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# THE INVESTOR'S COMMERCIAL REAL ESTATE GLOSSARY

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Welcome to our FREE Investors Resource designed to quickly improve your comprehension of common Commercial Property terms and phrases.

Learning any new body of knowledge involves acquiring a new vocabulary of specialized terms. These words and phrases are well known within the industry and serve as shorthand in conversations between professionals. Acquiring the vocabulary of Commercial Real Estate is both a first step in your journey to becoming a seasoned Investor and a discipline you will practice for years to come.

In this age of the Internet it is also important to have access to the constantly updated world of information on the World Wide Web.

Here are some Online Links to Investment and Real Estate Terms:

**InvestorWords.com glossary of Real Estate terms**  
<http://www.investorwords.com/cgi-bin/bysubject.cgi?18>

**InvestoPedia.com glossary of Real Estate Terms**  
<http://www.investopedia.com/categories/realestate.asp>

**ProU.net online Real Estate Glossary**  
<http://www.prou.net/utilities/glossary/glossary01.html>

**The KISCL.com Commercial Real Estate Glossary**  
<http://www.kiscl.com/glossary.php>

And now on to the Glossary... We recommend you print these pages out and keep them in a three ring binder, so that you can jot down notes as you review the entries.

And, as always, please visit our Website for more FREE resources to radically shorten your Commercial Real Estate learning curve. [www.investortours.com/free.php](http://www.investortours.com/free.php)

## A

**Abatement:** Often referred to as free rent or early occupancy and may occur outside or in addition to the primary term of the lease.

**Above building standard:** Upgraded finishes and specialized designs necessary to accommodate a tenant's requirements.

**Absentee Landlord:** An owner of an interest in income producing property who does not reside on the premises and who may rely on a property manager to oversee operations.

**Absolute Fee Simple Title:** A title that is unqualified. Fee simple is the best title that can be attained and conveys the highest bundle of rights.

**Absorption analysis:** A study of the number of units of real property that can be sold or leased over a period of time.

**Absorption rate:** The rate at which rentable space is filled. Gross absorption is a measure of the total square feet leased over a specified period with no consideration given to space vacated in the same geographic area during the same time period. Net absorption is equal to the amount occupied at the end of a period minus the amount occupied at the beginning of a period and takes into consideration space vacated during the period.

**Abstract:** A condensed history of the title to a property, consisting of a summary of the original grant and all subsequent conveyances and encumbrances relating to the particular parcel of real estate.

**Abstraction:** Method of finding land value by deducting all improvement costs from the sales price.

**Accessibility:** The relative ease of entrance to the property by various means, a factor that contributes to the probable most profitable use of a property.

**Accretion:** Land buildup resulting from the deposit by natural action of sand or soil washed up from a river, lake or sea.

**Accrual Basis:** A system in accounting of allocating revenue and expense items on the basis of when the revenue is earned or the expense occurred, not on the basis of when cash is received or paid out.

**Accrued Depreciation:** Total depreciation taken from an asset from the time of acquisition. In an appraisal, the difference between reproduction or replacement cost and the appraised value as of the date of appraisal.

**Accumulated cost recovery:** Total cost recovery deductions taken throughout the holding period of a property.

**Active income:** Income from salary, wages, tips, commissions, and activities in which the taxpayer materially participates. Also see passive income.

**Add-on factor:** The ratio of rentable to useable square feet. Also known as the load factor and the rentable-to-useable ratio. Also see efficiency percentage. Formula:

$$\text{Add-on factor} = \frac{\text{Rentable square feet}}{\text{Useable square feet}}$$

**Ad valorem:** Meaning "according to value," this is a tax imposed on the value of property that is typically based on the local government's valuation of the property.

**Adjustable Rate Mortgage (ARM):** A loan with an interest rate that fluctuates according to the movements of a predetermined index.

**Adjusted basis:** The original cost basis of a property plus capital improvements, less total accumulated cost recovery deductions, and partial sales taken during the holding period.

**Adjusted funds from operations (AFFO):** A measure of REIT performance or ability to pay dividends used by many analysts with concerns about quality of earnings as measured by funds from operations (FFO). The most common adjustment to FFO is an estimate of certain recurring capital expenditures needed to keep the property portfolio competitive in its marketplace.

**Administrative fee:** Usually stated as a percentage of assets under management or as a fixed annual dollar amount.

**Advances:** Payments made by the servicer when the borrower fails to make a payment.

**Adviser:** A broker, consultant or investment banker who represents an owner in a transaction. Advisers may be paid a retainer and/or a performance fee upon the close of a financing or sales transaction.

**Adverse Land Use:** A land use that has detrimental effect on market value of nearby properties.

**Aesthetic Value:** Value relating to beauty, rather than functional considerations.

**Agglomeration economies:** Cost reductions or savings that come about from efficiency gains associated with the concentration or clustering of firms/producers or economic activities and the

formation of a localized production network.

**Aggregation risk:** Risk associated with warehousing mortgages during the pooling process for future securitization.

**Alpha:** A coefficient which measures risk-adjusted performance, factoring in the risk due to the specific security, rather than the overall market. A high value for alpha implies that the stock or mutual fund has performed better than would have been expected given its beta (volatility).

**Alternative or specialty investments:** Property types that are not considered conventional institutional-grade real estate investments. Examples include congregate care facilities, self-storage facilities, mobile homes, timber, agriculture and parking lots.

**Amenities:** The qualities of being pleasant and agreeable. Features of a property from which the owner derives benefits other than monetary; satisfaction of possession and use arising from architectural excellence, scenic beauty, convenience, and social environment.

**Amortization:** The liquidation of a financial debt through regular periodic installment payments. For tax purposes, the periodic deduction of capitalized expenses such as organization costs.

**Anchor:** The tenant that serves as the predominant draw to a commercial property, usually the largest tenant in a shopping center.

**Annual debt service (ADS):** The total amount of principal and interest to be paid each year to satisfy the obligations of a loan contract.

**Annual percentage rate (APR):** The actual cost of borrowing money. It may be higher than the note rate because it represents full disclosure of the interest rate, loan origination fees, loan discount points and other credit costs paid to the lender.

**Annuity:** Regular fixed payments or receipts over a designated period of time. Appreciation. An investment's increase in value.

**Appraisal:** An estimate of a property's fair market value that is typically based on replacement cost, discounted cash flow analysis and/or comparable sales price.

**Appreciation:** An increase in the value or price of an asset.

**Appreciation potential:** The possibility or probability that a real estate investment will increase in value during the holding period.

**Appreciation return:** The portion of the total return generated by the change in the value of the real estate assets during the current quarter, as measured by both appraisals and sales of assets.

**Arbitrage:** Buying securities in one market and then selling them immediately in another market to make a profit on the price discrepancy.

**As-is condition:** The acceptance by the tenant of the existing condition of the premises at the time a lease is consummated, including any physical defects.

**Assessed value:** The value of real property established by the tax assessor for the purpose of levying real estate taxes.

**Assessment:** A fee imposed on property, usually to pay for public improvements such as water, sewers, streets, improvement districts, etc.

**Asset management:** The various disciplines involved with managing real property assets from the time of investment through the time of disposition, including acquisition, management, leasing, operational/financial reporting, appraisals, audits, market review and asset disposition plans.

**Asset management fee:** A fee charged to investors based on the amount invested into real estate assets for the fund or account.

**Asset turnover:** Calculated as total revenues for the trailing 12 months divided by the average total assets.

**Assets under management:** The current market value of real estate assets for which a manager has investment and asset management responsibilities.

**Assignee name:** The individual or entity to which the obligations of a lease, mortgage or other contract have been transferred.

**Assignment:** A transfer of the lessee's entire stake in the property. It is distinguishable from a sublease where the sublessee acquires something less than the lessee's entire interest.

**Attorn:** To agree to recognize a new owner of a property and to pay him/her rent.

**Average annual effective rate:** The average annual effective rent divided by the square footage.

**Average annual effective rent:** The tenant's total effective rent divided by the lease term.

**Average common equity:** Calculated by adding the common equity for the five most recent quarters and dividing by five.

**Average downtime:** Expressed in months, the amount of time expected between the expiration of a lease and the commencement of a replacement lease under current market conditions.

**Average free rent:** Expressed in months, the rent abatement concession expected to be granted to a tenant as part of a lease incentive under current market conditions.

**Average occupancy:** The average occupancy rate of each of the preceding 12 months.

**Average total assets:** Calculated by adding the total assets of a company for the five most recent quarters and dividing by five.

**Averaging method:** A simple technique used to forecast next period's/year's vacancy rate by averaging previous years' vacancy rates; especially effective where vacancy rates have remained relatively flat or show little variability over time.

## B

**Balloon, or bullet, loan:** A loan with a maturity that is shorter than the amortization period.

**Balloon Payment:** The final payment of balance due on a partially amortized loan.

**Balloon risk:** The risk that a borrower will not be able to make a balloon (lump sum) payment at maturity due to a lack of funding.

**Bankrupt:** The state of an entity that is unable to repay its debts as they become due

**Bankruptcy:** Proceedings under federal statutes to relieve a debtor who is unable or unwilling to pay its debts. After addressing certain priorities and exemptions, the bankrupt entity's property and other assets are distributed by the court to creditors as full satisfaction for the debt.

**Base principal balance:** The original mortgage amount adjusted for subsequent funding and principal payments without regard to accrued interest or other unpaid debt.

**Base rent:** A set amount used as a minimum rent with provisions for increasing the rent over the term of the lease.

**Base year:** Actual taxes and operating expenses for a specified year, most often the year in which a lease commences.

**Basis:** The total amount paid for a property including equity capital, commissions, and other expenses used to determine capital gains and capital losses for tax purposes.

**Basis point:** 1/100 of 1 percent.

**Below-grade:** Any structure or portion of a structure located underground or below the surface grade of the surrounding land.

**Beneficiary:** An employee covered by an employee benefit plan.

**Beta:** A quantitative measure of the volatility of a given stock, mutual fund, or portfolio, relative to the overall market, usually the S&P 500. Specifically, the performance the stock, fund or

portfolio has experienced in the last 5 years as the S&P moved 1% up or down. A beta above 1 is more volatile than the overall market, while a beta below 1 is less volatile.

**Bid:** An offer, stated as a price or spread, to buy whole loans or securities.

**Blind pool:** A commingled fund accepting investor capital without prior specification of property assets.

**Blockbusting:** A fair housing violation and illegal practice of deliberately escalating the cost of a house in an attempt to keep out certain minorities, such as African Americans, from a particular neighborhood.

