



NOI Cap Rate Calculator Quick Start Guide

Automated NOI, Cashflow and Market Price Calculator

NOI Cap Rate Calculator Quick Start Guide

Created by Peter D. Morris CRX, SCLS, SCSM, SCMD, Greenstead Consulting Group Inc.

This quick start guide helps you complete the NOI Workbook. Although the basis of this workbook is the Annual Property Operating Data (aka APOD) sheet developed by the CCIM Institute, many enhancements have been made.

This calculator assists the commercial real estate professional determine the Net Operating Income (NOI) of an income producing property. Understanding the NOI is the first step to determining the market price of an existing cash-flowing property.

While the NOI Workbook is intuitive and complete, it is not a substitute for 'critical thinking'. For example, the expense categories are somewhat broad and may not exactly apply to every type of asset and/or financial statement being considered. Professional judgement, and experience must always be considered.

Notwithstanding this, the basic principles of determining NOI still apply. These include the following:

Net Operating Income pertains to the ability of the investment to generate operational cash, irrespective of the ownership of the property. **We consider the business of the property, not the investment of the investor.** This is an important concept, because the business of OPERATING the property is distinct from the business of INVESTING IN a property. The investor has other, and often personal, considerations for any investment they make. The idea is to consider the investment in real estate vs investing in another type of investment vehicle.

Accordingly, the following items are **not included** in the expenses in the workbook, because they pertain to the investor and not the property:

- a. *Mortgage payment including both principle and interest.* There are two reasons for this:
 - i. The repayment of the loan has no bearing on the operational cash flow of the property. The property will generate a certain amount of cash flow whether there is 10% financing or 100% financing on the asset;
 - ii. The amount of financing on the property is an investor decision and will vary by the investor. Figuratively, the property itself cannot take out a loan, so this pertains to the investor and not the property itself.
- b. *Depreciation.* Depreciation is a non-cash item that the investor, not the property, can take on their taxes to defer the tax implications of the investment.
- c. *Income Taxes of the Investor.* Please note that we are **NOT** speaking about real estate (or Property) taxes, or taxes associated with the personal property (aka chattels) belonging to the property as those are definitely related to the operation of the property. Irrespective of who owns the asset, there will be property taxes payable, and possibly personal property tax.

Income taxes, however, are different. They are personal to the investor and will vary depending on the nature and type of investor. For example, in many jurisdictions pension funds investing in real property may pay no income taxes on the profits earned. On the other hand, a private investor holding the property personally may be subject to punishing marginal tax rates.

- d. *Capital expenses.* Once again, there are two reasons these are excluded. First, though, it is important to understand what a capital expense is. Investopedia defines it as:

“Capital expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. CapEx is often used to undertake new projects or investments by a company.”

Therefore, these are major one-time items, such as replacing a boiler, or parking lot. These do not relate to regular operating expenses. It is important though to note that the amortization of a capital expense **IS** an operating expense to be included, particularly if the tenants pay the landlord for that amortization in their Triple Net Lease Recoveries.

The second reason again relates to the ownership of the property. One investor may operate their asset in a first-class manner, where another may not. So, once again, the investor decides what happens; therefore, this is an investor choice.

- e. *Reserves for replacements.* These are akin to Capital Expenses. Effectively, these are sinking funds established to upgrade and maintain an investment property. The amount of the reserve pertains to the investor’s business.

The purpose of the NOI Worksheet is important at this point. Here is why. While capital expenses and the replacements for reserves are EXCLUDED from “Operating Expenses” in determining the market price, many lenders will INCLUDE them to ensure the borrower can satisfy the mortgage requirements. BE CAREFUL to understand the purpose of the calculation.

We can now complete the Workbook with this understanding in place.

A PRACTICAL TIP

You will complete the Workbook with financial statements provided to you by a third party, typically, either the seller or buyer (or their accountant). While the financial statements follow a standardized format to their layout, they do not necessarily contain the same information or detail. Each property, and each investor is different, so it is to be expected that the way information is tracked and categorized will be different.

On the other hand, the workbook is considered a standard, yet flexible, document. You will need to use good judgement when completing the Workbook, and where you allocate or consolidate line items. It is important to ensure that all the data is included, as appropriate; and not to duplicate either income or expenses as that will provide a false number.

