

THE CAP SHEET · YOUR FIRST COMMERCIAL DEAL

Wrong question: what's the cap rate? Right question: why?

A plain English guide to cap rates: what the number means, why a high one is not always good, and the quick underwriting checklist I run before a client makes an offer.

7%

cap rate on a building that
makes \$70K a year, priced at \$1M

\$70,000 divided by \$1,000,000

\$875K

what that same \$70K is worth
if buyers demand an 8 cap

\$70,000 divided by 8%. Higher cap, lower price

6.60%

the average asking cap rate on
net lease retail right now

National median, single tenant. Boulder Group Q2 2026

CAP RATE IN PLAIN ENGLISH

Cap rate is the property's yearly net income divided by the price. A building that makes \$70,000 a year and is listed at \$1,000,000 is a 7 cap. That is the whole formula. The mistake is treating it like a score. The number is the market's opinion of how safe that income is. Three things to know before you fall for a big number:

- 01 A high cap rate is not automatically a good deal.**
It usually means more risk. Rough tenant, rough area, short lease, repairs the seller skipped. Buyers want a higher return to take that on, so they pay less. The number is the warning label.
- 02 A low cap rate is not automatically a bad deal.**
It means the market thinks the income is safe. Think a national coffee chain on a 10 year corporate lease. You pay more because you are less likely to lose the income.
- 03 Ask why the cap rate is what it is.**
An 8 cap in a 6 cap market is the market telling you something. Your job is to find out what. Page two is how: check the income, check the bills, check what buyers pay for similar buildings nearby.

WORDS YOU WILL HEAR

CAP RATE

Yearly net income divided by price. Higher usually means riskier.

NOI

Net operating income. Rent collected minus the bills you pay as owner. Your loan is not counted.

PRO FORMA

The seller's projection of future income. Not what the building makes today.

T12

Trailing twelve months. The actual income and bills from the last 12 months.

COMPS

Recent sales of similar buildings nearby. Tells you what cap rate the market really pays.

VALUE

NOI divided by cap rate. Raise the income, raise the value.



Found a deal? Call or text:

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NEW ERA
REAL ESTATE

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Quick Underwriting Checklist

Ask the seller's broker for the last 12 months of income and expenses, the rent roll and the leases. Then work down the page. The goal is one number: the real NOI.



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PROPERTY ADDRESS _____

ASKING PRICE _____

ADVERTISED CAP RATE _____

ADVERTISED NOI _____

THE INCOME

- | | |
|--|---|
| ☐ Got the actual last 12 months, not just the seller's projection | ☐ Rent roll matches the leases and the bank deposits |
| ☐ Any unit vacant right now? For how long? | ☐ Any tenant behind on rent or on a month to month? |
| ☐ Any lease ending in the next 24 months? | ☐ Rent compared to what similar space nearby rents for |

THE BILLS

- | | |
|--|--|
| ☐ Property taxes at the price you will pay, not the seller's bill | ☐ Insurance quote in hand, not the seller's old policy |
| ☐ Utilities the owner pays | ☐ Repairs and maintenance, a real number not zero |
| ☐ Management fee, even if you plan to manage it yourself | ☐ Money set aside each year for roof, parking lot, HVAC |

THE MATH

- ☐ Real income minus real bills = your NOI
- ☐ NOI divided by the asking price = the real cap rate
- ☐ Compare it to the cap rate the seller advertised
- ☐ Compare it to recent sales of similar buildings nearby
- ☐ If the gap is big, find out why before you go further

THE RED FLAGS

- ☐ Age of the roof, parking lot and HVAC
- ☐ Repairs the seller is not mentioning
- ☐ Environmental or zoning issues on the property
- ☐ Why is the seller selling?
- ☐ How long has it been on the market?
- ☐ Any price drops since it was listed?

THE FINANCING

- | | |
|---|---|
| ☐ Loan quote in hand: rate, term, down payment | ☐ NOI minus yearly loan payments = cash flow |
| ☐ Cash flow divided by cash you put in = your return | ☐ Does the deal still work if one tenant leaves? |

QUESTIONS FOR THE SELLER

Numbers not adding up? That is what I am here for.

Send me the listing and I will run these numbers with you, no cost. Text (586) 383-5070 or DM @SakarSells.



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