

- **Ad Valorem** (according to value) which refers to the value of property used in the computation of taxes.
- **Annual Percentage Rate (APR):** The cost of a loan or other financing as an annual rate. The APR includes the interest rate, points, broker fees and certain other credit charges a borrower is required to pay.
- **Appraisal:** A professional analysis used to estimate the value of the property. This includes examples of sales of similar properties.
- **Appraiser:** A professional who conducts an analysis of the property, including examples of sales of similar properties in order to develop an estimate of the value of the property. The analysis is called an “appraisal”.
- **Appreciation:** An increase in the market value of a home due to changing market conditions and / or home improvements.
- **Arbitration:** A process where disputes are settled by referring them to a fair and neutral third party (arbitrator). The disputing parties agree in advance to agree with the decision of the arbitrator. There is a hearing where both parties have an opportunity to be heard, after which the arbitrator makes a decision.
- **As-is:** The existing condition of real estate, prior to any improvements contemplated under a lease.
- **Assessed Value:** Typically the value placed on property for the purpose of taxation.
- **Asset:** Anything of monetary value that is owned by a person or company. Assets include real property, personal property, stocks, mutual funds, ect.
- **Assignment:** The transfer of leasehold interest in a property to a second party.
- **Attorn:** To transfer to another or to agree to recognize a new owner of a property and to pay them rent.
- **Balance sheet:** A financial statement that shows assets, liabilities, and net worth as of a specific date.
- **Base Rent:** The minimum monthly rent, usually computed on a per-square-foot-per-year basis, due under the lease (see percentage rent).
- **Base Year:** A specific year of a lease against which certain rent escalations and additional expense reimbursements to landlord may be calculated.
- **Before-tax income:** Income before taxes are deducted. Also known as “gross income”.
- **Bona fide:** In good faith, without fraud.
- **Broker:** An individual or firm that acts as an agent between providers and users of products or services, such as a mortgage broker or real estates broker. See also “Mortgage Broker”.
- **Building Code:** Local regulations that set forth the standards and requirements for the construction, maintenance and occupancy of buildings. The codes are designed to provide for the safety, health and welfare of the public.
- **Building Standard:** A list of materials and finishes used in the build-out, repair or restoration of a tenant’s suite.
- **Build out:** Refers to the interior construction of a tenant’s space whether new construction or the reconfiguration of existing space.

- **Build-to-suit:** A customized design and build approach to a tenant's space usually resulting in a single occupant building which is then leased or sold to the tenant.
- **Buydown:** An arrangement whereby the property developer or another third party provides an interest subsidy to reduce the borrower's monthly payments typically in the early years of the loan.
- **CAM Cap:** The maximum amounts for which the tenant pays its share of common area maintenance costs. The owner pays for any CAM expenses exceeding that amount.
- **Cap:** For an adjustable-rate mortgage (ARM), a limitation on the amount the interest rate or mortgage payments may increase or decrease. See also "Lifetime payment cap," "Lifetime rate cap," "Periodic payment cap," and "periodic rate cap."
- **Capital expenditures:** Property improvements that cannot be expensed as a current operating expense for tax purposes. Examples include a new roof, tenant improvements, or a parking lot-such items are added to the basis of the property and then can be depreciated over the holding period. Distinguished from cash outflows for expense items such as new paint or plumbing repairs (operating expenses) that can be expensed in the year they occur. Also see operating expenses.
- **Capital Gain:** Taxable income derived from the sale of a capital asset. It is equal to the sales price less the cost of sale, adjusted basis, suspended losses, excess cost recovery, and recapture of straight-line cost recovery.
- **Capitalization rate:** A percentage that relates the value of an income-producing property to its future income, expressed as net operating income divided by purchase price. Also referred to a cap rate.
- **Cash Flow:** The net cash received in any period, taking into account net operating income, debt service, capital expenses, loan proceeds, sale revenues, and any other sources and uses of cash.
- **Cash Flow after tax/es (CFAT):** For properties, it is the result of first calculating the net operating income, less mortgage and construction loan interest, less cost recovery for improvements and personal property, less amortization of loan points and leasing commissions to arrive at real estate taxable income. Next, real estate taxable income is multiplied by the applicable marginal tax rate to result in the tax liability (savings). Then, from the net operating income, annual debt services is subtracted to equal the cash flow before taxes (CFBT). Finally the cash flow after taxes (CFAT) is calculated from the CFBT, less the tax liability (Savings), plus investment tax credit. The cash flow analysis worksheet can be used to calculate a property's gross operating income, net operating income, real estate taxable income and tax liability or savings, CFBT, and CFAT.
  - Net operating income
  - Interest
  - Cost recovery
  - Amortization of loan points
  - Real estate taxable income
  - Investor's marginal tax rate

