

Level II
Class Problem # 12
Direct Capitalization Vs. Gross Income Multiplier

Using the EGI arrived at in Problem # 3 and the chart below from problem # 10, calculate a Gross Income Multiplier (GIM) and determine the value of the subject property using Direct Capitalization in the Income Approach.

Then compare this answer to the one you arrived at in Problem # 11.

Property	EGI	Total Exp. And RR	Sale Price
Riverton SC	\$469,775	\$150,330	\$2,778,000
Eagle Ridge SC	\$392,440	\$129,500	\$2,307,000
Chatham SC	\$518,760	\$166,000	\$3,065,000
Hyde Park SC	\$318,780	\$98,820	\$1,895,000

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Class Problem # 12 Answer
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Calculation of Gross Income Multiplier (GIM): $GIM = \text{Sale Price} / \text{Annual EGI}$

Property	Sale Price	EGI	GIM
Riverton SC	\$2,778,000	\$469,775	5.9
Eagle Ridge SC	\$2,307,000	\$392,440	5.9
Chatham SC	\$3,065,000	\$518,760	5.9
Hyde Park SC	\$1,895,000	\$318,780	5.9

The Gross Income Multiplier in this problem would be 5.9

Now apply the VIF formula:

EGI Times GIM = Market Value

\$442,100 times 5.9 = \$2,608,390

Now compare this answer to the one arrived at in Problem # 11:

\$2,614,157