

# **HRC**

**The High-Risers Club**

**5.21.2024 – The World of Cap Rates Part 2**

# Coach Jeff Wright

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# Welcome

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Does anyone have anything great to share personally or professionally?



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# Podcast

**Tune in wherever you get your podcasts!**

- **Last Week: Down Payment Differences Between Residential and Commercial Real Estate Loans and 3rd Party Expenses for a Commercial Real Estate Loan**
- **This Week: 10 Impacts Higher Interest Rates Have on Commercial Real Estate**

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# Cap Rates

Relationship Between Cap Rate and Sales Price

Higher Cap Rate = Lower Sales Price

Lower Cap Rate = Higher Sales Price

*\*The goal is to sell a property with a lower Cap Rate than you purchased it at.*

# Cap Rates

## Sales Price Difference Based on Cap Rate

- \$200,000 NOI; 6% Cap Rate = \$3,333,333
- \$200,000 NOI; 7% Cap Rate = \$2,857,143
- \$200,000 NOI; 8% Cap Rate = \$2,500,000
- \$200,000 NOI; 9% Cap Rate = \$2,222,222

# Cap Rates

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Cap rate expansion is when interest rates rise, the market has a big supply, and the local market may be challenged

Cap rate compression is when interest rates go down, the market has less supply, and the local market is strong



# Cap Rates (August 2023)



TAKE 5 OIL CHANGE  
Charlottesville, VA  
Retail | **5.80 % CAP** | 1,500 SF



DUNKIN'  
Perryville, MD  
Retail | **5.25% CAP** | 3,600 SF



CVS  
Worcester, MA  
Retail | **7.00% CAP** | 14,452 SF



KFC / LONG JOHN SILVER  
Somerset, PA  
Retail | **5.75% CAP** | 2,640 SF



WENDY'S  
Vernon, CT  
Retail | **5.50% CAP** | 5,816 SF



RITE AID LEASEHOLD  
Cheshire, CT  
Retail | **11.50% CAP** | 14,673 SF

# Cap Rates (August 2023)



Excellent  
Hard  
Corner

SECURE  
NET LEASE

7-ELEVEN  
Hamilton Township, NJ  
Retail | **5.00 % CAP**



KFC / TACO BELL  
Wilmington, DE  
Retail | **5.15% CAP** | 2,400 SF



THE LODGERS  
East Stroudsburg, PA  
Hospitality | **9.59% CAP**



ASPEN DENTAL  
Derry, NH  
Retail | **5.50% CAP** | 3,500 SF



GOLF CENTER & RESTAURANT  
Natick, MA  
Retail | **8.00% CAP** | 11,250 SF



STARBUCKS  
Lee, MA  
Retail | **5.00% CAP** | 2,041 SF

# Cap Rates (August 2023)



PPG PAINTS  
Danbury, CT  
Retail | **11.00% CAP** | 7,910 SF



INVESTMENT PROPERTY  
Oxford, CT  
Industrial | **9.26% CAP** | 12,760 SF



LAUNDROMAT & RESIDENTIAL  
Bronx, NY  
Mixed Use | **12.23% CAP** | 5,940 SF



STARBUCKS, AT&T & SHOPS LEASEHOLD  
Wallingford, CT  
Retail | **7.00 % CAP** | 10,724 SF

# Cap Rates (May 2024)



CHICK-fil-A  
Racine, WI  
Retail | **4.63% CAP** | 4,877 SF



TACO BELL  
Memphis, TN  
Retail | **5.25% CAP** | 2,167 SF



CHASE BANK  
Colleyville, TX  
Retail | **4.80% CAP** | 4,225 SF



STARBUCKS  
Longview, TX  
Retail | **5.62% CAP** | 1,750 SF



WALMART  
Alexandria, LA  
Retail | **5.75% CAP** | 41,117 SF



WALGREENS  
Springfield, MA  
Retail | **7.50% CAP** | 13,855 SF

# Cap Rates (May 2024)



CAR WASH  
Fredericksburg, VA  
Retail | **9.3% CAP** | 3,280 SF



OFFICE  
Tucker, GA  
Office | **10.83% CAP** | 247,296 SF



OFFICE  
Salt Lake City, UT  
Office | **9% CAP** | 3,307 SF



WAREHOUSE  
Hampstead, MD  
Industrial | **8.15% CAP** | 210,000 SF



KARATE STUDIO  
Toms River, NJ  
Retail | **10.39% CAP** | 31,800 SF



SELF STORAGE  
Jackson, MS  
Retail | **10.54% CAP** | 43,600 SF

# Cap Rates

Let's compare two office buildings both being sold for \$12 million each. They are located in the same market, similar size and condition.

Property I : NOI of \$480,000: 4% cap rate

Property II: NOI of \$720,000: 6%

Which deal do you prefer?

# Cap Rates

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What if Property I is 50% leased?

- \$480,000 to \$960,000

# Cap Rates

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What if the tenant in Property 1 is a medical group backed by a major hospital network?



# Cap Rates

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What if Property I is for an average of 10 years in length and Property II is on average 5 years in length?

# Cap Rates

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A lower cap rate with a higher sales price may be the better deal vs a higher cap rate with a lower sales price.

# Cap Rates

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What is a good cap rate in real estate?

# Cap Rates

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Low cap rates :Below 6%

Medium cap rates : Between 6-8.5%

High cap rates : Above 8.5

# Cap Rates

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Which property types do you think have lower cap rates?

- Apartment buildings in safe, affluent areas

\*National retail tenants

# Cap Rates

Which property types do you think have higher cap rates?

- Suburban hotels
- Office buildings ( Class B)
- Mom and Pop tenants
- Properties that need renovation / updating

# Cap Rates

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What is a Class A building in one market may be a Class B or even Class C in another market

# Cap Rates

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What is a cap rate for a Class A office building vs Class B or Class C



# Cap Rates

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Some relatively inexperienced investors make the mistake of just focusing on the cap rate vs the details of the asset offering

# Cap Rates

Measuring Investment Performance: Cap Rate ( $I \div V = R$ )

**Question** – What is the Cap Rate of a building offered for sale at \$2,850,000 that has an NOI of \$228,000?

$$\$228,000 \div \$2,850,000 = 8\%$$

**Answer = 8%**

# Join Our Facebook Group

<https://www.facebook.com/groups/commercialrealestateforresidentialrealtors>



# Next Session

## Next Session:

**How to Value a (5) Family Building, A Mixed-Use Building: (2) Apartments and (2) Retail and (4) Tenant Office Building**

**Tuesday, May 28<sup>th</sup>, 2024**

**@ Noon Eastern**

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