

**Level II**  
**Practice Problem # 1 PGI-EGI-NOI**

You have obtained the following information:

A building has total of 40,000 Square Feet. There is 8,000 Square Feet of common area. Market rent is currently \$20.00 per square foot of net leasable area. The Vacancy and Collection Loss Rate is 6%. The Operating Expense and the Reserves for Replacements is at 18%. The Overall Capitalization Rate is 10%.

You are to develop the Potential Gross Income (PGI), the Effective Gross Income (EGI), and the Net Operating Income (NOI). Once you have done that, calculate an estimate of value for this property.

**Level II**  
**Practice Problem # 1 PGI-EGI-NOI Answer**

You are to develop the Potential Gross Income (PGI), the Effective Gross Income (EGI), and the Net Operating Income (NOI). Once you have done that, calculate an estimate of value for this property.

Potential Gross Income	\$640,000
Vacancy and Collection Loss	-\$38,400
Misc Income	0
Effective Gross Income	\$601,600
Operating Expenses & RR	-\$108,288
Net Operating Income	<u>\$493,312</u>

**COMPUTATION OF PGI, EGI, AND NOI  
FOR ABOVE PROBLEM**

PGI	32,000	\$20	\$640,000
V and C	\$640,000	6%	-\$38,400
Misc Income	\$0		0
Effective Gross Income			\$601,600
Operating Expenses & RR	\$601,600	18%	-\$108,288
Net Operating Income			<u>\$493,312</u>

THE INCOME FROM ABOVE IS	<u>\$493,312</u>
Overall Capitalization Rate	10%
Estimate of value using the IRV formula	<u>\$4,933,120</u>