

Income Approach
Practice Problem # 2
Developing PGI, EGI, and NOI and Value of Subject

40000 square feet

Of this, 8000 square feet is common area

Market Rent \$20/square foot of net rentable area

Vacancy and Collection loss 6%

Operating Exp and Reserve for Replacement 18%

CAPITALIZATION RATE IS 10%

THE ABOVE IS GIVEN PER PROBLEM---DEVELOP PGI, EGI,
& NOI AND THE VALUE OF THIS SUBJECT PROPERTY

Potential Gross Income

Vacancy and Collection Loss

Misc Income

Effective Gross Income

Operating Expenses & Reserves for Replacements

Net Operating Income

WHAT IS THE VALUE OF THIS PROPERTY

Income Approach
Practice Problem # 2 Answer
Developing PGI, EGI, and NOI and Value of Subject

POTENTIAL GROSS INCOME	32,000 (NLA) x \$20 (Market Rent)	=	\$640,000	PGI
VACANCY & COLLECTION LOSS	\$640,000 (PGI) x 6% (V&C Loss)	=	-\$38,400	
MISC. INCOME	\$0		\$0	
EFFECTIVE GROSS INCOME			<u>\$601,600</u>	EGI
OPERATING EXP AND RESERVE FOR REPLACEMENT	\$601,600 (EGI) x 18% (Exp. & R.R.)	=	-\$108,288	
NET OPERATING INCOME			<u><u>\$493,312</u></u>	NOI

IF THE CAPITALIZATION RATE IS 10%

WHAT IS THE VALUE OF THIS PROPERTY?

THE NET OPERATING INCOME FROM ABOVE IS

CAPITALIZATION RATE IS

ESTIMATED VALUE OF PROPERTY

$$\frac{\$493,310}{10\%}$$
$$\boxed{\boxed{\$4,933,100}}$$

$$I \div R = V$$