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Understanding Capitalization Rates

What is a Cap Rate?

Capitalization rate (Cap Rate) is a real estate valuation measure used to compare different real estate investments. Although there are many variations, the cap rate is generally calculated as the ratio between the annual rental income produced by a real estate asset to its current market value

Cap Rate Calculation

To calculate cap rate, follow this formula:

(Gross income - expenses = net income) / purchase price * 100.

55,000 (rental income) less 12,000 (total expenses) *= \$43,000 (net income) / \$950,000 (purchase price) = 4.5 % CAP

BORROWING COSTS ARE NOT CALCULATED IN THIS FORMULA

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