Establishing the Value of Land

Commercial Residual Analysis

Based on the same theory as the residential analysis, but the value of the completed leased up building (analogous to home value) must first be calculated.

Solving for the **Completed Building Value**: The following data points are needed

Buildable Square Feet	Lease Rate	Occupancy Rate	Expense Ratio	Proforma NOI	Exit Cap Rate	Future Value
How big will the building be.	What gross lease rate can be achieved.	What is the projected occupancy.	What is the proposed expense ratio. **Typically about 35-40% of revenues**.	Solve the proforma NOI.	Estimate the exit cap rate.	Estimate the future value of the improvements on the subject commercial land parcel.

Example Commercial Residual Analysis

Assume the end product is a 3,000 sf. home that sells for $600,000

Buildable square feet:	150,000
Lease rate:	$21.00 full service
Occupancy:	90%
Expense ratio:	35%
Exit cap rate:	8%
Selling costs:	2%

Expected revenue:	$2,835,000
Less expenses:	($992,250)
Projected NOI:	$1,842,750

Value: ($ 1,842,750 / 8% cap rate):	**$23,034,375**

Note: Developers may choose not to put in a profit margin on both the finished lot and finished building as this equates to a total profit margin of $6,732,265. Some merchant developers may do the whole project for $4,514,738 on the final value. Thus, the "two profit deduction" approach is a conservative approach.

Value	$23,034,375
Less Sales Costs	$460,687
Equals Net Value	$22,573,688
Less Construction costs ($72/psf)	($10,800,000)
Less Build profit (15%)	($3,386,053)
Equals Finished lot value	$8,387,634
Less Lot development costs	($2,630,660)
Less Land development profit (15%)	($2,324,660)
Equals Raw commercial lot value	$6,062,974