

PROPERTY MANAGEMENT CASE PROBLEM

An apartment building has 30 units and is to be completed for your client at a cost of \$45.00 per square foot of the gross living areas of the apartments. Each apartment has 900 square feet of gross leasable area. The net cost of the site is \$200,000.

Financing takes the form of an 80% loan-to-value mortgage with monthly payments for 25 years at 10.5% interest (the mortgage loan constant, K, is .1133018).

From your market analysis you are able to project vacancy and collection loss at four percent of potential gross income (PGI) and a total expense amount as 38 percent of effective gross income (EGI).

If the Capitalization Rate for this project is 12%, determine all of the following items. Round computations to nearest whole dollar value.

1. Total cost of building and site	\$1,415,000 (1)
2. Amount of Loan	\$1,132,000 (1/2)
3. Amount of Equity	\$282,000 (1/2)
4. Rent per unit per month	\$792 (1)
5. Potential Gross Income (PGI) (annual)	\$285,282 (1)
6. Vacancy Loss	\$11,411 (1/2)
7. Effective Gross Income (EGI)	\$273,871 (1)
8. Operating Expenses	\$104,071 (1/2)
9. Net Operating Income (NOI)	\$169,800 (1)
10. Annual Debt Service (DS)	\$128,258 (1)
11. Cash Flow	\$41,542 (1)
12. Cash-on-Equity Rate of Return (round to 2 decimal plcs .	14.68% (10)
.....	TOTAL POINTS (10)