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REAL ESTATE INVESTMENT SOFTWARE

EXPLANATION

Shows the rate at which future income is discounted in order to determine its present value.

"In layman's terms, it shows the percentage of property value attributable to net operating income."

"Net operating income is gross rental income less vacancy and operating expenses and is one of the most important components of any real estate analysis."

EXAMPLE

You are about to take a listing on an apartment complex for \$1,300,000 with a gross rental income of \$200,600, 3% vacancy rate, and operating expenses of 42%. You want to see whether the cap rate is in line with prevailing cap rates in your market area.

"Operating expenses are computed as a percent of gross operating income for entries 1 - 100."

"For best results, use annual amounts for all entries."

SO YOU KNOW

Cap rate is just one of the 62 online real estate calculators you get in Pro RE Calculator. All are designed just like this one. [SHOW ME](#)

Cap Rate

GRM

CoC

BER

[Explain](#) [Example](#)

Cap Rate

Solves the capitalization rate.

\$ PROPERTY
VALUE*

790000

\$ GROSS
RENTAL
INCOME*

75600

% VACANCY
RATE

Optional...

\$ OPERATING
EXPENSES (%
1-100)*

17480

*Required

[Calculate](#)

Result

7.36%

Solution

Gross rental income	75,600
- Vacancy allowance	0
Gross operating income:	75,600
- Operating expenses	17,480
Net operating income:	58,120
Net operating income	58,120
÷ Property value	790,000
Capitalization rate:	7.36%

Formulation

$$\text{Net Operating Income} \div \text{Property Value}$$

Explanation

Cap rate reflects the percentage of property value attributable to net operating income. So a buyer benefits from a higher rate and a seller benefits from a lower rate. But it is market-driven so there is no universally correct number.

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