- Tax liability (Savings)
    - Then
      - Net operating income
        - Annual debt services
          - Cash flow before taxes
          - -Tax liability (savings)
          - Cash flow after taxes.
- **Cash flow before tax/es (CFBT):** For properties, it is the result of calculating the effective rental income not affected by vacancy, less total operating expenses, less annual debt service, funded reserves, leasing commissions, and capital additions. The Annual Property Operating Data form can be used to calculate a property's effective rental income, gross operating income, total operating expenses, net operating income, and cash flow before taxes.
- **Certificate of occupancy:** Presented by city building department to landlord or tenant after completion of tenant improvements and satisfactory inspections by city building department inspectors.
- **Change Orders:** A change in the original construction plans ordered by the property owner or general contractor.
- **Closing:** The process of completing a financial transaction. For mortgage loans, the process of signing mortgage documents, disbursing funds, and, if applicable, transferring ownership of the property. In some jurisdictions, closing is referred to as "escrow", a process by which a buyer and seller deliver legal documents to a third party who completes the transaction in accordance with their instructions. See also "settlement".
- **Closing Agent:** The person or entity that coordinates the various closing activities, including the preparation and recordation of closing documents and the disbursement of funds. (May be referred to as an escrow agent or settlement agent in some jurisdictions.) Typically, the closing is conducted by title companies, escrow companies or attorneys.
- **Closing Date:** The date on which the sale of a property is to be finalized and a loan transaction completed. Often, a real estate sales professional coordinates the setting of this date with the buyer, the seller, the closing agent, and the lender.
- **Commercial Property:** Other than residential. Owned or leased property such as office, research, retail and industrial properties.
- **Closing Statement:** Settlement Statement.
- **Commission:** The fee paid to a real estate broker as procuring cause and/ or for his or her services rendered in a real estate transaction. May be paid by either party in a transaction; its is usually governed by a prior written agreement.
- **Common Areas:** Those portions of a building, land, or improvements and amenities owned by a planned unit development (PUD) or condominium project's homeowners association (or a cooperative project's cooperative corporation) that are used by all of the unit owners, who share in the common expenses of their operation and maintenance. Common areas include swimming pools, tennis courts, and other recreational facilities, as well as common corridors of buildings, parking areas, means of ingress and egress, ect.

