Gross Rent Multiplier (also called a Gross Income Multiplier)

“The Gross Rent Multiplier or Gross Income Multiplier is a ratio that is used to estimate the value of income producing properties. The GRM provides a rough estimate of value. Only two pieces of financial information are required to calculate the Gross Rent Multiplier for a property, the sales price and the total gross rents possible. If this information is available for multiple recent sales of similar types of income properties in a particular area, it can then be used to estimate the market value of other similar properties in that area. Some investors use a monthly Gross Rent Multiplier and some use a Yearly GRM. The monthly Gross Rent Multiplier is equal to the Sales Price of a property divided by the potential monthly rental income and the Yearly GRM is the Sales Price divided by the yearly potential rental income.

Example 1: If the sales price for a property is $200,000 and the monthly potential rental income for a property is $2,500, the GRM is equal to 80. Monthly potential rental income is equal to the full occupancy monthly rental amount which assumes all available rental units are occupied. Generally speaking, properties in prime locations have higher GRMs than properties in less desirable locations. When comparing similar properties in the same area or location, the lower the GRM, the more profitable the property. This statement assumes that operating expenses are proportionate for the properties being compared. Since the GRM calculation doesn't include operating expenses, this statement might not hold true for similar properties where one of the properties has significantly higher operating expenses.”

GRM Review

♦ used to compare income producing properties
♦ a factor calculated from comparing sales prices of properties with their gross rental income
♦ only considers income and sales price in the calculation
♦ operating expenses, cost of financing and vacancy and collection losses not in calculation

Sales Price ÷ Gross income/rent
= GIM or GRM