**Book value:** Also referred to as common shareholder's equity, this is the total shareholder's equity as of the most recent quarterly balance sheet minus preferred stock and redeemable preferred stock.

**Broker:** A person who acts as an intermediary between two or more parties in connection with a transaction.

**Buildable acres:** The area of land that is available to be built on after subtracting for roads, setbacks, anticipated open spaces and areas unsuitable for construction

**Building code:** The various laws set forth by the ruling municipality as to the end use of a certain piece of property. They dictate the criteria for design, materials and types of improvements allowed.

**Building standard plus allowance:** The landlord lists, in detail, the building standard materials and costs necessary to make the premises suitable for occupancy. A negotiated allowance is then provided for the tenant to customize or upgrade materials.

**Build-out:** Space improvements put in place per the tenant's specifications. Takes into consideration the amount of tenant finish allowance provided for in the lease agreement.

**Build-to-suit:** A method of leasing property whereby the developer/landlord builds to a tenant's specifications.

**Burden of Proof:** As a matter of evidence, the duty to affirmatively approve facts in dispute of case; plaintiff carries burden of proof in civil case; burden shifts to defendant once plaintiff has met his or her burden.

## C

**Call date:** Periodic or continuous rights given to the lender to cause payment of the total principal balance prior to the maturity date.

**Capital appreciation:** The change in market value of a property or portfolio adjusted for capital improvements and partial sales.

**Capital expenditures:** Investment of cash or the creation of a liability to acquire or improve an asset, as distinguished from cash outflows for expense items that are considered part of normal operations.

**Capital gain:** The amount by which the net proceeds from the sale of a capital item exceeds the book value of the asset.

**Capital improvements:** Expenditures that arrest deterioration of property or add new improvements and appreciably prolong its life.

**Capital markets:** Public and private markets where businesses or individuals can raise or borrow capital.

**Capitalization:** The total dollar value of various securities issued by a company

**Capitalization rate (Cap Rate):** The rate at which net operating income is discounted to determine the value of a property. It is the net operating income divided by the sales price or value of a property expressed as a percentage. The CAP rate provides a quick analysis of a properties income potential. Buy at a high CAP, and sell at a low CAP rate.

**Carrying charges:** Costs incidental to property ownership that must be absorbed by the landlord during the initial lease-up of a building and thereafter during periods of vacancy.

**Case Law:** Reported cases as a body of jurisprudence; one of the sources of law.

**Cash flow:** The revenue remaining after all cash expenses are paid.

**Cash Flow Model:** The framework used to determine cash flow from operations and the cash proceeds from sale.

**Cash-on-cash yield:** The relationship, expressed as a percentage, between the net cash flow of a property and the average amount of invested capital during an operating year. Measures the initial profitability of the property. This is expressed as a percentage, calculated by “Before Tax Cash Flow” divided by “Cash Equity”.

“Before Tax Cash Flow” / “Cash Equity”.

**Cash Value:** What property would sell for at a private, non-installment sale; market value.

**Caveat emptor:** A Latin term meaning "let the buyer beware." A legal maxim stating that the buyer takes the risk regarding quality or condition of the property purchased, unless protected by warranty.

**Certificate of Judgment:** Legal instrument enabling judgment holder to file a lien against a debtor's real estate.

**Certificate of occupancy:** A document presented by a local government agency or building department certifying that a building and/or the leased area has been satisfactorily inspected and is in a condition suitable for occupancy.

**Certificate of Title:** A document provided by a qualified source (such as a title company) that shows the property legally belongs to the current owner; before the title is transferred at closing, it should be clear and free of all liens or other claims.

**Chain of Title:** The history of all of the documents that transfer title to a parcel of real property, starting with the earliest existing document and ending with the most recent.

**Chapter 7:** That portion of the federal bankruptcy code that deals with business liquidations.

**Chapter 11:** That portion of the federal bankruptcy code that deals with business reorganizations.

**Circulation factor:** Interior space required for internal office circulation not accounted for in the net square footage.

**Class "A":** A real estate rating generally assigned to properties that will generate the highest rents per square foot due to their high quality and/or superior location.

**Class "B":** Good assets that most tenants would find desirable but lack attributes that would permit owners to charge top dollar

**Class "C":** Buildings that offer few amenities but are otherwise in physically acceptable condition and provide cost-effective space to tenants who are not particularly image-conscious.

**Clear-span facility:** A building, most often a warehouse or parking garage, with vertical columns on the outside edges of the structure and a clear span between columns.

**Closed-end fund:** A commingled fund that has a targeted range of investor capital and a finite life

**Closing:** A period of time, usually less than seven days, after a registration statement is effective and the offering commences, giving the underwriters time to receive payment for the securities.

**Cloud on Title:** An invalid encumbrance on real property which, if valid, would affect the rights of the owner. Example: "A" sells Lot 1, Tract 1 to "B". The deed is mistakenly drawn to read Lot 2, Tract 1. A cloud is created on Lot 2 by the recording of the erroneous deed. The cloud may be removed by quitclaim deed, or, if necessary, by court action.

**CMBS (commercial mortgage-backed securities):** Securities backed by loans on commercial real estate.

**CMO (collateralized mortgage obligation):** Debt obligations that are collateralized by and have payments linked to a pool of mortgages.

**Coexclusive:** Two real estate companies sharing an exclusive right to sell on a piece of property.

**Co-investment:** Co-investment occurs when two or more pension funds or groups of funds share ownership of a real estate investment. In co-investment vehicles, relative ownership is always based on the amount of capital contributed. It also refers to an arrangement in which an investment manager or adviser co-invests its own capital alongside the investor.

**Co-investment program:** An investment partnership or insurance company separate account that enables two or more pension funds to co-invest their capital in a single property or portfolio of properties. The primary appeal for investors is to achieve greater diversification or invest in larger properties typically outside the reach of small- to mid-sized tax-exempt funds, with a greater measure of control than is afforded in typical commingled fund offerings.

**Collateral:** Asset(s) pledged to a lender to secure repayment of a loan in case of default.

**Commingled fund:** A pooled fund vehicle that enables qualified employee benefit plans to commingle their capital for the purpose of achieving professional management, greater diversification or investment positions in larger properties.

**Common area:** For lease purposes, the areas of a building and its site that are available for the non-exclusive use of all its tenants, e.g., lobbies, corridors, etc.

**Common area maintenance:** Rent charged to the tenant in addition to the base rent to maintain the common areas. Examples include snow removal, outdoor lighting, parking lot sweeping, insurance, property taxes, etc.

**Common Assessment:** An amount of money paid by each unit owner in a condominium of the maintenance and repair of common areas. The stipend per owner is based on their prorate ownership in the condominium property.

**Comparables:** Used to determine the fair market lease rate or asking price, based on other properties with similar characteristics.

**Compensatory Damages:** The award, usually monetary, that is intended to compensate the claimant for injury sustained.

**Compound Interest:** Interest which is calculated not only on the initial principal but also the accumulated interest of prior periods.

**Community Property:** In some western and southwestern states, a form of ownership under which property acquired during a marriage is presumed to be owned jointly unless acquired as separate property of either spouse.

**Concessions:** Cash or cash equivalents expended by the landlord in the form of rental abatement, additional tenant finish allowance, moving expenses or other monies expended to influence or persuade a tenant to sign a lease.

**Condemnation:** The process of taking private property, without the consent of the owner, by a governmental agency for public use through the power of eminent domain.

**Conduit:** An alliance between mortgage originators and an unaffiliated organization that acts as a funding source by regularly purchasing loans, usually with a goal of pooling and securitizing them.

**Construction loan:** Interim financing during the developmental phase of a property.

**Construction management:** The act of ensuring the various stages of the construction process are completed in a timely and seamless fashion.

**Consultant:** Any company or individual that provides the following services to institutional investors: definition of real estate investment policy; adviser/manager recommendations; analysis of existing real estate portfolios; monitoring of and reporting on property asset, commingled fund and portfolio performance; and review of specified property and portfolio investment opportunities. Consultants are distinguished from investment advisers or investment managers in that a consultant does not source or execute transactions and does not directly manage assets.

**Consumer Confidence:** Measures confidence about state of the economy and spending power. Higher Confidence = More Purchases.

**Consumer price index (CPI):** Measures inflation in relation to the change in the price of goods and services purchased by a specified population during a base period of time. The CPI is commonly used to increase the base rent periodically as a means of protecting the landlord's rental stream against inflation or to provide a cushion for operating expense increases for a landlord unwilling to undertake the record-keeping necessary for operating expense escalations.

**Contiguous space:** Multiple suites/spaces within the same building and on the same floor that can be combined and rented to a single tenant, or a block of space located on multiple adjoining floors in a building.

**Contract documents:** The complete set of design plans and specifications for the construction of a building.

**Contract rent:** The rental obligation, expressed in dollars, as specified in a lease. Also known as face rent.

**Contract for Deed:** A contract for the sale of real estate where the deed (title) of the property is transferred only after all the payments have been made. Also known as a land contract, conditional sales contract, or installment contract.

**Conventional Loan:** A mortgage or deed of trust not obtained under a government insured program (such as FHA or VA).

**Convertible debt:** A mortgage position that gives the lender the option to convert to a partial or full ownership position in a property within a specified time period.

**Convertible preferred stock:** Preferred stock that is convertible to common stock under certain formulas and conditions specified by the issuer of the stock.

**Conveyance:** Most commonly refers to the transfer of title to property between parties by deed. The term may also include most of the instruments with which an interest in real estate is created, mortgaged or assigned.

**Cooperative:** A type of multiple ownership in which the residents of a multiunit housing complex own shares in the cooperative corporation that owns the property, giving each resident the right to occupy a specific apartment or unit.

**Core properties:** The major property types - specifically office, retail, industrial and multifamily. Core assets tend to be built within the past five years or recently renovated. They are substantially leased (90 percent or better) with higher-credit tenants and well-structured long-term leases with the majority fairly early in the term of the lease. Core assets generate good, stable income that, together with potential appreciation, is expected to generate total returns in the 10 percent to 12 percent range.

**Cost-approach improvement value:** The current cost to construct a reproduction of, or replacement for, the existing structure less an estimate for accrued depreciation.

**Cost-approach land value:** The estimated value of the fee simple interest in the land as if vacant and available for development to its highest and best use.

**Cost-of-sale percentage:** An estimate of the costs to sell an investment representing brokerage commissions, closing costs, fees and other necessary disposition expenses.

**Coupon:** The nominal interest rate charged to the borrower on a promissory note or mortgage.

**Covenant:** A written agreement inserted into deeds or other legal instruments stipulating performance or non-performance of certain acts, or use or non-use of a property and/or land.

