

# Key Ratio

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## Key Ratio

### What is a key ratio

It is a mathematical relationship between one quantity and another.

It is used to simplify the analysis of a company.

### What use are key ratios

Key ratios may serve as indicators, clues, or red flags regarding noteworthy relationships between variables used to measure the firm's performance in terms of profitability, asset utilization, liquidity, leverage, or market valuation. It is also used to compare how well your company is in comparison with other companies. Key ratios have to be seen as a complement and not as a substitution for non-financial or financial information.

Some examples of commonly used key ratios.

The key ratio sek/m<sup>2</sup>, is used to evaluate a specific income or cost to compare or indicate how well a property is going.

It makes it possible to compare two different properties with different sizes.

Suppose property A gives 1000 sek/m<sup>2</sup> and property B gives 1500 sek/m<sup>2</sup> in rental income which shows us that property B has a higher rental level.

Level of vacancy; shows us the relationship between vacant area and total area.

It could also be the relationship between how many vacant apartments and total apartments there are.

Suppose you have 10 apartments in the building and two of these are vacant, the level of vacancy you have is 20%.

The rate of operating surplus, shows us the surplus in percentage for every sek that is put into the company. The rate of operating surplus is derived from the operating surplus divided by the total income.

Suppose the operating surplus is 100 sek and total income 200 sek which means that the rate of operating surplus is 50%.

Net Operating Income or NOI is equal to a property's yearly gross income less operating expenses. Gross income includes both rental income and other income such as parking fees, laundry and vending receipts, etc. All income associated with a property. Operating expenses are costs incurred during the operation and maintenance of a property. They include repairs and maintenance, insurance, management fees, utilities, supplies, property taxes, etc. The following are not operating expenses: principal and interest, capital expenditures, depreciation, income taxes, and amortization of loan points. Net operating income is calculated like this.

Income, rental income 10, 000 sek plus 10,000 sek from parking fees which gives us a gross income of 110,000 sek. Then we have a loss of 5000 sek due to vacancy. That gives us an effective gross income of 105,000 sek. Now suppose we have operating expenses of 55,000 sek and what is left is our net operating income which in this case is 50,000 kr.

As I mentioned earlier in the text, key ratios have to be seen as a complement and not as substitutions for non-financial or financial information.