

## APPENDIX A

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# FINANCIAL FORMULAS

Annual Income – Annual Expenses (Excluding Debt Service) =  
Net Operating Income (NOI)

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Cash-on-Cash Return = Annual Cash Flow / Initial Cash  
Investment (expressed as a percent)

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Payback Period = Initial Cash Investment / Annual Cash Flow

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Cap Rate = NOI / Purchase Price (expressed as a percent)

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NOI / Cap Rate = Purchase Price

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Value-Added = Incremental NOI / Cap Rate

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Debt Service Coverage Ratio = NOI / Mortgage Payments

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LTV = Loan Amount / Appraised Value (expressed as a percent)