

100 REAL ESTATE RATIOS

Preface by the Author

Dear Reader,

With continuous globalization, along with a growing professionalization of the real estate markets, use and interpretation of real estate ratios are gaining more and more importance. Investors, project developers, users as well as lenders, brokers, and consultants appraise the development opportunities of a real estate and of the relevant market on the basis of pivotal ratios, such as gross initial yield, IRR or cash flow, to be able to make quick investment decisions. But what does each ratio represent? What is their informative value? And why are they used for real estate analysis?

»100 Real Estate Ratios« summarizes the most commonly used ratios in a clear way. The book is addressed to management boards and managing directors, controllers and real estate professionals, and to bankers, auditing firms, tax advisers, business journalists and students. The contents of this handbook make it a valuable tool for increasing your know-how of real estate ratios and, as an example, for preparing yourself for dialogues with lending banks or negotiations with investors or users.

Next to the definition of each ratio, a sample calculation on how to calculate each ratio is given, together with an explanation of the corresponding areas of application. By comparing the most significant advantages and disadvantages, each ratio is critically evaluated.

It is important, not to consider these ratios in isolation but to always view them over time and in the context of the current market situation. After all, a comprehensive analysis of various indicators is the key for transferring ratios into meaningful results. For this purpose, the reference work at hand provides you with valuable support and advice.

Enjoy the reading!

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PS: Please feel free to email any comments and constructive criticism:
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4.3 Rent Failure Rate

Formula

$$\frac{\text{Annual net rental income (target)} - \text{Total of contractually agreed rental income}}{\text{Annual net rental income (target)}} \times 100\%$$

Sample calculation

$$\frac{\text{€ 1,666,991.25} - \text{€ 1,188,535.05}}{\text{€ 1,666,991.25}} \times 100\% = 28.7\%$$

Explanation

Rent failures are losses incurred from vacancies (assessed at last payment of rent) and non-payment of rents. Losses are determined as the difference between target rental income and actual rental income. Comparing this difference to the annual rent income (target) leads to the rent failure rate.

Rental losses divided by the annual net rental income (actual) usually show the rent escalation potential based on actual situations. A determination of the rent failure rate or vacancy ratio (cf. page 54) in relation to vacant space is rather untypical.

Advantages

- Indicator of leasing situation and success of finished buildings
- Informs investors on the rent escalation potential
- Like vacancy ratios, easy to determine

Disadvantages

- Subject to manipulation due to different valuation of rental losses based on vacancy
- Of informative value only in connection with further ratios (letting volume, existing space, local average rent)
- No statement on feasibility of rent escalation potential

4.4 Service Charges

Formula

Total of all expenses incurred in regard to operating and managing a property within a given period

Service charge statement example:

	t ₁	t ₁ (per sqm)	t ₂	t ₂ (per sqm)	
1 Waste disposal charge	€ 9,290.76	€ 0.06	€ 9,291.00	€ 0.06	
2 Outside facilities/winter maintenance	€ 207.35	€ 0.00	€ 4,546.84	€ 0.03	
3 Real estate tax	€ 48,257.16	€ 0.33	€ 48,257.16	€ 0.33	
4 Third party insurance	€ 1,892.34	€ 0.01	€ 1,939.65	€ 0.01	
5 Caretaker	€ 54,541.38	€ 0.37	€ 55,080.85	€ 0.38	
6 Heating costs	€ 70,199.23	€ 0.48	€ 75,398.10	€ 0.51	
7 Emergency elevator	€ 348.39	€ 0.00	€ 383.07	€ 0.00	
8 Press container	€ 2,704.13	€ 0.02	€ 2,601.78	€ 0.02	
9 Cleaning	€ 1,623.08	€ 0.01	€ 1,195.00	€ 0.01	
10 Property insurance	€ 15,295.24	€ 0.10	€ 16,302.19	€ 0.11	
12 Intercom elevator	€ 1,133.92	€ 0.01	€ 1,153.96	€ 0.01	
13 Electricity	€ 1,800.47	€ 0.01	€ 2,100.55	€ 0.01	
14 Electricity costs	€ 22,598.09	€ 0.15	€ 20,015.79	€ 0.14	
16 Electricity single tenant ground level 100	€ 679.47	€ 0.00	–	–	
17 Technical inspection elevator	€ 1,460.83	€ 0.01	€ 1,764.78	€ 0.01	
18 Caretaker fee	€ 109,604.52	€ 0.75	€ 31,836.52	€ 0.22	
19 Security service	€ 8,480.04	€ 0.06	€ 8,480.04	€ 0.06	
20 Maintenance*	€ 19,121.67	€ 0.13	€ 19,057.43	€ 0.13	
21 Wastewater	–	–	€ 3,225.71	€ 0.02	
Subtotal	€ 369,238.07	€ 2.52	€ 302,630.42	€ 2.06	net
Plus VAT 19% (partly):	€ 11,957.66		€ 17,220.26		
Total amount:	€ 381,195.73		€ 319,850.68		gross

* Elevator, booster engine, fire-extinguisher, lifting system, emergency lighting, pumping equipment, smoke funnel system, air-conditioning system, fire protection, lightning protection

Operating costs:

Depending on type of object, location, fittings and leasing contract, the following rudiments usually apply to the particular operating costs:

- Operating costs: refer to »service charge statement«
- Loss of rental income risk: 2% to 4% of annual gross profit
- Administrative expenses: 1.5% to 4% of annual gross profit
- Maintenance costs: € 4.50 to € 9.00 per sqm of usable floor area