

## GLOSSARY

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**THE FOLLOWING GLOSSARY CONTAINS** commonly used terms in commercial real estate. It is provided as a quick reference and is not comprehensive.

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Readers are encouraged to visit the organization's website ([www.irei.com](http://www.irei.com)) for complimentary access to a more complete and updated glossary of terms, as well as a host of excellent educational resources for commercial real estate professionals.

**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.

**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.

**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 investor in a transaction. Advisers may be paid a retainer and/or a performance fee upon the close of a financing or sales transaction.

**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.

**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 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.

**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 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.

**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.

**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 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.

**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.

**BALLOON OR BULLET LOAN:** A loan with a maturity that is shorter than the amortization period.

**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 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 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.

**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.

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

**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.

**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.

**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:** 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.

**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.

**CASH FLOW:** The revenue remaining after all cash expenses are paid.

**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.

**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.

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

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

**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.

**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.

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

**COMMERCIAL REAL ESTATE:** Buildings or land intended to generate a profit for investors, either from rental income or capital gain. Types of commercial real estate include office buildings, retail properties, industrial properties, apartments and hotels, as well as specialty niche property categories such as healthcare, student housing, senior housing, self-storage, data centers and farmland.

**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 (CAM):** 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.

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

**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.

**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.

**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.

**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.

**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.

**CORE:** Typically includes the four major property types—specifically office, retail, industrial and multifamily. Core assets are high-quality, multitenanted properties typically located in major metropolitan areas and 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 investments are unleveraged or very low leveraged and generate good, stable income that, together with potential appreciation, is historically expected to generate total returns in the 8 to 10 percent range. (Note: In today’s low-yield environment, many investors are willing to accept core property returns below 8 percent.)

**CORE-PLUS:** These investments possess similar attributes to core properties—providing moderate risk and moderate returns—but these assets offer an opportunity for modest value enhancement, typically through improved tenancy/occupancy or minor property improvements. This strategy might employ leverage in the range of 30 to 50 percent with return expectations of 9 to 12 percent.

**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.



**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.

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

**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.

**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 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.

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

**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.

**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.

**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.

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

**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.

**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.

**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.

**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.

**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 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.

**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.

**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.

**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.

**FAD (FUNDS AVAILABLE FOR DISTRIBUTION):** Funds from operations less deductions for cash expenditures for leasing commissions and tenant improvement costs.

**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 (THE FEDERAL NATIONAL MORTGAGE ASSOCIATION, FNMA):** 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.

**FEE SIMPLE INTEREST:** When an owner 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.

**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.

**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 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.

**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.

**FREDDIE MAC (FEDERAL HOME LOAN MORTGAGE CORP., FHLMC):** 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.

**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.

**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.

**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 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 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.

**HARD COST:** The cost of actually constructing property improvements.

**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.

**HOLD-OVER TENANT:** A tenant retaining possession of the leased premises after the expiration of a lease.

**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.

**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.

**IMPLIED CAP RATE:** Net operating income divided by the sum of a REIT's equity market capitalization and its total outstanding debt.



**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.

**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.

**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.

**INITIAL PUBLIC OFFERING (IPO):** The first time a private company offers securities for sale to the public.

**INSTITUTIONAL-GRADE PROPERTY:** Various types of real estate properties generally owned or financed by institutional investors. Core investments typically include office, retail, industrial and apartments. Specialty investments include hotels, healthcare facili-

ties, senior housing, student housing, self-storage facilities, and mixed-use properties (i.e., a property containing at least two property types).

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

**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.

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

**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.

**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).

**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.

**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.

**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.

**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 bought or sold without affecting the price.

**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-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.

**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 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 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:** A building or project that provides more than one use, such as office/retail or retail/residential.

**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 BROKER:** A firm or person that serves as an intermediary, helping to facilitate a mortgage transaction between a lender (source of capital) and a borrower.

**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. 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-DISCRETIONARY FUNDS:** Funds allocated to an investment manager requiring the investor's approval on each transaction.

**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.

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

**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 to 100 percent on an asset basis and 60 to 80 percent on a portfolio basis.

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

**OUT-PARCEL:** Individual retail sites in a shopping center.

**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.

**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.

**PERMANENT LOAN:** The long-term mortgage on a property.

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

**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.

**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.

**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.

**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.

**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.

**PUBLIC-PRIVATE PARTNERSHIP (P3):** According to the National Council for Public Private Partnerships, a Public-Private Partnership (P3) is a contractual agreement between a public agency and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. Each party shares in the risks and rewards potential in the delivery of the service and/or facility.

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

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**ROLL-OVER RISK:** The risk that a tenant's lease will not be renewed.

**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.

**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.

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

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

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**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.

**USABLE SQUARE FOOTAGE:** The area contained within the demis-

ing 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.

**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-ADD OR VALUE-ADDED:** A phrase generally used by advisers and managers to describe investments in underperforming and/or undermanaged assets that possess upside potential. NOI and property value can be positively affected through a change in marketing, operating or leasing strategy; physical improvements; and/or a new capital structure. The objective is to generate 13 to 18 percent returns. Leverage could fall in the 60 to 70 percent range.

**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.

**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.

**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 yield between a debt instrument or other investment and a benchmark value, typically U.S. Treasuries of the same maturity.

**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.