GEORGIA REAL ESTATE EXAM GLOSSARY

Capitalization rate

Capitalization rate, or cap rate, is the annual net operating income divided by the property's value or price.

OFFICIAL AREA	KNOWLEDGE CLUSTER	LEARNING SYSTEM
Valuation and Market Analysis	Income valuation	Define, distinguish, apply, retrieve

SOURCE STANDARD

Official exam outline plus authoritative Georgia or federal references where the topic has a controlling rule. Independent educational resource, not affiliated with GREC or PSI.

01 / COMPLETE LESSON

Build the complete exam definition

Learn the rule, separate it from the nearest distractor, then apply it to a Georgia fact pattern.

CORE DEFINITION

What does Capitalization rate mean?

Capitalization rate, or cap rate, is the annual net operating income divided by the property's value or price. It expresses the unlevered income return implied by those figures.

CLOSEST DISTINCTION

How do you separate the nearest exam answer?

Cap rate uses net operating income. Gross rent multiplier uses gross rent and does not subtract operating expenses.

GEORGIA APPLICATION

What changes or stays the same in Georgia?

This is a national valuation calculation on the Georgia exam. Financing costs and income taxes are not operating expenses in the standard NOI used for cap rate.

WORKED EXAMPLE

A property producing $54,000 in annual NOI and valued at $675,000 has an 8 percent cap rate because $54,000 ÷ $675,000 = 0.08.

EXAM TRAP

Using gross income, mortgage payments, or monthly NOI can make the arithmetic look correct while the setup is wrong.

02 / PRACTICE AND MASTERY

Retrieve the rule under exam conditions

Answer before reading the explanation. Then explain why every distractor belongs to a different term.

ORIGINAL PRACTICE CHECK

A small office building collects $90,000 in annual rent. Operating expenses are $36,000, and annual mortgage payments are $30,000. The building is valued at $675,000. What is its cap rate?

- A 13.3 percent
- B 3.6 percent
- C 8 percent
- D 8.9 percent

CORRECT ANSWER: C

Cap rate is net operating income divided by value. NOI is $90,000 minus $36,000 in operating expenses, or $54,000, and $54,000 divided by $675,000 equals 8 percent. Mortgage payments are financing costs, not operating expenses, so subtracting them to get 3.6 percent is the common setup error.

MASTERY TRACKER

Mark each box only when you can perform the skill without looking.

- [ ] I can define the term in one precise sentence.
- [ ] I can separate it from the closest look-alike.
- [ ] I can explain the Georgia rule or confirm that the national rule applies.
- [ ] I can answer the practice check and explain every option.

03 / CONNECTIONS AND AUTHORITY

Connect the term to the wider exam

Use these relationships to move from isolated recall to a connected exam model.

RELATED TERM

Net operating income

Net operating income, or NOI, is annual effective gross income minus operating expenses, before debt service, income taxes, depreciation expense, and owner-specific financing costs.

https://www.passgeorgiarealestate.com/glossary/net-operating-income

RELATED TERM

Effective gross income

Effective gross income, or EGI, is potential gross income minus vacancy and collection loss, plus other property income.

https://www.passgeorgiarealestate.com/glossary/effective-gross-income

RELATED TERM

Gross rent multiplier

Gross rent multiplier, or GRM, is the relationship between a property's sale price or value and its gross periodic rent.

https://www.passgeorgiarealestate.com/glossary/gross-rent-multiplier

RELATED TERM

Appraisal

An appraisal is an independent, supportable opinion of value developed by a qualified appraiser for a stated property interest, effective date, intended use, and set of assignment conditions.

https://www.passgeorgiarealestate.com/glossary/appraisal

RECOMMENDED NEXT COMPLETE LESSON

Valuation and Market Analysis complete lesson

https://www.passgeorgiarealestate.com/math/capitalization-rate

EXAM SOURCES AND AUTHORITY NOTES

1. PSI Georgia Candidate Information Bulletin, 7/1/2026

Official exam administration and content-outline source.

https://test-takers.psiexams.com/api/content/bulletin/4672

2. The Appraisal Foundation, Appraisal Standards and Qualifications

Congressionally authorized source for USPAP and appraisal standards.

https://appraisalfoundation.org/pages/uspap