

EVALUATION FORMULAS

Capitalization (Cap) rate: The rate of return of an investment based on an expected level of cash generated by a property before capital costs. (note: Net Operating Income includes the expense of management fees, but excludes capital expenditures)

$$\text{CAP RATE} = \frac{\text{Net Operating Income}}{\text{Purchase Price}}$$

Lease Rate: The rate of return of an investment based on a specific annual lease payment

$$\text{LEASE RATE} = \frac{\text{Lease Payment}}{\text{Investment Price}}$$

Lease Yield (GAAP): The average return of an investment over the expected lease term

$$\text{Lease Yield (GAAP)} = \frac{\text{(Total escalated lease payments / Lease term)}}{\text{Investment Price}}$$