**Credit enhancement:** The credit support needed in addition to the mortgage collateral to achieve a desired credit rating on mortgage-backed securities. The forms of credit enhancement most often employed are subordination, over-collateralization, reserve funds, corporate

guarantees and letters of credit.

**Cross-collateralization:** A grouping of mortgages or properties that serves to jointly secure one debt obligation.

**Cross-defaulting:** Allows the trustee to call all loans in a group into default when any single loan is in default.

**Cumulative discount rate:** Expressed as a percentage of base rent, it is the interest rate used in finding present values that takes into account all landlord lease concessions.

**Cumulative Zoning:** A system for zoning that begins with a low-intensity land use, such as a large-lot, single-family detached home and permits more intensive uses with each step up the ladder. At each step of the ladder not only are the uses for that step allowed but so are the uses for the steps below. The most intense zone, at the top of the ladder, would permit all uses below. Portland's Zoning Code is generally cumulative, some exceptions are found in the most intense zones.

**Current occupancy:** The current leased portion of a building or property expressed as a percentage of its total area or units.

**Current yield:** For CMBS, the coupon divided by the price.

## D

**Deal structure:** With regard to the financing of an acquisition, deals can be unleveraged, leveraged, traditional debt, participating debt, participating/convertible debt or joint ventures.

**Debt service:** The outlay necessary to meet all interest and principal payments during a given period.

**Debt service coverage ratio (DSCR):** The annual net operating income from a property divided by annual cost of debt service. A DSCR below 1 means the property is generating insufficient cash flow to cover debt payments. Indicates how well the cash flow covers debt and the capacity of the business to take on additional debt. Shows how much of cash profits are available to repay debt. Lenders look at this ratio to determine if there is adequate cash to make loan payments. Most lenders also have limits for the debt coverage ratio. The DCR must exceed 1.0 in order for a property to make a mortgage payment. Most lenders require a DCR of 1.2 to 1.3. Formula:

$$\frac{\text{NOI}}{\text{Debt Service}} = \text{DCR}$$

**Dedicate:** To appropriate private property to public ownership for a public use.

**Deed:** A legal instrument transferring title to real property from the seller to the buyer upon the sale of such property.

**Deed in lieu of foreclosure:** A deed given by an owner/borrower to a lender to satisfy a mortgage debt and avoid foreclosure.

**Deed of Purchase:** Deed that uses valuable consideration, which is money, goods, or services in exchange for real property.

**Deed of trust:** An instrument used in place of a mortgage by which real property is transferred to a trustee to secure repayment of a debt.

**Default:** The general failure to perform a legal or contractual duty or to discharge an obligation when due.

**Deferred maintenance account:** An account a borrower is required to fund that provides for maintenance of a property.

**Deficiency judgment:** Imposition of personal liability on a borrower for the unpaid balance of mortgage debt after a foreclosure has failed to yield the full amount of the debt.

**Defined-benefit plan:** An employee's benefits are defined, either as a fixed amount or a percentage of the beneficiary's salary at the time of retirement. Pension plans, Health and Welfare plans, and some Keogh plans are established as defined benefit plans.

**Defined-contribution plan:** An employee's benefits at retirement are determined by the amount contributed by the employer and/or the employee during his or her employment tenure, and by the actual investment earnings on those contributions over the life of the fund. Examples include 401(k), thrift plans and profit sharing plans.

**Demising wall:** The partition wall that separates one tenant's space from another or from the building's common areas.

**Depositing Rent:** Law enabling a tenant to place rent with a clerk of courts rather than paying the landlord when landlord is in breach of his or her state's statutory duties.

**Depreciation:** A decrease or loss in property value due to wear, age or other cause. In accounting, depreciation is a periodic allowance made for this real or implied loss.

**Derivative securities:** Securities that are created artificially, i.e., derived from other financial instruments. In the context of CMBS, the most common derivative security is the interest-only strip.

**Discovery:** The pre-trial process in which a party to a lawsuit may obtain information from the opposing party and potential witnesses via demands for production of documents, depositions, written interrogatories, written requests for admissions of fact, examination of the scene, and

employment of petitions and motions to enforce these rights.

**Design/build:** A system in which a single entity is responsible for both the design and construction.

**Discount rate:** A yield rate used to convert future payments or receipts into present value.

**Discretion:** The level of authority granted to an adviser or manager over the investment and management of a client's capital. A fully discretionary account typically is defined as one in which the adviser or manager has total ability to invest and manage a client's capital without prior approval of the client.

**Distraint:** The act of seizing personal property of a tenant in default based on the right and interest a landlord has in the property.

**Diversification:** The process of consummating individual investments in a manner that insulates a portfolio against the risk of reduced yield or capital loss, accomplished by allocating individual investments among a variety of asset types, each with different characteristics.

**Dividend:** Cash or stock distribution paid to holders of common stock. REITs must pay at least 90 percent of their taxable income in the form of dividends.

**Dividend yield:** The annual dividend rate for a security expressed as a percent of its market price (annual dividend/price = yield).

**Dividend-ex date:** The first date on which a person purchasing the stock is no longer eligible to receive the most recently announced dividend.

**Dollar stop:** An agreed dollar amount of taxes and operating expense each tenant will pay on a prorated basis.

**DOWNREIT:** An organizational structure that makes it possible for REITs to buy properties using partnership units. The effect is the same as an UPREIT, however, the DOWNREIT is subordinate to the REIT itself, hence the name.

**Due diligence:** Activities carried out by a prospective purchaser or mortgager of real property to confirm that the property is as represented by the seller and is not subject to environmental or other problems. In the case of an IPO registration statement, due diligence is a reasonable investigation by the parties involved to confirm that all the statements within the document are true and that no material facts are omitted.

**Due on sale:** A covenant that makes a mortgage due if the property is sold before the maturity date.

# E

**Earnest money:** The monetary advance of part of the purchase price to indicate the intention and ability of the buyer to carry out the contract.

**Easement:** A right created by grant, reservation, agreement, prescription or necessary implication to use someone else's property.

**Easement Appurtenant:** An easement for the benefit of another parcel of land, such as the right to cross parcel "A" to reach "B". The easement will pass with the transfer of property to a new owner.

**Easement in Gross:** An easement for the benefit of a person or company, rather than for the benefit of another parcel of land. Commonly, such easements as for public utilities.

**Economic feasibility:** The feasibility of a building or project in terms of costs and revenue, with excess revenue establishing the degree of viability.

**Economic rent:** The market rental value of a property at a given point in time.

**Effective date:** The date on which a registration statement becomes effective and the sale of securities can commence.

**Effective gross income (EGI):** The total income from a property generated by rents and other sources, less a vacancy factor estimated to be appropriate for the property. EGI is expressed as collected income before expenses and debt service.

**Effective gross rent (EGR):** The net rent generated, after adjusting for tenant improvements and other capital costs, lease commissions and other sales expenses.

**Effective rent:** The actual rental rate to be achieved by the landlord after deducting the value of concessions from the base rental rate paid by a tenant, usually expressed as an average rate over the term of the lease.

**Egress:** Access.

**Electronic Authentication:** Any of several methods used to provide proof that a particular document received electronically is genuine, has arrived unaltered and came from the source indicated.

**Eminent domain:** A power to acquire by condemnation private property for public use in return for just compensation.

**Encroachment:** The intrusion of a structure that extends, without permission, over a property line, easement boundary or building setback line.

**Encumbrance:** A right to, or interest in, real property held by someone other than the owner that does not prevent the transfer of fee title.

**Environmental impact statement:** Documents required by federal and state laws to accompany proposals for major projects and programs that will likely have an impact on the surrounding environment.

**Equity:** The residual value of a property beyond mortgage or liability.

**Equity Investors:** Investors who invest capital in a investment opportunity in return for ownership.

**Equity Yield Rate:** The return on the portion of an investment financed by equity capital.

**ERISA (Employee Retirement Income Security Act):** Legislation passed in 1974 and administered by the Department of Labor that controls the investment activities primarily of corporate and union pension plans. More public pension funds are adopting ERISA-like standards.

**Escalation clause:** A clause in a lease that provides for the rent to be increased to reflect changes in expenses paid by the landlord such as real estate taxes and operating costs.

**Escrow:** The depositing of money or documents from a real estate transaction with an impartial third party (escrow agent), to be disbursed to the rightful party when all conditions of the transaction have been met.

**Escrow agreement:** A written agreement made between an escrow agent and the parties to a contract setting forth the basic obligations of the parties, describing the money (or other things of value) to be deposited in escrow, and instructing the escrow agent concerning the disposition of the monies deposited.

**Escrow Closing:** The completion of a transaction whereby documents, consideration etc. are held in trust (either by the parties and their representatives or by an independent third party) pending the completion of certain conditions, at which time the items held in escrow are released and the transaction is completed.

**Estate in Reversion:** The right of an owner to re-occupy land once the estate he has granted to another person (such as an estate for years or an estate for life) has come to an end.

**Estoppel certificate:** A signed statement certifying that certain statements of fact are correct as of the date of the statement and can be relied upon by a third party, including a prospective lender or purchaser.

**Excess Rent:** The amount by which contract rent exceeds market rent at the time of the appraisal, created by a lease favorable to the landlord.

**Exclusive agency listing:** A written agreement between a real estate broker and a property owner in which the owner promises to pay a fee or commission to the broker if specified real property is leased during the listing period.

**Exit strategy:** Strategy available to investors when they desire to liquidate all or part of their investment.

**Expense Stop Clause:** Provision in a lease establishing the maximum level of operating expense(s) to be paid by the landlord. Expenses beyond this level are to be reimbursed by the tenant. May be applied to specific expenses only (eg, property taxes or insurance).

## F

**Face rental rate:** The asking rental rate published by the landlord.

**Facility space:** The floor area in hospitality properties dedicated to operating departments such as restaurants, health clubs and gift shops that service multiple guests or the general public on an interactive basis not directly related to room occupancy.

**Fair Housing Act:** The Fair Housing Act declares a national policy of fair housing throughout the United States. The law makes illegal any discrimination in the sale, lease or rental of housing, or making housing otherwise unavailable, because of race, color, religion, sex, handicap, familial status, or national origin.

**FAD (funds available for distribution):** Funds from operations less deductions for cash expenditures for leasing commissions and tenant improvement costs.

**FAD multiple:** Share price of a REIT divided by its funds available for distribution.

**Fair market value:** The sale price at which a property would change hands between a willing buyer and willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the relevant facts.

