

Income Approach
Practice Problem # 1
Developing NOI and Cap Rates

| | |
|-----------------------------|-----------|
| Potential Gross Income | \$150,000 |
| Vacancy and Collection Loss | 10% |
| Operating Expense | \$25,000 |
| Christmas Gift | \$2,500 |
| Property Value | \$800,000 |
| Loan to value ratio | 0.4 |

The above is given to you, develop the NOI and the Overall Capitalization Rate.

Net operating Income

Overall Cap Rate

Income Approach
Practice Problem # 1 Answer
Developing NOI and Cap Rates

| | |
|---|------------------------------|
| PGI | \$150,000 |
| V & C Loss ($\$150,000 \times 10\%$) | -\$15,000 |
| Misc Inc | \$0 |
| Effective Gross Income | <hr/> \$135,000 |
| Operating Expense (Given) | -\$25,000 |
| Net operating Income | <hr/> \$110,000 <hr/> |
| Net operating Income | <hr/> \$110,000 <hr/> |
| Overall Cap Rate (Income/Value=Rate) | <hr/> 13.8% <hr/> |