Extraction of Cap Rate from Sale Price
Error can result from failure to stabilize income and expenses

	Model 1	Model 2	Model 3	Change
Cash Flow	At Market	Below Market	Above Market	
AREA in SF	1	1	1	
POTENTIAL GROSS INCOME	$20.00	$18.00	$22.00	$2.00
VACANCY RATE	5.0%	5.0%	5.0%	0.0%
EFFECTIVE GROSS INCOME	$19.00	$17.10	$20.90	
OPERATING EXPENSES	$10.00	$10.00	$10.00	$0.00
NET OPERATING INCOME (NOI)	$9.00	$7.10	$10.90	

	Model 1	Model 2	Model 3
Dollar Difference from Market	$0.00	-$1.90	$1.90
Percentage Difference from Market	0.00%	-21.11%	21.11%
NOI / SF	$9.00	$7.10	$10.90
Building SF Area	10,000	10,000	10,000

		Model 1	Model 2	Model 3
A	NOI @ Sale	$90,000	$71,000	$109,000
B	Actual Sale Price	$1,500,000	$1,500,000	$1,500,000

What if we divide the NOI of each model by the actual sale price?

		Model 1	Model 2	Model 3
C	Extracted Cap Rate each NOI: A/B	6.0%	4.7%	7.3%
	Difference of Market to Non Market	0.00%	-21.11%	21.11%

What if we capitalize the NOI per SF of each model by the Market Cap Rate?

		Model 1	Model 2	Model 3
D	Extracted Cap Rate @ Market NOI C_1	6.0%	6.0%	6.0%
	NOI Capped @ Market R_o: A/C_1	$1,500,000	$1,183,333	$1,816,667
	Actual Sale Price per SF	$150	$150	$150
	CAPITALIZED NET INCOME per SF	$150	$118	$182
	Difference of Market to Non Market	0.00%	-21.11%	21.11%

What if we capitalize the NOI of each model by the **Model 2** Cap Rate?

	Model 1	Model 2	Model 3
Extracted Cap Rate @ Market NOI C_2	4.7%	4.7%	4.7%
NOI Capped Below Market R_o: A/C_2	$1,901,408	$1,500,000	$2,302,817
Actual Sale Price per SF	$150	$150	$150
CAPITALIZED NET INCOME per SF	$190	$150	$230
Difference of Market to Non Market	26.76%	0.00%	53.52%

What if we capitalize the NOI of each model by the **Model 3** Cap Rate?

	Model 1	Model 2	Model 3
Extracted Cap Rate @ Market NOI C_3	7.3%	7.3%	7.3%
NOI Capped Above Market R_o: A/C_3	$1,238,532	$977,064	$1,500,000
Actual Sale Price per SF	$150	$150	$150
CAPITALIZED NET INCOME per SF	$124	$98	$150
Difference of Market to Non Market	-17.43%	-34.86%	0.00%