**Fannie Mae (FNMA):** The Federal National Mortgage Association - A quasi-governmental corporation authorized to sell debentures in order to supplement private mortgage funds by buying and selling FHA (Federal Housing Administration) and VA (Veterans Affairs) loans at market prices.

**Feasibility Study:** An analysis of a proposed subject or property with emphasis on the attainment of income, probable expenses and most advantageous use and design. The purpose of such a study is to ascertain the success or failure of the project under consideration. A combination of a market study and an economic analysis that provides an investor with knowledge of both the environment where a project exists and the expected return on investment to be derived from it.

**Fee simple interest:** When an owners owns all the rights in a real estate parcel.

**FFO (funds from operations):** A ratio intended to highlight the amount of cash generated by a company's real estate portfolio relative to its total operating cash flow. FFO is equal to net income, excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization.

**FFO multiple:** Share price of a REIT divided by its funds from operations.

**Fiduciary:** The Employee Retirement Income Security Act (ERISA) defines a fiduciary as any person who exercises any discretionary authority or control over a plan's asset management, administration or disposition, or renders investment advice for a fee or other compensation with respect to a plan's assets. Fiduciaries may include staff, trustees, investment board members, administrators, consultants, actuaries and investment managers. ERISA permits civil action to be brought by a beneficiary against any fiduciary that has breached its fiduciary duty. Fiduciaries can be held personally liable for any losses to a plan resulting from such breach.

**Final Value Estimate:** The product of a real estate appraiser's completed work, an assessment of the value of a property based on all factors and taking into consideration the different evaluation methods available.

**Finance charge:** The amount paid for the privilege of deferring payment of goods or services purchased, including any charges payable by the purchaser as a condition of the loan.

**Financial Leverage:** Use of debt to increase the expected return on equity, measured by the ratio of assets to equity.

**Finder's Fee:** A fee paid to a broker by purchaser for finding real property for him to purchase.

**First mortgage:** The senior mortgage that, by reason of its position, has priority over all junior encumbrances. The holder has a priority right to payment in the event of default.

**First refusal right, or right of first refusal:** A lease clause giving a tenant the first opportunity to buy a property or lease additional space in a property at the same price and on the same terms and conditions as those contained in a third-party offer that the owner has expressed a willingness to accept.

**First-generation space:** Generally refers to new space that is currently available for lease and has never before been occupied by a tenant.

**First-loss position:** The position in a security that will suffer the first economic loss if the underlying assets lose value or are foreclosed on. The first-loss position carries a higher risk and a higher yield.

**Fixed costs:** Costs that do not fluctuate in proportion to the level of sales or production.

**Fixed Expenses:** Those expenses which remain the same regardless of circumstances.

**Fixed rate:** An interest rate that remains constant over the term of the loan.

**Flat fee:** A fee paid to an adviser or manager for managing a portfolio of real estate assets, typically stated as a flat percentage of gross asset value, net asset value or invested capital.

**Flex space:** A building that provides a configuration allowing occupants a flexible amount of office or showroom space in combination with manufacturing, laboratory, warehouse, distribution, etc.

**Float:** The number of freely traded shares in the hands of the public.

**Floor area ratio (FAR):** The ratio of the gross square footage of a building to the square footage of the land on which it is situated.

**Force majeure:** A force that cannot be controlled by the parties to a contract and prevents them from complying with the provisions of the contract. This includes acts of God such as a flood or a hurricane, or acts of man such as a strike, fire or war.

**Foreclosure:** The process by which the trustee or servicer takes over a property from a borrower on behalf of the lender.

**Forward commitments:** Contractual obligations to perform certain financing activities upon the satisfaction of any stated conditions. Usually used to describe a lender's obligation to fund a mortgage.

#### **Four quadrants of the real estate capital markets**

Private equity - Direct real estate investments acquired privately.

Public equity - REITs and other publicly traded real estate operating companies.

Private debt - Whole loan mortgages.

Public debt - Commercial mortgage-backed securities and other securitized forms of whole loan mortgage interests.

**Fraudulent Conveyance:** The illegal transfer of property or assets, the intention of which is to defraud creditors or to avoid payment of an obligation.

**Freddie Mac (FHLMC):** Federal Home Loan Mortgage Corp. - a corporation established by the Federal Home Loan Bank to issue mortgage-backed securities.

**Full recourse:** A loan on which an endorser or guarantor is liable in the event of default by the borrower.

**Full-service rent:** An all-inclusive rental rate that includes operating expenses and real estate taxes for the first year. The tenant is generally still responsible for any increase in operating expenses over the base year amount.

**Fully diluted shares:** The number of shares of common stock that would be outstanding if all convertible securities were converted to common shares.

**Functional Obsolescence:** Defects in a building or structure that detract from its value or marketability, usually the result of layout, design or other features that are less desirable than features designed for the same functions in newer property.

**Future proposed space:** Space in a proposed commercial development that is not yet under construction or where no construction start date has been set. It also may refer to the future phases of a multi-phase project not yet built.

**Future Value:** Future Value is the expected value of an account, security, investment, lump sum of money, or a series of payments, at a specific time in the future.

## G

**General contractor:** The prime contractor who contracts for the construction of an entire building or project, rather than just a portion of the work. The general contractor hires subcontractors, coordinates all work and is responsible for payment to subcontractors.

**General partner:** A member of a partnership who has authority to bind the partnership and shares in the profits and losses of the partnership.

**General Warranty Deed:** A deed which conveys not only all the grantor's interests in and title to the property to the grantee, but also warrants that if the title is defective or has a "cloud" on it (such as mortgage claims, tax liens, title claims, judgments, or mechanic's liens against it) the grantee may hold the grantor liable.

**Going-in capitalization rate:** The capitalization rate computed by dividing the projected first year's net operating income by the value of the property.

**Graduated lease:** A lease, generally long-term in nature, in which rent varies depending upon future contingencies.

**Grant:** To bestow or transfer an interest in real property by deed or other instrument.

**Grantee:** One to whom a grant is made.

**Grantor:** The person making the grant.

**Gross building area:** The sum of areas at each floor level, including basements, mezzanines and penthouses included within the principal outside faces of the exterior walls and neglecting architectural setbacks or projections.

**Gross Domestic Product (GDP):** As the barometer of the nation's total output of goods and services, GDP is the broadest of the nation's economic measures. The GDP is the aggregated monetary value of all the goods and services produced by the entire economy during the quarter.

**Gross investment in real estate (historic cost):** The total amount of equity and debt invested in real estate investments, including the gross purchase price, all acquisition fees and costs, plus subsequent capital improvements, less proceeds from sales and partial sales.

**Gross leasable area:** The portion of total floor area designed for tenants' occupancy and exclusive use, including storage areas. It is the total area that produces rental income.

**Gross lease:** A lease in which the tenant pays a flat sum for rent out of which the landlord must pay all expenses such as taxes, insurance, maintenance, utilities, etc.

**Gross real estate asset value:** The market value of the total real estate investments under management in a fund or individual accounts. It typically includes the total value of all equity positions, debt positions and joint venture ownership positions, including the amount of any mortgages or notes payable related to those assets.

**Gross real estate investment value:** The market value of real estate investments held in a portfolio without regard to debt, equal to the total of real estate investments as shown on a statement of assets and liabilities on a market-value basis.

**Gross Rent Multiplier (GRM):** The quotient of the sale price divided by the gross rent. It is generally expressed as the monthly gross rent in a single family residential property and the yearly gross rent in multifamily units and commercial, office, or industrial property.

$$\frac{\text{Purchase Price}}{\text{Gross Rents}} = \text{GRM}$$

**Gross returns:** Returns generated from the operation of real estate without dilution for adviser or manager fees.

**Ground rent:** Rent paid to the owner for use of land, normally on which to build a building. Generally, the arrangement is that of a long-term lease (e.g. 99 years) with the lessor retaining title to the land.

**Guarantor:** One who makes a guaranty.

**Guaranty:** Agreement whereby the guarantor assures satisfaction of the debt of another or performs the obligation of another if and when the debtor fails to do so.

## H

**Hard cost:** The cost of actually constructing property improvements.

**Hedging:** Protecting oneself against negative outcomes.

**Hereditaments:** Any property, whether real or personal, tangible or intangible, that may be inherited.

**High-rise:** In the central business district, this could mean a building higher than 25 stories above ground level, but in suburban markets, it generally refers to buildings higher than seven or eight stories.

**Highest and best use:** The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible and that results in the highest value.

**Holdbacks:** A portion of a loan commitment that is not funded until an additional requirement is met, such as completion of construction.

**Holding period:** The length of time an investor expects to own a property from purchase to sale.

**Hold-over tenant:** A tenant retaining possession of the leased premises after the expiration of a lease.

**HVAC:** The acronym for heating, ventilating and air conditioning

**Hybrid debt:** A mortgage position with equity-like participation features in both cash flow and the appreciation of the property at the time of sale or refinance.

## I

**Implied cap rate:** Net operating income divided by the sum of a REIT's equity market capitalization and its total outstanding debt.

**Implied Contract:** An agreement which is not reduced to writing but is created, under the common law, on the basis of the behavior of the parties which suggests that they are acting under an agreement.

**Improvements:** In the context of leasing, the term typically refers to the improvements made to or inside a building but may include any permanent structure or other development, such as a street, sidewalk, utilities, etc.

**Incentive fee:** Applies to fee structures where the amount of the fee that is charged is determined by the performance of the real estate assets under management.

**Incentive Zoning:** Provides for give and take compromise on zoning restrictions, allowing for more flexibility to provide environmental protection. Incentive zoning allows a developer to exceed a zoning ordinance's limitations if the developer agrees to fulfill conditions specified in the ordinance. The developer may be allowed to exceed height limits by a specified amount in exchange for providing open spaces or plazas adjacent to the building.

**Income capitalization value:** The indication of value derived for an income-producing property by converting its anticipated benefits into property value through direct capitalization of expected income or by discounting the annual cash flows for the holding period at a specified yield rate.

**Income property:** Real estate that is owned or operated to produce revenue.

**Income return:** The percentage of the total return that is generated by the income from operations of a property, fund or account.

**Indemnify:** To compensate for an actual, sustained loss so as to restore to the condition prevailing before the loss.

**Indirect costs:** Development costs other than direct material and labor costs that are directly related to the construction of improvements, including administrative and office expenses, commissions, architectural, engineering and financing costs.

**Individual account management:** Accounts established for individual plan sponsors or other investors for investment in real estate, where a firm acts as an adviser in acquiring and/or managing a direct real estate portfolio.

