

COMMERCIAL REAL ESTATE

NET OPERATING INCOME

6 Things Every Investor Must Know

1 WHAT IS NOI?



NOI is the annual income a property generates **after operating expenses**, but before mortgage payments and taxes.

FORMULA

Gross Income – Operating Expenses

e.g. \$120,000 – \$45,000 = **\$75,000 NOI**

2 WHAT'S IN & OUT

INCLUDED ✓

- + Rental income
- + Parking fees
- + Laundry & storage
- + Late fees
- Operating expenses

EXCLUDED ✗

- ✗ Mortgage payments
- ✗ Depreciation
- ✗ Income taxes
- ✗ Capital expenditures

3 NOI DRIVES VALUE



Property value is directly derived from NOI. Growing NOI = growing equity.

VALUE = NOI ÷ CAP RATE

\$75,000 ÷ 6% = \$1,250,000

Raise NOI by **\$10,000** → add **\$166,000** in value at same cap rate

4 HOW TO GROW NOI

↑ INCREASE INCOME

- Raise rents to market rate
- Add ancillary revenue streams
- Reduce vacancy & turnover

↓ REDUCE EXPENSES

- Efficient property management
- Utility & maintenance controls
- Preventive maintenance programs

5 NOI ≠ CASH FLOW

NOI is not cash flow. Debt service is subtracted after NOI to arrive at actual cash flow.

NOI **\$75,000**

– Debt Service **\$54,000**

= Cash Flow \$21,000

DSCR = \$75,000 ÷ \$54,000 = 1.39x

6 NOI IS CENTRAL

Every major CRE metric flows directly from NOI:

Cap Rate NOI ÷ Purchase Price

DSCR NOI ÷ Debt Service

Property Value NOI ÷ Cap Rate

IRR & Equity Multiple Built on NOI projections



Protect and grow NOI — it's the engine behind every investment.



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