



The A, B, C's of real estate terminology

As a real estate professional you need to learn the “lingo” of real estate, and that can be daunting. Between needing to explain market value or escrow to a potential buyer or seller, you also need to understand financing and closing documents. So here's a brief refresher of some terms that you may encounter as you work through your day.

A

Annual percentage rate (APR)

The true annual interest rate payable for a loan in one year taking account of all charges made to the borrower, including compound interest, discount points, commitment fees, and mortgage insurance premiums. Amortization also factors in the time at which the principal is repaid, including when payments of principal are made in installments throughout the year, but interest is charged at the beginning of the year, but not the actual expenses incurred by the lender in making the loan and recharged to the borrower.

B

Basis

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

C

Class life

The useful economic life of an asset set by the Internal Revenue Service.

D

Due diligence

Examining a property, related documents, and procedures conducted by or for the potential lender or purchaser to reduce risk. Applying a consistent standard of inspection and investigation to determine if the actual conditions reflect the represented information.

E

Equity lease

A type of joint venture arrangement in which an owner enters into a contract with a user who agrees to occupy a space and pay rent as a tenant, but at the same time, receives a share of the ownership benefits such as periodic cash flows, interest and cost recovery deductions, and perhaps a share of the sales proceeds.

F

Fair value of an asset

The amount at which the asset could be bought or sold in a current transaction between willing parties. Does not include a forced or liquidation sale.

G

Gross area

The entire floor area of a building or the total square footage of a floor.

H

Hedging

Protecting oneself against negative outcomes.

I

In-migration

The process by which a given geographic area absorbs new individuals/households from Locations from outside that area.

L

Liquidation value

The price that a property may bring in a forced sale such as a foreclosure or tax sale.

M

Metropolitan Statistical Area (MSA)

The area in and around a major city. The Office of Management and Budget (OMB) defines an MSA as having one of the following characteristics: a city with a population of at least 50,000, or an urbanized area with a population of at least 50,000 with a total metropolitan population of 100,000.

N

Neutral leverage

An investment situation in which the cost of borrowed funds is exactly equal to the yield provided by the investment.

O

Out-migration

The process by which a given geographic area expels or loses individuals/households to locations outside that area.

P

Participation mortgage

A loan secured by real property, with a stated interest rate that also provides for a share to the lender in annual net cash flow, gain on sale, or proceeds from refinancing the property.

R

Replacement cost

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

S

Securitization

Indirectly investing in real estate markets to minimize risk by using investments made collectively with pooled money or the use of investment packages/funds, such as mortgage backed securities sold on the secondary financial market as opposed to direct investments where investors own property or hold mortgages.

T

Tenure

A designation which distinguishes between the renter versus owner-occupied status of housing units or households.

V

Vacancy rate

The percentage of the total supply of units or space of a specific commercial type that is vacant and available for occupancy at a particular point in time within a given market.