

Real estate terminology  
Fourth edition

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# Preface

The Glossary of Real Estate Terminology is an easy to use, practical interpretation of a number of terms commonly used in the real estate industry. This publication is of special interest to developers of residential, industrial and commercial properties, landlords, tenants, contractors, lenders, as well as those with our occasional interest in this highly specialized industry.



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### **ABATEMENT (Rental)**

A reduction or elimination of rent payments for a specified period of time, usually granted by the landlord as an inducement to the tenant to enter into or to renew a lease.

### **ABATEMENT (Tax)**

A reduction in real property tax granted by a taxing authority as the result of an appeal. In some jurisdictions, tax *abatements* may also be granted as an inducement for development or to attract or retain job-providing industries.

### **ABSORPTION RATE**

The rate at which vacant space is either rented or sold to users in the market place (land, office, etc.).

### **ABSTRACT OF TITLE**

A summary of the information obtained from a *title* search of real estate property. Typical information sought from the records of the public registrar include ownership and transfers, conveyances, registered mortgages, leases, easements, liens and any other relevant encumbrances to *title*.

### **ACCRUAL ACCOUNTING**

Accounting method in which income and expenses are charged to the periods for which they are applicable, rather than when actual payment is received or made.

### **ACQUISITION COST**

The total cost of acquiring an investment property, consisting of the purchase price plus other *costs of acquisition* such as closing costs, legal fees, title insurance, acquisition fees and due diligence costs. *Acquisition cost* includes only direct costs related to a specific property acquisition and does not include costs of running an acquisition program such as general and administrative costs, costs incurred in analyzing proposals that are rejected, joint-venture organization costs, etc.

### **ADDITIONAL RENT**

Because the law in most states provides landlords with a legal mechanism for collecting rent which is easier to apply than civil actions to collect other debts, commercial leases explicitly deem all financial obligations of the tenant to the landlord to be *additional rent* so that they may be collected as rent. *Additional rent* may include such items as retail percentage rent, expense pass-throughs, escalations, charges to amortize above standard tenant improvements, interest on past due amounts, and late fees and penalties.

### **ADD-ON FACTOR**

In a multi-tenant building, a factor, expressed as a percent, by which the net usable square foot area within a demised tenant suite is increased to allocate common areas such as lobbies, corridors and rest rooms. Rental rates are then applied to the resulting gross area. Also called Load Factor.

### **ADJUSTED FUNDS FROM OPERATION (AFFO)**

Funds from operations is generally defined in Canada as the funds from operations (FFO) less ongoing capital expenditures, tenant improvements and other adjustments.

### **ADJUSTED NET OPERATING INCOME**

Total income, less operating expense, less interest expense on debt. Ground lease payments may also be deducted if the remaining lease term is of long enough duration to justify such treatment as an expense. Principal repayments of debt are considered capital expenditures and are not included in the computation of *Adjusted Net Operating Income*.

### **AFTER TAX YIELD**

For taxable investors, the yield, expressed as an annual percent, computed by dividing the Net After Tax Cash flow by the total Equity Investment in a property. The *after tax yield* is computed for a specific period such as the first full year of ownership or the anticipated holding period.

### **AGENT**

One who is authorized to act on behalf of another for a fee. In an agency relationship, the agent is empowered to execute contracts on behalf of the principal which are binding upon the principal.

# A

## AGREEMENT OF SALE

A written agreement between seller and purchaser in which the purchaser agrees to buy certain real property and the seller agrees to sell upon terms of the agreement. Also called *offer and acceptance*, and *contract of sale* contract.

## AIR RIGHTS

The right to use, control, or occupy the space above a designated property. The rights of an owner to construct a building of a certain density beyond that of the existing zoning or that of the existing structure on the site. Air rights can be leased, sold, or donated to another party.

*Example: The Toronto Club in Toronto sold its air rights to 95 Wellington.*



## AMORTIZATION

The gradual reduction of an amount over a period of time such as the principal amount of a mortgage or the cost of an asset being written off against income.

## ANCHOR TENANT

The major tenant or tenants in a shopping centre, usually a department store, discount store, or supermarket. See Prime Tenant.

## ANNUAL CAP

A limit on the amount of adjustment in the interest rate on a variable rate mortgage over a twelve-month period.

*Example: A variable mortgage has a current interest rate of 6% and an annual cap of 2 percentage points. After one year, the highest the interest rate can be is 8% and the lowest is 4%.*

## ANNUALIZED RETURN

Expressing the return on an investment for a period other than one year as an equivalent return on an annual basis. Because annualized return is computed on a time value basis, it is not the same as an arithmetic average. Under some circumstances, such as when the total amount invested varies over the period, annualized return may provide a misleading or meaningless number.

## APPRAISAL

An estimate of value as determined by an independent agent familiar with local real estate values.

## APPRAISAL DATE

The date for which the appraised value is determined. The date need not be the date on which the appraisal report is prepared, but may be a prior date or a date slightly in the future. Also called the *"as of date"*.

## APPRAISED VALUE

An opinion of value formally expressed in writing by an independent appraiser based upon one or more of the three traditional analytic approaches: the cost approach, the market approach, or the income approach.

## ASSESSMENT

1. An official valuation of a property which is used to determine the amount of realty tax or special payment (e.g., business taxes) due to a municipality or landlord (as part of the recoverable costs).
2. An owner's or lessee's proportionate share of a common area expenses.

# A

## ASSET ALLOCATION

The allocation of investment capital among various classes of assets in order to optimize return. Investment managers may use various models to determine what portion of their assets are invested in stocks, corporate bonds, government bonds, real estate and other asset classes, changing the mix of assets as market conditions change.

## ASSET MANAGEMENT

A term originally used in the financial services industry, asset management has come to describe the proactive management of capital invested in real estate to maximize investment returns.

## ASSET MANAGER

A term borrowed from the financial services industry used to describe a professional manager who, within limits, makes investment decisions on behalf of the beneficial owner of the assets.

## ASSIGNMENT OF LEASE

The transfer of rights to use leased property. The assignee usually acquires the same rights and privileges as the assignor. The assignor remains liable unless released by the landlord.

## ASSUMPTION OF MORTGAGE

The purchase of mortgaged property whereby the buyer accepts liability for the debt (mortgage) that continues to exist. The seller remains liable to the lender unless the lender agrees to release him.

## AVERAGE ANNUAL YIELD

Due to the effect of compounding, *average annual yield* is not the arithmetic average of the individual annual yields over a period but is instead computed by the following formula:

$$X = [ ((1 + Y_1)(1 + Y_2)...(1 + Y_n)) / n ] \times 100$$

where X is the average total return over a period of n years and  $Y_1$  through  $Y_n$  are the annual returns for each year in that period.



# B

## **BALANCE OF PURCHASE PRICE**

The amount payable by the purchaser of a property and represents financing provided by vendor in a transaction where title to the property is not transferred until full payment of proceeds is made. As title stays with the vendor, a mortgage cannot be registered on the property.

## **BALLOON PAYMENT**

The lump sum amount required to pay off the principal amount owing on a debt instrument at the end of its term.

## **BASE BUILDING**

The basic building provided to tenants before tenant improvements. Typically, the base building consists of structural elements, building envelopes, and all mechanical and electrical systems up to the tenant space. In some markets, base building may include ceiling grid, lighting, HVAC distribution and other elements commonly considered tenant improvements. Therefore, it is important to understand what is considered typical for the *base building* in any given market.

## **BASE RATE**

1. The rental rate quoted for tenant space with building standard improvements. The cost of any additional improvements is then amortized to arrive at a quoted rate for a specific tenant.
2. In retail properties, the *base rent* is the minimum rent due before percentage rent and any common area charges.
3. In office and industrial properties, the *base rent* is the rent due before any escalations or pass-throughs.

## **BASE STOP**

The maximum amount of building operating expenses which will be borne by the landlord prior to passing additional amounts through to the tenant. The *base stop* is expressed as an absolute dollar amount or dollar per square foot amount. In multi-tenant properties, each tenant may have a differing *base stop* with pass-throughs being pro rated in proportion to floor area. See Base Year.

## **BASE YEAR**

A specific year stipulated in many types of tenant leases. The tenant will be required to pay a cost recovery equal to his

proportionate share of the increase in operating costs of the property over the costs incurred in the *base year*. See Escalation; Recoveries.

## **BASIS POINT**

A term borrowed from the fixed income securities market meaning simply one-tenth of one percent (0.1%).

## **BEARING WALL**

An architectural term meaning any wall which supports a floor or a roof. *Bearing walls* may be exterior or interior walls (load-bearing partitions) and are difficult to move without extensive structural modifications to the building.

## **BEDROOM COMMUNITY**

A residential community in the suburbs, often near an employment centre, but itself providing few employment opportunities.

## **BENEFICIAL INTEREST**

An *interest* in a property with the legal title being held in trust by another party.

## **BETTERMENT**

An improvement to real property, such as a sidewalk or a road, that enhances the value of a property. The term is frequently applied to public improvements, although in appraisal terminology it is equally applicable to any fixed improvement which enhances value.

## **BILL OF SALE**

A written bill instrument given to pass title to personal property.

## **BLANKET MORTGAGE**

One mortgage on a number of parcels of real property.

## **BLENDED RATE**

An interest *rate*, applied to a refinanced loan, that is higher than the rate on the old loan but lower than the rate offered on new loans. Generally offered by the original lender to induce new buyers to refinance the existing, low-interest rate mortgage as an alternative to assuming the existing loan and obtaining a second mortgage from a third party lender. Compare with Assumption of Mortgage.

# B

## BLIND POOL

An investment program in which moneys are invested into a partnership or trust without investors knowing which properties will be purchased.

## BOMA

*Building Owners and Managers Association*, a national real estate organization. *BOMA*, through the Building Owners and Managers Institute, conducts educational programs leading to the Real Property Administrator (RPA) certification.

## BOOK COST

The historic cost plus any additional capital invested in an asset. The *book cost* is not reduced by depreciation. For simplicity, *book cost* is frequently used as a proxy for “total equity dollars invested” in the computation of cash-on-cash returns.

## BOOK VALUE

The carrying amount of an asset, as shown on the books of a company. The amount paid for an asset, less depreciation.

## BREAK-EVEN POINT

The amount of rent or the occupancy level needed to pay operating expenses and debt service. Also called *default point*.

Break-even point = 
$$\frac{\text{operating expenses and debt service}}{\text{potential gross income}}$$

## BREAKPOINT

In a retail lease, the *point* specified in absolute sales dollars or sales dollars per square foot, at which a tenant’s rent computed as a percentage of gross sales equals the base rent under the terms of the lease. See Base Rent; Percentage Rent.

## BRIDGE FINANCING

The temporary financing required to cover the period prior to the advancement of funds under a committed *financing* arrangement.

## BROKER

A licensed professional who represents the seller of a property.

## BUILDING CODES

Regulations established by local authorities describing the minimum structural requirements for buildings; includes foundation, roofing, plumbing, electrical, and other specifications for safety and sanitation.

## BUILDING PERMIT

A *permit* granted by a local code enforcement agency, usually at the municipal or county level, for the construction of new structures or the renovation of existing structures. In granting such a permit, the agency reviews the architectural plans and specifications for their conformance to local building codes and zoning ordinances.

## BUILD-TO-SUIT

A project which has been wholly preleased or significantly leased by one tenant prior to the beginning of the construction process. Generally, the project will be constructed in accordance with the specifications of the tenant.

## BUNDLE OF RIGHTS

The legal concept that property ownership is comprised of a *bundle of separate rights*. In the purchase of real estate, the buyer acquires only those rights held by the seller and not otherwise reserved in the sale. Examples of separate rights include the ownership of the land, the ownership of the improvements, mineral rights water rights, access easements, etc.

## BUSINESS INCOME

An income tax concept which is particularly significant to the real estate industry. Much litigation has been undertaken in deciding whether sales of real property are capital or business transactions and whether the operations of revenue producing real estate are active business income or income from property. See Capital Gain.

## BUY DOWN

1. The action of the borrower (or potential borrower) to pay additional discount points to a lender in exchange for a reduced rate of interest on a loan. The reduced rate may apply for all or a portion of the loan term.
2. A loan that has been *bought down* by the seller of the property for the benefit of the buyer. Usually done to induce the buyer to buy without reducing the sales price.

# C

## CANADIAN INSTITUTE OF PUBLIC REAL ESTATE COMPANIES (CIPREC)

Formed in 1970 to represent the interests of public Canadian real estate companies and to serve as a forum for the discussion of issues of concern to companies in all areas of real estate. See REALpac.

## CAP RATE

Commonly used as the colloquial equivalent of capitalization rate.

### CAP RATE, GOING-IN

1. In a multi-year cash flow analysis, the *cap rate* applied in the first year as a function of first net operating income (NOI) and acquisition costs.
2. The *cap rate* at which a property is acquired.

### CAP RATE, STABILIZED

The *cap rate* obtained by dividing the NOI of a property, in a representative year with no unusual impairment of income or atypical expenses, by the undiscounted value of the property in that year.

