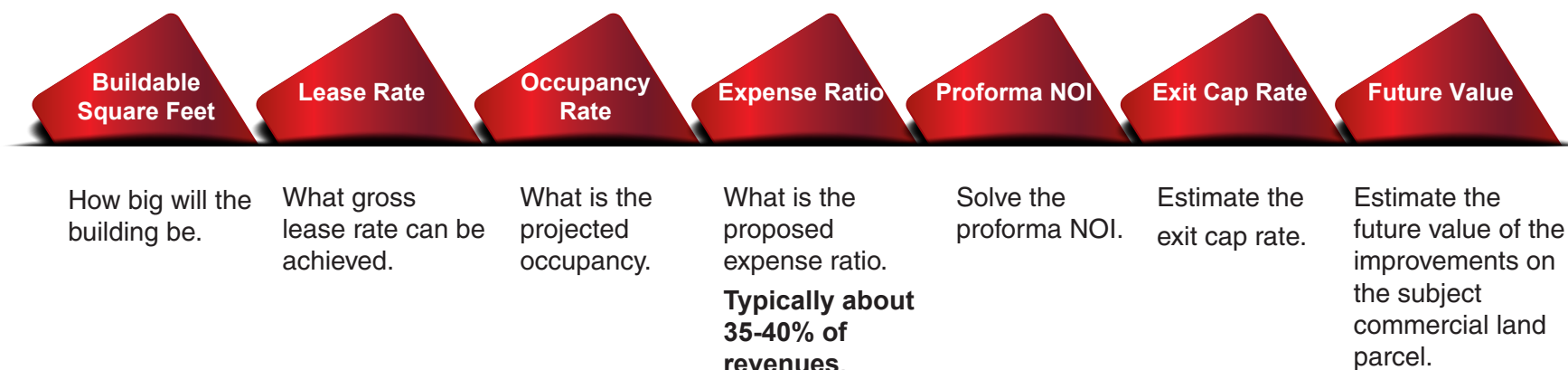


# Establishing the Value of Land

## 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



### Example Commercial Residual Analysis

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

**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.

<b>Buildable square feet:</b>	150,000
<b>Lease rate:</b>	\$21.00 full service
<b>Occupancy:</b>	90%
<b>Expense ratio:</b>	35%
<b>Exit cap rate:</b>	8%
<b>Selling costs:</b>	2%
<b>Expected revenue:</b>	\$2,835,000
<b>Less expenses:</b>	(\$992,250)
<b>Projected NOI:</b>	\$1,842,750
<b>Value: (\$ 1,842,750 / 8% cap rate):</b>	<b>\$23,034,375</b>

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