

how to calculate **CAP RATE**

Capitalization rate (or “cap rate”) is the ratio between the net operating income produced by an asset and its capital cost (the original price paid to buy the asset) or alternatively its current market value.[1] The rate is calculated in a simple fashion as follows:

$$\text{Capitalization rate} = \frac{\text{annual net operating income}}{\text{cost (or value)}}$$

Capital costs: In residential real estate investments this is the total cost of the home, land and any renovations needed to bring the house up to a marketable state.

Market Value: is a calculation of what the general public was willing to pay within a three month period for a home comparable to the subject property.

Example:

1. Get the recent sold price of an income property, such as a Duplex
– Duplex project sold for \$300,000
2. For that same Duplex, determine the net operating income, or the net rentals realized by the owners.
Example: The rental income after expenses (net) is \$24,000
3. Divide the net operating income by the sale price to get cap rate.

Example: $\$24,000 / \$300,000 = .08$ or 8% (The Capitalization Rate)



it's your **MOVE.**