

# Understanding Cap Rate

## What is a capitalization rate?

Otherwise known as a 'cap rate', it's a metric used to estimate a property's income yield and evaluate its income potential relative to other investments. The formula is simple:

$$\text{Capitalization Rate} = \text{Net Operating Income} / \text{Current Market Value}$$

### High Cap Rate



Higher cap rates may reflect higher perceived risk or property-specific factors.

### Low Cap Rate



Can suggest stability and higher property value, but smaller returns.

Cap rates can vary based on:



Market Trends



Demographics



Asset Class



Location

Understanding cap rates helps participants evaluate risk, compare opportunities, and make confident, data-driven decisions in commercial real estate.

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