

**Level II**  
**Class Problem # 6**  
**Development of Expense Ratio**

An expense ratio is the total allowable expenses, including reserves, stated as a percentage of Effective Gross Income. (EGI)

You have obtained the following information on properties comparable to the Gateway SC.

Property	EGI	Expenses	Reserve for Replacements
Riverton SC	\$469,775	\$135,330	\$15,000
Eagle Ridge SC	\$392,440	\$117,500	\$12,000
Chatham SC	\$518,760	\$148,000	\$18,000
Hyde Park SC	\$318,780	\$88,020	\$10,800

What expense ratio should you use in your reconstructed operating statement for Gateway SC?

**Level II**  
**Class Problem # 6 Answer**  
**Development of Expense Ratio**

What expense ratio should you use in your reconstructed operating statement for Gateway SC?

Property	Expenses	Reserve for Replacements	Total Expenses	EGI	Expense Ratio
Riverton SC	\$135,330	\$15,000	\$150,330	\$469,775	32%
Eagle Ridge SC	\$117,500	\$12,000	\$129,500	\$392,440	33%
Chatham SC	\$148,000	\$18,000	\$166,000	\$518,760	32%
Hyde Park SC	\$88,020	\$10,800	\$98,820	\$318,780	31%

The Expense Ratio to use is	32%
--------------------------------	-----