



Terminology and Formulas

Net Operating Income (NOI):

Gross rents or income received less expenses.

Annual Debt Service:

Monthly principal and interest times 12 months.

Debt Service Coverage Ratio (DSCR):

Principle and Interest divided into NOI (net operating income). 1.20+ to 1.45+ depending on property type. NOI has to be bigger than the PI payment.

Cap Rate:

A measurement of the rate of return on an investment. NOI divided by the purchase price. The general range should be between 8%-13%.

Gross Rent Multiplier:

A measure of the rate of return on an investment. Property value divided by the annual gross income. The general range should be between 4-8.

Return on Investment (ROI):

It is calculated by taking the annual cash flow or equity increase and dividing it by the amount of cash invested.

Cash on Cash Return:

Annual Debt Service / Net Operating Income (NOI).

Qualification Rate:

The rate the lender uses to qualify or size the loan. We use start rate as the qualification rate. The lower the qualification rate and higher the amortization the bigger the loan amount.

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