

Multifamily Industry Terminology

LOI

A Letter of Intent (LOI) is a document outlining one or more agreements between two or more parties before the agreements are finalized.

PSA

A Purchase and Sale Agreement (PSA) is used when a buyer (the offeror) intends to make an offer to the seller (the offeree). Since the Statute of Frauds requires all real estate offers to be in writing in most states, the PSA is used for this purpose.

TAR

Members of the Texas Association of REALTORS® (TAR) agree to abide by a code of ethics that goes beyond what the law requires. They protect the rights of property owners. They fight proposals that would increase the burdens on buying, selling, and owning real estate. And they bring property-owners' concerns to the Legislature, regulatory agencies, and local authorities.

TREC

Texas Real Estate Commission (TREC) was established by the Texas Legislature in 1949 to safeguard consumers in matters of real property transactions and valuation services. TREC and the Texas Appraiser Licensing and Certification Board (TALCB) oversee real estate brokerage, real property appraisals, inspections, home warranties, right-of-way services, and timeshare. The agency provides licensing, education, and complaint investigation services, as well as regulation and enforcement of state and federal laws and requirements that govern each of these areas of service to consumers in Texas.

GPR

Gross Potential Rent (GPR) is the total amount of income a real estate investor can expect to receive from a purchased property based on "market rent."

NOI

Net operating income (NOI) is the annual income generated by an income-producing property after taking Revenue from all income collected from operations, and deducting all reasonably necessary operating Expenses.

T12

T12, also called Trailing Twelve Months (TTM), is a measurement of a company's financial health used in finance. It is measured by using the income statements from a company's reports (such as interim, quarterly or annual reports), to calculate the income for the twelve-month period immediately prior to the date of the report.

T3

T3, the Trailing 3 Months, is a financial measure to assess a company's health. Instead, of analyzing T12 Reports, only 3 months are used / analyzed, then typically multiplied times 4 to generate an estimated 12-month result. Often, the T3 Income is compared to actual T12 Expenses.

NRSF

Net Rentable Square Feet (NRSF) is the usable square footage of a commercial property PLUS a portion of the building's shared space (which includes common areas of a building such as lobbies, restrooms, stairwells, storage rooms, and shared hallways.)

Multifamily Industry Terminology

RUBS

A Ratio Utility Billing System allocates the property's actual utility bill to the residents based on an occupant factor, square footage factor, or a combination of both. Sometimes called a Resident Utility Billing System.

R&M

Repair & Maintenance (R&M) comprises all actions which have the objective of retaining or restoring an item in or to a state in which it can perform its required function. The actions include the combination of all technical and corresponding administrative, managerial, and supervision actions.

CMBS

Commercial Mortgage-Backed Securities (CMBS) are a type of mortgage-backed security backed by commercial mortgages rather than residential real estate. CMBS tend to be more complex and volatile than residential mortgage-backed securities due to the unique nature of the underlying property assets

FNMA

The Federal National Mortgage Association (FNMA), affectionately called Fannie Mae. Fannie Mae is the leading provider of financing for multifamily properties.

DSCR

The Debt Service Coverage Ratio (DSCR) is defined as net operating income divided by total debt service. A DSCR greater than 1.0 means there is sufficient cash flow to cover debt service. typical DSCR requirements usually range from 1.20x-1.40x.

LTV

Loan-To-Value Ratio (LTV Ratio) is a financial term used by lenders to express the ratio of a loan to the value of an asset purchased. The higher the LTV ratio, the riskier the loan is for a lender. Most lenders seek a max LTV of 50 to 80%.

LTC

Loan-To-Cost Ratio (LTC) equals the loan amount divided by the cost of the asset. Cost can be measured in different ways but cost can be measured as the "basis" of the asset. Basis is a tax term which takes initial purchase price, adds capital spent on property, and deducts depreciation taken.

