

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?

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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%
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