- **Common area maintenance (CAM):** An additional, annual charge often assessed to tenants for maintenance of the property's "common area", such as its entryways, hallways or bathrooms.
- **Community Center:** A community center is a retail property type that typically offers a wider range of apparel and other soft goods than the neighborhood center does. Among the more common anchors are supermarkets, super drugstores, and discount department stores. Community center tenants sometimes contain off-price retailers selling such items as apparel, home improvement/furnishings, toys, electronics, or sporting goods. The center is usually configured as a strip, in a straight line, "L", or "U" shaped. Of the eight center types, community centers encompass the widest range of formats. For example, certain centers that are anchored by a large discount department store refer to themselves as discount centers. Others with a high percentage of square footage allocated to off-price retailers can be termed off price centers.
- **Competition (retail):** A market condition or setting in which numerous firms compete for a share of the retail market in a given geographic area; a term which is also used to denote rivals or competitors.
- **Condominium:** A unit in a multiunit building. The owner of a condominium unit owns the unit itself and has the right, along with other owners, to use the common areas but does not own the common elements such as the exterior walls, floors and ceilings or the structural systems outside of the unit; these are owned by the condominium association. There are usually condominium association fees for building maintenance, property upkeep, taxes and insurance on the common areas and reserves for improvements.
- **Confidence range method (95%):** A statistical method of estimating a range of vacancy rates with 95% confidence such that the expected vacancy rate for the next time period falls within that range (using the sample mean vacancy rate and corresponding standard deviation as input.)
- **Construction Loan:** A loan for financing the cost of construction or improvements to a property; the lender disburses payments to the builder at periodic intervals during construction.
- **Construction Management:** Construction supervision by a qualified manager.
- **Contingency:** A condition that must be met before a contract is legally binding. For example, home purchasers often include a home inspection contingency; the sales contract is not binding unless and until the purchaser has the home inspected.
- **CPI:** (Consumer Price Index) A measure of inflation as determined by the US federal government by using a "basket of goods". Used in leases as an impartial benchmark for the calculation of escalations.
- **Contract Documents:** The complete set of drawings, specifications, bidding instructions, construction agreement, ect. Used in the construction industry. The AIA ( American Institute of Architects) standard forms are routinely used, but are not mandatory.
- **Cooperative (co-op) Project:** A project in which a corporation holds title to a residential property and sells shares to individual buyers, who then receive a proprietary lease as their title.

- **DBA:** The abbreviation for “doing business as”.
- **Deal:** The state of agreement both parties are looking for.
- **Debt-to-Income Ratio:** The percentage of gross monthly income that goes toward paying for your monthly housing expense, alimony, child support, car payments and other installment debts, and payments on revolving or open-ended accounts, such as credit cards.
- **Demising Wall:** The wall which separates a tenant’s suite from another tenant’s suite, or building common areas. In most cases, a demising wall will be constructed from floor to wither the building roof deck or floor deck. The wall may also be a fire rated wall (see “partition wall”)
- **Demographics:** Characteristics of human populations as defined by population size and density of regions, population growth rates, migration, vital statistics, and their effect on socio-economic conditions.
- **Default:** Failure to fulfill a legal obligation. A default includes failure to pay on a financial obligation, but also may be a failure to perform some action or service that is non-monetary. For example, when leasing a car, the lessee is usually required to properly maintain the car.
- **Delinquency:** Failure to make a payment when it is due. The condition of a loan when a scheduled payment has not been received by the due date, but generally used to refer to a loan for which payment is 30 or more days past due.
- **Depreciation:** The loss of utility and value of a property.
- **Due Diligence:** The process of examining a property, related documents, and procedures conducted by or for the potential lender or purchaser to reduce risk. Applying a consistent standard of inspection and investigation one can determine if the actual conditions do or do not reflect the information as represented.
- **Earnest Money Deposit:** The deposit to show that you’re committed to buying the home. The deposit usually will not be refunded to you after the seller accepts your offer, unless one of the sales contract contingencies is not fulfilled.
- **Easement:** A right to the use of, or access to, land owned by another.
- **Eminent Domain:** The right of a government entity to take (condemn) property with just compensation for the public good.
- **Encroachment:** The intrusion onto another’s property without right or permission.
- **Encumbrance:** Any claim on a property, such as a lien, mortgage or easement.
- **Escalation:** The mechanism in a lease which increases the rent, usually annually. May be set forth in fixed steps, tied to increases in operating expense, or to increases in the consumer price index (CPI).
- **Escrow:** An item of value, money, or documents deposited with a third party to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate.
- **Escrow Account:** An account that a mortgage servicer establishes on behalf of a borrower to pay taxes, insurance premiums, or other charges when they are due. Sometimes referred to as an “impound” or “reserve” account.