### CAP RATE, TERMINAL

In a multi-year cash flow analysis, the *cap rate* applied in the final year of the analysis to estimate the value of the property at disposition. Typically, the *terminal cap rate* is applied to the NOI for the year following the terminal year. This is analogous to a purchaser of a property basing value prospectively on the NOI in the first year of ownership.

## CAPITAL COST

An income tax term equal to the sum of the purchase price of a depreciable asset and any costs incurred to have the asset brought into a revenue producing or operational state. The equivalent accounting term is "cost" or "original cost".

### CAPITAL COST ALLOWANCE (C.C.A.)

The income tax equivalent of the accounting depreciation charge. C.C.A. is usually calculated on a declining balance basis and generally represents charges which are accelerated in relation to depreciation.

## CAPITAL, EXCESS CONTRIBUTIONS TO

Capital contributions above those which would be in accordance with a joint-venture partner's ownership percentage. Joint venture agreements generally provide for *excess capital contributions* to be repaid to the partner making such contribution through a preference arrangement which requires such contributions be repaid prior to normal distributions being made to the partners.

### CAPITAL EXPENDITURE, CRITICAL

Any non-leasing capital expenditure deemed absolutely necessary for the ongoing operation and leasing of the property. Compare with *Non-Critical Capital Expenditures* which may be deferred and are not absolutely necessary in the short term.

### CAPITAL EXPENDITURE, NON-CRITICAL

Any non-leasing capital expenditure which is desirable but not deemed absolutely necessary for the ongoing operation and leasing of the property and which can be deferred in the short-term. Compare with Critical Capital Expenditure.

## CAPITAL GAIN

The difference between the net proceeds of disposition of a capital asset and its capital cost. Three quarters of this gain, the taxable *capital gain*, is included in determining income for tax purposes. See Business Income.

## CAPITAL IMPROVEMENTS

Expenditures that remedy a property's deterioration, appreciably prolonging a property's useful life, or adding to the value of the property.

## CAPITAL LEASE

The general accounting term for a lease that transfers substantially all the risks and benefits of ownership to the lessee. To portray the substance over the form of the transaction the lessor and lessee account for the lease in a manner similar to a purchase and sale. From the point of view of the lessor a *capital lease* may be either a "sales-type lease" or a "direct financing lease". See Operating Lease.



### CAPITAL RESERVE

A funded or non-funded account, usually computed as a percentage of gross income, for the purpose of anticipated, but non-specific, future capital expenditures.

### CAPITAL UNDER MANAGEMENT

Used by investment managers and advisors to express the total dollar amount of investment capital, before leverage, under the control of the manager.

### CAPITALIZATION

In real estate, a methodology used in valuation to convert a single year's net operating income into an expression of a property's value. Arrived at by dividing the net operating income by the *capitalization* rate, which represents the market yield an investor expects from the property.

### CAPITALIZED MORTGAGE

A *mortgage* without a fixed allocation of blended payments between principal and interest. All payments are considered to reduce the principal balance and interest is calculated and added to the principal on a periodic basis.

### CAPITALIZATION RATE

1. In real estate, the yield of a property computed by dividing the net operating income by the property value and commonly expressed as a percentage. For those more familiar with financial equities, the *capitalization rate* may be thought of as a measure of yield, analogous to the inverse of "earnings per share" as applied to a share of stock.
2. A rate of return used to derive the capital value of an income stream. The formula is:

$$\text{Value} = \frac{\text{annual income}}{\text{capitalization rate}}$$

### CARRYING COST

Costs associated with the retention of an asset that is under development or construction. Such costs include interest and realty taxes and are usually added to the capital cost of the asset.

### CASH ACCOUNTING

An accounting method calling for income and expenses to be recognized when payment is received or made.

### CASH FLOW

The cash remaining after various expenses and expenditures are deducted from income. *Cash flow* can be defined in varying ways depending upon which expenses and expenditures are deducted. In general, the unqualified term usually means *net cash flow*. See Cash Flow from Operations; Cash Flow Before Tax.

### CASH FLOW ANALYSIS

A principal tool in the determination of the value of property. *Analysis* of real estate company financial statements on a *cash flow* basis requires adjustment for depreciation and deferred income taxes which are usually significant in the real estate industry. See Discounted Cash flow.

### CASH FLOW, BEFORE TAX

*Before tax cash flow* is cash remaining after deduction of all expenses and expenditures with the exception of income taxes.

### CASH FLOW FROM OPERATIONS

The cash remaining from net operating income after deduction of debt service and ground lease payments but not capital expenditures or income taxes.

### CASH FLOW, NET

For purposes of determining break-even cash flow is income from operations including imputed rent less principal and interest on the debt and equity related to the project, normally as set out in the pro-forma prepared for approval of commencement of the project. Typically, the pro-forma would assume the project was fully financed.

### CASH-ON-CASH RETURN

An expression of *cash return* on equity, frequently used to express first year cash return of a potential investment, but also may be applied to any year or other period of ownership.

# C

## CENTRAL BUSINESS DISTRICT (CBD)

The downtown section of a city, generally consisting of retail, office, hotel, entertainment, and governmental land uses with some high density housing.

*Example: Office markets of the CBD are distinguished from those in the suburbs by market analysts.*

## CLOSED-END MORTGAGE

A mortgage loan whose principal amount cannot be increased during the payout period, contrast with *Open-End Mortgage*.

## CLOSING

1. The act of transferring ownership of a property from seller to buyer in accordance with a sales contract.
2. The time when a closing takes place. The final stage in the sale of real property when representatives of the vendor and purchaser meet to exchange title, mortgage and other documents, as well as the balance payable on purchase.

## CLOSING COSTS

Fees and expenses paid by the seller and buyer at the time of closing (also termed *transaction costs*).

*Examples:*

- *brokerage commissions*
- *lender discount points/other fees*
- *title insurance premium*
- *title search fees*
- *loan prepayment penalty*
- *inspection and appraisal fees, and*
- *attorney's fees*

## COMMERCIAL PROPERTY

Property designated for use as retail, wholesale, office, hotel, or service.

## COMMINGLED FUND

A term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A *commingled fund* may be organized as a Group Trust, Limited Partnership, REIT, or other multiple ownership entity. Typically, a *commingled fund* will hold multiple real estate assets although it is possible for a fund to hold a single large asset such as a major downtown office building.

## COMMITMENT FEE

A charge required by a lender to lock in specific terms on a loan at the time of application.

## COMMITMENT LETTER

Written conjunction from a lender to a borrower indicating that the borrower's loan application has been formally approved and stating the terms of the prospective loan.

## COMMON AREA

Those portions of a building and its site which are for the non-exclusive benefit of all of the residents or tenants.

*Example: Lobbies, corridors, parking areas, etc.*

## COMMON AREA MAINTENANCE (CAM)

The operational expenses associated with the *common areas*. CAM (pronounced as the word, "cam" and not as initials) charges are typically passed through to retail shopping centre tenants proportionately to their leased areas. While common areas also exist in office buildings, it is more common for their costs to be included in the tenant's rent by means of a load factor.

## COMPLETED CONTRACT METHOD

The *completed contract method* is a method of accounting that recognizes revenue only when the sale of goods or the rendering of services under a contract is completed or substantially completed.

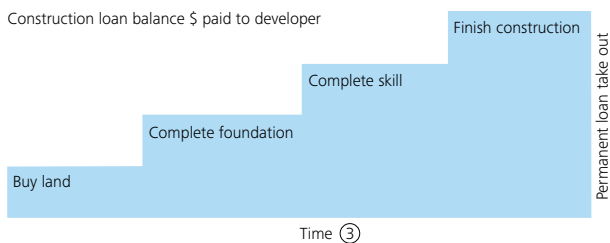
## CONDOMINIUM

A multi-unit structure in which owners hold a fee simple (see *Freehold Estates*) in individual units, together with an undivided interest in the common elements of the structure.



### CONSTRUCTION LOAN

Short-term financing advanced on a revolving basis for the period of construction of real property. Normally repaid by permanent financing upon the completion of construction. Construction loans may be granted whether or not permanent financing is already guaranteed. See Take-out Financing.



### CONSUMER PRICE INDEX

See CPI

### CONVERTIBLE MORTGAGE

A loan secured by real property, typically written at a rate below current market interest rates, in exchange for the privilege to convert the loan to an equity interest in the property at a specified future time. See Participating Mortgage; Hybrid Debt.

### CO-OWNERSHIP/CO-TENANCY

Ownership arrangement whereby two or more owners of undivided interests in a property execute an agreement to stipulate the terms of the *ownership* and management of the property. This is a common arrangement in short-term development projects and other ventures where several participants are involved.

### CORE FACTOR

The portion of an office building which is not rentable area, such as elevators, mechanical rooms and rest rooms, expressed as a percentage of the total area of the building.

### CORPOREAL

Visible or tangible real or personal property.

### COST APPROACH

In appraisal, one of the three approaches to value. The cost approach considers what it would cost to reconstruct the subject property as of the appraisal date. See Income Approach; Market Approach.

### COST-PLUS-PERCENTAGE CONTRACT

An agreement on a construction project in which the contractor is provided a specified percentage profit (or margin) over and above the actual costs of construction.

### COVENANTS

Promises written into deeds and other instruments agreeing to the performance or non-performance of certain acts, or requiring or preventing certain uses of the property.

### CPI

Consumer price index. An index measuring the change in the cost of a typical wage-earner purchases of goods and services in some base period.

### CREATIVE FINANCING

Any financing arrangement other than a traditional mortgage from a third-party lending institution.

Examples:

- *loans from the seller*
- *balloon payment loans*
- *wraparound mortgages*
- *assumption of mortgage*
- *sale-leasebacks*
- *land contracts, and*
- *alternative mortgage instruments*

### CUMULATIVE PREFERRED RETURN

In a partnership agreement, the return to a class of investors which continues to accumulate if there is insufficient cash available to pay a required preferred return. When and if cash becomes available, the *cumulative preferred return* is paid prior to the payment of other distributions.

### CURTAIN WALL

An exterior wall which is attached to the structure of a building as a skin. Virtually all high-rise buildings utilize *curtain wall* systems which may consist of masonry panels, metal and glass systems, or other materials.

# D

## **DEBT COVERAGE RATIO**

The relationship between net operating income (NOI) and annual debt service (ADS). Often used as an underwriting criterion for income property mortgage loans.

*Example: Annual debt service for a mortgage loan on a certain office building is \$10,000. The property generates \$25,000 in annual gross rent, and requires \$7,000 for expenses of operation, leaving \$18,000 net operating income. The debt coverage ratio is 1.8, calculated by the following formula:*

$$\frac{NOI}{ADS} = \frac{\$18,000}{\$10,000} = 1.8$$

## **DEBT SERVICE**

Interest payments on debt and principal payments to retire debt. For accounting purposes, interest payments are considered to be expenses while principal payments are treated as capital expenditures.

## **DEBT SERVICE COVERAGE**

The ratio of available net operating income to the debt service payment.

## **DECLARATION OF TRUST**

A written statement by a trustee to acknowledge that the property is held for the benefit of another.

## **DECLINING BALANCE DEPRECIATION**

A method of depreciation whereby a rate is applied to the remaining balance to calculate the amount of depreciation. Referred to in financial statements as the declining balance method.

## **DEED OF TRUST**

A conveyance of property to a trustee for which prescribed terms are established for return or disposal. See Mortgage.

## **DEFAULT**

The failure to fulfill a duty or to discharge an obligation, such as the failure of a borrower to make timely payments on a loan or a tenant to pay rent and abide by the terms of its lease.

## **DEFECT IN TITLE**

Any recorded instrument that would prevent a grantor from giving a clear title.

## **DEFERRED INCOME TAXES**

A financial reporting practice whereby taxes are provided for in the accounts during the period transactions occur, regardless of when such transactions are recognized for tax purposes. In the real estate industry, the tax deferral generated by the difference between depreciation and capital cost allowance is usually a major component of *deferred income taxes*.

## **DEFICIENCY**

In mortgage finance, the shortfall of funds recovered through the sale of property securing a foreclosed loan compared to the amount of debt, accrued interest, foreclosure expenses, and damages incurred by the lender.

## **DEMOGRAPHIC**

Pertaining to characteristics of the population, such as race, sex, age, household size, and to population growth and density.

## **DEMOLITION**

Destruction and removal of an existing structure from a site; necessary to prepare a site for new construction.

## **DENSITY**

The intensity of an area's land use.

*Example: A 10-acre subdivision contains 30 single-family houses. The density is 3 dwelling units per acre.*

## **DEPRECIATION**

An accounting expense that allocates the cost of an asset over its estimated useful life. The undepreciated value of the asset is referred to as the book value. Methods of calculating *depreciation* include straight line, declining balance and sinking fund. See Capital Cost Allowance.

## **DEVELOPED LAND**

Land served by infrastructure, such as streets and utilities, on which buildings and other improvements have been located.

# D

## DEVELOPER

One who transforms raw land to improved property by use of labour, capital, and entrepreneur efforts.

