income represents the value of the property.

$$\frac{\text{Value of the property}}{\text{Gross Income}}$$

Net Rent Multiplier (NRM):
This ratio shows how many times the net operating income represents the value of the property.

$$\frac{\text{Value of the property}}{\text{Net Operating Income}}$$

Unit Price
Average unit price.

$$\frac{\text{Value of the property}}{\text{Number of units}}$$

Operating Expense Ratio (OER)
This ratio gives the gross effective income that is used by operating expenses.

$$\frac{\text{Operating Expenses}}{\text{Gross Effective Income}}$$

Loan to Value Ratio (LVR)
This ratio gives the value of the property proportion that comes from external creditors.

$$\frac{\text{Mortgage Balance}}{\text{Value of the property}}$$

Debt Coverage Ratio (DCR)
Measures the extent to which net operating income can cover the debt service.

$$\frac{\text{Net Operating Income}}{\text{Financing Cost}}$$

Break Even Ratio
This ratio gives the minimal occupancy rate for which expenses are covered by gross income.

$$\frac{\text{Expenses + Financing Cost}}{\text{Gross Potential Income}}$$

Capitalization Rate (Cap. Rate)
It's a measure of the ratio between the cash flow produced by a property and its capital cost (the original price paid) or alternatively its current market value. (Net operating income / value (or selling price) = Capitalization Rate).

$$\frac{\text{Net Operating Income}}{\text{Value of the property}}$$

Cash return on Cash (ConC):
This ratio represents the equity return rate of the owner based on his personal tax rate if a tax rate has been specified. The mentioned equity return illustrates the return rate before and after capitalization following the first year of acquisition. (See financial Forecasts for the following years).

$$\frac{\text{Cash Flow before and after Capitalization}}{\text{Down Payment}}$$

Internal Rate of Return
Discount rate for which the actualized liquidity values generated by the property are equal to the actualized withdrawal values necessary to carry out this investment.

Homeowner

Rent of Homeowner before Equity:
Occupying owner's rent, considering the cash flow (positive or negative) generated by the property, before tax.

$$\text{Rent} - \frac{\text{Cash Flow Before Equity}}{\text{12 months}}$$

Rent of Homeowner after Equity:
Occupying owner rent, considering the capitalization and the cash flow generated by the property (rent before equity, principal payment).

$$\text{Rent Bef. Eq.} - \frac{\text{Total of Equity}}{\text{12 months}}$$