- **Estoppel Certificate:** A statement concerning the status of an agreement, (usually a lease) and the performance of obligations under the agreement. A third party such as a lender, relies on the statement (which is usually unilaterally executed by the tenant) for such things as making a loan on property.
- **Eviction:** The legal act of removing someone from real property.
- **Exclusive Agency Listing:** A listing agreement under which a real estate broker (known as the listing broker) acts as an exclusive agent to sell the property owner, but may be paid a reduced or no commission when the property is sold if, for example, the property owner rather than the listing broker finds the buyer. This kind of listing agreement can be used to provide the owner a limited range of real estate brokerage services rather than the traditional full range. As with other kinds of listing agreements, if a second real estate broker (known as a selling broker) finds the buyer for the property, then some commission will be paid to the selling broker.
- **Exclusive Right-to-Sell Listings:** The traditional kind of listing agreement under which the property owner appoints a real estate broker (known as the listing broker) as exclusive agent to sell the property on the owner's stated terms, and agrees to pay the listing broker a commission when the property is sold, regardless of whether the buyer is found by the broker, the owner or another broker. This is the kind of listing agreement that is commonly used by a listing broker to provide the traditional full range of real estate brokerage services. If a second real estate broker (known as a selling broker) finds the buyer for the property, then some commission will be paid to the selling broker.
- **Fair market value (FMV):** The price which the market would bring, over a reasonable period of time for a property for sale or for lease.
- **Fair Market Value:** The price at which property would be transferred between a willing buyer and willing seller, each of whom has a reasonable knowledge of all pertinent facts and is not under any compulsion to buy or sell.
- **Fashion/specialty center:** This type of retail center is composed mainly of upscale apparel shops, boutiques, and craft shops carrying selected fashion or unique merchandise of high quality and price. These centers need not be anchored, although sometimes restaurants or entertainment can provide the draw of anchors. The physical design of the center is very sophisticated, emphasizing a rich décor and high-quality landscaping. These centers usually are found in trade areas having high-income levels.
- **Flex space:** A building providing use of flexibility between office, and other uses such as manufacturing, laboratory, warehouse, ect. Usually provides high bays and relocation flexibility for overhead doors and other entrances.
- **Force Majeure:** (An uncontrollable force) an event outside the reasonable control of the parties to a contract such as an "Act of God", war, riots or strikes which would prevents the parties from complying with the provisions of an agreement.
- **Go-Dark:** The condition that results from a tenant's closing its business, even though the lease is still in effect. Lease language may provide a means for a landlord to void a lease and take back the leased premises if the tenant ceases to operate its business at that location.

- **Gross Lease:** Commonly specifies one rental amount inclusive of rent, taxes, utilities, maintenance, ect. Associated with the rental of a property.
- **Gross leasable area (GLA):** The total floor area designed for tenant occupancy and exclusive use, including basements, mezzanines, and upper floors, and it is measured from the center line of joint partitions and from outside wall faces. GLA is that area on which tenants pay rent; it is the area that produces income.
- **Gross operating income:** The total income generated by the operations of a property before payment of operating expenses. It is calculated from potential rental income, plus other income affected by vacancy, less vacancy and credit losses, plus other income not affected by vacancy. The Annual Property Operating Data form or the cash flow analysis worksheet can be used to calculate a property's gross operating income.
- **Gross Square feet:** Usually refers to gross area of a building by measuring from the outside of its exterior walls and including all vertical penetrations, such as elevator shafts. Also includes basement space.
- **Ground Lease:** A long-term lease of land, entered into by a tenant to construct a building (at its expense) from which to conduct its business.
- **Ground Rent:** Payment for the use of land when title to a property is held as a leasehold estate (that is, the borrower does not actually own the property, but has a long-term lease on it.)
- **HVAC:** Acronym for heating, ventilation and air conditioning.
- **Hold Over:** The Condition that results when a tenancy exists beyond the end of the term of the lease.
- **Homeowner's Association:** An organization of homeowners residing within a particular area whose principal purpose is to ensure the provision and maintenance of community facilities and services for the common benefit of the residents.
- **Household population:** The total number of households in a given geographic market or submarket as defined by specific demographic and socio-economic characteristics.
- **Income property:** Real estate developed or purchased to produce income, such as a rental unit.
- **Improvements:** See "leasehold improvements".
- **Income Capitalization approach:** A method to estimate the value of an income-producing property by converting net operating income into a value. The cap rate is divided into the net operating income to obtain the estimated value.  $\text{Value} = \text{net operating income} / \text{capitalization rate}$ .
- **Index Lease:** A lease in which the rental amount adjusts accordingly to changes and/or movements in a price index, commonly the consumer price index.
- **Industrial Property:** Commercial properties that are used for the purposes of production, manufacturing, or distribution.
- **Internal rate of return (IRR):** The percentage rate earned on each dollar that remains in an investment each year. The IRR of an investment is the discount rate at which the sum of the present value of future cash flows equals the initial capital investment.