To facilitate the process, it is recommended that you enlist another person to assist you. One person (preferably your assistant in the process) will read from the financial statement, while you first determine where the information should be entered and then enter it. The person assisting you should mark off each item on the financial statement as it is entered into the Workbook to ensure no item is missed or duplicated.

You may need to use judgement to determine where each item can/should be placed. There are also spare lines where you can enter items from the financial statement that are not specifically included in the Workbook.

FIRST THINGS FIRST

Start with basic property information, such as the property name, address, property type (retail, office, warehouse, multi-family, etc.), and the total RENTABLE AREA of the property. We do not consider the size of the common areas for this exercise. Alternatively, you can enter the number of suites if this is for a multi-family rental property.

ENTER PURCHASE INFORMATION, if known, and depending on the purpose.

Enter the total purchase price, acquisition fees including brokerage and legal fees as appropriate. Here is where you will also include all other fees associated with due diligence, such as environmental consultations, property condition reports, etc.

Include the amount of any mortgage too, to determine the equity position.

Enter other financing information in the appropriate cells for interest rate and amortization. The Annual Debt Service will self populate.

Now to enter revenue from the financial statements.

INCOME INFORMATION

All entries should be under the column marked "Amount" and should be **annual** amounts, not monthly.

Line A: Enter the potential base rent, or gross rent, depending on the type of lease(s) on the line under the column marked "Amount". Note this is the total potential income as though the property is 100% leased. At this point do not consider vacancy.

Line B: Enter the estimated percentage rent that would be payable for the year, if this is a retail property.

Line C: Enter the revenue of additional charges to tenants that is not included in lines A & B. This includes the annual recoveries, tenant utility recovery revenues and any administration fees recovered from the tenants.

Line D: Enter any unspecified other revenue from tenants that would be affected by vacancy.

Line E: Enter the expected vacancy percentage in the cell marked **XX%**. The Value will self populate.

Line F: Will self populate and provide the Effective Rental Income.

Line G: Enter any revenues generated from the common areas, such as placement fees, short term licenses, vending machine rents, etc.

Line H: Enter parking revenues generated by renting parking to others, not tenants. Parking revenues from tenants should be included in either (but not both) Lines C or D.

Line I: Enter revenues generated from advertising sources and sponsorships, such as promotional banners and signs promoting third parties at the property.

Line J: Enter any other revenues not included in the above.

The Gross Operating Income line will self populate.

OPERATING EXPENSES

Enter the annual expenses on the appropriate line. If there is an expense on the financials for which there isn't a current line, please itemize the expense by name and amount on one of the blank lines, such as line 23 for a miscellaneous utility, lines 32 to 34 for contract services and lines 35 to 39 for other expenses.

Lines 40 & 41: Total Operating Expenses and Net Operating Income will self populate.

MARKET PRICE

Line 42 to 44 provide a range of Capitalization Rates (Cap Rates).

Insert the prevailing cap rates you wish to use adjacent to the words "Prevailing Cap Rate" under Column "C". The Market Price will self populate.

OPTIONAL LINES 45-48

To determine a cashflow before Income Taxes, enter amounts under Column "E" for each line item from 45-47, as appropriate. Line 48 will self populate. However, make each number on each line a negative amount by adding the negative symbol ["- "] before the number. For example, rather than typing 4,000, type - 4,000.

CASH FLOW BEFORE TAXES will self populate.

ADDITIONAL INFORMATION AVAILABLE FOR YOU

There are additional columns to permit you to benchmark the financials in the workbook. These will self populate. You can see the income, expenses, and NOI on a per square foot basis; expenses as a percentage of total expenses; and Income & Expenses as a percentage of Gross Operating Income ["GOI"].

COMMENTS

There is an option to add comments line by line on the right-hand side should you wish.

Please Note:

The author has reserved all rights to this publication and the accompanying workbook (collectively the "Product"). The reselling or use of this Product by a person other than the purchaser is strictly prohibited.

The use of this product is for informational purposes only and should not be a substitute for proper and complete due diligence to verify all the information, including input and output amounts.

E.& O.E.

For more information contact:

Greenstead Consulting Group Inc.

www.GreensteadCG.com

Admin@GreensteadCG.com

