

HRC

The High-Risers Club

6.4.2024 Valuation Examples

Coach Jeff Wright

Welcome

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The High-Risers Club

Does anyone have anything great to share personally or professionally?



Podcast

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- **Last Week: 12 Steps to Getting Started in Commercial Real Estate**
- **This Week: 10 Steps a New Commercial Real Estate Investor Can Take to Increase Their Chances of a Successful Purchase**

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Valuation

What are the ways an appraiser calculates value in an appraisal report ?

- Income Capitalization
- Sales Comparison
- Cost (Insurable Value)

Valuation

What is the formula for Measuring Investment Value?

$$I / R = V$$

Valuation

Net Operating Income Formula

	Rental Income
Plus	Other Income + Reimbursements
Equals	Total Income
	Total Income
Minus	Vacancy and Credit Losses
Equals	Effective Gross Income
	Effective Gross Income
Minus	Operating Expenses
Equals	Net Operating Income

Valuation

What are the average % of expenses an underwriter/ appraiser uses to determine NOI?

- 35 to 40%

Valuation

How do you determine market cap rates ?

- Comps
- LoopNet examples
- CREXI examples

Cap Rates (August 2023)



TAKE 5 OIL CHANGE
Charlottesville, VA
Retail | 5.80 % CAP | 1,500 SF



DUNKIN'
Perryville, MD
Retail | 5.25% CAP | 3,600 SF



CVS
Worcester, MA
Retail | 7.00% CAP | 14,452 SF



KFC / LONG JOHN SILVER
Somerset, PA
Retail | 5.75% CAP | 2,640 SF



WENDY'S
Vernon, CT
Retail | 5.50% CAP | 5,816 SF



RITE AID LEASEHOLD
Cheshire, CT
Retail | 11.50% CAP | 14,673 SF

Cap Rates (August 2023)



Excellent
Hard
Corner

SECURE
NET LEASE

7-ELEVEN
Hamilton Township, NJ
Retail | 5.00 % CAP



KFC / TACO BELL
Wilmington, DE
Retail | 5.15% CAP | 2,400 SF



THE LODGERS
East Stroudsburg, PA
Hospitality | 9.59% CAP



ASPEN DENTAL
Derry, NH
Retail | 5.50% CAP | 3,500 SF



GOLF CENTER & RESTAURANT
Natick, MA
Retail | 8.00% CAP | 11,250 SF



STARBUCKS
Lee, MA
Retail | 5.00% CAP | 2,041 SF

Cap Rates (August 2023)



PPG PAINTS
Danbury, CT
Retail | **11.00% CAP** | 7,910 SF



INVESTMENT PROPERTY
Oxford, CT
Industrial | **9.26% CAP** | 12,760 SF



LAUNDROMAT & RESIDENTIAL
Bronx, NY
Mixed Use | **12.23% CAP** | 5,940 SF



STARBUCKS, AT&T & SHOPS LEASEHOLD
Wallingford, CT
Retail | **7.00 % CAP** | 10,724 SF

Cap Rates (May 2024)



CHICK-fil-A
Racine, WI
Retail | 4.63% CAP | 4,877 SF



TACO BELL
Memphis, TN
Retail | 5.25% CAP | 2,167 SF



CHASE BANK
Colleyville, TX
Retail | 4.80% CAP | 4,225 SF



STARBUCKS
Longview, TX
Retail | 5.62% CAP | 1,750 SF



WALMART
Alexandria, LA
Retail | 5.75% CAP | 41,117 SF



WALGREENS
Springfield, MA
Retail | 7.50% CAP | 13,855 SF

Cap Rates (May 2024)



CAR WASH
Fredericksburg, VA
Retail | 9.3% CAP | 3,280 SF



OFFICE
Tucker, GA
Office | 10.83% CAP | 247,296 SF



OFFICE
Salt Lake City, UT
Office | 9% CAP | 3,307 SF



WAREHOUSE
Hampstead, MD
Industrial | 8.15% CAP | 210,000 SF



KARATE STUDIO
Toms River, NJ
Retail | 10.39% CAP | 31,800 SF



SELF STORAGE
Jackson, MS
Retail | 10.54% CAP | 43,600 SF

Valuation

Example: An investor is looking to buy an apartment building with 8 units. The building has four 1-bedroom apartments, two 2-bedroom apartments, and two 3-bedroom apartments. The monthly rental rates for the apartments are as follows:

- Four 1-bedroom apartments: \$1,000
- Two 2-bedroom apartments: \$1,500
- Two 3-bedroom apartments: \$1,800

The building also generates \$100 per month in parking income and \$200 per month in laundry income per unit. The vacancy factor percentage is 5%. The effective gross income is subject to the following expenses: real estate taxes of \$10,000, insurance of \$2,500, utilities of \$2,000 per unit, repairs and maintenance of \$1,000 per unit, a management fee of 4% of the effective gross income, landscaping of 1% of the effective gross income, trash pick-up of \$500 per year, and a reserve of 3% of the effective gross income.

Valuation

What is the market value of the property assuming a cap rate of 7%?

- Four 1-bedroom apartments: \$1,000
- Two 2-bedroom apartments: \$1,500
- Two 3-bedroom apartments: \$1,800

The building also generates \$100 per month in parking income and \$200 per month in laundry income per unit. The vacancy factor percentage is 5%.

Rental Income		
Four 1-Bedroom Apartment	\$48,000	$(\$1,000 \times 4 \times 12)$
Two 2-Bedroom Apartment	\$36,000	$(\$1,500 \times 2 \times 12)$
Two 3-Bedroom Apartment	\$43,200	$(\$1,800 \times 2 \times 12)$
Total Monthly Rental Income =	\$127,200	
Parking Income	\$9,600	$(\$100 \times 8 \times 12)$
Laundry Income	\$19,200	$(\$200 \times 8 \times 12)$
Total Other Income =	\$28,800	
Total Monthly Rental Income =	\$127,200	
Total Other Income =	\$28,800	
Total Income =	\$156,000	
Vancancy and Credit Loss	(\$7,800)	$(\$156,000 \times 5\%)$
Effective Gross Income =	\$148,200	

Valuation

The effective gross income is subject to the following expenses: real estate taxes of \$10,000, insurance of \$2,500, utilities of \$2,000 per unit, repairs and maintenance of \$1,000 per unit, a management fee of 4% of the effective gross income, landscaping of 1% of the effective gross income, trash pick-up of \$500 per year, and a reserve of 3% of the effective gross income.

Operating Expenses		
Real Estate Taxes		(\$10,000)
Insurance		(\$2,500)
Utilities		(\$16,000) (\$2,000 x 8)
Repairs and Maintenance		(\$8,000) (\$1,000 x 8)
Management Fee		(\$5,925) (4% x \$148,200)
Landscaping		(\$1,482) (1% x \$148,200)
Trash		(\$500)
Reserves		(\$4,446) (3% x \$148,200)
Operating Expenses	=	(\$48,853)
Net Operating Income		
Effective Gross Income	=	\$148,200
Operating Expenses	=	(\$48,853)
Net Operating Income (NOI)	=	\$99,347
Market Value	=	NOI ÷ Cap Rate
Market Value	=	\$99,347 ÷ 7.00%
Market Value	=	\$1,419,243

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Next Session

Next Session: Preparing a Letter of Intent (LOI)

**Tuesday, June 11th, 2024
@ Noon Eastern**

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