

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:

$$\text{Gross Operating Income} = \text{Gross Scheduled Income less Vacancy and Credit Loss}$$

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

$$\begin{aligned} &\text{Gross Scheduled Income} \\ &\text{less Vacancy and Credit Loss} \\ &= \text{Gross Operating Income} \end{aligned}$$

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?