*Example: Developer buys 25 acres of land for \$10,000 per acre. After putting in streets and utilities, dividing it into 100 lots, and building homes on each lot, developer sells the homes.*

## DEVELOPER'S FEE

The payment made by the owner of a project to the individual or entity which guides the design, approval and construction process.

## DEVELOPER'S PROFIT

The spread between the cost to develop a project and its market value upon completion to be realized as *profit* by a *developer/owner*.

## DEVELOPMENT

The process of adding improvements on or to a parcel of land. Such improvements may include: drainage, utilities, subdividing, access, buildings, and any combination of these elements. Also, the project where such improvements are being made.

## DILUTED DISTRIBUTABLE INCOME PER UNIT

Distributable income per unit adjusted for the impact of any dilutive potential units that were outstanding during the reporting period.

## DIRECT COSTS

Costs that are readily identified in the construction of real estate, such as labour, materials, and contractor's overhead and profit.

## DISCOUNT RATE

A compound interest rate used to convert expected future income into a present value. See Capitalization Rate; Present Value of Annuity.

*Example: A discount rate of 10% applied to a \$100 sum expected to be received in one year results in a present value of \$90.90. (The present value of one for the year is 0.909).*

## DISCOUNTED CASH FLOW

A method of investment analysis in which anticipated future cash income from the investment is estimated and converted into a rate of return on initial investment based on the time value of money. In addition, when a required rate of return is specified, a net present value of the investment can be estimated.

*Example: An asset may be purchased for \$1,000. It is expected to generate \$100 in income per year for 10 years, after which time it is expected to sell for \$1,200. Discounted cash flow analysis shows that the internal rate of return on the investment is expected to be 11.2% per year.*

## DISTRIBUTABLE INCOME

It is generally defined as net income as determined in accordance with Canadian GAAP, subject to certain adjustments including adding back depreciation and amortization, future income tax expenses and excluding any gains or losses on the disposition of any asset, future income tax benefit and any other adjustments as determined. This term is commonly used in determining the distributable income of a Real Estate Investment Trust (REIT).

## DISTRIBUTABLE INCOME PER UNIT

Distributable income divided by the weighted average outstanding units issued by the REIT.

## DISTRIBUTION REINVESTMENT PLAN

The plan adopted by a REIT, pursuant to which Canadian resident unit holders of that REIT will be entitled to elect to have cash distributions in respect of units automatically reinvested in additional units.

## DOWNTIME

A term used both in leasing activities and in appraisal analyses to denote the anticipated period of vacancy or impairment of income between tenant lease terms.

## DUPLEX

1. Two dwelling units under one roof.

*Example: General floor plan for a duplex.*

2. An apartment having rooms on two floors.

*Example: An accountant in a North York duplex apartment enjoyed the sunlight that came in from the upper floor to his studio below.*

# E

## EARN-UP/EARN OUT

An additional payment to the seller of a property rewarded upon the satisfactory achievement of specified leasing objectives or the fulfillment of other performance criteria. It is usually computed in accordance with a negotiated predetermined formula.

## EASEMENT

A right enjoyed by one party over the land of another obtained for a special purpose rather than for the general use and occupation of land. The most common type of *easement* is a "right-of-way". *Easements* attach to properties regardless of changes in ownership of the land of either party.

## EBIT

Earnings before interest and taxes.

## EBITDA

Earnings before interest, taxes, depreciation and amortization.

## ECONOMIC LIFE

That period for which real estate improvements are expected to generate more income than operating expenses. See Useful Life.

## EFFECTIVE NET RENT

Because many leases require the landlord to pay all or a portion of operating expenses which, for purposes of comparability, may vary from lease to lease and from building to building, for purposes of comparability. *Effective net rent* is computed in the same manner as effective rent, but with the rental amount first reduced by any operating expenses included in the quoted lease rental rate. While effective rent is representative of the tenant's actual cost, *effective net rent* is representative of the landlord's return to the capital investment in the property.

## EFFECTIVE RENT

The rental income generated by a lease computed over the life of the lease and expressed as an annual dollar amount or annual dollar amount per square foot. This figure is typically computed as the aggregate rent to be paid under the lease, net of any abated rent and allowances, divided by the term of the lease. However, there has been a trend toward computing *effective rent* more realistically by using a time-value-of-money calculation. In this latter approach, sometimes called the

equivalent level rent calculation, a market discount rate is applied to all cash flows from the lease to obtain a present value which is then reduced by the cost of any concessions or inducements paid to put the lease in place. The resultant net value is then converted to the equivalent level payment stream which would produce an equivalent net present value at that discount rate. See Effective Net Rent.

## EFFICIENCY RATIO

The proportion of a building's area that is leasable space. *Example: An office building contains 200,000 square feet of space. Of this amount, 10,000 square feet are taken up by elevators and other physical plan equipment. Another 5,000 square feet are taken up by the sales and management office. Rest rooms and hallways occupy 30,000 square feet. The lobby is 5,000 square feet. Total space available for lease is 150,000 square feet. The efficiency ratio is 150,000:200,000, or 75%.*

## ENCROACHMENT

A building, a part of a building, or an obstruction that physically intrudes upon, overlaps, or trespasses upon the property of another.

## ENCUMBRANCE

A problem with the title to a property that does not affect the transfer of ownership.

## ENTITLEMENT

Under a local zoning ordinance, those uses, densities, heights, setbacks, and other development rights which are allowable without further governmental action or conditional approval. While such entitlements comply with zoning regulations, they do not constitute a building permit which must still be obtained in accord with local statutes and ordinances.

## ENVIRONMENT RISK

The risk of loss of collateral value and of lender liability due to the presence of hazardous materials, such as asbestos, PCBs, or leaking underground storage tanks on a property.

## EQUITY

The owner's investment represented by the positive difference between either the cost or market value of a property and the related financing.

# E

## **EQUITY KICKER**

Equity interest in a property given to a lender in consideration of the financing provided.

## **EQUITY MORTGAGE**

Interest bearing financing provided to a project by holders of one or more classes of the capital or other ownership rights of a project.

## **ESCALATION**

The term used to describe the recovery of operating costs from tenants whereby the charge is based on the tenant's proportionate share of the increase in costs over the base year cost. See Base Year; Common Area; Recovery.

## **ESCROW**

Property and related documents to be exchanged between transacting parties held by a third party, pending the satisfaction of stipulated conditions.

## **EVICITION**

A legal proceeding by a lessor (landlord) to recover possession of property.

## **EXCLUSIVE LISTING**

A contract between owner and broker giving the broker the right to be the only broker representing the owner's specific property for sale or for lease. *Exclusive listing* agreements generally provide that the listing broker will share his or her commission with any other broker who procures a buyer or tenant. *Exclusive listing* agreements may take the form of either an exclusive right to lease/exclusive right to sell agreement, where the broker is entitled to a commission regardless of his or her involvement in a transaction, or the less common exclusive agency agreement where the broker is guaranteed that no other broker will represent the owner in a transaction involving the property.

## **EXPENSE RATIO**

A comparison of the operating expenses to potential gross rental income. This ratio can be compared over time and with that of other properties to determine the relative operating efficiency of the property considered.

# F

## **FACE INTEREST RATE**

The percentage of interest that is shown on the loan document. Compare with Annual Percentage Rate; Effective Rate.

## **FACE RENT**

The nominal rental rate quoted in the lease. The face rate, plus any escalations and pass-throughs, determines the amount on the check which the tenant writes each month.

## **FACE VALUE**

The dollar amount, shown by words and/or numbers, on a document. Compare with market value. See Amortization.

## **FAIR MARKET RENT**

The amount that a property would command if it were now available for lease. Contrast with *Contract Rent*. See Rent Control.

## **FAIR MARKET VALUE**

The value that a willing buyer would pay to a willing seller for a specific property where all material facts are known to both parties.

## **FORECLOSURE**

The legal action taken by a creditor to realize the value of his claim against the debtor. See Power of Sale.

## **FORGIVENESS OF DEBT**

The reduction or elimination of an outstanding debt by a lender, usually as part of a negotiated work-out of a problem property where the property is no longer valued in excess of the loan which it secures. For taxable investors, *debt forgiveness* may be considered a taxable event, giving rise to phantom income on which federal taxes are assessed, although no cash is received by the taxpayer.

## **FREE RENT**

A concession granted by a landlord to a tenant whereby the tenant is permitted for a portion of the lease term to occupy its space without payment of base rent, and sometimes without payment of any rental charges.

# F

## FREE RENT RECEIVABLE

An accounting convention wherein free rent is amortized over the life of the lease to more accurately reflect economics of the lease. The free rent receivable represents the difference between the accrued rent, net of free rent, and the cash rent received.

## FREEHOLD ESTATE

The legal term referring to an interest in land for either an infinite or an indefinite period of time. Included in *freehold estates* are: fee simple (complete ownership for all time), life estate (ownership for the lifetime of an individual) and dower or homestead rights (vestige of ancient property law granting protection to a property owner's wife). See Leasehold Estate.

## FREEHOLD INTEREST

An ownership interest in real property without a fixed termination date. Fee simple is a *freehold interest*. A lease, which by definition has a measured term, is not a *freehold interest*; it is a leasehold interest.

## FULL SERVICE LEASES

An office lease under which the landlord provides all services to the tenant, including janitorial services within the tenant's suite.

## FULLY DILUTED DISTRIBUTABLE INCOME PER UNIT

Distributable income per unit adjusted for the impact of any dilutive potential units that were outstanding during the reporting period.

## FUNDS FROM OPERATIONS (FFO)

The cash remaining from net operating income after deduction of debt service and ground lease payments but not capital expenditures or income taxes.

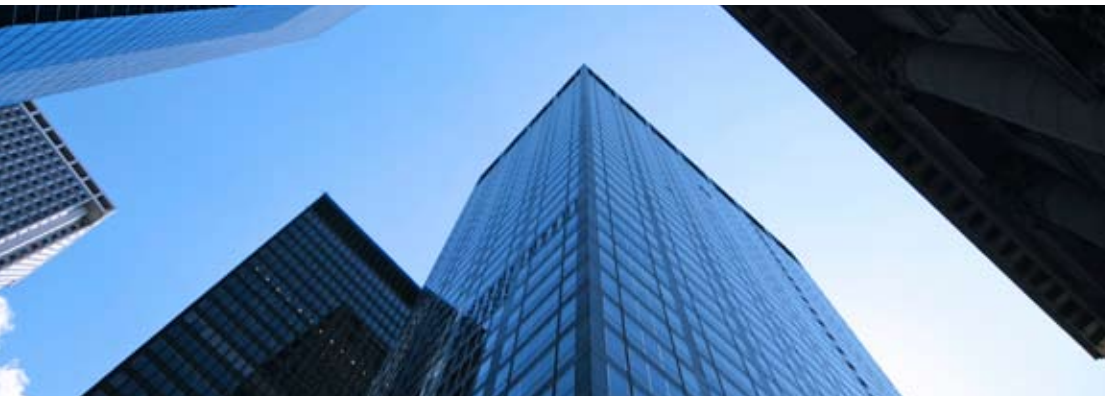
CIPPREC defines FFO as the equivalent of income before extraordinary items adjusted for future income taxes, depreciation and amortization of capital items and deferred leasing costs, any gain or loss on sale of or provision against capital items and undistributed profits of equity accounted investees and non-controlling interests.

CIPPREC attributes the importance of FFO to the following reasons:

- properties are bought and sold based on projections of their cash flow;
- the ability to finance properties is dependent on the cash flow the properties can generate; and
- the shares of public real estate companies trade on the basis of multiples of cash flow from operations. The relationship between share or unit price and cash flow from operations is particularly strong for those companies or REITs engaged solely in the ownership of income properties.

## FUTURE INCOME TAXES

A financial reporting practice whereby taxes are provided for in the accounts of the enterprise during the period transactions occur, regardless of when such transactions are recognized for tax purposes. In the real estate industry, the tax deferral generated by the difference between depreciation and capital cost allowance is usually a major component of *future income taxes*.





### **GAP COMMITMENT**

An agreement by a lender to make funds available for the difference between the unconditional minimum and maximum amount of a permanent mortgage loan commitment. In the event a lender is called upon to fund its *gap commitment*, the security for its mortgage loan would be subordinate to the claim of the first mortgage on the property.

### **GENERAL PARTNER**

In a partnership, a partner whose liability is not limited. All partners in an ordinary partnership are *general partners*. A limited partnership must have at least one general partner.

### **GENERAL PARTNERSHIP**

A *partnership* in which each *partner* has unlimited liability with respect to partnership debts and also has influence over the business operation. See Limited Partnership; Joint Venture.

### **GRACE PERIOD**

The period during which one party may fail to perform without being considered in default.

### **GROSS AREA**

The total floor area of a building, usually measured from its outside walls.

### **GROSS BOOK VALUE**

At any time, the book value of the assets of the REIT and its consolidated subsidiaries, as shown on its most recent consolidated balance sheet, plus the amount of accumulated depreciation and amortization as reflected in the financial statements.