LURA

A Land Use Restriction Agreement (LURA) subjects the multifamily real estate to a land use restriction agreement (LURA), in which the owner gives up some of their rights of the land use in exchange for the promise of future tax credits. The purpose of a LURA is to provide affordable housing to low-income households by limiting the the maximum rent that can be charged for a unit and by requiring that some or all of the units be made available only to households with incomes below a percentage (e.g. 40%, 60%, 80%) of the Average Median Income

Multifamily Industry Terminology

HUD

Housing and Urban Development (HUD) is Cabinet-level Agency in the US Federal government. HUD's Federal Housing Administration (FHA) "Office of Multifamily Housing Programs" is responsible for the overall management, development, direction and administration of HUD's Multifamily Housing Programs.

Section 8

Section 8, also known as the Section 8 Housing Choice Voucher Program, exists to provide housing solutions for low income families. The program provides families with a certificate or voucher that allows them to lease an apartment or home they otherwise couldn't afford.

LIHTC

The Low-Income Housing Tax Credit (LIHTC - often pronounced "lie-tech", Housing Credit) is a dollar-for-dollar tax credit in the United States for affordable housing investments. It (the Tax Reform Act of 1986) gives incentives for private investors to develop affordable housing aimed at low-income families.

PCA

Property Condition Assessments (PCAs) are due diligence activities associated with commercial real estate to ascertain the condition of a property or real estate a client may be purchasing, leasing, financing or simply maintaining. PCA inspections generally follow industry accepted guidelines of ASTM E2018, the only recognized standard of major lenders.

PFS

A personal financial statement (PFS) is a disclosure of all an individual's assets, liabilities, annual income, and annual expenditures. The PFS must be signed and dated, and should be included for each individual with at least 10 percent ownership of the deal.

SREO

Schedule of Real Estate Owned (SREO)

CCIM

A CCIM (Certified Commercial Investment Member) is a recognized expert in the commercial and investment real estate industry. The designation process ensures that CCIMs are proficient not only in theory, but also in practice.

CPM

Certified Property Manager (CPM) is a real estate professional designation awarded by the Institute of Real Estate Management (IREM) and recognized by the National Association of Realtors (NAR).

IROP

The Independent Rental Owner Professional (IROP) designation program is offered to the rental owner who manages their personally-held multifamily property or properties.

CAM

Certified Apartment Manager (CAM) credential demonstrates the knowledge needed to increase your community's net operating income. The training serves to enhance skills, knowledge, and ability to manage an apartment community effectively and achieve its owners' investment goals

Multifamily Industry Terminology

CAMT

Certificate for Apartment Maintenance Technicians (CAMT)

CAPS

Certified Apartment Portfolio Supervisor (CAPS)

HARD MONEY

A hard money loan is a specific type of asset-based loan financing through which a borrower receives funds secured by real property. Hard money loans are typically issued by private investors or companies. Most hard money loans are used for projects lasting from a few months to a few years.

PASS-THROUGH MONEY

Pass-through Money refers to (in the legal definition) Sole proprietorships, partnerships, LLCs and S corporations are pass-through entities for federal income tax purposes. This means these entities are not subject to income tax. Rather, the owners are directly taxed individually on the income, taking into account their share of the profits and losses. This avoids double taxation.

FEASIBILITY PERIOD

A Feasibility period is an analysis period after a real estate contract is signed, and is sometimes also called a due diligence period, or a study period.

FINANCING CONTINGENCY

A Financing Contingency is a clause in a home purchase and sale agreement that expresses that your offer is contingent on being able to secure financing for the house. Typically a buyer uses this clause to establish a set period of time to apply for a mortgage and/or close on the loan.

ALL CASH

"All-cash" is a widely misunderstood and misused term as it relates to real estate transactions. When sellers are looking for an all-cash offer, they are looking for an offer that does not require financing from the seller, and that does not contain any contingency for financing from any other source. It means that if the buyer does not deliver all cash to the seller on or before the stipulated closing date, then the buyer agrees to forfeit their good-faith deposit to the seller.

DUE DILIGENCE

Due diligence means taking caution, performing calculations, reviewing documents, procuring insurance, walking the property, etc. — essentially doing your homework for the property BEFORE you actually make the purchase.