- **Investing:** Limiting current consumption in favor of future consumption.
- **Landlord:** The lessor or owner of the leased property.
- **Landlord-paid tenant improvements (LPTI):** The total cost (outlay) of necessary tenant improvements paid by the landlord netted against any contribution made by the tenant.
- **Late Charge:** A penalty imposed by the lender when a borrower fails to make a scheduled payment on time.
- **Lease:** A contract that creates the relationship of landlord and tenant. A contractually binding agreement that grants a right to exclusive possession or use of property, usually in return for a periodic payment called rent. (Encyclopedia of Real Estate terms 2<sup>nd</sup> edition, Damien Abbott)
- **Lease buyout:** The process by which a landlord, tenant, or third party pays to extinguish the tenant's remaining lease obligation and rights under its existing lease agreement.
- **Lease commencement date:** The date upon which the lease commences and the obligations of the parties begins (see also "rent commencement date").
- **Lease-purchase option:** An option sometimes used by sellers to rent a property to a consumer, who has the option to buy the home within a specified period of time. Typically, part of each rental payment is put aside for the purpose of accumulating funds to pay the down payment and closing costs.
- **Leased fee:** In exchange for permitting a tenant to use the property, the owner/lessor has the right to receive rental income and the right to repossess the property upon termination of the lease.
- **Leasehold improvements:** Construction or improvements for the purpose of preparing the premises for the conduct of tenant's business. Improvements permanently attach to the premises unless they are trade fixtures, and they remain with the premises after the end of term of the lease.
- **Lessee:** The person renting or leasing the property. Also known as a tenant.
- **Lessor:** The person who rents or leases a property to another. Also known as a landlord.
- **Letter of attornment:** see "attorn".
- **Liability Insurance:** Insurance coverage that protects property owners against claims of negligence, personal injury or property damage to another party.
- **Lien waiver:** A waiver of mechanic's lien rights signed by a general contractor and his subcontractors.
- **Liquid Asset:** A cash asset or an asset that is easily converted into cash.
- **Load factor:** The amount of square footage in a lease, in addition to a tenant's usable square footage, which represents tenant's pro rata share of the building's common area/s. May also be referred to as a percentage of building's rentable square feet.
- **Market adjustments:** A change in market parameters or conditions brought about in response to one or more market signals (including price changes from shifts in supply and demand); typically characterized as cycles, Fluctuations, or trends (categories that differ in terms of cause, duration, and impact on commercial real estate markets).

