Excerpt from
***Introduction to Real Estate Finance and Investment: Sample Problems, Student Edition*, by Frank Gallinelli**

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Chapter 8: Gross Operating Income (Effective Gross Income)

You know what you hope to collect: The Gross Scheduled Income. And you know that your hope will be tempered by the reality of Vacancy and Credit Loss. What is left – what you actually, realistically expect to collect before paying out any expenses, improvements or financing costs – is the Gross Operating Income, aka Effective Gross Income. The math is simple enough:

Gross Operating Income = Gross Scheduled Income less Vacancy and Credit Loss

An easier way to visualize this calculation is a "top down" approach as it might appear in a report or on a spreadsheet:

Gross Scheduled Income
less Vacancy and Credit Loss
= Gross Operating Income

Problem 8-1:

Your property's expected Gross Scheduled Income for this year is $1,000,000. You allow 3% for possible Vacancy and Credit Loss. If you are right, what will your Gross Operating Income be?

Problem 8-2:

In the scenario of Problem 8-1, you expect your Gross Scheduled Income to grow 2% next year, and 1% the following year. You also expect your Vacancy and Credit Loss to be 3% each year. What is your projected Gross Operating Income for each of the next two years?

Answer 8-1:

Apply the formula.

Gross Operating Income = Gross Scheduled Income less Vacancy and Credit Loss.

Gross Operating Income = 1,000,000 less 3% of 1,000,000

Gross Operating Income = 1,000,000 less 30,000

Gross Operating Income = 970,000

Answer 8-2:

You calculate the Gross Scheduled Income, Vacancy & Credit Loss and Gross Operating Income for each of the next two years as follows:

	Next Year	Following Year
Gross Scheduled Income	1,020,000	1,030,200
Less Vac. & Credit Loss	30,600	30,906
= Gross Operating Income	989,400	999,294