Rate of Return Calculation Example

Disclaimer: The below calculation example is provided for informational and guidance purposes only. This guidance is neither intended to be nor constitutes legal advice. The rate of return formula is set out in § 42-3502.12(b) of the Rental Housing Act of 1985 (Act) (D.C. Official Code 2001 ed., as amended, § 42-3501.01 *et seq.*) and title 14, section 4209 of the *District of Columbia Municipal Regulations* (2004 ed., as amended). The purpose of this calculation example is for a housing provider to report a rate of return in compliance with § 42-3502.05(f)(3)(iv) of the Act. The content on this page is provided "as-is" and there is no representation made that the content is error-free. If regulatory guidance is required, you should retain an attorney competent in landlord tenant law and the Act. The Rental Accommodations Division can be contacted at (202) 442-9505 for technical (non-legal) guidance.

What Is a Rate of Return? A rate of return is the gain or loss of an investment over a certain period. It is the gain (or loss) compared to the cost of the initial investment, expressed in the form of a percentage. If a rate of return is positive, it is regarded as a gain. If negative, the rate of return reflects a loss on the investment.

Step 1: Set the Time Period

Section 42-3502.12(b) of the Act requires that the reporting period must be 12 consecutive months within the 15 months of registering the housing accommodation.

Beginning Month and Year: ________________________
Ending Month and Year: ________________________

Step 2: Calculate Gross Income

A. Operating Income: add all operating costs to derive the total scheduled gross income. Income includes:

Maximum Rental Income at 100% Occupancy
\+ Parking Income (if applicable)
\+ All Other Fees Charged Above Rent (e.g., air conditioning, appliances, damages, legal fees, late fees)
\+ Commissions and Fees (e.g., vending machines, laundry services)
\+ Other Sources of Income
=Total Scheduled Gross Income

B. Vacancy Losses: a "vacancy loss" is the amount of rent not collectable due to vacant units. Units occupied by a housing provider or his/her employee(s) are excluded.

Vacancy Losses
\+ Uncollected Rents
= Total Losses

C. Calculate the Gross Income by subtracting the Total Losses from the Total Scheduled Gross Income.

Total Scheduled Gross Income
-- Total Losses
= Gross Income

Step 3: Calculate Operating Costs

Operating expenses may include:

Administrative Costs (e.g., management fee, advertising, legal fees, telephone fees, other)
\+ Operating Costs (e.g., trash collection, payroll, security, supplies, furniture, equipment)
\+ Fixed Costs (e.g., insurance, payroll, licenses, permits)
\+ Maintenance & Repair Costs (e.g., painting, decorating, repairs, cleaning, service
contracts, exterminators, grounds)
\+ Property Taxes
\+ Mortgage Interest Payments
= Total Operating Costs

Operating costs may **not** include: membership fees, political contributions, lobbying contributions, legal fees in class action lawsuits, mortgage principal payments, maintenance costs reimbursed by a third party (e.g., an insurance company, a tenant, by judgment or court order, negotiated payments), attorneys fees for defending against housing regulation violations, expenses paid by the tenant, management fees more than 6% of the maximum rental income, property taxes, depreciation expenses to the extent reflected in a decreased property tax assessment, vacancy losses more than 6% of the maximum rental income, uncollected rents, or interest payments.

Step 4: Calculate Net Income

Gross Income
-- Total Operating Costs
= Net Income

Step 5: Calculate Equity

Office of Tax & Revenue Assessed Value
-- Total Cost of All Liens and Encumbrances on the Housing Accommodation
= Equity

Step 6: Calculate the Rate of Return

Net Income ÷ Equity x 100% = Rate of Return

Example (Illustration Purposes Only)

Reporting period is 01/2021–12/2021
4 rental unit housing accommodation with a 2022 assessed value of $200,000
$100,000 total of two deed of trust loans (encumbrances)
Rent charged is $1,000 per unit
3 units are occupied; 1 unit is vacant

Gross Income:

	$36,000	Maximum Rental Income at 100% Occupancy (3 units x 12 months) (No other fees or income)
	$36,000	Total Scheduled Gross Income
	$12,000	Vacancy Loss (1 unit x 12 months) (No uncollected rent)
	$36,000	Total Scheduled Gross Income
--	12,000	Total Loss
	$24,000	Gross Income

Operating Expenses:

	$ 2,000	Administrative Costs
	4,000	Operating Costs
	2,000	Maintenance & Repair Costs
	3,000	Mortgage Interest Payments
	2,000	Fixed Costs
+	6,000	Property Taxes
	$19,000	Total Operating Costs

Net Income:

$24,000 (Gross Income) – $19,000 (Total Operating Costs) = $5,000 Net Income

Equity:

$200,000 Assessed Value – $100,000 Encumbrance = $100,00 Equity

Rate of Return:

$5,000 Net Income ÷ $100,000 Equity = 0.05
0.05 x 100 = 5% Rate of Return