

## Pro Forma Flowchart

### Operation:

**Gross Scheduled Income**

**less Vacancy and Credit Loss**

**= Gross Operating Income (Effective Gross Income)**

**less Operating Expenses**

**= Net Operating Income (*NOI / Cap Rate = Current Value*)**

**less Debt Service**

**less Capital Expenditures**

**less Reserves for Replacement**

**= Cash Flow Before Taxes**

### Resale:

**Future Resale Value**

**less Costs of Sale**

**less Loan Payoffs**

**plus Unused Reserves**

**= Cash Proceeds from Sale Before Taxes**

### Return:

**Levered IRR =(*values, guess*) :**

**Values:**

**Initial Cash Investment**

**Cash Flow Before Taxes Year 1, Year 2, etc.**

**Cash Flow Before Taxes, Year of Sale PLUS**

**Cash Proceeds from Sale**

## Some notes on the Pro Forma Flowchart

The first section deals with the year-to-year operation of the property.

- Gross Scheduled Income is the annual income of a property if all rentable space were in fact rented and all rent collected.
- When you divide the Net Operating Income by the current prevailing cap rate for properties of the same type in the same market, you will have an estimate of the property's appraised market value.
- Subtracting debt service, capital expenditures, and reserves from your Net Operating Income will give you an estimate of annual cash flow.

The second section deals with the future disposition of the property.

- First, estimate the future resale value (typically by applying a cap rate to the sale-year NOI).
- Subtract costs of sale (such as commission, legal) and loan payoffs.
- Add back any unused reserves to get your estimate of before-tax cash proceeds from the sale.

The third section describes your estimate of the investment's levered (i.e. financed) Internal Rate of Return. Using Excel's IRR function, enter a series of values:

- the initial cash investment, expressed as a negative number
- the cash flow before taxes each year from operating the property
- the cash flow PLUS sales proceeds for the last year, i.e., the year of sale

Excel requires an estimate of the likely IRR. You can usually enter 15% to 20%.

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