

Income Approach — Capitalization Rates: As illustrated in Section 3, after the gross income and expenses for a particular property "use" have been identified, the next step in the development of the "Income Approach" is to subtract the anticipated (market-derived) vacancy rate from the potential gross revenue, to generate the "effective" gross income.

The expenses are then subtracted from the effective gross income, in order to generate the net operating income, or "NOI". The NOI is then divided by a "capitalization" rate, or the market-derived rate investors would expect on alternative investments that share the same degree of risk as the appraised property.

An explanation for the derivation of the Capitalization rates for various property uses follow;