### **GROSS INCOME**

Total income from property before any expenses are deducted.

### **GROSS LEASABLE AREA**

1. The floor area that can be used by tenants. Generally measured from the centre of joint partitions to outside wall surfaces. Contrast with Net Leasable Area.
2. The total of all rentable areas plus all common areas of a building.
3. A nominal measurement of the area of a tenant suite representing the net rentable area of that suite plus a proportional share of all common areas of the building.

4. In retail shopping centres, the total of all tenant suites.
5. In retail strip shopping centre, the nominal measurement of each tenant suite from the outside face of each exterior wall to the centre-line of each demising wall.

*Example: Of the 20,000 gross leasable square feet on each floor, approximately 25% is used for purposes of common use.*

### **GROSS LEASE**

A lease where the landlord pays operating expenses of the building. See Gross Lease with Escalations; Net Lease.

### **GROSS LEASE WITH ESCALATIONS**

A lease where the landlord pays operating expenses during an initial period, but passes through these expenses, or a portion of thereof, to tenants.

### **GROSS POTENTIAL RENTAL INCOME**

The income which a property would produce if all spaces were leased at market rent.

### **GROSS SALES**

The total retail sales achieved by a tenant, usually expressed in dollars per square foot per year or per month. *Gross sales* provides the basis for the computation of percentage rent.

### **GROUND LEASE**

A lease which grants the right of use of land to the lessee. *Ground leases* are often granted for lengthy periods (up to 99 years) to make development economically viable.

### **GROWTH RATE**

A percentage rate by which income, operating expenses and capital expenditures increase or decrease over time. In the financial modeling of real estate, growth rates may be predicated upon an assumed Consumer Price Index (CPI) rate of change or on other reasonable assumptions.

### **GUARANTEED RETURN**

A leasing arrangement whereby the landlord's income is *guaranteed* by virtue of the existence of a net lease or net lease. May also refer to the situation whereby a vendor or another third party provides a *guarantee* of a minimum cash flow from a property.

# H

## **HARD COSTS**

A term to describe direct cost of actual construction, renovation or any other capital additions to a real estate property which are capitalized to the *cost* of the property for tax purposes. See Soft Costs.

## **HEAD LEASE**

An arrangement such that one person, the head tenant, leases an entire property from the owner and then releases the property to other tenants.

## **HOLDBACK**

Term used to describe situation when funds are held back until certain events have occurred, such as the mortgage lender only advances funds, if minimum % of leased area achieved.

## **HOLDING PERIOD**

In financial analysis, the anticipated time period between the acquisition and disposition of an asset, usually selected to assure comparability with other assets. Because the final year of the holding period may not be a year of stabilized revenue and expenses, the *holding period* may be lengthened or shortened to ensure a fair representation of the economics of the asset.

## **HVAC**

An acronym that refers to the climate control system in buildings (Heat, Ventilation, and Air-Conditioning).

## **HYBRID DEBT**

A debt having some of the characteristics of an equity investment. *Hybrid debt*, by definition, has a fixed or indexed coupon like conventional debt, but also participates in the performance of the asset through various means. Examples of hybrid debt are participating and convertible debts.

## **HYBRID MORTGAGE**

An instrument used to secure hybrid debt. Typically a mortgage with an interest rate below current market rate which also provides for a meaningful participation (usually 50% or more) in both net cash flow and gain on sale or refinance of the secured asset. Some *hybrid mortgages* have an option to convert to equity investments in the future; others retain their participation in the operating performance of the property and also participate in the proceeds from sale or refinance.

## **HYPOTHECATE**

To pledge a thing as security without having to give up possession of it.

*Example: Through use of a mortgage or deed of trust, the buyer hypothecates a newly acquired home to the lender or trustee. The buyer uses and controls the property.*





### IMPAIRED ASSET

Any property with an unrealized capital loss such that current equity value is less than book value. Impairment can be either temporary, such as that due to short-term changes in market conditions, or permanent if such value decline is considered irreversible over the holding period.

### IMPUTED INTEREST

Implied interest. In a mortgage that states an insufficient interest rate, the income tax or some regulation body will impute that the rate is higher, and the principal is less.

### INCOME APPROACH

In appraisal, one of the three approaches to value. This method appraises real estate based on the property's anticipated future income. The formula for appraisal by the *income approach* is:

$$\text{Market value} = \frac{\text{Expected annual income}}{\text{Capitalization rate}}$$

See Capitalization Rate.

*Example: A property is expected to produce a net operating income of \$100,000 yearly. Recent sales data indicate that the capitalization rate for comparable properties is 10%. By the income approach, the property has a market value of*

$$\frac{\$100,000}{.10} = \$1,000,000$$

### INDEPENDENT TRUSTEE

A Trustee who is "unrelated" (as defined in Section 474 of the Toronto Exchange Company Manual Guidelines on Corporate Governance) and is not "related" within the meaning of the Tax Act.

### INDEXED LOAN

A long-term loan in which either the term, payment, interest rate, or principal amount may be adjusted periodically according to a specific index. The index and the manner of adjustment are generally stated in the loan contract.

*Example: An adjustable rate mortgage is an **indexed loan**. At specific intervals the face interest rate on the loan may be changed according to variations in the specified index.*

### INFRASTRUCTURE

Basic public improvements such as roads, sewers, water, drainage, and other utilities which are necessary to prepare raw land for buildings and future development.

### INFLATION ADJUSTMENT

1. An escalation provision in a lease which provides for periodic adjustment of the base rent in proportion to changes in the consumer price index (CPI).
2. An adjustment made to sums expressed in nominal dollars for purposes of analytical comparability over time.

### INSURABLE INTEREST

An interest in a person or property that would cause one a loss if that person or property were injured.

### INSURABLE LOSS

Any loss which can be compensated by insurance.  
See Insurable Risk.

### INSURABLE RISK

A risk of loss or damage which may be covered by insurance. Some risks are not insurable because there are no insurance markets available in which such risks can be insured or, perhaps the risk may be too general in nature, such as the risk of rents declining after a natural disaster.

### INSURABLE VALUE

The value for which a property may be insured. *Insurable value* may be defined in the insurance policy as full replacement cost, reproduction cost, depreciated value or some other measurement. *Insurable value* is not the same as economic value or fair market value: a vacant building will cost as much to replace as an identical fully-leased building. It is important to note that while most lenders will request that insurance be carried in an amount not less than that of the outstanding debt, an insurer will not pay a claim for an amount greater than the cost to reconstruct a property in spite of the fact that the debt may exceed the replacement cost.

# I

## INTEREST RATE CAP

Limits the interest rate or the interest rate adjustment to a specified maximum. This protects the borrower from increasing interest rates.

## INTEREST SHORTFALL

The aggregate amount of interest payments from borrowers that is less than the accrued interest on the certificate.

## INTERIM FINANCING

A loan, including a construction loan, used when the property owner is unable or unwilling to arrange permanent financing. Generally arranged for less than 3 years, used to gain time for financial or market conditions to improve.

## INTERNAL RATE OF RETURN (IRR)

The true annual rate of earnings on an investment, which both equates the value of cash returns with cash invested and considers the application of compound interest factors. The formula is:

$$\sum_{t=1}^n \frac{\text{period cash flow}}{(1+i)^t} = \text{investment amount}$$

where  $i$  = internal rate of return  
 $t$  = each time interval  
 $n$  = total time intervals  
 $\Sigma$  = summation

*Example: Abel sells for \$20,000 land that he bought 4 years earlier for \$10,000. There were no carrying charges or transaction costs. The internal rate of return was about 19%. That is the annual rate at which compound interest must be paid for \$10,000 to become \$20,000 in 4 years.*

## INVESTMENT ADVISOR

An organization or entity which, by contractual agreement, provides acquisition, asset management, and disposition services on a non-discretionary basis, where the client retains authority to approve investments and major asset management policy.

## INVESTMENT MANAGER

An organization or entity which, by a contractual agreement, has discretion for acquiring, managing, and selling individual real estate investments or commingled fund assets. A pension plan's *investment manager* will generally be a fiduciary under ERISA and be held to the fiduciary standards of conduct.

## INVESTMENT MANAGEMENT FEES

Fees paid by the investor for the services of the investment manager or advisor. Typically, these fees consist of one or more of the following:

- **Acquisition Fee** – Usually a percentage of the amount invested, the fee is paid as a one-time fee on each property or asset acquired.
- **Administrative Fee** – Also referred to as a contract fee, asset charge, trust administration fee, account charge, or custodian fee.
- **Asset Management Fee** – Usually a percentage of assets under management or cash distributions, this fee is paid to the investment manager as annual compensation for the management of the assets.
- **Contribution Fee** – This is a subscription fee, placement fee, or start-up fee, charged against the investor's contributions to the fund and usually paid prior to any asset acquisitions, as distinguished from the acquisition fee.
- **Disposition Fee** – This is a one-time fee charged to the investors, usually a percentage of net sales proceeds.
- **Incentive Fee** – Any fee paid by the investor to the manager based upon performance of the real estate assets, usually in excess of a target or benchmark. Also called a performance fee.

# J

## **JOINT AND SEVERAL LIABILITY**

Enforceable against either or both parties involved in a transaction. For example, *joint and several liability* frequently is specified in lease guarantees to allow enforcement of the lease obligation in its entirety against either the guarantor, the tenant or both without releasing either of the parties.

## **JOINT TENANCY**

A form of undivided ownership in a property such that upon the death or dissolution of one *joint tenant* his interest in the property passes to the other *joint tenants*.  
See Tenancy-In-Common.

## **JOINT VENTURE**

An arrangement whereby two or more parties enter into an agreement to contribute part of their respective resources to a specific project. This form allows the spreading between venturers of contribution requirements and risks. This arrangement is in many respects similar to a partnership.  
See General Partnership.

## **JUNIOR DEBT**

Any secured debt which is subordinate in right to a superior, or senior, debt obligation. Holders of senior debt need to be concerned about *junior debt* because any modification to the obligations of a debtor's senior debt that affects the available security for the junior debt without the consent of the holders of the junior debt, may be deemed invalid. As a general rule, the foreclosure of senior debt extinguishes junior debt but the foreclosure of junior debt has no effect on senior debt.

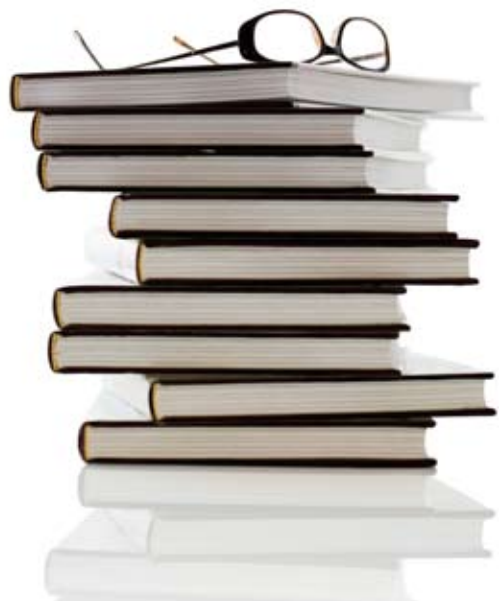
# K

## **KICKER**

A term borrowed from the bond industry signifying some form of equity participation attached to a debt obligation.

## **KICK-OUT PROVISION**

The provision in a lease which allows a landlord to terminate the lease upon the occurrence of some specified event. An example of a *kick-out provision* would be the termination of a retail lease if certain sales figures are not achieved by the tenant.



# L

## LAND ABSORPTION

1. In land development, the rate at which vacant land is utilized, either through buildout or through sale.
2. In market analysis, the rate at which land is converted to developed building sites.

## LANDLORD

1. One who rents property to another; a lessor.
2. A property owner who surrenders the right to use property for a specific time in exchange for the receipt of rent.

## LEASE

A contractual agreement whereby the owner of real property (the lessor) grants to another person (the lessee) the right to the possession and use of the property for a specific amount of time in return for a stipulated rent.

## LEASE ASSIGNMENT

An agreement between the commercial property owner and the lender that assigns lease payments from tenants directly to the lender. Otherwise, lease payments are made would be the owner who would then forward mortgage payments to the lender. In a CMBS, lease payments would go directly to the servicer. A form of credit enhancement.

## LEASE BUYOUT

1. A lump sum payment, usually equal to some percentage of the present value of the rental payments remaining for the balance of the term of a lease, which is made to a landlord by a tenant in exchange for the landlord releasing the tenant from future obligations under the lease.
2. A lump sum payment made to a tenant by a landlord in exchange for either the termination of a lease and the recapture of the leased space or for the termination of a below market rent lease and its replacement with a market rent lease with the same tenant.

## LEASE OPTION

Usually an agreement within a lease which gives the tenant the right to purchase the property at a specified or formula price at a future date. Lease options may also provide the tenant with the right to lease additional space in a property or to extend the current lease term.

