



Income Approach Problem # 2

You are appraising a twenty-unit apartment building based upon the following information:

- 1) Four units have one bedroom and rent for \$600 per month
- 2) Twelve units have two bedrooms and rent for \$900 per month
- 3) Four units have three bedrooms and rent for \$1,250 per month
- 4) The apartment has a small laundry that generates \$3,000 of income per year
- 5) Similar apartment buildings in the market area, and the subject, average 92% occupancy and 3% collection losses
- 6) The capitalization rate for similar properties is 9.5%
- 7) Expenses are as follows
 - a. Taxes \$14,500 per year
 - b. Insurance \$3,200 per year
 - c. Water \$ 560 per year per unit
 - d. Sewer \$ 640 per year per unit
 - e. Garbage \$12,000 per year
 - f. Cable \$8,400 per year
 - g. Management 10% of effective gross income
 - h. General repairs \$ 250 per year per unit
 - i. Reserves for replacement \$ 350 per year per unit
 - j. Annual mortgage payments \$66,750

Calculate:

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