

What is the income capitalization approach?

The Income Capitalization Approach is a set of procedures through which an indication of property value is produced by converting the anticipated benefits of the property, cash-flow and reversion, into present value. This conversion can be accomplished in two ways: 1) by direct capitalization, where one year's stabilized income expectancy is capitalized at a market derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in value of the investment; or 2) by yield capitalization, also known as discounted cash flow, where annual cash flows for the holding period and the reversion is discounted at a specified yield rate to produce an indication of present value of the income stream plus reversion. In the view of market value, the income approach is most applicable to properties of an income producing nature.