

Homework: Income Approach to Appraisal

***** Show your calculations! *****

You have identified the three rental comparables show below with the noted Sales prices, and PGI. After evaluating each comparable for its similarity you have chosen weights as noted below. For each of these properties, and for your subject property, you project a 12% vacancy and collection loss. Expenses are expected to be 30% of GPI and CAPEX is projected as 8% of GPI. Your subject property has three suites renting for \$5000 per month and one suite at \$7000.

	Comp 1	Comp 2	Comp 3	Subject
Weight	0.40	.30	.30	
Sales Price	900000	1000000	1200000	
PGI	140000	150000	175000	
V&C				
EGI				
OpEx				
CapEx				
NOI				
Cap Rate				
EGIM				

What is the PGI for the subject property? (264,000)

What is the EGI for the subject property? (232,320)

What is the NOI for the subject property? (132,000)

What is the EGIM extracted from the comparable properties? (7.53)

What is the indicated value using the EGIM approach? (1,749,943)

What is the extracted Cap Rate? (7.55%)

What is the indicated value using the direct capitalization approach? (1,748,666)

You project the NOI will grow at 2% per year. Your sales expense, at year five, will be 5% and the going out cap rate will be 7.6%. What is your projected net sales price? (1,821,733)

What discount rate should you use to value your cash flows? (9.55%)

What is the indicated value using the DCF approach to valuation? (1,679,529)

Given that you weight each of these methods equally, what is your final estimate of value using the income approach? (1,726,046)