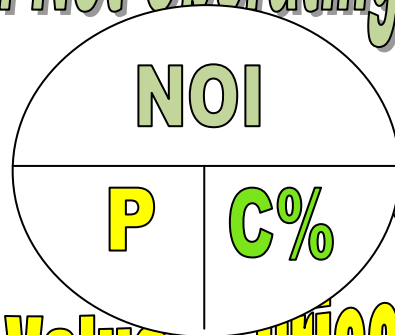


*Annual Net Operating Income*



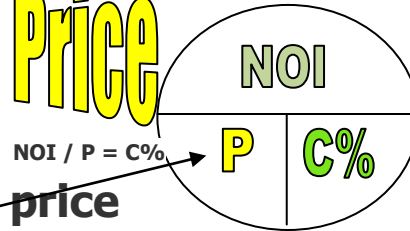
**Capitalization Rate**

**Fair Market Value or PRICE**

**NOI / P = C% OR NOI / C% = P OR P x C% = NOI**

Ex – Price is \$350,000, NOI is \$25,000, therefore, C% is 7.14.

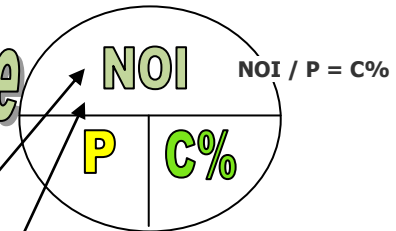
## Fair Market Value or Price



**One: Negotiate a reduction of price**

Ex – Price is \$300,000, NOI is \$25,000, therefore, C% is 8.33.

## Annual Net Operating Income



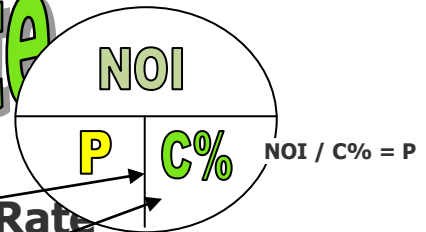
**Two: Increase Annual Rents**

Ex – Price is \$350,000, NOI is \$40,000, therefore, C% is 11.42.

**Three: Reduce Annual Expenses**

Ex – Price is \$350,000, NOI is \$35,000, therefore, C% is 10.0.

## Capitalization Rate



**Four: Know your area's targeted Cap Rate**

Ex – C% is 8.0, therefore, price is \$312,500, NOI is \$25,000.

**Five: Set your expected Cap Rate as your benchmark**

Ex – C% is 10.0, therefore, price is \$250,000, NOI is \$25,000.

(Four and Five may also affect the NOI by allowing you to negotiate with the seller regarding other cost coverage, etc.  $P \times C\% = NOI \rightarrow \text{EX: } \$290,000 \times 8\% = \$23,200$  You will at least have a capitalization range that is more suitable to your investing and property expectations.)