



Cap Rates

The capitalization rate, a measure of return on the property, is calculated as follows:

$$\begin{aligned} & \text{Gross income in one year} \\ & - \text{Expenses in one year} \\ \hline & = \text{Net Income} / \text{divided by Purchase price} \end{aligned}$$

In Lincoln, which has few buildings with national credit tenants, cap rates are 8% to 9%. A class C property can be higher; a Walgreens or similar national credit tenant might be a little lower.

Cap rate only deals with annual income and expenses, not mortgage costs. Everyone's mortgage is different, so cap rates developed as an easy rule of thumb for quickly evaluating the value of the property. Deeper analysis should include factors such as vacancy, escrow for major repairs, length of leases, taxes and depreciation.