CLOSING PERIOD

The Closing Period is the time between formal acceptance of the offer and Closing (also referred to as completion or settlement), which is the final step in executing a real estate transaction. The closing date (and, consequently, the Closing Period) is set during the negotiation phase, and is usually several weeks after the offer is formally accepted. On the closing date, the ownership of the property is transferred to the buyer.

Multifamily Industry Terminology

RECEIPTED CONTRACT

In Texas when you make a real estate purchase the transaction is usually closed at a Title Company. Once you have a contract signed by both seller and buyer, the earnest money is receipted by the title company, and the option money receipted by the seller's real estate agent or the seller.

RECOURSE

Recourse is a type of loan that allows a lender to seek financial damages if the borrower fails to pay the liability, and if the value of the underlying asset is not enough to cover it. A recourse loan allows the lender to go after the debtor's assets that were not used as loan collateral in case of default.

NON-RECOURSE LOAN

A nonrecourse loan is a type of loan secured by collateral, which is usually property. If the borrower defaults, the issuer can seize the collateral but cannot seek out the borrower for any further compensation, even if the collateral does not cover the full value of the defaulted amount.

CONVENTIONAL LOAN

A Conventional Loan is a mortgage that is not guaranteed or insured by any government agency, including the Federal Housing Administration (FHA), the Farmers Home Administration (FmHA) and the Department of Veterans Affairs (VA). It is typically fixed in its terms and rate.

BRIDGE LOAN

A "Bridge Loan" is basically a short-term loan taken out by a borrower against their current property to finance the purchase of a new property. Also known as a swing loan, gap financing, or interim financing, a bridge loan is typically good for a six-month period, but can extend up to 12 months.

SPONSOR

A Sponsor, in the context of real estate partnerships, is an individual or company in charge of finding, acquiring, and managing the real estate property on behalf of the partnership. In the context of a Delaware Statutory Trust (DST), the sponsor is the entity that has created the DST and solicited investors. In the context of Lifestyles Unlimited, Inc., it is the Lead Investor.

GUARANTOR

A Guarantor is a person who guarantees to pay for someone else's debt if he or she should default on a loan obligation. A guarantor acts as a co-signer of sorts, in that they pledge their own assets or services if a situation arises in which the original debtor cannot perform their obligations.

KEY PRINCIPAL

The Sponsor/Lead Investor is a "Principal" in the real estate deal; however, the Key Principal is the individual to whom fiduciary duties of loyalty, care, obedience, diligence and accounting are owed. It is the resources of the Key Principal(s) that reduce the risk to a Lender when the Sponsor's financial assets and credit worthiness are not sufficient to mitigate that risk.

Multifamily Industry Terminology

UNDERWRITING

Underwriting is the process of insuring someone or something. Real Estate Underwriters are qualified persons who scrutinize loan requests to assess the kind and degree of risk involved and to determine how much risk the lender is willing to accept. The underwriting process determines the size of the loan and the size of the required down payment.

PHASE I ENVIRONMENTAL

An Environmental Site Assessment (ESA) is a report prepared for a real estate holding that identifies potential or existing environmental contamination liabilities. In general, the Phase I ESA will include a visual assessment of the site, a review of current and historical uses of the subject property, a site reconnaissance, interviews with knowledgeable parties and a review of selected public records concerning the subject property and adjacent properties. If a site is considered contaminated, a Phase II environmental site assessment may be conducted,

\$ PER UNIT

Price per Unit is a technique to assist decision making, and to see if further analysis is warranted. $\text{Price per Unit} = \text{Total Price} \div \text{Number of Rental Units}$.

\$ PER SQ FT

Price per Square Foot is a technique to assist decision making, and to see if further analysis is warranted. $\text{Price per Square Foot} = \text{Total Price} \div \text{NRSF (Net Rentable SQ FT)}$. This is useful both for buying analysis and for setting rents.

RENT COMPS

Analysis of Rental Rates on Comparable Properties.

ANNUALIZE

Annualizing a number is a technique used in data analysis. Annualizing takes the result of an action in a time period less than a year and projects the result over a year, assuming the action continues at the same rate. Annualized numbers provide only a forward-looking estimate.