**Inflation:** The annual rate at which consumer prices increase.

**Inflation hedge:** An investment that tends to increase in value at a rate greater than inflation and helps contribute to the preservation of the purchasing power of a portfolio.

**Ingress:** Right of entrance.

**Initial Investment:** The outlay of cash needed to acquire an investment.

**Initial public offering (IPO):** The first time a private company offers securities for sale to the public.

**Installment Contract:** A purchase agreement where the buyers do not receive the title to the property until all installments are paid.

**Institute of Supply Management Index (ISM):** This is a measurement of whether the manufacturing economy is contracting or expanding. An index reading above 50% = manufacturing economy is expanding. A reading below 50% = contracting.

**Institutional-grade property:** Various types of real estate properties generally owned or financed by tax-exempt institutional investors. Core investments typically include office, retail, industrial and apartments. Specialty investments include hotels, congregate care facilities, land beneath existing improvements, vacant land, mixed-use properties (i.e., a property containing at least two property types) and mobile home parks.

**Insurance company separate account:** A real estate investment vehicle that may only be offered by life insurance companies. This ownership arrangement enables an ERISA-governed fund to avoid the creation of unrelated taxable income for certain types of property investments and investment structures.

**Interest:** The price paid for the use of capital.

**Interest Rate:** The amount of interest charged, usually a percentage of the money borrowed, calculated over a year.

**Interest Only Loan:** A loan where only the interest is paid for an agreed term (usually a short period of one to five years) or during a construction period. The principle is then repaid over the remaining term of the loan by the conversion of repayments to Principle & Interest.

**Interest-only strip:** A derivative security consisting of all or part of the interest portion of the underlying loan or security.

**Internal rate of return (IRR):** A discounted cash-flow analysis calculation used to determine the potential total return of a real estate asset during an anticipated holding period. The most frequently used measurement of projected holding period overall returns. The IRR delivers in one number the investment return that integrates rental growth and property value appreciation.

**Inventory:** All space within a certain proscribed market without regard to its availability or condition.

**Investment committee:** The governing body overseeing corporate pension investments. Also, the subcommittee of a board of trustees charged with developing investment policy for board approval.

**Investment manager:** Any company or individual that assumes discretion over a specified amount of real estate capital, invests that capital in assets via a separate account, co-investment program or commingled fund, and provides asset management.

**Investment policy:** A document that formalizes an institution's guidelines for investment and asset management. An investment policy typically will contain goals and objectives; core and specialty investment criteria and methodology; and guidelines for asset management, investment advisory contracting, fees and utilization of consultants and other outside professionals.

**Investment strategy:** The investment parameters used by the manager in structuring the portfolio and selecting the real estate assets for a fund or account. This includes a description of the types, locations and sizes of properties to be considered, the ownership positions that will be used, and the stages of the investment lifecycle.

**Investment structures:** Unleveraged acquisitions, leveraged acquisitions, traditional debt, participating debt, convertible debt, triple-net leases and joint ventures.

**Investment-grade CMBS:** Commercial mortgage-backed securities with ratings of "AAA," "AA," "A" or "BBB".

**Investor status:** In reporting to clients and consultants, all investors are divided into two categories: taxable and tax-exempt. The tax-exempt category includes all qualified pension and retirement accounts. The taxable category includes all other accounts under management, including off-shore capital.

**Investment Value:** The value to a specific investor, based on that investor's requirements, tax rate, or financing.

## J

**Joint venture:** An investment entity formed by one or more entities to acquire or develop and manage real property and/or other assets.

**Just compensation:** Compensation that is fair to both the owner and the public when property is taken for public use through condemnation (eminent domain).

## L

**Landlord's warrant:** A warrant from a landlord to levy upon a tenant's personal property (e.g., furniture, etc.) and to sell this property at a public sale to compel payment of the rent or the observance of some other stipulation in the lease.

**Lead manager:** The investment banking firm that handles the principal responsibilities for coordinating the new issuance of securities.

**Lease:** An agreement whereby the owner of real property gives the right of possession to another

for a specified period of time and for a specified consideration.

**Lease agreement:** The formal legal document entered into between a landlord and a tenant to reflect the terms of the negotiations between them.

**Lease commencement date:** The date usually constitutes the commencement of the term of the lease, whether or not the tenant has actually taken possession, so long as beneficial occupancy is possible.

**Lease expiration exposure schedule:** A listing of the total square footage of all current leases that expire in each of the next five years, without regard to renewal options.

**Leasehold interest:** The right to hold or use property for a fixed period of time at a given price, without transfer of ownership.

**Legal description:** A geographical description identifying a parcel by government survey, metes and bounds, or lot numbers of a recorded plat including a description of any portion that is subject to an easement or reservation.

**Legal owner:** The legal owner has title to the property, although the title may actually carry no rights to the property other than as a lien.

**Lessee:** A person to whom a lease is granted; the user of the asset.

**Lessor:** the owner of property who allows another to use and possess it in return for payment of rent. When real estate is rented, the lessor is known as the landlord.

**Letter of credit:** A commitment by a bank or other person that the issuer will honor drafts or other demands for payment upon full compliance with the conditions specified in the letter of credit. Letters of credit are often used in place of cash deposited with the landlord in satisfying the security deposit provisions of a lease.

**Letter of intent:** A preliminary agreement stating the proposed terms for a final contract.

**Leverage:** The use of credit to finance a portion of the costs of purchasing or developing a real estate investment. Positive leverage occurs when the interest rate is lower than the capitalization rate or projected internal rate of return. Negative leverage occurs when the current return on equity is diminished by the employment of debt.

**LIBOR (London InterBank Offered Rate):** The interest rate offered on Eurodollar deposits traded between banks, also called swaps.

**Lien:** A claim or encumbrance against property used to secure a debt, a charge or the performance of some act.

**Lien waiver:** Waiver of a mechanic's lien rights that is often required before the general contractor can receive a draw under the payment provisions of a construction contract. It may also be required before the owner can receive a draw on a construction loan.

**Lifecycle:** The various developmental stages of a property: pre-development, development, leasing, operating and redevelopment (or rehab)

**Like-kind property:** A term used in an exchange of property held for productive use in a trade or business or for investment. Unless cash is received, the tax consequences of the exchange are postponed pursuant to Section 1031 of the Internal Revenue Code.

**Limited partnership:** A type of partnership comprised of one or more general partners who manage the business and are personally liable for partnership debts, and one or more limited partners who contribute capital and share in profits but who take no part in running the business and incur no liability above the amount contributed.

**Liquidity:** The ease with which assets can be converted to cash without loss in value.

**Liquidation Value:** The net value realizable in the sale (ordinarily a forced sale) of a business or a particular asset.

**Lis Pendens:** A legal notice recorded to show pending litigation relating to real property and giving notice that anyone acquiring an interest in said property subsequent to the date of the notice may be bound by the outcome of the litigation.

**Listing agreement:** An agreement between the owner of a property and a real estate broker giving the broker authorization to attempt to sell or lease the property at a certain price and terms in return for a commission, set fee or other form of compensation.

**Loan Point:** A charge paid by the borrower upon the origination of a loan. One point equals one percent of the loan amount.

**Loan-to-value ratio (LTV):** The ratio of the value of the loan principal divided by the property's appraised value.

**Lock-box structure:** A structure whereby the rental or debt-service payments are sent directly from the tenant or mortgagor to the trustee.

**Lockout:** The period during which a loan may not be prepaid.

**Long-term lease:** In most markets, this refers to a lease whose term is at least three years from initial signing to the date of expiration or renewal.

**Loss severity:** The percentage of principal lost when a loan is foreclosed.

**Lot:** Generally one of several contiguous parcels of land making up a fractional part or subdivision of a block, the boundaries of which are shown on recorded maps and plats.

**Low-rise:** A building with fewer than four stories above ground level.

**Lump-sum contract:** A type of construction contract requiring the general contractor to complete a building or project for a fixed cost normally established by competitive bidding. The contractor absorbs any loss or retains any profit.

## M

**Magic page:** Included in the offering prospectus, the magic page is a projected growth story, describing how a new REIT will accomplish its future expectations for funds from operations or funds available for distribution.

**Maker:** One who creates or executes a promissory note and promises to pay the note when it becomes due.

**Mark to market:** The process of increasing or decreasing the original investment cost or value of a property asset or portfolio to a level estimated to be the current market value.

**Market capitalization:** One measure of the value of a company; it is calculated by multiplying the current share price by the current number of shares outstanding.

**Market Capitalization Rate:** The average capitalization rate in the local market for similar properties. Can be used to quickly assess the value of a property, using the following formula:

$$\frac{\text{NOI}}{\text{Market CAP}} = \text{Value}$$

**Market rental rates:** The rental income that a property most likely would command in the open market, indicated by the current rents asked and paid for comparable space.

**Market study:** A forecast of future demand for a certain type of real estate project that includes an estimate of the square footage that can be absorbed and the rents that can be charged.

**Market value:** The highest price a property would command in a competitive and open market under all conditions requisite to a fair sale.

**Marketable title:** A title free from encumbrances that could be readily marketed to a willing purchaser.

**Master lease:** A primary lease that controls subsequent leases and may cover more property than subsequent leases.

**Master servicer:** An institution that acts on behalf of a trustee for the benefit of security holders in collecting funds from a borrower, advancing funds in the event of delinquencies and, in the event of default, taking a property through foreclosure.

**Maturity date:** The date when the total principal balance of a loan comes due.

**Mechanic's lien:** A claim created for the purpose of securing priority of payment of the price and value of work performed and materials furnished in constructing, repairing or improving a building or other structure.

**Meeting space:** In hotels, space made available to the public to rent for meeting, conference or banquet uses.

**Metes and bounds:** The boundary lines of land described by listing the compass directions and distances of the boundaries. Originally, metes referred to distance and bounds referred to direction.

**Mezzanine financing:** Mezzanine financing is somewhere between equity and debt. It is that piece of the capital structure that has senior debt above it and equity below it. There is both equity and debt mezzanine financing, and it can be done at the asset or company level, or it could be unrated tranches of CMBS. Returns are generally in the mid- to high-teens.

**Mid-rise:** A building with four to eight stories above ground level. In a central business district this might extend to buildings up to 25 stories.

