


## Real Estate Glossary


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cap rate 

CAP Rate

Market CAP Rate

Capitalization rate

Market CAP Rate

### CAP Rate

Short for Capitalization Rate. This very common investment measure is used to determine the VALUE of an income producing property. CAP is calculated by using the 1-year Net Operating Income (NOI) of a property and dividing it by the value or price of the property. CAP Rate is often misused to calculate a return on the investment, but it does not calculate a return on the investor's equity investment. It is used by appraisers to determine value based on comparable property sales using the CAP Rates from comparable properties that have sold recently. The appraiser will then apply the market CAP Rate to the subject property in order to determine the value of that property for a given point in time. Brokers and property owners also use CAP Rate to determine the value of their property at a specific point in time as it relates to the current Net Operating Income of the property. See Capitalization Rate and Market CAP Rate.