CAP Rate – Capitalization Rate

What is a CAP Rate and why is it important?

Capitalization rate (aka Cap Rate) is the rate of return on a real estate investment.

Typically a Cap Rate does not consider the impact of financing. It is used to determine the return on investment against other investments you would put the same amount of cash into. A rule of thumb is if the cap rate is above the interest rate on borrowed funds then you will come out ahead. Cap Rate does not consider appreciation.

It is the rate of return on a real estate investment property based on the net operating income (NOI) divided by the market value or acquisition cost of the property. CAP Rate is your ROI if you paid cash for the property.

Capitalization Rate = Net Operating Income / Purchase Price

**What is a good CAP Rate?**
That depends on the investor, the property type and alternative returns the investor may be comfortable with in comparing. CAP Rates will increase and decrease with market conditions.

**What does CAP rate indicate?**
The CAP rate helps in evaluating a real estate investment or potential rate of return on the real estate investment.

**How do you estimate rental earning potential when determining Cap Rate?**
You have to compare the home to similar properties, including neighboring resorts, with similar appeal to create a custom income estimate.

**Cap Rate vs Cash-on-Cash Return**
Cash-on-Cash return compares cash flows, less financing expenses. Cash-on-Cash returns takes into consideration the income after the mortgage payments.

**Why LIVit Belize?**
Renting out a second home as a Vacation Rental can deliver significant income. Working with a trusted property manager means you can enjoy your home more when you come to visit.

The most variable expense to consider when determining Cap Rate is property management. You will need to account for cleaning, maintenance, supplies, marketing, guest support, accounting, insurance, taxes and more. Working with a full-service end-to-end property management company such as LIVit Belize will not only do all the work for you but allow you to more accurately figure your Cap Rate.