



AMERICA'S REAL ESTATE ACADEMY, INC.
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Income Approach Problem # 1

You are appraising an eight-unit apartment building based upon the following information:

- 1) All units have three bedrooms and rent for \$1,000 per month
- 2) Similar apartment buildings in the market area, and the subject, average 92% occupancy and 4% collection losses
- 3) A central laundry generates approximately \$1,200 per year in income
- 4) The capitalization rate for similar properties is 10%
- 5) Expenses are as follows
 - a. Taxes \$7,000 per year
 - b. Insurance \$1,400 per year
 - c. Water \$560 per year per unit
 - d. Sewer \$640 per year per unit
 - e. Garbage \$6,000 per year
 - f. Cable \$4,800 per year
 - g. Management 10% of effective gross income
 - h. General repairs \$150 per year per unit
 - i. Reserves for replacement \$350 per year per unit
 - j. Annual mortgage payments \$42,750

Calculate:

Potential Gross Income =
Effective Gross Income =
Total Operating Expenses =
Operating Expense Ratio =
Net Operating Income =
Market Value =