RENTCHECK® FAST FACTS

Rent-to-Income Ratio (RIR) Expenses-to-Income Ratio (EIR)

What are they?

These are common measurements used by leasing and rental professionals to determine tenant suitability quickly based on applicants' expense obligations versus their income.

How do they work?

Rent-to-Income Ratio: **Rent** / (divided by) **Income**

The Rent-to-Income Ratio (RIR) determines if an applicant will be able to pay the rent, assuming no other unforeseen expenses. A healthy RIR ranges from 30% to 40% – the lower the better. For example, if an apartment rents for $1,200 per month and the applicant's monthly income is $4,500 we can calculate the RIR as follows:
$1,200 / $4,500 = RIR of 27%

Expenses-to-Income Ratio: **Expenses** / (divided by) **Income**

The Expenses-to-Income Ratio (EIR) determines if an applicant will be able to pay rent when monthly expenses plus rent are factored in. As with the Rent-to-Income Ratio, lower is better. For example, if an applicant's total monthly expenses, plus rent, are $3,800 a month and their income is $4,500 a month, we can calculate the EIR as follows:
$3,800 / $4,500 = EIR of 84%

Why do RIRs and EIRs matter?

These ratios can be helpful in calculating realistic monthly rental property operating expenses. The lower an applicant's total expenses (Expenses-to-Income Ratio, or EIR) the more tenant-worthy they are likely to be. The EIR may also indicate whether the leasing company can increase rents without undue financial hardship for its applicants and residents. Housing providers have a variety of methods in their tool-kit to measure tenant-worthiness; comparing applicants' RIRs and EIRs is just one of them.

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