

COMMERCIAL REAL ESTATE CAP RATES

6 Things Every Investor Should Know

1 WHAT IS A CAP RATE?

Cap Rate measures the relationship between a property's annual **Net Operating Income (NOI)** and its purchase price.

FORMULA

$$\text{Cap Rate} = \text{NOI} \div \text{Purchase Price}$$

e.g. $\$60,000 \div \$1,000,000 = 6\%$ cap rate

2 WHAT DOES IT TELL YOU?

Cap rates estimate a property's **unlevered rate of return** and provide a quick way to compare investment opportunities.

↑ Higher cap rate = Higher expected return

↓ Lower cap rate = Lower expected return

3 CAP RATES REFLECT RISK

↑ Higher Cap Rate → Higher Risk

↓ Lower Cap Rate → Lower Risk

KEY RISK FACTORS

- Market quality
- Lease stability
- Economic outlook
- Tenant strength
- Asset condition

4 WHAT MOVES CAP RATES?

Cap rates shift based on both macro and market-level factors:

- Interest rates
- Prop. performance
- Financing conditions
- Investor demand
- Market fundamentals
- Economic uncertainty

5 PRICE vs. CAP RATE

Cap rates and property values move in **opposite directions** when NOI stays the same.

↓ Cap Rate = ↑ Property Value
e.g. 5% = \$1,200,000

↑ Cap Rate = ↓ Property Value
e.g. 7% = \$857,000

6 ONLY THE BEGINNING

Never rely on cap rate alone. Always layer in deeper analysis.

- Cash-on-Cash Return
- Equity Multiple
- Market fundamentals
- IRR
- DSCR
- Business plan



Cap rates help you price risk—not predict investment success.



BRAVO ZULU CAPITAL