

# **HRC**

## **The High-Risers Club**

**5.28.2024**

**How to Value a (8) Family Building, A Mixed-Use Building: (2)  
Apartments and (2) Retail and (4) Tenant Office Building**

# Coach Jeff Wright

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# Welcome

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Does anyone have anything great to share personally or professionally?



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# Podcast

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# Valuation



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# Valuation

## Measuring Investment Value ( $I \div R = V$ )

- **I** – NOI – Net Operating Income
- **R** – Capitalization (Cap) Rate
- **V** – Market Value

\*If you have any two of these three value, you can solve for the third.

# Valuation

Net Operating Income (NOI) is the income available to pay the mortgage (debt service) after all operating expenses have been paid.

**Value x Capitalization Rate = Net Operating Income**



# Valuation

## Net Operating Income Formula

	Rental Income
<b>Plus</b>	Other Income + Reimbursements
<b>Equals</b>	Total Income
	Total Income
<b>Minus</b>	Vacancy and Credit Losses
<b>Equals</b>	Effective Gross Income
	Effective Gross Income
<b>Minus</b>	Other Income
<b>Equals</b>	Net Operating Income

# Valuation

## INCOME & EXPENSE STATEMENT

INCOME & EXPENSES	CURRENT			POTENTIAL AT MARKET RATE		
	2-Family	6-Family	Total	2-Family	6-Family	Total
<b>INCOME</b>						
Apartment Income	23,400	54,900	78,300	31,200	69,900	100,800
Vacancy Factor 5%	(1,170)	(2,745)	(3,915)	(1,560)	(3,480)	(5,040)
<b>Effective Gross Income</b>	<b>\$22,230</b>	<b>\$52,155</b>	<b>\$74,385</b>	<b>\$29,640</b>	<b>\$66,120</b>	<b>\$95,760</b>
<b>EXPENSES</b>						
Real Estate Taxes	2,554	6,991	9,546	2,554	6,991	9,546
Insurance	2,000	2,300	4,300	2,000	2,300	4,300
Water and Sewer	1,968	38,525	5,820	1,968	3,852	5,820
Electric	780	780	1,560	780	780	1,560
Gas	2,016	2,424	4,440	2,016	2,424	4,440
Trash - City Pick-Up	N/A	N/A	N/A	N/A	N/A	N/A
Repairs & Maintenance \$500	1,000	3,000	4,000	1,000	3,000	4,000
Managemnet Fee 5%	1,110	2,608	3,719	1,482	3,306	4,788
<b>Total Expenses</b>	<b>\$11,430</b>	<b>\$21,995</b>	<b>\$33,385</b>	<b>\$11,800</b>	<b>\$22,653</b>	<b>\$34,454</b>
<b>NET OPERATING INCOME</b>	<b>\$10,800</b>	<b>\$30,200</b>	<b>\$41,000</b>	<b>\$17,840</b>	<b>\$43,467</b>	<b>\$61,306</b>

# Valuation

Investor Valuation			
	2-Family	6-Family	Total
Buyer's Target Cap Rate - 1 Yr	7.0%		
Indicated Value - Rounded	\$154,288	\$431,430	\$585,717

# Valuation

Example 1:

This building has four (4) tenants.

**Tenant A** is a **Bistro** that occupies **2,244 square feet** and pays **\$3,900 in monthly rent**.

**Tenant B** is a **Wine & Spirit Shop** that occupies **672 square feet** and pays **\$2,900 in monthly rent**.

**Tenant C** is a 3BR/1BA apartment that occupies **1,350 square feet** and pays **\$1,500 in monthly rent**.

**Tenant D** is a 3BR/1BA apartment that occupies **794 square feet** and pays **\$1,100 in monthly rent**.

**Expenses:** Real estate Taxes: \$12,093, Insurance: \$6,500, Electric: \$1,800, Gas: \$1,800, Water & Sewer: \$3,600, Repairs & Maintenance: \$5,000, Management(5%): \$5,358

# Valuation

<b>RENT ROLL</b>				
<b>INCOME</b>		<b>SF</b>	<b>Monthly</b>	<b>Annual</b>
<b>Bistro</b>		2,244	\$3,900	\$46,000
<b>Wine &amp; Spirit Shop</b>		672	\$2,900	\$34,800
<b>Apartment</b>	3BR/1BA	1,350	\$1,500	\$18,000
<b>Apartment</b>	3BR/1BA	794	\$1,100	\$13,200
<b>Total Income</b>		<b>5,060</b>	<b>\$9,400</b>	<b>\$112,800</b>

# Valuation

## INCOME & EXPENSE STATEMENT

### INCOME SUMMARY BY USE

Total Residential Income			\$31,200
Total Commercial Income			\$81,600
<b>Total Income</b>			<b>\$112,800</b>
Vacancy		5%	(\$5,640)
<b>Effective Gross Income</b>			<b>\$107,160</b>

# Valuation

<b>OPERATING EXPENSES</b>		
Real Estate Taxes		12,093
Insurance		6,500
Electric		1,800
Gas		1,800
Water & Sewer		3,600
Repairs & Maintenance		5,000
Management	5%	5,358
<b>Total Operating Expenses</b>		<b>\$36,151</b>
<b>NET OPERATING INCOME</b>		<b>\$71,009</b>

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**Next Session**

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**Next Session:  
Valuation Examples**

**Tuesday, June 4<sup>th</sup>, 2024  
@ Noon Eastern**

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