## LEASEHOLD ESTATE

The legal term referring to an interest in land for a definite period of time. The leasehold interest shares an important characteristic with "Freehold Estate" in that it gives the holder an exclusive possession of the land. See Freehold Estate.

## LEASEHOLD IMPROVEMENTS

The cost of improvements for a leased property, often paid by the tenant.

## LEASE-UP

The period during the initial development or renovation of a property during which the space is being marketed and the building is being brought to full or stabilized occupancy.

## LESSEE

A person to whom property is rented under a lease. A tenant. Compare with lessor.

## LESSOR

One who rents property to another under a lease. A landlord. Compare with lessee.

## LETTER OF CREDIT

An obligation by a third party to cover the losses due to delinquencies and foreclosures. The rating of the third party is commonly required to be, at minimum, equal to the highest rating of the securities. A form of credit enhancement.

## LETTER OF INTENT

A document expressing an intent to invest, develop or purchase without creating any firm legal obligation to do so. *Letters of intent* are frequently used to negotiate the business points of a transaction before preparing a formal binding contract.

## LIBOR

*London Interbank Offered Rate* (LIBOR). The rate that international banks dealing in Eurodollars charge each other for large loans. Some domestic banks use this rate as an index for adjustable rate mortgages.

# L

## LIFE CYCLE

1. The stages of real estate development: raw land, pre-development, development, leasing, operations, and redevelopment.
2. An approach facilities managers take to evaluating the cost of an improvement which takes into account both initial cost and the cost to operate over time.

## LIMITED LIABILITY

The restriction of one's potential losses to the amount invested. The absence of personal liability.

## LIMITED PARTNERSHIP

A form of business venture undertaken between two classes of participants, a general partner and *limited partners*. The general partner manages the partnership and is fully liable for partnership liabilities. The *limited partners* are passive investors whose liability is limited to the amount that they agreed to contribute to the partnership. See General Partnership.

## LIQUIDITY

A measure of the ease and frequency with which assets, e.g., CMBS, are actively traded in the secondary market. Large amounts of CMBS issues with similarities in collateral and structure are often traded more steadily in the secondary market, thus increasing the degree of liquidity of the CMBS issues.

## LOAN-TO-VALUE RATIO (LTV)

The portion of the amount borrowed compared to the cost or value of the property purchased.

## LOW-BALL OFFER

An offer from a prospective property buyer that is much lower than the listing price. Such an offer may indicate the buyer's belief that the property will not attract many good offers and that the asking price is unrealistic. Also, it probably means the buyer is interested in the property only if it can be purchased at a bargain price.

# M

## MALL

A public area connecting individual stores in a shopping centre; generally enclosed. Also, an enclosed shopping centre.

## MARK-TO-MARKET

The practice of valuing each investment based upon current market value rather than book value of historic cost.

## MARKET APPROACH

In appraisal practice, one of three approaches to value wherein comparable property transactions are analyzed and adjusted for differences in timing, location, circumstance and other parameters to arrive at an indication of value of a subject property. See Cost Approach; Income Approach.

## MARKET COMPARABLE

An example of a recent sale or lease of a property which is similar to the subject property being analyzed.

## MARKET LEASE

A lease at rates and terms comparable to those of typical new leases being entered into in the market at the current time.

## MARKET LEASE RATE

The rental rate being achieved for typical leases being entered into in the market at the current time.

## MARKET LEASE TERM

The length of term of a typical lease being entered into in the market at the current time.

## MARKET RENT

The typical amount of rent being paid under new leases at properties of comparable size, location and quality.

## MARKET VALUE

The value of a property on the open market. The key assumptions used by professional appraisers in arriving at a fair *market value* include: the parties are informed and prudent; they are operating at arm's length (independent) and are under no compulsion to complete the transaction; the market is open and unrestricted; the sales price is expressed in cash; the transaction would be completed with the purchaser having the "highest and best use" for the property.

# M

## MASTER LEASE

A lease under which the leasehold is further subleased by the tenant to one or more subtenants.

## MATURITY

1. The length of the term of a loan.
2. When a leaseback provides for repurchase, the length of the leaseback term.

## MATURITY DATE

The date of end of a loan or lease-back term.

## MILL RATE

Used by local taxing authorities to express the rate of local property tax assessment in mills (one tenth of one cent) per dollar of assessed value. The mill rate may be thought of as dollars of tax per one thousand dollars of assessed valuation.

## MONTH TO MONTH TENANT

A tenant who occupies real property with the consent of the owner under a written or non-written agreement whereby the tenancy may be terminated by either party upon one month's advance notice to the other.

## MORTGAGE

A lien registered against a property such as land, buildings, equipment and other assets which is given as security to a lender. Also referred to as a Deed of Trust.

## MORTGAGE-BACKED SECURITY

An interest in a pool of mortgages which are purchased from lending institutions and packaged for resale to investors.

## MORTGAGE BONDS

An issue of *bonds* which are secured by real property.

## MORTGAGE CONSTANT

The percentage ratio between the annual debt service and the loan principal. The formula is:

$$\text{mortgage constant} = \frac{\text{annual debt service}}{\text{loan principal}}$$

*Example: A loan of \$10,000 at 12% interest for 5 years requires annual payments of \$2,744. The mortgage constant is:*

$$\frac{\$2,744}{\$10,000} = .2744 \text{ or } 27.4\%$$

## MORTGAGE DISCOUNT

In valuing a property encumbered by non-prepayable mortgage debt bearing a rate of interest higher than that available in the current market, a *mortgage discount* adjustment is made by the appraiser to recognize the present value of the outstanding mortgage debt. This is a negative adjustment equal to the difference between the existing mortgage principal balance and the present value of all remaining future debt payments discounted to present value at the current market rate of debt.

## MULTI-UNIT RESIDENTIAL BUILDING (MURB)

A type of *residential* structure for which tax incentives are provided from time to time by the federal tax authorities. Such incentives take the form of accelerated C.C.A. write-offs and a removal of the usual limitation of tax losses created by C.C.A.



# N

## NACORE

The *National Association of Corporate Real Estate Executives*, a trade association of real estate professionals who manage the real estate assets of corporations, retailers, and other commercial users.

## NAIOP

*National Association of Industrial and Office Properties*, a trade association for developers, owners, investors and asset managers of commercial real estate in Canada and the United States.

## NAREIT

*National Association of Real Estate Investment Trusts*, a trade association representing publicly traded and privately placed real estate investment trusts (REITs).

## NAREM

*National Association of Real Estate Investment Managers*, a trade association of organizations involved in the management of real estate for institutional investors.

## NCREIF

*National Council of Real Estate Investment Fiduciaries*, an association of pension fund advisors and allied professionals organized for the purposes of conducting research and educational activities to further the understanding of real estate as an investment vehicle for pensions and foundations. NCREIF collects data and publishes the *NCREIF/Russell Index*.

## NCREIF/RUSSELL INDEX

A performance measurement index published quarterly which tracks the performance of investment real estate held by pension fiduciaries and which provides a performance benchmark for portfolio managers.

## NEGATIVE CASH FLOW

Situation in which a property owner must make an outlay of funds to operate a property.

*Example: Baker acquires an apartment building with the first year income statement shown below. Baker must spend \$5,000 to operate the building for the first year, because of a negative cash flow.*

<i>Potential gross income:</i>	<i>\$ 50,000</i>
<i>Vacancy loss</i>	<i>-5,000</i>
<i>Effective gross income</i>	<i>\$ 45,000</i>
<i>Operating expenses</i>	<i>-30,000</i>
<i>Net operating income</i>	<i>\$15,000</i>
<i>Debt service</i>	<i>-20,000</i>
<i>Negative cash flow before tax</i>	<i>\$ 5,000</i>

*Used to describe the situation where cash income to a property is insufficient to cover current operating expenses, debt service, and cash needs for critical capital replacements.*

## NEIGHBOURHOOD

A district or locality characterized by similar or compatible land uses. *Neighbourhoods* are often identified by a place name and have boundaries composed of major streets, barriers, or abrupt changes in land use.

*Example: Residential neighbourhoods are often identified with a subdivision, an elementary school attendance zone, a major public facility, such as a college, or a small town within a larger urban area. Homes in the neighbourhood are of similar style, age, and value.*

*Example: Commercial neighbourhoods are generally associated with a major road, shopping centre, or central business district.*

*Example: Industrial neighbourhoods are generally identified by common use of a transportation linkage.*

## NEIGHBOURHOOD LIFE CYCLE

A generalized pattern that describes the physical and social changes that residential areas experience over time.

# N

## NET ASSET VALUE

Current real estate value or equity, net of debt. In common practice, current real estate value is considered to be the most recent appraised value, or if prior to the initial appraisal following acquisition, the asset's acquisition cost adjusted for capital expenditures and additional contributions or distributions.

## NET CAPITAL

The *net capital* balance of an investment account is the capital balance after all possible deductions, where offsets and allowances have been made from the gross amount and the balance has been brought to its lowest possible term.

## NET CASH FLOW

For purposes of determining break-even cash flow is income from operations including imputed rent less principal and interest on the debt and equity related to the project, normally as set out in the pro-forma prepared for approval of commencement of the project. Typically, the pro-forma would assume the project was fully financed.

## NET EFFECTIVE RENT

Effective rent less any base year or other expense stop. *Net effective rent* is the effective rent less those operating expenses borne by the landlord. It represents the economic return on the real estate asset. See Effective Rent.

## NET FAIR MARKET VALUE (NET FMV)

Also called Portfolio Equity Value, *Net FMV* is the gross fair market value less all debt on the property and any adjustments to value attributed to the interests of other joint venture partners in the asset.

## NET INVESTMENT

The original investment in an asset plus capital additions and tenant improvements, less added debt.

## NET LEASABLE AREA

In a building or project, floor space that may be rented to tenants. The area upon which rental payments are based. Generally excludes common areas and space devoted to the heating, cooling, and other equipment of a building.

## NET LEASE

A *net lease* is a lease whereby the landlord pays the expenses related to the maintenance and operation of a property and subsequently charges the tenant this amount as additional rent. This additional rent is referred to as recovery income.

## NET MARKET VALUE

The most recent appraised *fair market value* less the net investment in an asset.

## NET NET LEASE

An agreement whereby the tenant pays all expenses related to the maintenance and operation of the property. The landlord receives only a fixed monthly rent with no recoveries.

## NET OPERATING INCOME (NOI)

Income from property or business after operating expenses have been deducted, but before deducting income taxes and financing expenses (interest and principal payments). The formula is:

$$\text{NOI} = \text{gross income} - \text{operating expenses}$$

*Example: A property produces rental income of \$100,000 during the year. The expenses incurred are shown as:*

### **Net Operating Income**

*Operating expenses:*

<i>Maintenance</i>	<i>\$20,000</i>
<i>Insurance</i>	<i>5,000</i>
<i>Property taxes</i>	<i>10,000</i>
<i>Management</i>	<i>10,000</i>
<i>Utilities</i>	<i>10,000</i>
	<i>\$60,000</i>

$$\text{NOI} - \$100,000 - \$60,000 = \$40,000$$

### **Debt service**

<i>Interest</i>	<i>\$18,000</i>
<i>Principal</i>	<i>\$2,000</i>
	<i>\$20,000</i>
<i>Income taxes*</i>	<i>(\$5,000)</i>

*\* Excluded from the computation*

# N

## NET PRESENT VALUE

A method of determining whether expected performance of a proposed investment promises to be adequate. See also Internal Rate of Return.

*Example: A proposed land investment requires \$10,000 of cash now, and is expected to be resold for \$25,000 in 4 years. For the risks involved, the investor seeks a 20% discount rate (same as compounded rate of return). The \$25,000 amount to be received in 4 years, when discounted by 20% annually, is worth \$12,056 now. Since the investment costs \$10,000, the net present value is \$2,056.*

$$\frac{\$25,000}{(1+0.24)^4} - \$10,000 = \$2,056$$

## NET RECOVERABLE AMOUNT

The estimated future cash flow of a property being held for investment from use, together with its residual value.

## NET RENTABLE AREA

The area measurement of a building or tenant suite upon which rent is calculated. Although there is a BOMA standard in common use, the method of net rentable area calculation can vary widely, it may even depend on the practices of the property developer or owner.

## NET SALES PROCEEDS

Proceeds from the sale of an asset less brokerage commissions, closing costs, and marketing expenses.

## NOMINAL RETURN

The rate of return expressed in nominal dollars unadjusted for inflation. See Rate of Return.

## NON-COMPETITION PROVISION

A provision sometimes found in retail leases prohibiting a tenant from operating an identical or competing business within a certain radius of the property. The provision is intended to prevent a tenant from siphoning off sales to another location which otherwise would be counted in the calculation of percentage rent paid to the landlord.

## NON-MONETARY EXCHANGE

*Non-monetary exchange* is an exchange of non-monetary assets or liabilities for other non-monetary assets or liabilities with little or no monetary consideration involved. In general, if the fair value of the monetary consideration is less than 10% of the estimated fair value of the total consideration given up or received, the transaction would be considered non-monetary.

