Cap Rate Recommendations - National Income Property Index (NIPI)

August 2009

Current Employment State of the Economy	Current Recommended Negative/Positive Spread	Current Recommended Capitalization Rate Range	Current Recommended Capitalization Rate
Strong Recession	**Medium Positive**	**7.5% - 8.0%**	**7.75%**

NIPI™ DATELINE: August 11: The consumer confidence index for July declined to 46.6 from 49.3 in June. The average 30-year mortgage APR (5.35%) for July remains relatively low. The number of unemployed (9.4% for July vs. 9.5% for June) declined for the first time in ten months. This recession is coming to an end (excluding any disruptive legislation) as 100% of the previous recessions have done.

This year has witnessed some important economic developments, the federal deficit for the fiscal year being one of the most important. The deficit is approaching two trillion dollars (with all of the accompanying problems) while the fed is printing more dollars (treasury debt) than revenue can support. Consequently, there is a strong probability that future interest rates will increase, and this will be accompanied by above average rates of inflation.

The possibility of these events calls for focus on the financing side of income property investments. Establishing competitive financing for the present eliminates the risk from increasing interest rates, and further exploits inflation by paying back debt with less valuable dollars than initially borrowed. Combining the right financing with discipline for in depth due diligence and the appropriate capitalization rate (cap rate) continues to offer the highest probability for a successful income property investment.

Ergo, given all of the current conditions, when purchasing or evaluating income property, NIPI maintains its recommendations of a cap rate range from 7.5%-8% and an optimum cap rate of 7.75%.

Every effort needs to be made to determine the correct cap rate — there are no short cuts. This can only be accomplished by a thorough and objective due diligence evaluation. This means income property investors need to stick with the basics. Perform a vigilant due diligence examination on every property being considered for acquisition, sale or refinancing. Abort the purchase of any income property that fails strong due diligence, and minimize the identified risks of those that pass through careful and demanding negotiations.

The National Income Property Index™ (NIPI™) is the preeminent income property guide for increasing ROI and minimizing investment risk by determining effective cap rates. NIPI™ provides investors with time-proven recommendations based on the two most crucial influences affecting the value of income property: jobs and the cost of debt service. Based on monthly National Employment figures, NIPI™ provides recommendations on the most advantageous positive spread to negotiate when purchasing income property. It also calculates the current cost of debt service and recommends the best cap rate range that responds to the recommended positive spread based on up-to-date nationwide data.