





INCOME CAPITALIZATION APPROACH TO VALUE

- ❖ A BASIC INVESTMENT PREMISE IS: THE HIGHER THE EARNINGS, THE HIGHER THE VALUE.
- ❖ THE PRINCIPLE OF ANTICIPATION IS FUNDAMENTAL TO THE INCOME CAPITALIZATION APPROACH.
- ❖ VALUE MAY BE DEFINED AS THE PRESENT WORTH OF FUTURE BENEFITS.

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- ❖ AN INCOME RATE EXPRESSES THE RELATIONSHIP BETWEEN ONE YEARS INCOME AND THE CORRESPONDING CAPITAL VALUE OF THE PROPERTY.
 - ❖ AN OVERALL CAPITALIZATION RATE IS AN INCOME RATE FOR A TOTAL PROPERTY THAT REFLECTS THE RELATIONSHIP BETWEEN A SINGLE YEARS NET OPERATING INCOME EXPECTANCY AND THE TOTAL PROPERTIES VALUE.

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- ❖ DIRECT CAPITALIZATION IS A METHOD USED TO CONVERT AN ESTIMATE OF A SINGLE YEARS INCOME EXPECTANCY INTO AN INDICATION OF VALUE IN ONE DIRECT STEP.
 - ❖ EITHER BY DIVIDING THE ESTIMATE BY AN APPROPRIATE INCOME RATE OR BY MULTIPLYING THE INCOME ESTIMATE BY AN APPROPRIATE FACTOR.
 - ❖ THE RATE OR FACTOR SELECTED REPRESENTS THE RELATIONSHIP BETWEEN INCOME AND VALUE OBSERVED IN THE MARKET AND IS DERIVED THROUGH COMPARABLE SALES ANALYSIS.