PRO FORMA

Pro forma, a Latin term, literally means “for the sake of form” or “as a matter of form.” In the world of investing, pro forma refers to a consistent method by which financial results are calculated. This method of calculation places emphasis on present or projected figures.

HISTORICAL

Historical refers to actual financial performance data that was collected and reported in the past, i.e., the current reporting period is not the first time the data was reported.

BUDGETED

Budgeted refers to financial performance data that was forecast or modelled as part of a financial plan in advance of the reporting period in question.

POINTS

Points, sometimes also called "discount points", are a form of pre-paid interest. One point equals one percent of the loan amount. By charging a borrower points, a lender effectively increases the yield on the loan above the amount of the stated interest rate.

Multifamily Industry Terminology

ORIGINATION FEES

An Origination Fee is similar to any commission-based payment. The Loan Origination Fee is charged as compensation for the research your lender has done on you to determine whether you would be a trustworthy borrower. If a lender takes a 1% fee for originating a loan, it makes \$1,000 on a \$100,000 loan, or \$2,000 on a \$200,000 loan.

MORTGAGE BROKERS FEE

A mortgage broker is essentially a middleman between the borrower/homeowner and the bank or mortgage lender. They work directly with both the consumer and the bank to help borrowers qualify for a mortgage, whether it be a purchase mortgage or a refinance. Mortgage brokers make money by charging a loan origination fee and/or broker fees upfront (they used to get paid via yield spread premium).

REAL ESTATE BROKERAGE FEE

The seller budgets a 4% to 6% commission for the listing agent, which is typically split with the buyer's broker upon completion of the sale. The split is most often 50/50, but can be as low as 90/10 in favor of the listing agent. In general, the broker's commission costs the company nothing.

CONCESSIONS

A Concession is a rebate, allowance, or reduction in price or other terms of an agreement. It could be Cash, or the equivalent, that the landlord pays or allows in the form of rental abatement, additional tenant finish allowance, moving expenses, or other costs expended in order to persuade a tenant to sign a lease.

BAD DEBT

Bad debt expense represents the amount of uncollectible accounts receivable (e.g., Rent) that occurs in a given period. Bad debt expense occurs as a result of a customer being unable to fulfill its obligation to pay an outstanding debt due to bankruptcy or other financial problems.

PHYSICAL vs. ECONOMIC VACANCY

Physical Vacancy refers to the actual number of units available to be filled. Economic Vacancy is the difference between the Actual Rent Being Collected and the Theoretical Rent Collected with All Units Leased at Full Market Price.

CAP-EX

Capital Expenditure, or CapEx, are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. It is often used to undertake new projects or investments by the firm.

RESERVE REPLACEMENT

Replacement Reserves are funds set aside that provide for the periodic replacement of building components that wear out more rapidly than the building itself and therefore must be replaced during the building's economic life (short lived items)

Multifamily Industry Terminology

DEFERRED MAINTENANCE

Deferred maintenance is the practice of postponing maintenance activities such as repairs on both real property (i.e. infrastructure) and personal property (i.e. machinery) in order to save costs, meet budget funding levels, or realign available budget monies. The failure to perform needed repairs could lead to asset deterioration and ultimately asset impairment.

IMMEDIATE REPAIRS

Immediate Repairs in Loan Agreement means the specific set of repairs or improvements to the Property required by the Lender and identified in the Loan Agreement to be completed by a given date with evidence those repairs are complete.

SOURCES & USES

A Sources and Uses of funds statement , often referred to as a flow of funds report, provides a mechanism for reporting how a project's performance during an accounting period influenced and was influenced by major funding activities. The Sources & Uses statement is not intended to provide forensic accounting. Instead, it helps to provide a funding road map for how the funds will be raised and how they will then be spent in a project.

EXCLUSIVITY AGREEMENT

An Exclusivity Agreement is typically a contract between a property buyer and a buyer's real estate broker where the buyer may not retain more than one broker to assist him or her. Key elements of the agreement are broker exclusivity, contract duration, compensation, and the description of the type of property the buyer is seeking.