## NON-RECOURSE DEBT

A debt arrangement under which the lender's claim against the debtor is limited to the value of the property on which his claim is secured. See Recourse Debt.

## NON-RECOURSE LOAN

A secured loan wherein the lender may look only to the value of the security and not to the borrower.





### **OBSOLESCENCE**

An appraisal concept of the decline in value of a property due to outmoded design or condition (functional *obsolescence*) or eternal changes such as surrounding land use patterns or market demand for a property of its type (economic *obsolescence*).

### **OCCUPANCY LEVEL**

Percentage of currently rented units in a building, city, neighbourhood, or complex. Contrast with Vacancy Rate.  
*Example: Today the Holiday Hotel has 90 of its 100 rooms booked and filled. Its occupancy level is 90%. Conversely, its vacancy rate is 10%.*

### **OCCUPANCY RATE**

In market analysis, the total occupied area in a market divided by the total supply of both occupied and vacant space in that market, expressed as a percent, i.e., the 100% less the vacancy rate.

### **OFF-SITE SERVICING COSTS**

*Off-site servicing costs* are those incurred in bringing major trunk services, roads and power to the perimeter of the site to be developed and would include contributions to improve major municipal sanitary, storm and water supply systems.

### **ON-SITE SERVICING COSTS**

*On-site servicing costs* are those development costs associated with a specific parcel of land within the boundaries of a site, such as internal roadways and curbs, sanitary, storm sewers, water mains and utility systems.

### **OPEN-END MORTGAGE**

A *mortgage* under which options are available to accelerate principal repayment at the mortgagee's option.  
See Closed-end Mortgage.

### **OPERATING EXPENSE RATIO**

The mathematical relationship derived by dividing operating expenses by potential gross income.  
*Example: Apartments generally have operating expense ratios between 30% and 50%; this figure may be higher when the lessor pays utilities or in low rent areas. Office buildings often have higher operating expense ratios (40% to 60%), because more intensive management and maintenance, such as cleaning services, are provided.*

### **OPERATING EXPENSES**

Amounts paid to maintain property, such as property taxes, utilities, hazard insurance. Excludes financing expenses and depreciation.  
*Examples: The following are expenses incurred in operating a property:*

- *maintenance*
- *management*
- *real estate taxes*
- *hazard and liability insurance*
- *utilities*
- *supplies*

*The following are not categorized as operating expenses:*

- *debt service*
  - *principal payments*
  - *interest*
  - *loan fees*
  - *participating payments*
- *depreciation*
- *income taxes*

### **OPERATING LEASE**

The accounting term given to a lease where the lessor retains substantially all the risks and benefits of ownership. Rental income and expenses are recognized in the accounts when paid. See Capital Lease.

### **OPERATING STATEMENT**

A financial report detailing the revenues and expenditures related to a rental property. The purpose of the *statement* may be for internal purposes or may be for external users (i.e., mortgage participation, tenant escalations) in which case it would normally be subject to audit.



### **OPTION TO PURCHASE**

The right granted to a party for a limited period of time to *purchase* a property under stipulated terms.

### **ORGANIZATION COSTS**

Costs such as legal fees, corporate filing fees and registration fees incurred to set up a commingled fund, joint venture or advisory account.

### **OVERALL RATE OF RETURN (OAR)**

The percentage relationship of net operating income divided by the purchase price of property. See Capitalization Rate.

### **OVER-ALLOTMENT OPTION**

The option granted by a REIT to the Underwriters, exercisable for a period of 30 days after Closing, to purchase up to a stated additional number of Units on the same terms as the Offering, solely to cover the over-allotment.

### **OVERSIZING COSTS**

Oversizing costs are those additional costs that may be incurred in servicing a tract of land which is adjacent to or neighbouring other tracts that are to be developed in the future as a result of the installation of services which are larger or greater than the current tract requires. The differences between the costs required to service the current tract and the costs required because of a future neighbouring tract are oversizing costs.



### **PARTICIPATING BROKER**

A broker other than the listed broker who procures a tenant or buyer and shares in the commission paid to the listing broker.

### **PARTICIPATION DEBT**

Debt which, in addition to a fixed or floating rate coupon, pays to the lender a percentage of net operating income in exchange for a below market coupon rate.

### **PARTICIPATION (or PARTICIPATING) MORTGAGE**

One that allows the lender to share in part of the income or resale proceeds.

*Example: A loan is given on an office building. In addition to a fixed payment of principal and interest, the lender is entitled to 2% of gross rental income. This is a participation loan in which the lender participates in the income stream provided by the property.*

### **PARTNERSHIP**

An agreement between 2 or more entities to go into business or invest. Either partner may bind the other, within the scope of the partnership. Each partner is liable for all the partnership's debts. A partnership normally pays no taxes, but merely files an information return. The individual partners pay personal income tax on their share of income. See also General Partner; Limited Partnership. Compare with Corporation.

### **PASSIVE ACTIVITY INCOME**

A term defined under the 1986 US tax act, is generated by:

1. Any trade or business conducted for profit in which the taxpayer does not materially participate.
2. Any rental activity, regardless of whether or not the taxpayer materially participates. Rental activities are presumed to be passive. These include all activities that generate income from payments for the use of property rather than for the performance of services. Rental activities include: long-term rentals of apartments, net leased property, office equipment, and automobiles. In contrast, the rental of hotel rooms or transient apartments and short-term car rentals are not passive because of the extent of services provided.

# P

## PASSIVE INCOME

1. Income from rents, royalties, dividends, interest, and gains from the sale of securities.
2. A new meaning created by the US Tax Reform Act of 1986, distinguishes passive income or loss from active income and portfolio income. See Passive Activity Income.

## PASSIVE INVESTOR

One who invests money but does not manage the business or property.

## PAYBACK PERIOD

The amount of time required for cumulative estimated future income from an investment to equal the amount initially invested. It is used to compare alternative investment opportunities.

*Example: Purchase of an apartment building requires an equity investment of \$20,000. Annual cash flow is expected to be \$2,000. The payback period for the investment is 10 years.*

## PAYMENT IN LIEU

*Payment in lieu* represents a cash payment made generally to a municipality rather than some other type of benefit conferred on the municipality.

## PER STIRPES

A legal method of distributing an estate to include the descendants of a deceased legatee, whose share is apportioned among linear descendants.

*Example: A person dies intestate. State Law requires a per stirpes distribution of assets. The decedent had 4 children. Three are surviving; the fourth child died as an adult and left 5 children. The estate is divided into 4 equal parts. Each surviving child of the decedent gets one fourth, and the 5 orphaned grandchildren, as a group, share one fourth.*

## PERCENTAGE LEASE

A lease of property in which the rental is based on a percentage of the volume of sales made upon the leased premises. It usually stipulates a minimum rental and is regularly used for retailers who are tenants.

*Example: The percentage lease required the jewelry store to pay as additional rent of 6% of annual sales in excess of \$100,000. The base rent is \$6,000 per year.*

## PERCENTAGE OF COMPLETION METHOD

The percentage of completion method is a method of accounting that recognizes revenue proportionately with the degree of completion of goods or services rendered under a contract.

## PERCENTAGE RENT

A *percentage rent* clause in a lease agreement requires the tenant to pay, as additional rent, an amount equal to a given percentage of gross sales. This conditional rent is often required in shopping centre properties where the success of each tenant's business depends largely on the effort of property management and the quality of other tenants.

## PIGGYBACK LOAN

1. A combination of the construction loan with the permanent loan commitment.  
*Example: The permanent lender would issue a commitment at a 15% rate, effective upon completion of construction. As assurance that the loan will be borrowed even if rates are lower later, the commitment is piggybacked to the construction loan, and must be drawn down upon retiring the construction loan.*
2. One mortgage held by more than one lender, with one lender holding the rights of the others in subordination.

## POWER OF SALE

The legal right of a secured creditor to *sell* property in order to realize his claim against the debtor.

## PREACQUISITION COSTS

1. Costs relating to an identifiable property incurred for the express purpose of, but prior to, acquiring the property.
2. Costs incurred in seeking out property to be acquired in a specified area of geographic interest.

# P

## PREFERRED RATE OF RETURN

The rate of return paid to a class of investor or partner under an investment agreement, usually calculated as a fixed percentage to be paid on a priority call basis prior to the payment other classes of investors or partners.

See Preferred Return.

## PREPAYMENT CLAUSE

A clause in a mortgage that gives a mortgagor (borrower) the privilege of paying the mortgage indebtedness before it becomes due. Sometimes there is a penalty for prepayment, with waiver of the interest that is not yet due.

*Example: The prepayment clause in the mortgage allows the unpaid principal to be retired by the owner with a 1% penalty.*

## PREPAYMENT INTEREST SHORTFALL

Commonly occurs when prepayments are made prior to the payment due date and the interest received from prepayment is less than the interest due on the certificates. It is defined as the difference between the interest accrued on the corresponding certificates and the accrued interest from a prepayment.

## PREPAYMENT PENALTY

Fees paid by borrowers for the privilege of retiring a loan early.

*Example: Abel borrowed \$50,000 last year at 15% interest on a 30-year mortgage. If he pays the remaining principal now, in one lump sum, there will be a 5% prepayment penalty that amounts to \$2,500.*

## PREPAYMENT PREMIUM

A penalty paid by the borrower for any prepayments made on a mortgage loan if required under the loan documents. The premium is usually set at a fixed rate which, at times, decreased in steps as the loan matures. For example, a mortgage loan can have a premium of 5% for the first seven years and during the next five years the premium decreases at a rate of 1% per year (4% in year eight, 3% in year nine); after year twelve, there is no prepayment premium.

## PRESENT VALUE OF ANNUITY

The value now of a level stream of income to be received each period for a finite number of periods.

$$\text{Present value of annuity} = \frac{1 - \frac{1}{(1+i)^n}}{i}$$

Present Value Table

Life of annuity (years)	5%	10%	15%	20%
1	0.952	0.909	0.870	0.833
2	1.859	1.736	1.626	1.528
3	2.723	2.487	2.283	2.016
4	3.546	3.170	2.855	2.589
5	4.329	3.791	3.352	2.991
10	7.722	6.144	5.019	4.192
15	10.380	7.606	5.847	4.675
20	12.462	8.514	6.259	4.870
25	14.094	9.077	6.464	4.948
30	15.372	9.427	6.566	4.979

*Example: The present value of an annuity of \$1.00 per year for 10 years, discounted at 12%, is \$5.65. Selected present values of annuity factors for annual income of 1 share shown below.*

## PRIME RATE

The lowest commercial interest rate charged by banks on short-term loans to their most creditworthy customers. The *prime rate* is not the same as the long-term mortgage rate, though it may influence long-term rates. Also, it is not the same as the consumer loan rate that is charged on personal property loans and credit cards. Mortgage rates and consumer loan rates are generally higher than the prime rate, but exceptions occur at times.

## PRIME TENANT

In a shopping centre or office building, the tenant who occupies the most space. Prime tenants are considered credit worthy and attract customers or traffic to the centre.

See Anchor Tenant.

# P

## **PRINCIPAL AND INTEREST PAYMENT (P&I)**

A periodic payment, usually paid monthly, that includes the interest charges for the period plus an amount applied to amortization of the principal balance. Commonly used with amortizing loans. See Mortgage Constant; Amortization.

*Example: A \$1,200 annual principal and interest payment is required on a \$10,000 face value amortizing mortgage at a 10% interest rate. \$1,000 of the first year payment is required for interest; \$200 reduces the outstanding balance to \$9,800.*

## **PRINCIPAL, INTEREST, TAXES and INSURANCE PAYMENT (PITI)**

The periodic (typically monthly) payment required by an amortizing loan that includes escrow deposits. Each periodic payment includes a principal and interest payment plus a contribution to the escrow account set up by the lender to pay insurance premiums and property taxes on the mortgaged property.

## **PRIVATE PLACEMENT**

Sale of securities of bonds to institutional or high tech net worth investors who meet specific criteria of net worth and/or income and who are deemed to be sophisticated investors, e.g., insurance companies.

## **PROCUREMENT COSTS**

The expenditures which are made to obtain a tenant, not including concessions. Typical procurement costs may include commissions, tenant improvements, moving allowances, the cost of satisfying a tenant's remaining lease obligations at the property from which he or she is relocating, and marketing expenses.

## **PROJECTION PERIOD**

The time duration for estimating future cash flows and the resale proceeds from a proposed real estate investment.

*Example: A 10-year projection period is typically used in a discounted cash flow analysis of income-producing real estate.*

## **PROMISSORY NOTE**

An unconditional written promise of one person or entity to pay a specified sum of money to another at a future date. Promissory notes may be assigned to another party or entity who becomes "holder in course" and who then have the right to collect any sums due under the promissory note.

## **PROPERTY MANAGEMENT**

The operation of property as a business, including rental, rent collection, maintenance, etc.

*Example: The following tasks are often required in the ownership of property.*

## **PROPERTY TAX**

A tax assessed against real property, usually by a county or municipal taxing authority but sometimes also by special purpose districts and agencies, in proportion to the assessed value of the property.