- **Market analysis:** The process of examining market supply and demand conditions, demographic characteristics, and opportunities; identifying alternative locations/sites that meet specific objectives or satisfy various criteria; and assessing the financial feasibility of those locations/sites to facilitate decisions making regarding the commercial potential or suitability of various locations/sites to support a given activity or use.
- **Market data:** Information/data collected and displayed for a given market or by market area.
- **Market Value:** The current value of your property based on what a purchaser would pay. An appraisal is sometimes used to determine market value.
- **Mechanic's lien:** A claim provided for under state statutes securing the priority of payment for the value of work and materials furnished in the construction or repair of real property.
- **Month to month:** A lease for a specific period of time, usually one month, which automatically renews itself for the same period of time, unless landlord or tenant provide notice to terminate.
- **Multifamily Properties:** Typically, buildings with five or more dwelling units.
- **NNN:** See triple net blow.
- **Negative Amortization:** An increase in the balance of a loan caused by adding unpaid interest to the loan balance; this occurs when the payment does not cover the interest due.
- **Net Lease:** Structured such that a base rent for a rental property is paid to landlord. In addition, other charges such as utilities and building property taxes, insurance and maintenance are also payable by tenant. Sometimes referred to as triple net or absolute net lease.
- **Net operating income (NOI)** The potential rental income plus other income, less vacancy, credit losses, and operating expenses.
- **Non-Liquid Asset:** an asset that cannot easily be converted into cash.
- **Notice of Commencement:** Legal notice to the county's register of deeds that remodeling/improvements will be undertaken at an address.
- **Notice of furnishings:** Legal notice by a subcontractor of supplier that it furnished labor or materials, subsequent to the notice of commencement, thereby establishing the legal right to be paid for the services rendered.
- **Occupancy Cost:** The actual dollars paid out by the tenant to occupy the space. It can be expressed in either pre-tax or after-tax dollars.
- **Offer:** a formal bid from the home buyer to the home seller to purchase a home.
- **Operating expenses:** The costs associated with operating income producing property usually before interest and income tax expense, but including property taxes, insurance, repairs and maintenance, replacement reserves.
- **Option:** A term in a leases for the rights either tenant or landlord may have with respect to one another, usually with stipulations regarding timing of those rights.
- **Owner Financing:** A transaction in which the property seller provides all or part of the financing for the buyer's purchase of the property.
- **Partition Wall:** A wall constructed to create work areas such as offices or conference rooms. Depending on security needs, a partition wall may not be

constructed to the roof of floor decking but may terminate at lower point such as suspended ceiling.

- **Pass through expense:** An expense associated with tenancy in which landlord “passes through” to tenant certain increases in building operating expenses occurring after a base year in the lease.
- **Percentage Lease:** A lease in which the rent amount is based on a percentage of gross sales (Monthly or annually) made by the tenant.
- **Percentage rent:** Provides for a rent to be paid as a percentage of retail sales, usually quarterly or annually. Often coupled with a base rent.
- **Personal Property:** Any property that is not real property.
- **Planned unit development (PUD):** A zoning category in which each of the proposed buildings or uses are approved in advance as a part of a parcel’s overall use. Usually preserves large common or open areas on a site.
- **Population Growth:** The rate at which a given population base in a given geographic area is growing (positive or negative) in relation to the forces of internal growth, in-migration, and out-migration; a factor that is widely acknowledged as having the greatest impact on the demand for housing.
- **Potential rental income:** The total amount of rental income for a property if it were 100 percent occupied and rented at competitive market rates.
- **Power Center:** This retail center is dominated by several large anchors, including discount department stores, off-price stores, warehouse clubs, or category killers-stores that offer tremendous selection in a particular merchandise category at low prices. The center typically consists of several freestanding (unconnected) anchors and only a minimum amount of small specialty tenants.
- **Power of Attorney:** A legal document that authorizes another person to act on one’s behalf. A power of attorney can grant complete authority or can be limited to certain acts and / or certain periods of time.
- **Premises:** In commercial real estate, the description of the leasehold and the specific square footage for which the parties enter into a lease.
- **Property Appreciation:** See “Appreciation”.
- **Punch List:** A list of incomplete or unacceptable construction items which upon remedy and completion will usually complete the obligations of the contractor under a construction contract.
- **Purchase and Sale Agreement:** A document that details the price and conditions for a transaction. In connection with the sale of a residential property, the agreement typically would include: information about the property to be sold, sale price, down payment, earnest money deposit, financing, closing date, occupancy date, length of time the offer is valid, and any special contingencies.
- **Real estate broker:** A person licensed to act as an agent for another person or business to negotiate a lease or purchase of a leasehold or property, respectively, for a fee.
- **Real estate investment trust (REIT):** An investment vehicle in which investors purchase certificates of ownership in the trust, which in turn invests the money in real property and then distributes any profits to the investors. The trust is not subject to corporate income tax as long as it complies with the tax requirements

for a REIT. Shareholders must include their share of REIT's income in their personal tax returns. (Barron's Dictionary of Real Estate Terms and Encyclopedia of real estate terms 2<sup>nd</sup> edition, Damien Abbott)

