INCOME APPROACH TO FAIR MARKET VALUE

If NOAA is unable to obtain an appraisal, letter from the lessor, or tax records to estimate the fair market value of a leased property, then NOAA may use an income approach calculation. If the total lease payments (excluding executory costs) of the leased property are greater than $75,000, an appraisal is required to estimate the fair market value. If the property being leased is space for an antenna to be placed on either a roof or tower and does not represent a significant portion of the facility, it is unlikely that a meaningful appraisal is obtainable. In this circumstance, the income approach is the preferred method of estimating fair market value for applying the 90% of fair value criterion. This calculation is used by appraisers in estimating the market value of property with a series of incomes attached. If NOAA is the sole occupant, the fair market value must be estimated by an appraisal, a letter from the lessor or sufficient information to estimate fair market value, or tax records.

Direct Capitalization is a method used to convert an estimate of a single year’s income expectancy, or annual average of several years’ income expectancies, into an indication of value in one direct step – either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate factor. Direct capitalization may be applied to potential gross income, effective gross income, or net operating income. The income selected for capitalization is influenced by the data available.

The calculation is represented as Income divided by the overall capitalization Rate, which yields the market Value estimate (I/R=V). The piece of this calculation that is difficult to obtain is the capitalization rate. A lower capitalization rate reflects a faster return on investment and less risky venture. A higher rate would be caused by things such as poor rental market, frequent tenant turnover, unreliable rental payments, etc.

Example:
In this example of an estimated value for a tower space, the capitalization rate applied to the revenue is 12%. This rate is estimated based on the location of this particular tower near a large metropolitan area with a fairly low vacancy rate. There are few towers in the area and the probability of new towers being constructed is low due to the concerns of local residents. Obtain a range of rental rates from the lessor. Use the median of the lessor-provided range for the monthly rent amount in the income approach calculation. The vacancy rate is calculated from the occupancy in relation to capacity at the time of the market survey.

Number of Occupants on Tower at Market Survey 8
Tower Capacity 9
High Monthly Rate $6,000
Low Monthly Rate $4,000
Monthly Rent $5,000 ((6000 plus 5000) divided by 2)
Monthly Utility Cost $500
Net Monthly Income $4,500 (5000 minus 500)
Annual Income $54,000 (4500 multiplied by 12 months)
Capacity of Tower (# of antennas) 9
Tower Total Net Income (fully occupied) $486,000 (54,000 multiplied by 9)
Vacancy Rate 11%
Estimated Vacancy $54,000 (486,000 multiplied by 11%)
Effective Gross Income $432,000 ($486,000 minus $54,000)
Capitalized at 12.0%
Estimated Property Value $3,600,000 ($432,000 divided by 12%)

The tower has the potential of nine occupants. The fair market value would be the estimated property value divided by nine.

Pro-rated Estimated Property Value $400,000

The capitalization rate provided in the income approach spreadsheet tool is reevaluated annually. A link can be accessed to assist in calculating the Estimated Property Value using the income approach.