

Level II
Class Problem # 9
Overall Capitalization Rate
and
Weighted Land and Building Cap Rates

You are given the following information:

Discount Rate	8.0%
Recapture Rate	2.0%
Effective Tax Rate	2.0%
Land to Building Ratio	1:3

Calculate an overall capitalization rate (OAR)

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Calculate an overall capitalization rate (OAR)

Step 1) Calculate a Land Cap Rate:

Discount Rate	8.0%
Plus Effective Tax Rate	2.0%
Equals Land Cap Rate	10.0%

Step 2) Calculate a building capitalization rate.

Discount Rate	8.0%
Plus Effective Tax Rate	2.0%
Plus Recapture Rate	2.0%
Equals Building Cap Rate	12.0%

Step 3) Weight the land and building cap rates by the land to building ratio.

Land	1 part	1/4	25.0%		
Building	3 parts		75.0%		
Total	4 parts		100.0%		
Land Cap Rate			10.0%	X	25.0%
Building Cap Rate			12.0%	X	75.0%
Total Overall Capitalization Rate					<u>11.5%</u>