How to Evaluate Investment Property

by Isaac Benmergui, Esq on March 25, 2015

As the market saw in 2008, real estate can depreciate. You can't count on the price of homes always going up. But with the right tools to calculate the value of investment, you can purchase like a pro.

Even if you only own one rental property, a smart investment means the difference between profit and loss. No matter how big or small your investment, approach it like a professional. Instead of relying on your gut instincts or emotions to make investment decisions, use a tool called the "cap rate" to determine if a property is a good investment.

The cap rate will help you estimate the annual return on your investment. Here's how to calculate it:

- **Determine the annual rent.** If your property has been a rental in the past, you'll know around what to charge. If not, you can get comps from local rental sites.
- **Estimate annual expenses.** The include items like vacancy costs, utilities, insurance, taxes, and repairs.
- **Determine your annual income.** This is found using rent minus expenses.
- **Find the cap rate.** Net income divided by cost of ownership.

Your cap rate will be a percentage. The higher the cap rate, the better the investment, and the sooner you can sell and make a profit. Professionals look for cap rates between 4 and 10 percent. Generally you can take a lower rate in a high-demand area and look for higher rates in low-demand areas.

Call Miami Real Estate Lawyer Isaac Benmergui at 305.397.8547 and set up a no charge, no obligation consultation to discuss your case. We have close to 10 years of experience handling Real Estate, Personal Injury, Immigration and Commercial Litigation cases throughout Miami and South Florida, and will use our expertise to help your case to the best of our abilities.

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