**Mixed-use:** Space within a building or project providing for more than one use.

**Modern portfolio theory (MPT):** An approach to quantifying risk and return in a portfolio of assets. Developed in 1959 by Harry Markowitz, MPT is the foundation for present-day principles of investment diversification. It emphasizes the portfolio rather than individual assets, and how assets perform in relation to each other based on the assumption that investors can benefit from diversification when asset class returns do not move in lock step with one another. Overall **investment strategy** that seeks to construct an optimal portfolio by considering the relationship between risk and return, especially as measured by **alpha**, **beta**, and R-squared. This theory recommends that the risk of a particular stock should not be looked at on a standalone basis, but rather in relation to how that particular stock's price varies in relation to the variation in price of the market portfolio. The theory goes on to state that given an investor's preferred level of risk, a particular portfolio can be constructed that maximizes expected return for that level of risk. also called modern investment theory.

**Mortgage:** A legal document by which real property is pledged as security for repayment of a loan until the debt is repaid in full.

**Mortgage Deed:** A legal document relating to the mortgage lender's financial interest in the property and containing the terms by which the loan has been agreed.

**Mortgage constant:** The ratio of an amortizing mortgage payment to the outstanding mortgage balance.

## N

**NAREIT (National Association of Real Estate Investment Trusts):** The national, not-for-profit trade organization that represents the real estate investment trust industry.

**NCREIF (National Council of Real Estate Investment Fiduciaries):** An association of real estate professionals who serve on working committees, sponsor research articles, seminars and symposiums, and produce the NCREIF Property Index.

**NCREIF Property Index (NPI):** The index reports quarterly and annual returns consisting of income and appreciation components. The index is based on data collected from the voting members of NCREIF. Specific property-type subindices include apartment, office, retail, industrial and hotel; regional subindices include West, East, South and Midwest.

**Negative amortization:** The accrual feature found in numerous participating debt structures that allows an investor to pay, for an initial period of time, an interest rate below the contract rate stated in loan documents.

**Net asset value (NAV):** The value of an individual asset or portfolio of real estate properties net of leveraging or joint venture interests.

**Net asset value per share:** The current value of a REIT's assets divided by shares outstanding.

**Net assets:** Total assets less total liabilities on a market-value basis.

**Net cash flow:** Generally determined by net income plus depreciation less principal payments on long-term mortgages.

**Net investment in real estate:** Gross investment in real estate less the outstanding debt balance.

**Net investment income:** The income or loss of a portfolio or entity resulting after deducting all expenses, including portfolio and asset management fees, but before realized and unrealized gains and losses on investments.

**Net operating income (NOI):** A before-tax computation of gross revenue less operating expenses and an allowance for anticipated vacancy, not including debt service or income taxes. It is a key indicator of financial strength.

**Net present value (NPV):** Net present value usually is employed to evaluate the relative merits

of two or more investment alternatives. It is calculated as the sum of the total present value of incremental future cash flows plus the present value of estimated proceeds from sale. Whenever the net present value is greater than zero, an investment opportunity generally is considered to have merit.

**Net purchase price:** Gross purchase price less associated debt financing.

**Net real estate investment value:** The market value of all real estate less property-level debt.

**Net returns:** Returns to investors net of fees to advisers or managers.

**Net sales proceeds:** Proceeds from the sale of an asset or part of an asset less brokerage commissions, closing costs and market expenses.

**Net square footage:** The space required for a function or staff position.

**Nominal yield:** The yield to investors before adjustments for fees, inflation or risk.

**Non-compete clause:** A clause that can be inserted into a lease specifying that the business of the tenant is exclusive in the property and that no other tenant operating the same or similar type of business can occupy space in the building. This clause benefits service-oriented businesses desiring exclusive access to the building's population.

**Non-conforming use:** The occupation and use of a property in a fashion which is contrary to the zoning regulations for the property. A Legal Non-conforming Use is one where the non-conforming use predates the zoning by-law such that, as long as it is continued, it is legal.

**Non-discretionary funds:** Funds allocated to an investment manager requiring the investor's approval on each transaction.

**Non-investment-grade CMBS:** Securities rated "BB" or "B," also referred to as high-yield CMBS.

**Non-performing loan:** A loan that is unable to meet its contractual principal and interest payments.

**Non-recourse debt:** A loan that, in the event of a default by the borrower, limits the lender's remedies to a foreclosure of the mortgage, realization on its assignment of leases and rents, and acquisition of the real estate.

## O

**Occupancy Agreement:** An agreement between a member and the co-op that acts as a contract between the two parties. The occupancy agreement outlines the obligations of the member to the co-op, and the obligations of the co-op to the member.

**Offer:** Term used to describe a stated price or spread to sell whole loans or securities.

**Open Listing:** A listing agreement which provides that a broker will be paid if he sells the property, but will not get paid if sold by another including other brokers. Owners sometimes enter into multiple open listings.

**Open space:** An area of land or water dedicated for public or private use or enjoyment.

**Open-end fund:** A commingled fund that does not have a finite life, continually accepts new investor capital and makes new property investments.

**Operating cost escalation:** Although there are many variations of escalation clauses, all are intended to adjust rents by reference to external standards such as published indexes, negotiated wage levels, or expenses related to the ownership and operation of a building.

**Operating expense:** The actual costs associated with operating a property, including maintenance, repairs, management, utilities, taxes and insurance.

**Opportunistic:** A phrase generally used by advisers and managers to describe investments in underperforming and/or undermanaged assets that hold the expectation of near-term increases in cash flow and value. Total return objectives for opportunistic strategies tend to be 20 percent or higher. Opportunistic investments typically involve a high degree of leverage - typically 60 percent to 100 percent on an asset basis and 60 percent to 80 percent on a portfolio basis.

**Option:** In finance, an option is a contract whereby the contract buyer has a right to exercise a feature of the contract (the option) on or before a future date (the exercise date). The 'writer' (seller) has the obligation to honour the specified feature of the contract. Since the option gives the buyer a right and the seller an obligation, the buyer has received something of value. The amount the buyer pays the seller for the option is called the option premium.

**Original Basis:** The total amount paid for a property, including equity capital and the amount of debt incurred.

**Originator:** A company that sources and underwrites commercial and/or multifamily mortgage loans.

**Out-parcel:** Individual retail sites in a shopping center.

**Overallotment:** A practice through which underwriters offer and sell more shares than they have agreed to buy from the issuer.

## P

**Parking ratio:** Dividing the total rentable square footage of a building by the building's total number of parking spaces provides the amount of rentable square feet per each individual parking space.

**Partial sales:** The sale of an interest in real estate that is less than the whole property. This may include a sale of easement rights, parcel of land or retail pad, or a single building of a multi-building investment.

**Partial taking:** The taking of part of an owner's property under the laws of eminent domain.

**Participating debt:** In addition to collecting a contract interest rate, participating debt allows the lender to have participatory equity rights through a share of increases in income and/or increases in residual value over the loan balance or original value at the time of loan funding.

**Party in interest:** Under ERISA's 2002 Modernization Act: Parties in interest include employers, unions and, in certain circumstances, fiduciaries. It excludes service providers and their affiliates. Fiduciaries would only be parties in interest where they act on behalf of a plan sponsor in entering into a transaction. An affiliate of a party in interest does not include remote affiliates of employers, unions and fiduciaries (e.g., 10 percent owners), as well as employees of such remote affiliates.

**Passive Income:** Passive income is income from business activities in which the taxpayer does not materially participate, and all rental activities (except those of qualified real estate professionals). See also Active Income and Portfolio Income.

**Passive Losses:** Losses from the ownership of passive investments.

**Pass-through certificate:** Payments of principal and interest from the underlying pool of mortgages are passed through to the holders of the certificates.

**Payout ratio:** The percentage of the primary earnings per share, excluding extraordinary items, paid to common stockholders in the form of cash dividends during the trailing 12 months.

**Pension liability:** The total amount of capital required to fund vested pension fund benefits.

**Per *autre vie*:** A life estate measured by the life of another person rather than the life of the tenant.

**Percentage Lease:** A lease of property in which the rental is based on a percentage of the tenant's sales made upon the lease premises. Common in malls.

**Percentage rent:** Rent payable under a lease that is equal to a percentage of gross sales or gross revenues received by the tenant. It is commonly used in retail center leases.

**Performance:** The quarterly changes in fund or account values attributable to investment

income, realized or unrealized appreciation, and the total gross return to the investors both before and after investment management fees. Formulas for calculating performance information are varied, making comparisons difficult.

**Performance bond:** A surety bond posted by a contractor guaranteeing full performance of a contract with the proceeds to be used to complete the contract or compensate for the owner's loss in the event of nonperformance.

**Performance measurement:** The process of measuring an investor's real estate performance in terms of individual assets, advisers/managers and portfolios. The scope of performance measurement reports varies among managers, consultants and plan sponsors.

**Performance-based fees:** Fees paid to advisers or managers based on returns to investors, often packaged with a modest acquisition and asset-management fee structure.

**Periodic cash flow:** The amount of income received periodically (rents, dividends, etc.)

**Permanent loan:** The long-term mortgage on a property.

**Perpetual renewal:** Leaseholds capable of unending renewal.

**Physical Depreciation:** A property's loss of value resulting from wear and tear, disintegration, or action of the elements.

**Plan assets:** The assets of a pension plan.

**Plan sponsor:** The entity that establishes, contributes to and is responsible for the administration of an employee benefit plan, often used interchangeably to describe staff who administer the plan and trustees or investment board members who govern it.

**Plat:** Map of a specific area, such as a subdivision, that shows the boundaries of individual lots together with streets and easements.

**Point-of-sale inspection:** Ordinance requiring that a structure pass a building inspection before a real estate purchase transaction closes.

**Portfolio management:** The portfolio management process involves formulating, modifying and implementing a real estate investment strategy in light of an investor's broader overall investment objectives. It also can be defined as the management of several properties owned by a single entity.

**Portfolio turnover:** The average time from the funding of an investment until it is repaid or sold.

**Positive leverage:** Borrowed funds are invested at a rate of return higher than the cost of the funds to the borrower.

**Power of sale:** Clause inserted in a mortgage or deed of trust giving the mortgagee (or trustee) the right and power, upon default in the payment of the debt secured, to advertise and sell the property at public auction.

**Preferred shares:** Stocks that have prior claim on distributions (and/or assets in the event of dissolution) up to a definite amount before the common shareholders are entitled to anything. As a form of ownership, preferred shareholders fall behind all creditors in dissolutions.

**Preleased:** Space in a proposed building that has been leased before the start of construction or in advance of the issuance of a certificate of occupancy.

**Prepayment rights:** Rights given to the borrower to make partial or full payment of the total principal balance prior to the maturity date without penalty.

**Price to earnings ratio:** This ratio is calculated by dividing the current share price by the sum of the primary earnings per share from continuing operations, before extraordinary items and accounting changes, over the past four quarters.