## **PROPORTIONATE SHARE**

The allocated share of operating expenses and common area expenses or expense increases to be charged to a specific tenant, usually based upon the area of the tenant's demise divided by the total area in the building or complex. In properties where some tenants provide certain services for themselves, such as air conditioning and refrigeration maintenance by a supermarket within a shopping centre, other tenants may then have differing proportionate shares of individual expense items depending upon whether those items are provided to all tenants or only to a subset of tenants.

# Q

## QUITCLAIM DEED

A deed that conveys only the grantor's rights or interest in real estate, without stating the nature of the rights and with no warranties of ownership.

*Example: It is discovered during a title search that a certain property was at one time held by a partnership that later abandoned the property. To obtain a marketable title, the current owner obtains quitclaim deeds from all partners in the old partnership.*



# R

## RATE OF RETURN

The income and realized or unrealized gain on an investment expressed as a percentage of the investment. *Rate of return* may be further segregated by source or character into specific return measurements such as:

- **Income Return:** That portion of total return produced by income from operations.
- **Appreciation Return:** That portion of total return produced by a change in the value of the asset during the holding period. This change may consist of appreciation or depreciation, whether realized or unrealized.
- **Total Return:** The total of income return plus appreciation return.
- **Real Return:** A rate of return adjusted for inflation and calculated in "real dollars" rather than "nominal dollars".
- **Cash-on-Cash Return:** Cash income as a percent of cash invested.
- **Internal Rate of Return:** A calculated implicit rate of return equal to the discount rate at which the present value of the future cash flows of an investment equals the cost of the investment.

## RAW LAND

Acreage with no added improvements, such as landscaping, drainage, streets, utilities, and structures.

*Example: The developer bought 50 acres of raw land upon which to develop a subdivision.*

## REAL ESTATE INVESTMENT TRUST (REIT)

A term which originated in the United States, and has been adopted in Canada to describe a widely held close-end trust vehicles used to acquire real estate. A REIT is dedicated to holding and maintaining real estate as a long-term investment, e.g., apartment buildings, shopping centres and industrial buildings. On a restrictive basis, REITs may hold investments in companies, such as nursing homes and hotels. REITs may avoid paying certain taxes provided certain conditions are adhered to, including distributing an amount to the unitholders which is at least equal to the taxable income. Generally, each year the REIT will also distribute the net capital gains and net recapture income for the year.

# R

## REALpac

The Canadian Institute of Public Real Estate Companies (CIPREC) was formed in 1971 by a number of major property developers with equity shares listed on Canadian stock exchanges. An early priority was the consideration of means to advance and unify the practices and objectives of the real estate industry to better serve government and the community, and to seek ways by which an understanding of public real estate companies could be broadened.

In December 1999, the name of the organization was changed to the Canadian Institute of Public and Private Real Estate Companies (CIPREC) to better represent the make-up of its membership.

In early 2005, CIPREC, further evolved and is now known as the Real Property Association of Canada (REALpac). Today, REALpac is the senior national organization for publicly listed real estate companies, banks, pension funds, REITs, life companies and large private companies that own income-producing real estate.

## RECAPTURE

The amount of sales proceeds received in excess of the undepreciated capital cost, but not in excess of the original cost of depreciable property, represents *recapture* of capital cost allowance. This is included fully in income for tax purposes.

## RECOURSE DEBT

A type of a financing arrangement whereby the lender's claim against the debtor is not limited by the value of the real property on which it is secured. See Non-recourse Debt.

## RECOVERY

Refers to the charge levied against tenants for their share of operating costs.

## REFINANCE

To replace an old loan(s) with a new loan(s).

*Example: Garner has a \$30,000 loan against her house, which is worth \$200,000. She desires cash to pay for a college education. By refinancing the home with a new \$150,000 loan, she will realize \$115,000 in cash after paying \$5,000 in transaction costs.*

See following table.

### Refinancing statement

New loan	\$150,000
Old debt	\$ -30,000
Cost of loan	
Refinancing	\$115,000

*Example: Arthur owes \$100,000 at 12% interest on a loan with 15 years left, borrowed 10 years ago at 12% interest. Current interest rates for 15-years loans are 9%. Arthur can refinance and reduce his payment from \$1,200 per month to \$1,014 per month.*

## REIT

See Real Estate Investment Trust.

## RELATED PARTY

An entity controlled by or under common control of another.

## RENT

Payment made by a tenant to a landlord in consideration of the right to use and occupy a specified unit of real property. Because the collection of rent due under a lease is treated differently in law than sums due under a promissory note, most leases carefully define all payments to be made by the tenant to the landlord as "rent" or "additional rent". Such additional rent payments may include pass-throughs, escalations, reimbursable expenses, late charges and interest on past due amounts.

## RENT CONTROL

Laws that govern the rate that may be charged for space.

# R

## RENT ROLL

A landlord's record of the rental information of tenants including monthly payment of rents, recoveries, rental arrears, vacancies, etc.

## RENT-UP PERIOD

The period of time from the completion of construction of a revenue producing property until a normal occupancy rate is achieved. The end of the *rent-up period* is the point at which the property's financial results are considered in determining net income.

## RENTABLE SPACE

The area of a property or suite, measured in square feet, upon which rent can be collected.

## RENTAL RATE

The periodic charge per unit for the use of a property. The period may be a month, quarter, or year. The unit may be a dwelling unit, square foot, or other unit of measurement.

## REPLACEMENT COST

The cost to construct a building or improvement of equal economic utility, including both the cost of construction and related costs such as architectural fees, permits and interest during construction. Contrast with Reproduction Cost.

## RESIDUAL VALUE

The estimated net realizable value of a property held for investment at the end of its useful life to an enterprise.

## RESTORE

To return a building to its original quality and appearance. While modern materials are used, the emphasis is on faithful reproduction of the original style.

## RETAIL

That class of property is designed to be occupied primarily by mercantile tenants engaged in retail trade to the public. Because a portion of retail rent is usually based upon gross sales, and because retail sales track both general economic trends and inflation, the return of investment in retail properties is thought to provide a mechanism for participation in growth and protection from inflation.

## RETIRE (A DEBT)

To pay off the principal on a loan, thereby fulfilling the obligation under the loan contract. See Amortization.

## RETURN ON INVESTMENT

The profit or return paid on invested capital, usually expressed as a percentage and calculated by dividing earnings before interest, taxes and dividends by total invested capital.

## REVERSION

The right of a lessor to repossess leased property upon the termination of a lease.

## REVERSIONARY FACTOR

The mathematical factor that indicates the present worth of one dollar to be received in the future. Same as present value of one. The formula is:

$$\text{Reversionary factor} = \frac{1}{(1 + i)^n}$$

where  $i$  = interest rate

$n$  = number of years (or periods)



# S

## RIGHT OF FIRST OFFER

A form of option agreement by a landlord to offer a property for sale or for lease to a specific purchaser or tenant prior to offering that property on the open market. The purchaser or tenant is motivated to make its highest offer in the hope of the landlord's acceptance rather than risk the property being exposed to competing offers. From the landlord's perspective, the right of first offer is preferable to the right of refusal because if the purchaser or tenant does not make an acceptable offer, the landlord is then free to offer the property on the market without limitation or restriction.

## RIGHT OF FIRST REFUSAL

A form of option agreement by a landlord to allow a tenant or purchaser the opportunity to match or exceed an offer to lease or purchase a property received on the open market. The right of first refusal seriously encumbers a property because it must be disclosed in offering a property on the market and potential tenants and purchasers are reluctant to go to the effort to negotiate a transaction with the landlord only to have to wait while the holder of the right of first refusal is given the opportunity to match the negotiated transaction terms and to snatch the deal away.

## RIGHT OF REDEMPTION

The common law right which allows the owner of a foreclosed property to redeem the property from the foreclosing lender upon satisfaction of the debt.

## SALE AND LEASEBACK

A financing arrangement whereby a party *sells* its premises to a third party landlord and concurrently *leases* the property back. Generally accepted accounting principles require that any gain recorded by the vendor must be taken into income over the term of the new lease in order to recognize the financing aspect of the transaction.

## SATISFACTORY LEVEL OF OCCUPANCY

A *satisfactory level of occupancy* is that level of occupancy which an entity believes to be sufficient to conclude that the property is considered fully operational and is determined by achieving either lease up of a deemed percentage of floor space, a deemed percentage of rental revenue or a break-even cash flow after debt service, referred to as *net cash flow*.

## SECURITIZATION

A term used to describe the process of raising funds through the sale of securities. It usually creates a new financial instrument representing an undivided interest in a segregated pool of assets such as commercial mortgage loans. The ownership of the assets is usually transferred to a legal trust or special purpose, bankruptcy remote corporation to protect the interests of the security holders.



### SECURITY

Property that serves as collateral for a debt.

*Example: Real estate serves as security for a mortgage loan. In the event of default on the loan, the lender may sell the property to satisfy the debt.*

### SECURITY DEPOSIT

A cash payment required by a landlord, to be held during the term of a lease to offset damages incurred due to actions of the tenant. Such damages may include physical damage to the property, theft of property, failure to pay back rent and breaking the lease. Forfeiture of the deposit does not absolve the tenant of further financial liability. Laws in most states require landlords to hold the deposit in a separate account and refund the amount within a specified time after termination of the lease.

*Example: A landlord requires a security deposit equal to one month's rent, payable at the signing of the lease. An additional deposit is required for tenants with pets. At termination of the lease, the landlord inspects the rented unit. If there is no reason for forfeiture, the landlord refunds the deposit within 30 days.*

### SERVICE POTENTIAL

Describes the service capacity of a real estate asset and is normally determined by reference to attributes such as leasable square footage, associated operating costs, useful life and quality of the property which affects the rental rate achievable from the property.

### SERVICING

The act of billing, collecting payment, and filing reports for a mortgage loan; may also include loan analysis, default follow up, and management of tax and insurance escrow accounts. Often performed for a fee by mortgage bankers after loans are sold to investors.

*Example: Gray, a mortgage banker, originates loans and markets them in groups to large investors. On each loan originated, Gray receives a monthly fee for servicing, thereby freeing the investors of loan management burdens. The fee is 3/8 of 1% of the loan balance.*

### SHARED EQUITY MORTGAGE

A home loan in which the lender is granted a share of the equity, thereby allowing the lender to participate in the proceeds from resale. After satisfying the unpaid balance of the loan, the borrower splits the residue of the proceeds with the lender. Shared equity plans often require the lender to buy a portion of the equity by providing a portion of the down payment.

*Example: Ingram obtains a shared equity mortgage from a mortgage banker. The lender provides one half of the necessary down payment. Ingram makes loan payments on a fixed rate, level payment basis. At resale, Ingram and the lender split the proceeds after repayment of the balance of the loan.*

### SHOPPING CENTRE

An integrated complex of retail shops designed to accommodate certain shopping and service needs of a specific market area. *Shopping centres* are generally classed:

- **Regional Centres:** These are the largest shopping centres, providing a complete range of shopping including most retail uses found in a central business district. Regional centres are typified by an enclosed mall area and several anchor tenants, usually department stores.
- **Community Centres:** Mid-sized shopping centres featuring convenience goods, including the retail uses commonly found in neighbourhood shopping centres; but also larger retail stores such as "super store" retail food stores of approximately 35,000 square feet or more, sporting goods, home improvements, fabric stores, etc.
- **Neighbourhood Centres:** The smallest shopping centre type, serving a limited trade area of about 2 miles radius, and containing retailers who provides goods and services used daily such as dry cleaners, hair salons, branch banks, card shops, and usually anchored by a conventional supermarket or discount drug store.
- **Discount Centre:** A shopping centre that specializes in discount and off-price retail uses.
- **Power Centre:** A shopping centre anchored by "big box" credit tenants oriented toward volume sales and with only a limited number of smaller shop spaces.
- **Category Killers:** Usually large free-standing stores operated by national retailers specializing in a particular merchandise class and designed to dominate that merchandise class in the trade area. The classic example of a category killer is Toys R Us.

# S

## **SIDEWINDER**

An industrial warehouse building oriented on its site so that the loading docks are on the side. The increased manoeuvring difficulty for truckers makes this property configuration less desirable than a front-loading building.

## **SINGLE TENANT BUILDING**

A building with one tenant occupying all of the available space. Some single-tenant buildings are designed for later conversion to multi-tenant use; others may require extensive modification, if such conversion is possible at all.

## **SINKING FUND DEPRECIATION**

A method of *depreciating* an asset whereby the annual charge increases by a specified percentage each year. The annual charge is composed of two elements: a fixed amount and an interest amount calculated on the accumulated depreciation balance. This is a popular method of *depreciating* real estate assets in Canada but is not recognized in the USA.

## **SOFT COSTS**

Costs associated with the construction or development of real property such as interest, realty taxes, permits, fees, etc., which can be written off for income tax purposes under limited circumstances.

