

## CHAPTER 5. ESTIMATED RENTAL INCOME

- 5-1. RENTAL ESTIMATES. In the Analysis of Income Expectancy, first determine the gross income which may be anticipated. It is the summation of the rental values of shelter, services, and utilities, provided by the property. It is a complex of plan, arrangement, size, location, neighborhood and citywide incomes, social characteristics, tax levels, housing supply and demand factors and the many other forces which may influence the gross income of a rental housing property. The gross income estimate assumes 100% occupancy and will reflect rental levels anticipated at the time of initial occupancy of the project. If the HUD-FHA rental estimates closely approximate the sponsor's figures, the sponsor's dollar rental should be used in processing.
- 5-2. VACANCY AND COLLECTION LOSSES. The maximum earning potential of the property having been found, it is necessary to adjust it to reasonable expectations assuming average rather than ideal conditions. Therefore, the total yearly rental estimate is modified by a predicted occupancy ratio indicated by considerations of vacancy, turnover, and collection losses. When occupancy data tends to indicate a ratio in excess of 93%, it is possible that the proposed rental schedule is too low, whereas occupancy ratios less than 93% may be indicative of a rental schedule which is too high. The rental schedule should be tested at different obtainable rents and corresponding predicted occupancy ratios to obtain the optimum combination based on the market conditions which are predicted to prevail at the time the project enters the market. The resultant of the gross rental schedule minus rental losses is the Effective Gross Income Expectancy.
- 5-3. COMMERCIAL INCOME. Commercial facilities adequate to serve the needs of the occupants may be included provided income from the rental of such space is expected to be sufficient to meet the increase in debt service resulting from the added costs of providing such space. Commercial facilities may include garages, stores, professional suites, offices, laundry concessions and the like. Accessory income from the rental of commercial space may not ordinarily exceed 10% of the estimated total gross project income. When accessory income (other than that from garage and parking intended for tenant needs) is to exceed 15% of the total gross income, prior approval must be obtained from the Assistant Regional Administrator for HPMC (HUD-FHA).