- **Real Estate Professional:** An individual who provides services in buying and selling homes. The real estate professional is paid a percentage of the home sale price by the seller. Unless you've specifically contracted with a buyer's agent, the real estate professional represents the interest of the seller. Real estate professional represents the interest of the seller. Real estate professionals may be able to refer you to local lenders or mortgage brokers but are generally not involved in the lending process.
- **Real Property:** The land and anything permanently attached to the land such as buildings, parking lots, landscaping, or other items which would otherwise be classified personal property if not attached, excluding fixtures designed to be removable and reusable (see "Trade Fixtures").
- **Renewal option:** Lease language that provides the means for tenant to give landlord notice of its intent to renew (extend) the lease.
- **Rent commencement date:** The date upon which the rent and usually the term of the lease begins. May be different from the lease commencement date when certain obligations must be fulfilled such as the construction of tenant improvements.
- **Rent Concession:** A period of free rent given to the tenant by the lessor.
- **Rentable Area:** Denotes the number of square feet in a commercial building deemed to be rentable, according to BOMA. May include a common area load factor or allowance for building amenities such as hallways and lavatories.
- **Rentable-to-useable ratio:** Defined as rentable area divided by useable area. Also known as the add on factor or load factor. Also see efficiency percentage.
- **Replacement Cost:** The estimated cost to construct, at current prices, a building with utility equivalent to the building being appraised, using modern materials and current standards, design, and layout.
- **Retail Property:** Properties used exclusively to market and sell consumer goods and services.
- **Retail Trade area:** Also referred to as service area, is generally defined as the geographic or formal area from which a sustained patronage is attracted to support a retail center or establishment, the extent to which is determined by numerous factors including the site characteristics of the center or establishment, its accessibility, the presence or absence of physical barriers to movement, and general limitations imposed by driving time, congestion, and distance/ separation.
- **Right of First Refusal:** A provision in an agreement that requires the owner of a property to give another party the first opportunity to purchase or lease the property before he or she offers it for sale or lease to others.
- **Sale leaseback:** A financing arrangement usually designed to raise capital for the property owner or obtain favorable income tax results.
- **Security deposit:** Generally, a deposit of money by a tenant with a landlord to secure performance of a lease.

- **Setback:** Zoning requirements that requires a building or an improvement to be set back a certain number of feet from the property line.
- **Shell space:** The interior condition of either a new or existing building without improvements or finishes. Typically denotes floor, windows, walls and roof of an enclosed premises. May include some electrical or plumbing improvements, but not demising walls.
- **Site Analysis:** The identification and evaluation of a site or sites to satisfy a given use or objective.
- **Site Factors:** Site-specific factors, features, conditions, or attributes which are important in the analysis or evaluation of a location/site (including relative location, visibility, aesthetics, landscaping, condition of existing structures, regulatory mechanisms, and lot size).
- **Site Selection:** The process of determining the best site for a specific use.
- **Special Assessment:** Any special charge levied against real property for public improvements the benefit the assessed property.
- **Step up lease:** A lease in which the rental amount paid by the lessee increases by a preset rate or set dollar amount at predetermined intervals. A step lease is a means for the lessor to hedge against inflation and future maintenance or operational expenses.
- **Sublease:** A lease in which the original tenant (lessee) sublets all or part of the leasehold interest to another tenant (known as subtenant) while still retaining a leasehold interest in the property. Also known as a sandwich lease due to the sandwiching of the original lessee between the lessor and the subtenant.
- **Subordination agreement:** An agreement by which the tenant agrees to the priority of a mortgage over the lease hold interest, or other claim held by the tenant on the property.
- **Substantial Completion:** The point during construction at which the contractor is ready to turn the property over to the tenant or client for acceptance and final punch list. Usually occurs upon the issuance of certificate of occupancy.
- **Sunk costs:** Investment costs that are committed and cannot be recovered.
- **Superregional Center:** A retail property type similar to regional centers, but because of its larger size, a superregional center has more anchors, a deeper selection of merchandise, and draws from a larger population base. As with regional centers, the typical configuration is as an enclosed mall, frequently with multilevel.
- **Survey:** A precise measurement of a property by a licensed surveyor, showing legal boundaries of a property and the dimensions and location of improvements.
- **Target market:** Likely users or investors whose needs match the property's features. Alternatively, when representing users, the target market is the kind of property that matches your user client's needs.
- **Tax and Insurance:** Funds collected as part of the borrower's monthly payment and held in escrow for the payment of the borrower's, or funds paid by the borrower for, state and local property taxes and insurance premiums.
- **Tax Liability:** Real estate taxable income multiplied by the tax rate.

