

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

	<u>\$493,310</u>
CAPITALIZATION RATE IS	10%
ESTIMATED VALUE OF PROPERTY	<u><u>\$4,933,100</u></u>

$$I \div R = V$$