**Primary issuance:** The initial financing of an issuer.

**Prime space:** Typically refers to first-generation space that is available for lease.

**Prime tenant:** The major tenant in a building, or the major or anchor tenant in a shopping center.

**Principal payments:** The return of invested capital to the lender.

**Private placement:** A sale of a security in a manner that is exempt from the registration rules and requirements of the Securities and Exchange Commission. An example would be a REIT directly placing an issue of stock with a pension fund.

**Private REIT:** An infinite- or finite-life real estate investment company structured as a real estate investment trust. Shares are placed and held privately rather than sold and traded publicly.

**The Producer Price Index (PPI):** An economic index that measures the price of goods at the wholesale level. It is one of the two most important ways to measure inflation (along with the CPI).

**Probate Court:** A division of the Circuit Court that handles matters dealing with wills, administration of estates, guardianships, conservators, mental health procedures, sexually violent predator actions, and inheritance.

**Pro rata:** In the case of a tenant, the proportionate share of expenses for the maintenance and

operation of the property.

**Production acres:** The area of land that can be used in agriculture or timber operations to produce income, not including areas used for crop or machinery storage, or other support areas.

**Prohibited transaction:** ERISA defines the following transactions as prohibited between a pension plan and a party in interest: the sale, exchange or leasing of any property; a loan or other extension of credit; and the furnishing of goods or services. Other prohibited transactions include the transfer of plan assets to a party in interest or use of plan assets by a party in interest, and the acquisition of employer real property in excess of limits set by ERISA.

**Promissory estoppel:** The doctrine of promissory estoppel prevents one party from withdrawing a promise made to a second party if the latter has reasonably relied on that promise and acted upon it.

**Promissory Note:** legally binding contract between a lender and a borrower. The promissory note contains the terms and conditions of the loan, including how and when the loan must be repaid.

**Proprietary Lease:** A rental agreement between a cooperative housing corporation and a share holder allowing use of a certain unit in the premises.

**Proration:** The allocation of property taxes, interest, insurance premiums, rental income, etc., between buyer and seller proportionate to time of use.

**Prudent man rule:** The standard to which a fiduciary is held accountable under ERISA. "Act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims."

**Punch list:** An itemized list documenting incomplete or unsatisfactory items after the contractor has notified the owner that the tenant space is substantially complete.

**Pyramid Zoning:** Zoning that permits more than one type of realty use; once new zoning is permitted, the old zoning is retained.

## Q

**Qualified fee:** An estate in fee simple bound by limitations imposed by the grantor.

**Qualified plan:** Any employee benefit plan that is qualified by the IRS as a tax-exempt plan. Among other requirements, the plan's assets must be placed in trust for the sole benefit of the employees covered by the plan.

**Quiet title:** A court action taken to establish title, often used to remove a cloud on the title.

**Quitclaim deed:** A deed operating as a release that is intended to pass any title, interest or claim that the grantor may have in the property, but not guaranteeing such title is valid.

## R

**Rate of Return:** The measure of profitability of an investment. It measures the income that may be obtained from an investment against its purchase price, or its current market price. The rate of return refers to either the yield to maturity on a bond or the current income return of an investment such as a security. Also known as return on investment (ROA), or yield.

**Rating:** Grade, assigned by a rating agency, designating the credit quality or creditworthiness of the underlying assets.

**Rating agencies:** Independent firms engaged to rate the creditworthiness of securities for the benefit of investors. The major rating agencies are Fitch Ratings, Standard & Poor's and Moody's Investors Service.

**Raw land:** Unimproved land that remains in its natural state.

**Raw space:** Unimproved shell space in a building.

**Real estate fundamentals:** The factors driving the value of real property (i.e., the supply, demand and pricing for land and/or developed space in a given geographic or economic region or market).

**Real property:** Land, and generally whatever is erected or affixed to the land that would be personal property if not attached.

**Real rate of return:** Yield to investors net of an inflationary factor. The formula for calculating the real rate of return is  $[(1 + \text{nominal yield}) / (1 + \text{inflation rate})] - 1$ .

**Recapture:** When the IRS recovers the tax benefit of a deduction or a credit previously taken by a taxpayer, which is often a factor in foreclosure because there is a forgiveness of debt. As used in leases, it is a clause giving the lessor a percentage of profits above a fixed amount of rent; or in a percentage lease, a clause granting the landlord the right to terminate the lease if the tenant fails to realize minimum sales.

**Recourse:** The right of a lender, in the event of default by the borrower, to recover against the personal assets of a party who is secondarily liable for the debt.

**Red herring:** The preliminary prospectus for an initial public offering. Before the registration statement becomes effective, underwriters may use the preliminary prospectus to market the offering. The preliminary prospectus, however, must bear a legend printed in red ink stating that

the offering has been filed but is not yet effective.

**Regional diversification:** Definitions for what constitute various regions, for diversification purposes, vary among managers, consultants and plan sponsors. Some boundaries are defined based purely on geography; others have attempted to define boundaries along economic lines.

**Registration statement:** Forms filed with the Securities and Exchange Commission (or the appropriate state regulatory agency) in connection with a proposed offering of new securities or the listing of outstanding securities on a national exchange.

**Rehab:** Extensive renovation intended to cure obsolescence of a building or project.

**REIT (Real estate investment trust):** A business trust or corporation that combines the capital of many investors to acquire or provide financing for real estate. A corporation or trust that qualifies for REIT status generally does not pay corporate income tax to the IRS. Instead, it pays out at least 90 percent of its taxable income in the form of dividends.

**REMIC (Real estate mortgage investment conduit):** A product of the Tax Reform Act of 1986, REMICs are designed to hold a pool of mortgages for the exclusive purpose of issuing multiple classes of mortgage-backed securities in a way that avoids a corporate double tax.

**Renewal option:** A clause giving a tenant the right to extend the term of a lease.

**Renewal probability:** Used to estimate leasing-related costs and downtime, it is the average percentage of tenants in a building that are expected to renew at market rental rates upon the expiration of their leases.

**Rent:** Compensation or fee paid for the occupancy and use of any rental property, land, buildings, equipment, etc.

**Rent commencement date:** The date on which a tenant begins paying rent.

**Rentable/usable ratio:** A building's total rentable area divided by its usable area. It represents the tenant's pro-rata share of the building's common areas and can determine the square footage upon which the tenant will pay rent. The inverse describes the proportion of space that an occupant can expect to actually use.

**Rental concession:** What landlords offer tenants to secure their tenancy. While rental abatement is one form of a concession, there are many others such as increased tenant improvement allowance, signage, below-market rental rates and moving allowances.

**Rental growth rate:** The expected trend in market rental rates over the period of analysis, expressed as an annual percentage increase.

**Rent-up period:** The period following construction of a new building when tenants are actively being sought and the project is approaching its stabilized occupancy.

**REO (Real estate owned):** Real estate owned by a savings institution as a result of default by borrowers and subsequent foreclosure by the institution.

**Replacement cost:** The estimated current cost to construct a building with utility equivalent to the building being appraised, using modern materials and current standards, design and layout.

**Replacement reserves:** An allowance that provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life.

**Request for proposal (RFP):** A formal request, issued by a plan sponsor or its consultant, inviting investment managers to submit information on their firms' investment strategy, historical investment performance, current investment opportunities, investment management fees, other pension fund client relationships, etc. Firms that meet the qualifications are requested to make a formal presentation to the board of trustees and senior staff members. Finalists are chosen at the completion of this process, and contract negotiation begins.

**Reserve account:** An account that a borrower has to fund to protect the lender. Examples include capital expenditure accounts and deferred maintenance accounts.

**Resolution Trust Corp. (RTC):** The RTC was established by Congress in 1989 to contain, manage and sell failed savings institutions and recover taxpayer funds through the management and sale of the institutions' assets.

**Retail investor:** When used to describe an investor, retail refers to the nature of the distribution channel and the market for the services - selling interests directly to consumers.

**Retail Sales Index (RSI):** Measures goods sold within the retail industry. This is an indicator of the state of the economy.

**Retention rate:** The percent of trailing 12-month earnings that have been ploughed back into the company. It is calculated as 100 minus the trailing 12-month payout ratio.

**Return on assets:** The income after taxes for the trailing 12 months divided by the average total assets, expressed as a percentage.

**Return on equity:** The income available to common stockholders for the trailing 12 months divided by the average common equity, expressed as a percentage.

**Return on investments:** The trailing 12-month income after taxes divided by the average total long-term debt, other long-term liabilities and shareholders equity, expressed as a percentage.

**Rescission:** The cancellation or annulment of a transaction or contract by the operation of a law

or by mutual consent. Borrowers usually have the option to cancel a refinance transaction within three business days after it has closed.

**Reversion capitalization rate:** The capitalization rate used to determine reversion value.

**Reversion value:** A lump-sum benefit that an investor receives or expects to receive at the termination of an investment.

**RevPAR (Revenue per available room):** Total room revenue for the period divided by the average number of available rooms in a hospitality facility.

**Risk management:** A systematic approach to identifying and separating insurable risks from non-insurable risks, and evaluating the availability and costs of purchasing third-party insurance

**Risk-adjusted rate of return:** Used to identify investment alternatives that can be expected to deliver a positive premium, after taking into consideration the expected volatility. The risk-adjusted rate of return is defined as the expected rate of return of a given asset, less the expected return for T-bills, divided by the expected standard deviation of the returns for the assets.

**Road show:** A tour made by executives of a company that plans to go public, where they travel to various cities to meet with underwriters and analysts and make presentations regarding their company and IPO. The road show takes place during the marketing period before the registration statement becomes effective.

**Roll-over risk:** The risk that a tenant's lease will not be renewed.

## S

**Sale-leaseback:** An arrangement by which the owner-occupant of a property agrees to sell all or part of the property to an investor, then lease it back and continue to occupy space as a tenant.

**Sales comparison value:** A value indication derived by comparing the property being appraised to similar properties that have been sold recently.

Second-generation or secondary space: Previously occupied space that becomes available for lease, either directly from the landlord or as sublease space.

**Secondary financing:** A loan on real property secured by a lien junior to an existing first mortgage loan.

**Secondary market:** A market where existing mortgage loans are securitized and then bought and sold to other investors.

**Secondary, or follow-on, offering:** A stock offering made by an existing public company.

**Securities and Exchange Commission (SEC):** The federal agency that supervises and oversees the issuance and exchange of public securities.

**Securitization:** The process of converting an illiquid asset, such as a mortgage loan, into a tradable form, such as mortgage-backed securities.

**Security deposit:** A deposit of money by a tenant to a landlord to secure performance of a lease. It also can take the form of a letter of credit or other financial instrument.

