

**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

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**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

\$493,310

CAPITALIZATION RATE IS

10%

ESTIMATED VALUE OF PROPERTY

\$4,933,100

$I \div R = V$