

How to Calculate NOI (Net Operating Income)

A practical, lender-friendly guide for commercial properties

What NOI means

NOI is the property's income from operations, after operating expenses, but before debt service and taxes.

Core formula	$\text{NOI} = \text{Gross Operating Income} - \text{Operating Expenses}$
Expanded view	$\text{NOI} = (\text{Gross Potential Income} - \text{Vacancy/Credit Loss} + \text{Other Income}) - \text{Operating Expenses}$

Step-by-step calculation

- 1) **Gross Potential Income (GPI)**: total rent at full occupancy, plus other income (parking, storage, signage, fees, reimbursements).
- 2) **Subtract vacancy and credit loss**: use actual history or a market factor (for example, 5% to 10%).
- 3) **Effective Gross Income (EGI)** = GPI – Vacancy/Credit Loss.
- 4) **Subtract operating expenses**: costs required to run the property day to day.
- 5) **NOI** = EGI – Operating Expenses.

Typical operating expenses (include)

- Property taxes
- Insurance
- Repairs and maintenance
- Property management
- Utilities (owner-paid)
- Landscaping, pest control, trash, cleaning
- Marketing and leasing costs
- HOA or COA fees (if applicable)
- Administrative, accounting, legal (property-level)
- Reserves for replacements (often included in underwriting)

Do not include in NOI (common mistakes)

- Mortgage payments (principal and interest)
- Depreciation
- Income taxes
- One-time capital improvements (new roof, major remodel)

- Owner personal expenses not tied to operations

Quick example

Income

Scheduled rents: \$240,000 per year

Other income (CAM reimbursements, signage): \$20,000 per year

GPI = \$260,000

Vacancy/Credit loss (5% of rents): $5\% \times \$240,000 = \$12,000$

EGI = \$260,000 – \$12,000 = \$248,000

Operating expenses (example totals): \$75,000

NOI = \$248,000 – \$75,000 = \$173,000

Two lender-focused tips

- **Stabilized NOI:** for value-add or lease-up deals, lenders may underwrite what the property should produce when stabilized.
- **Reimbursements consistency:** if you count reimbursements as income, make sure the related expenses are included correctly so you do not double-count.

Note: This guide is educational and not financial advice.