**Seisen (seizen):** Possession of real property under claim of freehold estate.

**Self-administered REIT:** When members of the management are employees of the REIT or an entity having essentially the same economic ownership as the REIT.

**Self-managed REIT:** A REIT whose employees are responsible for performing property management functions.

**Senior classes:** With regard to securities, describes the classes with the highest priority to receive the payments from the underlying mortgage loans.

**Separate account:** A relationship where an investment manager or adviser is retained by a single pension plan sponsor to source real estate product under a stated investment policy exclusively for that sponsor.

**Servicer:** An organization that acts on behalf of a trustee for the benefit of security holders.

**Setback:** The distance from a curb, property line or other reference point, within which building is prohibited.

**Shares outstanding:** The number of shares of common stock currently outstanding, less the shares held in treasury.

**Site analysis:** Determines the suitability of a specific parcel of land for a specific use.

**Site development:** The installation of all necessary improvements made to a site before a building or project can be constructed on the site.

**Site plan:** A detailed plan that depicts the location of improvements on a parcel.

**Slab:** The exposed wearing surface laid over the structural support beams of a building to form the floor(s) of the building.

**Social investing:** Investments driven in whole or in part by social or political (non-real estate) objectives. Under ERISA, social investing is economically justified only if proper real estate fundamentals are considered first.

**Soft cost:** The portion of an equity investment other than the actual cost of the improvements themselves that may be tax-deductible in the first year.

**Space plan:** A graphic representation of a tenant's space requirements, showing wall and door locations, room sizes and sometimes furniture layouts.

**Special assessment:** Special charges levied against real property for public improvements that benefit the assessed property.

**Special servicer:** A firm that is employed to work out mortgages that are either delinquent or in default.

**Specified investing:** Investment in individually specified properties or portfolios, or investment in commingled funds whose real estate assets are fully or partially specified prior to the commitment of investor capital.

**Speculative space:** Any tenant space that has not been leased before the start of construction on a new building.

**Stabilized net operating income:** Projected income less expenses that are subject to change but have been adjusted to reflect equivalent, stable property operations.

**Stabilized occupancy:** The optimum range of long-term occupancy that an income-producing real estate project is expected to achieve after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings.

**Step-up lease (graded lease):** A lease specifying set increases in rent at set intervals during the term of the lease.

**Straight lease (flat lease):** A lease specifying a fixed amount of rent that is to be paid periodically, typically monthly, during the entire term of the lease.

**Strip center:** Any shopping area comprised of a row of stores but smaller than a neighborhood center anchored by a grocery store.

**Subcontractor:** A contractor working under and being paid by the general contractor, often a specialist in nature, such as an electrical contractor, cement contractor, etc.

**Sublessee:** A person or identity to whom the rights of use and occupancy under a lease have been conveyed, while the original lessee retains primary responsibility for the obligations of the lease.

**Subordinated classes:** With regard to CMBS, describes those classes with the lowest priority to receive payments from the underlying mortgage loans.

**Subordination:** The process of sharing the risk of credit losses disproportionately among two or more classes of securities.

**Surety:** One who voluntarily binds himself to be obligated for the debt or obligation of another.

**Surface rights:** A right or easement granted with mineral rights, enabling the possessor of the mineral rights to drill or mine through the surface.

**Survey:** The process by which a parcel is measured and its boundaries and contents ascertained.

**Synthetic lease:** A transaction that appears as a lease from an accounting standpoint but as a loan from a tax standpoint.

## T

**Taking:** A common synonym for condemnation, or any interference with private property rights, but it is not essential that there be physical seizure or appropriation.

**Tax base:** The assessed valuation of all real property that lies within a taxing authority's jurisdiction. When multiplied by the tax rate, it determines the amount of tax due.

**Tax lien:** A statutory lien for nonpayment of property taxes that attaches only to the property upon which the taxes are unpaid.

**Tax roll:** A list or record containing the descriptions of all land parcels located within the county, the names of the owners or those receiving the tax bill, assessed values and tax amounts.

**Tenant (lessee):** One who rents real estate from another and holds an estate by virtue of a lease.

**Tenant at will:** One who holds possession of premises by permission of the owner or landlord. The characteristics of the lease are an uncertain duration and the right of either party to terminate on proper notice.

**Tenant improvement (TI):** Improvements made to the leased premises by or for a tenant.

**Tenant improvement (TI) allowance:** Defines the fixed amount of money contributed by the landlord toward tenant improvements. The tenant pays any of the costs that exceed this amount.

**Tenant mix:** A phrase used to describe the quality of a property's income stream. In multi-tenanted properties, institutional investors typically prefer a mixture of national credit tenants, regional credit tenants and local non-credit tenants.

**Term:** The lifetime of a loan.

**Time-weighted average annual rate of return:** The constant annual return over a series of

years that would compound to the same return as compounding the actual annual returns for each year in the series.

**Title:** The means whereby the owner has the just and full possession of real property.

**Title insurance:** A policy issued by a title company that insures against loss resulting from defects of title to a specifically described parcel of real property, or from the enforcement of liens existing against it at the time the title policy is issued.

**Title search:** A review of all recorded documents affecting a specific piece of property to determine the present condition of title.

**Total acres:** All land area contained within a real estate investment

**Total assets:** The sum of all gross investments, cash and equivalents, receivables, and other assets presented on the balance sheet .

**Total commitment:** The full mortgage loan amount that is obligated to be funded if all stated conditions are met.

**Total inventory:** The total square footage of a type of property within a geographical area, whether vacant or occupied.

**Total principal balance:** The total amount of debt, including the original mortgage amount adjusted for subsequent fundings, principal payments and other unpaid items (e.g., interest) that are allowed to be added to the principal balance by the mortgage note or by law.

**Total retail area:** Total floor area of a retail center less common areas. It is the area from which sales are generated and includes any department stores or other areas (such as banks, restaurants or service stations) not owned by the center.

**Total return:** The sum of quarterly income and appreciation returns.

**Trade fixtures:** Personal property that is attached to a structure that is used in the business. Because this property is part of the business and not deemed to be part of the real estate, it is typically removable upon lease termination.

**Tranche:** A class of securities. CMBS offerings are generally divided into rated and unrated classes, or tranches, according to seniority and risk. Higher-rated tranches allow for internal credit enhancements; lower-rated classes offer higher yields.

**Triple net lease:** A lease that requires the tenant to pay all expenses of the property being leased in addition to rent. Typical expenses covered in such a lease include taxes, insurance, maintenance and utilities.

**Trustee:** The trustee oversees the flow of funds through the CMBS structure on behalf of the bondholders. The trustee is responsible for collecting principal and interest from the servicer, distributing payments to bondholders and reporting to bondholders.

**Turn key project:** The construction of a project in which a third party is responsible for the total completion of a building, or for the construction of tenant improvements to the customized requirements and specifications of a future owner or tenant.

## U

**Under construction:** The period of time after construction has started but before the certificate of occupancy has been issued.

**Under contract:** The period of time after a seller has accepted a buyer's offer to purchase a property and during which the buyer is able to perform its due diligence and finalize financing arrangements. During this time, the seller is precluded from entertaining offers from other buyers.

**Underwriter:** A company, usually an investment banking firm, that guarantees or participates in a guarantee that an entire issue of stocks or bonds will be purchased.

**Unencumbered:** Property that is free of liens and other encumbrances.

**Unimproved land:** Most commonly refers to land without improvements or buildings but also can mean land in its natural state.

**Unrated classes:** Typically the most subordinated classes of CMBS.

**UPREIT (Umbrella partnership real estate investment trust):** Organizational structure where a REIT's assets are owned by a holding company for tax purposes.

**Usable square footage:** The area contained within the demising walls of the tenant space that equals the net square footage multiplied by the circulation factor.

**Use:** The specific purpose for which a parcel or a building is intended to be used or for which it has been designed or arranged.

## V

**Vacancy factor:** The amount of gross revenue that pro forma income statements anticipate will be lost because of vacancies, often expressed as a percentage of the total rentable square footage available in a building or project.

**Vacancy rate:** The total amount of available space compared to the total inventory of space and expressed as a percentage.

**Vacant space:** Existing tenant space currently being marketed for lease excluding space available for sublease.

**Value-added:** A phrase generally used by advisers and managers to describe investments in underperforming and/or undermanaged assets. The objective is to generate 13 percent to 18 percent returns.

**Variable-rate:** A loan interest rate that varies over the term of the loan, usually tied to a predetermined index. Also called adjustable-rate.

**Variance:** Permission that allows a property owner to depart from the literal requirements of a zoning ordinance that, because of special circumstances, cause a unique hardship.

**Virtual storefront:** An online business presence for sales.

## W

**Waiting period:** The time between the initial filing of a registration statement and its effective date.

**Warranty Deed:** A deed with the greatest protection as grantor warrants goods, marketable title, that he or she will stand by.

**Weighted-average coupon:** The weighted average of the gross interest rates of the mortgages underlying a pool as of the issue date, with the balance of each mortgage used as the weighting factor.

**Weighted-average equity:** The denominator of the fraction used to calculate investment-level income, appreciation and total returns on a quarterly basis, consisting of net assets at the beginning of the period adjusted for weighted contributions and distributions.

**Weighted-average rental rates:** The average proportion of unequal rental rates in two or more buildings within a market.

**Working drawings:** The set of plans for a building or project that comprise the contract documents that indicate the precise manner in which a project is to be built.

**Workout:** The process by which a borrower attempts to negotiate with a lender to restructure the borrower's debt rather than go through foreclosure proceedings.

**Write-down:** The accounting procedure used when the book value of an asset is adjusted downward to better reflect current market value.

**Write-off:** The accounting procedure used when an asset has been determined to be uncollectible and is therefore charged as a loss.

## Y

**Yield:** The effective return on an investment, as paid in dividends or interest.

**Yield maintenance premium:** A penalty, paid by the borrower, designed to make investors whole in the event of early redemption of principal.

**Yield spread:** The difference in yields between a commercial mortgage and a benchmark value, typically U.S. Treasuries of the same maturity.

## Z

**Zoning:** The division of a city or town into zones and the application of regulations having to do with the architectural design and structural and intended uses of buildings within such zones.

**Zoning ordinance:** The set of laws and regulations controlling the use of land and construction of improvements in a given area or zone.

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There you are... Commercial Real Estate Terms from “A” to “Z”. Make sure to keep this reference handy and check out the online resources on page one.

AND remember to visit our FREE Resources page at [www.investortours.com/free.php](http://www.investortours.com/free.php) for more reports and resources to massively shorten your Commercial Real Estate Learning curve.

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