

# Key Metrics in Real Estate Investing

## 1. Cash Flow

Cash flow measures the money earned from a real estate investment by subtracting expenses from income. Monitoring it closely helps make informed decisions about rental pricing, property improvements expenditures, and current tenant situations.



## 2. NOI or Net Operating Income

NOI calculates how much money a property generates before paying loans or taxes by subtracting operating expenses from total income. It helps investors decide if a property is profitable and worth the investment. For many investors, NOI is a key factor when choosing an investment property.



## 3. IRR or Internal Rate of Return

Internal rate of return is a metric that forecasts the expected growth rate of an investment. IRR looks at what the net present value of the property is now, versus what it has the potential to become after accruing compound interest.



## 4. Capitalization Rate

Industry professionals often refer to this as the cap rate. It is one way to estimate the return an investor can expect on their investment. In simple terms, it shows how profitable an investment may be. Expressed as a percent, the cap rate is a ratio of the net operating income to the current market value.



## 5. Loan to Value Ratio

If you plan on financing your property, the loan to value ratio (LTV) is a valuable number to take into account. It measures the amount you plan to finance versus the property's current market value. It's also a useful tool for gauging equity and tracking progress in your investment portfolio.



## 6. Debt Service Coverage Ratio

Your DSCR is a key factor in loan approval, showing how much debt you have compared to your income. It's calculated by dividing your net operating income by your debt payments.

## 7. Cash on Cash Return

Cash-on-cash return measures how much money you're earning based on your investment, including mortgage payments and debts. Calculate it by subtracting debt from net cash flow and dividing it by total cash invested, which includes the purchase price, closing costs, and capital expenditures minus the remaining mortgage.