- **Tax Savings (annual expense):** Entry on the tenant's cash flow form. All annual expenses incurred by the tenant are tax deductible. The tax savings are calculated by multiplying the annual deduction by the tenant's tax rate.
- **Tax Savings (capital expenditure):** Entry on the tenant's cash flow form. It refers to any tax savings associated with any capital expenditure but the tenant in terms of the site or major, unusual business expenses incurred to make the new office efficient for the business. The amount of tax savings is calculated by multiplying the annual deduction amount by the tenant's tax rate.
- **Tax Shelter:** The ability of real estate investments to reduce an investor's tax liability through the use of cost recovery.
- **Taxable income:** Adjusted gross income less personal deductions and exemptions.
- **Tenant:** A person or entity who has possession of the property through a lease. A tenant also may be referred to as a lessee.
- **Tenant improvements:** Preparation of leased premises prior to or during a tenant's occupancy, which may be paid for by either the landlord, the tenant, or both.
- **Tenant paid tenant improvements (TPTI):** The total cost (outlay) of necessary tenant improvements paid by the tenant netted against any allowance provided by the landlord.
- **Tenant representation:** Arrangement whereby a prospective tenant engages a real estate broker as its exclusive agent in negotiating a lease for commercial space. Also known as a "buyer's broker".
- **Tenant's use clause:** Lease language which specifies the business activities tenant will engage in at the leased premises.
- **TI allowance from owner:** Entry on the tenant's cash flow form. A specified amount of money the owner will pay for tenant improvement.
- **Total effective rate:** The rate per square foot paid by the tenant over the entire period analyzed. Formula:  $\text{Total effective rate} = \frac{\text{Total effective, Rent, Square footage, rented}}{\text{Square footage, rented}}$
- **Total effective rent:** The rate per square foot paid by the tenant over the entire period analyzed.
- **Trade fixtures:** Certain fixtures installed at the premises which are unique to tenant's business, and which may generally be removed by tenant at the end of the term of the lease.
- **Triple net:** Generally refers to the requirements for the lessee to pay for its share of the property's taxes, insurance and operating expenses.
- **Usable Area:** Rentable area, less certain common areas that are shared by all tenants of the office building (such as corridors, storage facilities, and bathrooms). Also defined in office buildings as the area that is available for the exclusive use of the tenant. Useable area = rentable area x building efficiency percentage.
- **Usable square feet:** Denotes the number of square feet in a commercial building or suite deemed to be usable by BOMA.
- **White Box:** The interior condition of either a new or existing building or suite in which the improvements generally consist of heating/cooling with delivery

systems, lighting, electrical switches and outlets, lavatories, a finished ceiling, walls that are prepped for painting, and a concrete slab floor. Also called a “Vanilla box”.

- **Walk through:** A common clause in a sales contract that allows the buyer to examine the property being purchased at a specified time immediately before the closing, for example, within the 24 hours before closing.
- **Zoning:** The designation of specific areas by a local planning authority within a given jurisdiction for the purpose of legally defining land use categories.

\* A portion of the information for this definitions page is from the Federal Trade Commission glossary ([ftc.gov](http://ftc.gov)).