## **SPECIFIC PERFORMANCE**

A legal action in which the court requires a party to a contract to perform the terms of the contract when he has refused to fulfill his obligations. Used in real estate, since each parcel of land is unique.

*Example: Baker agrees in writing to sell his house to Abel. Baker changes his mind when his adult daughter decides to buy the house. Baker offers to refund Abel's earnest money and pay living expenses for one month, but Abel insists on buying the house as agreed and sues for specific performance.*

## **SPECULATOR**

One who invests with the anticipation that an event or series of events will occur to increase the value of the investment.

*Example: The value of single-family houses has been appreciating rapidly for several months. Munson, a speculator, purchases several houses in anticipation that this rapid rate of appreciation will continue.*

## **STABILIZED CAPITALIZATION RATE**

The market capitalization rate which would be applied to a property with stabilized income and occupancy, and, by extensive, the projected capitalization rate to be applied to a project in a future stabilized year to determine its projected market value.

## **STANDBY COMMITMENT (FEE)**

An arrangement with a lender whereby the availability of short-term financing is guaranteed to the borrower for a specified period of time. This *commitment* is utilized by the borrower in the event that more preferred financing terms cannot be obtained from other lenders.

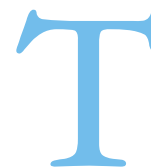
## **STRAIGHT LINE DEPRECIATION**

A method of depreciating an asset marked by a uniform spread of the depreciation expense. The depreciation amount is applied in equal amounts over a given term.

## **SUBJECT TO MORTGAGE**

Circumstance in which a buyer takes title to mortgaged real property but is not personally liable for the payment of the amount due. The buyer must make payments in order to keep the property; however, with default, only the buyer's equity in that property is lost.

*Example: Queen purchases a house from Parson subject to the existing mortgage. Parson's mortgage has an outstanding balance of \$40,000 and the sales price is \$60,000. Queen pays Parsons \$20,000 in cash and takes over the payments on the mortgage. Should Queen default, Parsons is liable under the promissory note given to the lender.*



### SUBORDINATION

An arrangement whereby one party agrees to put their claim against an entity after the claim of another creditor. Such an agreement is often made by a shareholder and is also referred to as a “postponement of claim”.

### SUM-OF-YEARS-DIGITS DEPRECIATION

In tax and accounting, a method of allocating the cost of an asset over its useful life. It requires a fraction to be computed each year, which is applied against the depreciable amount. The numerator is the number of years left to be depreciated. The denominator is the sum of the years digits of the depreciable life.

The formula for the denominator is:

$$\frac{N(N+1)}{2}$$

where N = the depreciable life

*Example: An automobile used in business cost \$10,000 and has a 4-year depreciable life. Sum-of-the-years-digits depreciation results in the deductions shown below.*

#### SUM-OF-YEARS-DIGITS DEPRECIATION

Year	Fraction	Asset	Depreciation Deduction
1	4/10	\$10,000	\$4,000
2	3/10	\$10,000	\$3,000
3	2/10	\$10,000	\$2,000
4	1/10	\$10,000	\$1,000

### TAKEOUT FINANCING

A commitment to provide permanent financing following construction of a planned project. The takeout commitment is generally predicated upon specific conditions, such as a certain percentage of unit sales or leases, for the permanent loan to “takeout” the construction loan. Most construction lenders require takeout financing.

*Example: Young, a developer, applied for a construction loan on a small office building. The construction lender requires Young to obtain takeout financing in the form of a commitment from a permanent lender. The takeout loan will be granted following construction and leasing of at least 65% of net rentable area to creditworthy tenants.*

### TAX SHELTER

An investment that produces after-tax income that is greater than before-tax income. The investment may produce **before-tax cash flow** while generating losses to shield, from taxation income from sources outside the investment.

*Example: Dunn purchases an income-producing property which provides tax shelter. In the first year, the property produces a net operating income of \$100,000. Debt service is \$80,000, of which \$75,000 is interest. Dunn’s before-tax cash flow is \$20,000. First-year C.C.A. is \$50,000.*

Tax Shelter	
\$100,000	Net operating income
75,000	Interest deduction
<u>25,000</u>	C.C.A. (restricted)
0	Taxable Income

*Dunn is able to tax shelter the \$20,000 cash flow but is restricted to claiming only \$25,000 as C.C.A. The US Tax Reform Act of 1986 also places limits and restrictions on the deductibility of passive losses. See Passive Income.*

# T

## TAX SHIELD

A measure of the tax dollars saved due to claiming capital cost allowance for tax purposes. This *shield* is considered in calculating discounted cash flow. The formula to calculate the *tax shield* on an asset that utilizes a declining balance C.C.A. rate and brings the benefits ad infinitum to the present value is:

$$\left[ \frac{\text{Capital Cost} \times \text{CCA Rate}}{\text{Rate of Return} + \text{CCA Rate}} \right] \left[ \frac{\text{Rate of Return}}{2(1 + \text{Rate of Return})} \right]$$

## TENANCY IN COMMON

An ownership of realty by 2 or more persons, each of whom has an undivided interest, without the right of survivorship. Upon the death of one of the owners, the ownership share of the decedent is inherited by the party or parties designated in the decedent's will. See Syndication.

*Example: A syndicate is formed using a tenancy in common. Under this arrangement, all of the investors have to sign the deed for the entire property to be conveyed. Each tenant may convey his or her share independently.*

## TENANT

One who is given possession of real estate for a fixed period or at will. See lessee, tenancy at will.

*Example: Edward signs a lease to rent office space. Edward is a tenant of the office building.*

## TENANT FIXTURES

Fixtures added to leased real estate by a lessee that, by contract or by law, may be removed by the lessee upon expiration of the lease.

*Example: Joseph leased a building to use for a dry-cleaning business. Much of Joseph's equipment had to be attached firmly to the building. However, since the fixtures were used in this business, they were tenant fixtures, and he could remove them when the lease expired.*

## TERM LOAN

One with a set maturity date, typically without amortization.

*Example: Terry purchased a tract of land for \$15,000, and borrowed \$10,000 from a lender with a 5-year term loan. The interest rate is 10% annually; the entire principal is due at the end of the 5-year term.*

## THIN CAPITALIZATION

An income tax term describing the situation where at any time in the year interest bearing debt to related non-residents exceeds three times shareholder's equity. The interest expense relating to the excess debt is not allowed as an expense for tax purposes.

## TIME-SHARING

A form of property ownership under which a property is held by a number of people, each with the right of possession for a specified time interval. *Time-sharing* is most commonly applied to resort and vacation properties.

*Example: Ingram is an owner in a time-sharing arrangement for a lake front cottage. Ingram is entitled to use the cottage each year from July 1 to July 15. Use of the property during the remainder of the year is divided among other owners. All property expenses are paid by an owner's association to which Ingram pays an annual fee.*

## TITLE

Evidence that the owner of land is in lawful possession thereof; evidence of ownership.

*Example: Title to land does not merely imply that a person has the right of possession, because one may have the right to possession and have no title. Title does ordinarily signify rights to possession in addition to evidence of ownership. Example: Abel sold land to Baker. Title to the property was transferred at closing by the deed Baker received.*

## TITLE REPORT

A report prepared by a title examiner stating the current condition of title to a property and listing and recorded encumbrances such as mortgages or liens.

## TITLE SEARCH

An examination of the public records to determine what defects, if any, may exist in the title to specific real property.

# U

## TRANSFER TAX

One paid upon the passing of title to property to a valuable interest.

*Example: In a state that imposes a high transfer tax on the sale of real estate, the seller formed a corporation as the owner of a valuable building and sold stock that was subject to a lower transfer tax. The state is claiming that it was a sale of real estate.*

## TRIPLE NET LEASE

A lease which requires the tenant to pay all taxes, insurance, operating expenses, repairs and replacements. In reality, few leases provide for totally triple-net rent, although many industrial and retail leases come close. The term "triple" refers to 1) operating expenses, 2) insurance premiums, and 3) property taxes. It is not uncommon to hear the term "net lease" used interchangeably with double net leases where the tenant pays operating expenses and insurance, and single net leases where the tenant pays only operating expenses, these are less common and the terms are less frequently heard in everyday real estate parlance.

## UNDEVELOPED LAND

Land with no added improvements, undivided, and without zoning regulations which would permit higher use. Also known as Raw Land.

## UNDIVIDED INTEREST

The term used to describe concurrent ownership of an estate in land by two or more parties. Each owner has the right to the property and to its income as determined by his percentage ownership in the property. In the absence of special arrangements concurrent owners are deemed to be tenants-in-common. See Tenancy in Common, Joint Tenancy.

## UNIMPROVED LAND

Land which may have been taken through the subdivision and regulatory process but without, physical improvements such as street, drainage and utilities.

## UNREALIZED GAIN

The excess of current market value over cost for an asset that is unsold.

*Example: Collins bought land for \$10,000; she had an offer to sell it for \$15,000, but decided to keep the land. Her unrealized gain is \$5,000.*

## UPREIT

Refers to *Umbrella Partnership Real Estate Investment Trust*, a US term to define a vehicle an owner may use to convert his equity ownership in real estate to partnership shares and ultimately to REIT shares while deferring the payment of taxes.



# U

## **USEFUL LIFE**

The period of time over which a building is expected to be used by an enterprise. *Useful life* provides the basis for depreciation. The life of a building may extend beyond its useful life.

## **USURY**

Charging a rate of interest greater than that permitted by state law. In most states, usury limits vary according to the type of lender and type of loan. Federal laws have been passed to preempt certain usury limits under certain conditions.

*Example: The interest rate that must comply with usury limitation is defined differently in the various states. The stated maximum rate may apply to the face interest rate, effective rate to the borrower, or the actual yield to the lender. If a loan is found to be usurious, severe penalties may be imposed, including loss of the principal, interest, a multiple of the interest, and/or damages.*

# V

## **VACANCY**

The absence or lack of tenants. Usually expressed as a percentage, square footage, or where negative cash flow occurs, days to foreclosure.

## **VACANCY ALLOWANCE**

An allowance, usually a percentage of gross income, which is deducted from gross income. The vacancy allowance is used to adjust appraisal analyses of properties for an assumed background level of vacancy which normally occurs.

## **VACANCY RATE**

The percentage of all units or space that is unoccupied or not rented. On a pro-forma income statement, a projected vacancy rate is used to estimate the vacancy allowance, which is deducted from potential gross income to derive effective gross income.

*Example: The vacancy rate for apartment units in Boom City is currently 4.5%. For the Hightower Building, the vacancy rate is 9.5% (of 100,000 square feet of net leasable area, 9,500 square feet are not rented). If this 9.5% vacancy rate is expected to be the average through next year, a vacancy allowance of \$95,000 (at \$10 per square foot) should be deducted from potential rent when projecting income.*

## **VARIABLE-RATE MORTGAGE (VRM)**

A long-term mortgage loan applied to residences, under which the interest rate may be adjusted on a six-month basis over the term of the loan. Rate increases are restricted to no more than a half point per year and two and one half points over the term.

*Example: Abel obtains a variable-rate mortgage originated at a 12% interest rate. In six months, the index upon which the rate is based increases by one percentage point. Abel's rate is adjusted to twelve-and-a-half percent and cannot be further increased during the year because of the one half percent annual cap.*

# W

## WORKING CAPITAL

*Working capital* is the difference between current assets and current liabilities. This amount represents the funds available for use in the short run, typically the next fiscal year. Due to the long-term nature of real estate investments and financing, short-term funds are not seen to be relevant. Consequently in financial reporting for real estate entities no distinction is made on the balance sheet between current and non-current assets and liabilities. Similarly the statement of changes in financial position is generally prepared on a cash basis.

## WORKOUT

A mutual effort by a property owner and lender to avoid foreclosure or bankruptcy following a default; generally involves substantial reduction in the debt service burden during an economic depression.

*Example: Because of an economic slowdown, the hotel suffered high vacancy rates and failed to generate enough income to meet mortgage payments. The owner approached the lender about a workout. It was agreed to reduce the outstanding loan principal and extend the maturity date to reduce the debt service. In turn the lender would participate in the income when the economy recovered and hotel income exceeded a specified amount. See Participation Mortgage.*

## WRAPAROUND MORTGAGE

A loan arrangement in which an existing loan is retained and an additional loan, larger than the existing loan, is made. The new lender accepts the obligation to make payments on the old loan. The existing loan generally carries an interest rate below the rate available on new loans. Consequently, the yield to the wraparound lender is higher than the rate charged on the new loan. Sellers are the most common wraparound lenders.

# Y Z

## YIELD TO MATURITY (YTM)

The internal rate of return on an investment. Considers all inflows and outflows of investment returns and their timing.

*Example: An income-producing property requires a \$10,000 investment. It promises a \$1,000 annual return for 5 years, then resale proceeds of \$15,000. The yield to maturity is 17.1%. See Internal Rate of Return for formulas.*

## ZONING

Designation by local authorities as to the nature of activities permitted in an area (i.e., single dwelling residential, multiple dwelling residential, light manufacturing, commercial, retail, etc.). A principal determinant of property value.



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