PRUE AND THE MARKET HALL



FundOpsHQ

A story about the cap rate



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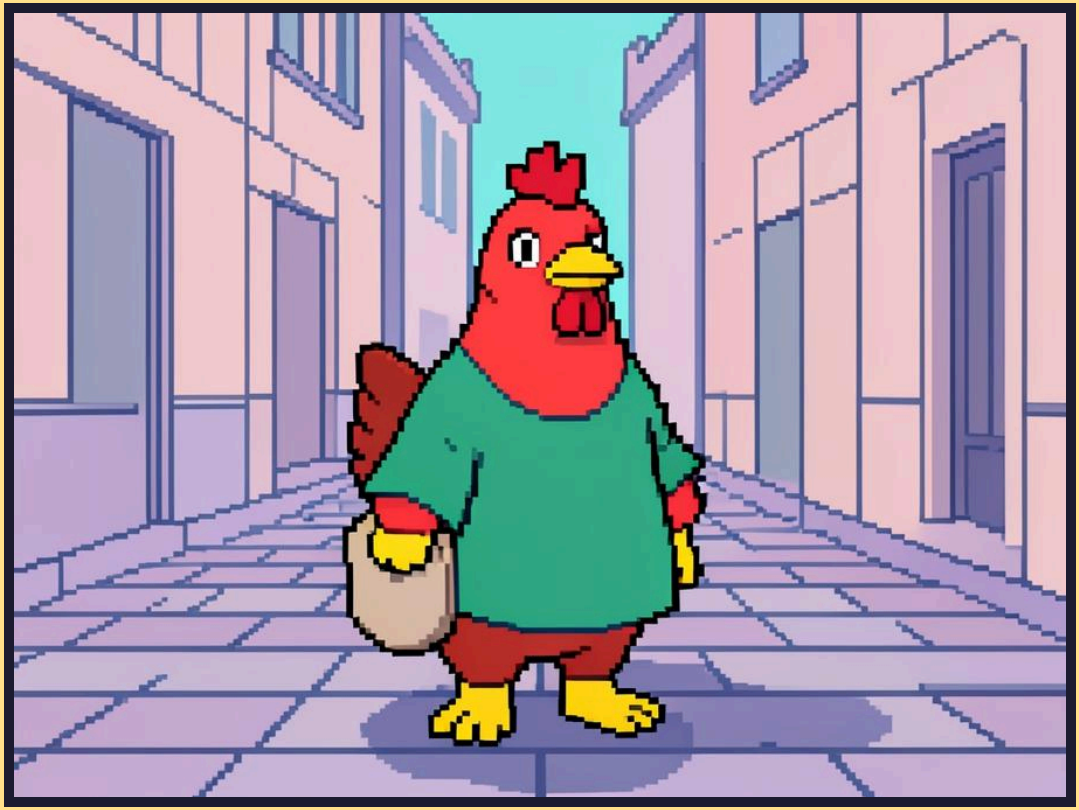


Prue the hen ran a real estate fund. Its money came from a pension fund, and the pension needed rent that arrived steadily, year after year.



She found a covered market hall, full of stalls selling bread, apples and cheese. After its costs, it earned 6 coins a year. The price was 100.



"6 a year on a price of 100 is 6%," said Prue. "That is its cap rate: the yearly income after costs, divided by the price."



Down the road, a hall of the same size had sold for 100 too. But that one earned 8 coins a year: a cap rate of 8%. More income for the same price!



"At 8%, this hall's 6 coins would be worth only 78," she thought. "Is 100 too much?" She went to ask the owner, Barley the ram.



"Ask anything," said Barley kindly. "The baker, the grocer and the cheesemaker have each agreed to stay twenty years. And the roof is new."



Prue went to see the other hall. Half its stalls were empty, its tenants could leave next spring, and rain dripped through the roof.



Now she saw it. Buyers pay more for income that is likely to keep coming. Less risk means a lower cap rate, and a lower cap rate means a higher price.



She checked the 6 coins again: rent less upkeep and taxes, counted before any loan payments. What the hall itself earned.



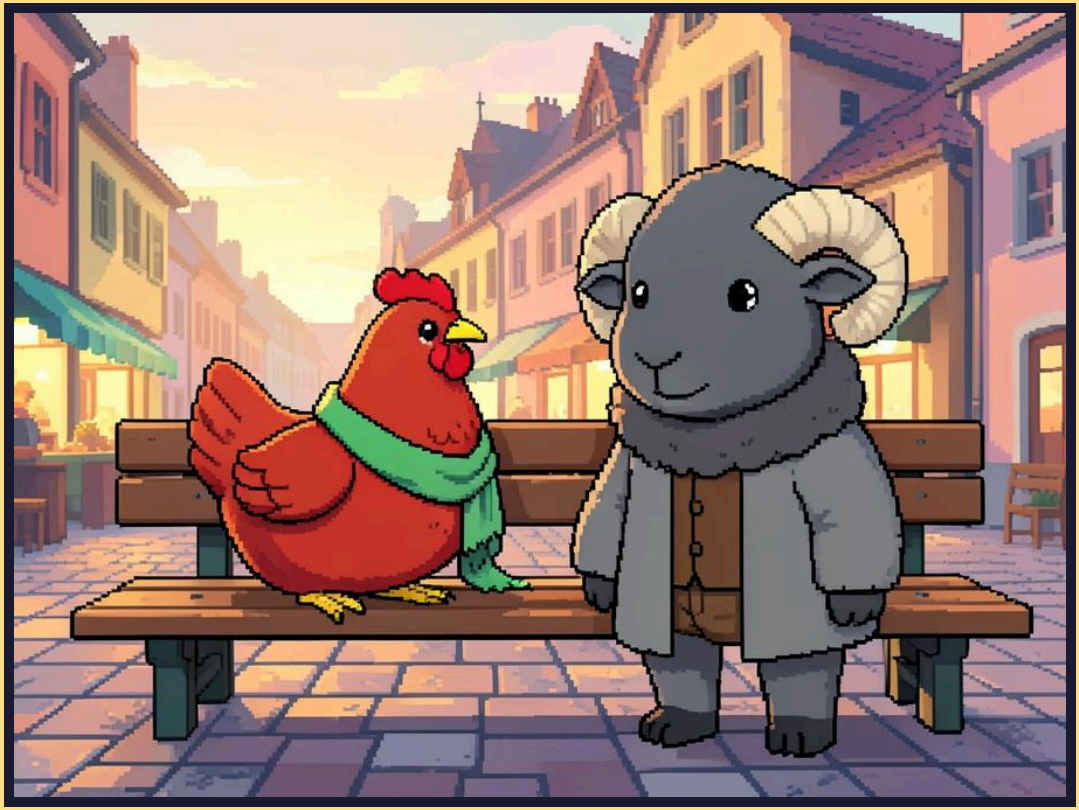
"100 is fair," Prue told Barley. "I understand now what I am paying for." Barley smiled. "Then the hall is in good hands."



Every three months the rent came in, as steady as the bread. Prue sent it on to the pension, which paid it out to those who had retired.



The other hall found a new owner who fixed its roof and filled its stalls. As its income grew steadier, it became worth more too.



"A cap rate is a short way to say how much you pay for a coin of income," said Prue, "and how sure you are it will keep coming."



A NOTE

The words in this book are real ones, explained simply. The animals and examples are made up, and real terms vary from fund to fund. It is not advice. The pictures were drawn with an AI image model and checked by hand.

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