

Income Approach
Problem # 1
Determination of Net Operating Income

You are trying to determine the value of a small retail center containing 4,500 square feet of Net Leasable Area. There are three leasable spaces in the building, and at present two of the spaces are leased. You have determined the following information:

- 1.) Market rent for this type of space is \$22 per square foot.
- 2.) The owner has \$3,000 per year in miscellaneous income.
- 3.) The market vacancy rate is 4% and the market collection loss rate is 1%.
- 4.) Operating Expenses from the reconstructed operating statement are \$30,500.
- 5.) The Reserve for Replacements is \$5,000.

Determine the Net Operating Income (NOI) for the subject property.

Potential Gross Income (PGI)	
Vacancy and Collection Loss	
Miscellaneous Income	
Effective Gross Income (EGI)	
Operating Expenses	
Reserves for Replacements	
Net Operating Income (NOI)	

Problem # 1 Answer
Determination of Net Operating Income

Potential Gross Income	\$99,000
Less: Vacancy and Collection Loss	(\$4,950)
Add: Miscellaneous Income	\$3,000
Effective Gross Income	\$97,050
Less: Operating Expenses	(\$30,500)
Less: Reserve For Replacements	(\$5,000)
Net Operating Income	<u>\$61,550</u>

Net leasable area of 4,500 Square feet times \$22/Square Foot	\$99,000
Vacancy loss rate of 4% plus Collection loss rate of 1% times PGI	(\$4,950)
Add miscellaneous income (given)	\$3,000
Effective Gross Income (EGI)	<u>\$97,050</u>
Less expenses (given)	(\$30,500)
Less reserves for replacements (given)	(\$5,000)
Net Operating Income (NOI)	<u><u>\$61,550</u></u>