

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

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Chapter 6: Gross Scheduled Income (Potential Gross Income)

This and the next several chapters should not tax your computational skills very much, but that doesn't mean the topics are trivial. The purpose of this book is to review and practice each of the concepts in my *Cash Flow* book, not to contrive a high-impact math workout. With some of these concepts, a computer is helpful; with others, a stubby pencil should do.

Gross Scheduled Income (aka Potential Gross Income) is a property's gross income assuming all space is actually rented. To express it as a formula:

Gross Scheduled Income = Total annual rent payable for occupied space plus total potential rent, at market rates, for vacant space

Problem 6-1:

You own a fully occupied two-family house with rents of \$725 and \$900 per month. What is your property's Gross Scheduled Income?

Problem 6-2:

Your two-family house begins the year with rents of \$725 and \$900 per month, but the rent for each apartment will increase by \$80 per month on October 1. What is your property's Gross Scheduled Income for the current calendar year?

Problem 6-3:

You purchase an apartment complex with 28 one-bedroom units, 18 two-bedroom units and 4 three-bedroom units. Two of the one-bedroom units are vacant, as is one of the two-bedroom units. The one-bedrooms are rented for \$950 each, the two-bedrooms for \$1,150 and the three-bedrooms for \$1,350 per month. The market rent of the vacant units is \$75 more per month than the rent of the similar occupied units. What is this property's Gross Scheduled Income?

Problem 6-4:

You purchase a different property with both apartments and commercial space. The rent roll looks like this:

<u>Unit type</u>	<u>Occupied</u>	<u>@Rent</u>	<u>Vacant</u>	<u>@Market Rent</u>
one-bedroom	11	1,225/mo	1	1,300/mo
two-bedroom	8	1,425/mo	1	1,500/mo
Retail	5,000 sf	33.00 / sf		
Retail			3,000 sf	35.00 / sf
Office	2,000 sf	26.00 / sf		
Office			1,200 sf	28.00 / sf

What is this property's Gross Scheduled Income?

Answer 6-1:

There is no vacant space, so the Gross Scheduled Income is simply the annual rental income, \$19,500:

$$\begin{array}{r} 725 \times 12 = 8,700 \text{ (\$725 per month times 12 months)} \\ \underline{900 \times 12 = 10,800} \\ 19,500 \end{array}$$

Answer 6-2:

Again there are no vacant units to account for, but you must pro-rate the rent for each unit, nine months at the original rent and three months at the increased amount.

$$\begin{array}{r} 725 \times 9 = 6,525 \text{ (\$725 per month times 9 months)} \\ 900 \times 9 = 8,100 \\ \\ 805 \times 3 = 2,415 \\ \underline{980 \times 3 = 2,940} \\ 19,980 \end{array}$$

Answer 6-3:

Your apartment building has 26 one-bedrooms occupied at \$950 per month, 2 vacant at a fair market value of \$1,025; 17 two-bedrooms occupied at \$1,150, 1 vacant at \$1,225; and 4 three-bedrooms, all occupied at \$1,350.

$$\begin{array}{r} 950 \times 12 \times 26 = 296,400 \text{ (\$950 per month x 12 months x 26 units)} \\ \\ 1,025 \times 12 \times 2 = 24,600 \end{array}$$

$$1,150 \times 12 \times 17 = 234,600$$

$$1,225 \times 12 \times 1 = 14,700$$

$$\frac{1,350 \times 12 \times 4 = 64,800}{635,100}$$

Your annual Gross Scheduled Income is \$635,100

Answer 6-4:

In this problem, you have residential units, whose rent is expressed in dollars per month, and commercial (i.e., non-residential) space, whose rent is expressed in dollars per square foot per year.

Let's start with the residential space:

<u>Unit type</u>	<u>Occupied</u>	<u>@Rent</u>	<u>Vacant</u>	<u>@Market Rent</u>
one-bedroom	11	1,225/mo	1	1,300/mo
two-bedroom	8	1,425/mo	1	1,500/mo

You total these rents as follows:

$$\begin{array}{r}
 1,225 \times 12 \times 11 = 161,700 \\
 1,300 \times 12 \times 1 = 15,600 \\
 \\
 1,425 \times 12 \times 8 = 136,800 \\
 \underline{1,500 \times 12 \times 1 = 18,000} \\
 332,100
 \end{array}$$

The residential portion of your mixed-use property has a Gross Schedule Income of \$332,100. Now for the commercial part:

<u>Unit type</u>	<u>Occupied</u>	<u>@Rent</u>	<u>Vacant</u>	<u>@Market Rent</u>
Retail	5,000 sf	33.00 / sf		
Retail			3,000 sf	35.00 / sf
Office	2,000 sf	26.00 / sf		
Office			1,200 sf	28.00 / sf

You calculate the annual rent by multiplying the area times the rate per square foot.

$$\begin{array}{r}
 5,000 \times 33.00 = 165,000 \text{ (5,000 square feet times \$33 per square foot per year)} \\
 \\
 3,000 \times 35.00 = 105,000 \\
 2,000 \times 26.00 = 52,000 \\
 \underline{1,200 \times 28.00 = 33,600} \\
 355,600
 \end{array}$$

Note that you have taken into account both the occupied space at its actual rent and the vacant space at its fair market rent.

Your combined Gross Scheduled Income for the residential units and the commercial space is \$332,100 plus \$355,600, or \$687,700.