

Income Approach

Problem # 3(a)

Belle River Office Building
Determine PGI, EGI, and NOI

You are appraising an office building in the Belle River complex. The building is three stories high and contains 20,000 square feet on each floor. The net leasable area on each floor is 17,500 square feet. There are three offices on each floor, but the square footage per office varies with the client. The leases have been entered into at various times over the past four years. The current rent roll is as follows:

First Floor	Area	Total Rent Paid
Thomas and Associates	3,750	\$ 69,375
Katz, Katz, and Doggz	8,250	\$ 123,750
Kelley Engineering	5,500	\$ 88,000
Second Floor		
Second Job Agency	4,000	\$ 72,000
Paperman Publishing	9,200	\$ 142,600
Vacant	4,300	\$ -
Third Floor		
Silverman and Goldman	8,000	\$ 128,000
Leland Entertainment	3,000	\$ 51,000
Media Heaven Ad Agency	6,500	\$ 110,500

In researching the market, you have found that recently negotiated office rent in the same type location is running \$20.10 per square foot.

What is the Potential Gross Income for your subject property?

The market collection loss for office space in this area is 1.2%. Using this rate develop a vacancy and collection loss rate for the subject building.

Using the above information, what is the Effective Gross Income of the subject?

Income Approach
Problem # 3(a) Answers
Belle River Office Building - Determine PGI, EGI, and NOI

PGI

17,500 sq. ft. NLA on each floor; complex has 3 floors.
 $17,500 \times 3 = 52,500$ sq. ft.

Market Rent is \$20.10 per sq. ft.
 $\$20.10 \times 52,500 = \underline{\$1,055,250}$

Vacancy Rate

There is one vacant office of 4,300 sq. ft.
 $4,300 \div 52,500 = \underline{8.2\%}$

Vacancy and Collection Loss Rate (V&C)

Vacancy Rate is 8.2% and the Collection Loss Rate is 1.2%.
 $8.2\% + 1.2\% = \underline{9.4\%}$

EGI

PGI = \$1,055,250 and the V&C = 9.4%
No Miscellaneous Income is listed.

PGI	\$1,055,250
- V&C	-\$99,194
+ Misc. Inc.	0
= EGI	<u>\$956,056</u>

Income Approach Problem # 3(b)

Belle River Office Building - Determine PGI, EGI, and NOI

The property management company of Belle River Complex (from slide 142) has furnished you with this operating statement. Upon further analysis, you have determined that the operating statement is incorrect for ad valorem purposes. Reconstruct the operating statement using information from slide 143 (PGI, V&C, and EGI), remove any improper expenses listed below, and find the correct NOI for the property.

Belle River Office Building Operating Statement as filed

Potential Gross Income	\$ 785,225.00	
Less: Vacancy and Collection Loss 8.2%	\$ (64,388.00)	
Add: Miscellaneous Income	\$0.00	
Effective Gross Income		\$ 720,837.00
Less operating expenses:		
Management Fees (10% of EGI)	\$ (72,084.00)	
Property Taxes	\$ (28,457.00)	
Lawn Care	\$ (2,300.00)	
Supplies/Maintenance	\$ (7,248.00)	
Maintenance Salaries/Benefits	\$ (28,340.00)	
Common Lighting	\$ (1,345.00)	
Water and Sewer	\$ (6,573.00)	
Electricity	\$ (11,965.00)	
Gas	\$ (15,996.00)	
Liability Insurance	\$ (7,100.00)	
Debt Service	\$ (173,900.00)	
Snow Removal	\$ (1,100.00)	
Income taxes	\$ (61,230.00)	
Donation to City Festival	\$ (500.00)	
Christmas party for tenants	\$ (1,345.00)	
Casualty Insurance (3 year policy)	\$ (845.00)	
Membership in trade association	\$ (1,500.00)	
Flower fund	\$ (734.00)	
Total operating expenses		\$ (422,562.00)
Less Reserve for Replacements		\$ (22,500.00)
Net Operating Income		\$ 275,775.00

Income Approach Problem # 3(b) Answer
Belle River Office Building - Determine PGI, EGI, and NOI

	<u>Area</u>	<u>Market Rent</u>	<u>PGI</u>
First Floor			
Thomas and Associates	3,750	\$20.10	\$75,375
Katz, Katz and Doggz	17,500 { 8,250	\$20.10	\$165,825
Kelley Engineering	5,500	\$20.10	\$110,550
Second Floor			
Second Job Agency	4,000	\$20.10	\$80,400
Paperman Publishing	17,500 { 9,200	\$20.10	\$184,920
Vacant	4,300	\$20.10	\$86,430
Third Floor			
Silverman & Goldman	8,000	\$20.10	\$160,800
Leland Entertainment	17,500 { 3,000	\$20.10	\$60,300
Media Heaven Advertising Agency	6,500	\$20.10	\$130,650
Total Net Leasable Area =	52,500		\$1,055,250 PGI
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POTENTIAL GROSS INCOME			\$1,055,250 PGI
LESS: VACANCY LOSS AND COLLECTION LOSS			(\$99,194)
ADD: MISCELLANEOUS INCOME			\$0
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EFFECTIVE GROSS INCOME			\$956,056 EGI
LESS: OPERATING EXPENSES			
MANAGEMENT FEES (10% OF EGI)			(\$95,606)
LAWN CARE			(\$2,300)
SUPPLIES/MAINTENANCE			(\$7,248)
MAINTENANCE SALARIES/BENEFITS			(\$28,340)
COMMON LIGHTING			(\$1,345)
WATER & SEWER			(\$6,573)
ELECTRICITY			(\$11,965)
GAS			(\$15,996)
LIABILITY INSURANCE			(\$7,100)
SNOW REMOVAL			(\$1,100)
CASUALTY INSURANCE 3 YR POLICY--PRO RATE 845/3			(\$282)
MEMBERSHIP IN TRADE			
ASSOCIATION			(\$1,500)
RESERVE FOR REPLACEMENTS			(\$22,500)
NET OPERATING INCOME			\$754,201 NOI

NLA Vacancy Rate	
4300/52500	8.2%
Collection Rate Loss	1.2%
V & C Rate Loss =	9.4%

PGI	\$1,055,250
VAC & COLL LOSS	9.4%
V&C \$ Amount =	\$99,194.00