

Office Building Case Study

This case study will bring together everything we have covered to date in the analysis of an investment property and return for an investor. The analysis is broken down into the four steps:

Step #1 Establish the “Net Operating Income” for a specific property using the Annual Property Operating Data (APOD) form.

Step #2 Forecast the Net Operating Income for the duration of the investors expected holding period. Use attached worksheet

Step #3 Forecast an Investors “Cash Flow After Taxes” (CFAT) using the attached Cash Flow Analysis Worksheet

Step #4 Forecast the Sale and Cash Flow After Tax from Sale Proceeds using the attached Alternative Cash Sale Worksheet

Property Data

A: Current Rent Roll:

Unit #1, 2,200 square feet, \$21.00 per square foot annually

Unit #2, 2,800 square feet, \$18.00 per square foot annually

Unit #3, 2,000 square feet, vacant

Unit #4, 3,000 square feet, 18.00 per square foot annually

B: Unit #3 currently has a proposal to lease the space for \$24.00 per square foot annually to begin in month 4 of the new ownership

C: All units are rented on a full service basis wherein the owner pays for all expenses upto \$3.50 per square foot. Aka the owner has an “operating expense stop” at \$3.50/sq ft/year, and the tenant will pay any expenses above this amount.

D: Vacancy and credit loss is estimated at 7% of Potential Rental Income and management and leasing services are available for 7% of Gross Operating Income

E: Accounting, legal, license and permits are estimated at 1% of Gross Operating Income

Operating Expenses

The owner pays all operating expenses in the operation of the property, upto \$3.50 per square foot per year. The expenses are estimated as follows:

- A) Real Estate Taxes are estimated at \$2 per square foot per year
- B) Insurance is estimated at \$.60 per square foot annually
- C) Exterior and Common Area Maintenance at \$.40 per square foot annually
- D) Common Area Electricity a \$.20 per month
- E) Water and Sewer at \$.30 per month
- F) Accounting, Legal, License and Permits at 1% of gross operating income.
- G) Management and Leasing fees of 7% of Gross Operating Income

Plaza Blvd. Office Bldg.

Potential Rental Income	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Tenant A 2,200 Sq. Ft.	46,200	46,200	46,200	48,510	48,510	48,510
Tenant B 2,800 Sq. Ft.	50,400	50,400	52,290	52,290	52,290	52,290
Tenant C 2,000 Sq. Ft.	48,000	48,000	48,000	50,400	50,400	50,400
Tenant D 3,000 Sq. Ft.	54,000	54,000	56,700	56,700	56,700	56,700
Total Potential Rental Income	198,600	198,600	203,190	207,900	207,900	207,900
Less Vacancy & Credit Loss (7%)	13,902	13,902	14,223	14,553	14,553	14,553
Gross Operating Income	184,698	184,698	188,967	193,347	193,347	193,347
Less Operating Expenses:						
Leasing & Management (7%)	12,929	12,929	13,228	13,534	13,534	13,534
Administrative Costs (1%)	1,847	1,847	1,890	1,935	1,935	1,935
other Operating Expenses	35,000	35,000	35,000	35,000	35,000	35,000
Total Operating Expenses	49,776	49,776	50,118	50,469	50,469	50,469
Net Operating Income	134,922	134,922	138,849	142,878	142,878	142,878