



## *Glossary of Commercial Real Estate Terms*

**From the REALTORS<sup>®</sup> Commercial Alliance**

## -- A

### **Absorption**

The amount of inventory or units of a specific commercial property type that become occupied during a specified time period (usually a year) in a given market, typically reported as the absorption rate.

### **Accumulated cost recovery**

Total cost recovery deductions taken throughout the holding period of a property.

### **Active income**

Income from salary, wages, tips, commissions, and activities in which the taxpayer materially participates. Also see passive income.

### **Add-on factor**

The ratio of rentable to useable square feet. Also known as the load factor and the rentable-to-useable ratio. Also see efficiency percentage. Formula:

$$\text{Add-on factor} = \frac{\text{Rentable square feet}}{\text{Useable square feet}}$$

### **Add value**

Fourth stage of four-stage transaction management process pertaining to a transaction manager's planning, effort, and continual contact with key decision-makers, investors, and users, as well as contact with ancillary professionals. This ongoing process allows for feedback, establishes a network for problem solving, provides a means to offer additional services to the client, and enhances the transaction manager's preparedness for the next assignment.

### **Adjusted basis**

The original cost basis of a property plus capital improvements, less total accumulated cost recovery deductions, and partial sales taken during the holding period.

### **ADS**

See annual debt service.

### **Agglomeration economies**

Cost reductions or savings that come about from efficiency gains associated with the concentration or clustering of firms/producers or economic activities and the formation of a localized production network.

### **Amortization**

The repayment of loan principal through equal payments over a designated period of time consisting of both principal and interest.

### **Annual debt service (ADS)**

The total amount of principal and interest to be paid each year to satisfy the obligations of a loan contract.

### **Annual percentage rate (APR)**

The true annual interest rate payable for a loan in one year taking account of all charges made to the borrower, including compound interest, discount points, commitment fees, mortgage insurance premiums. It also takes into account the time at which the principal is repaid (especially when payments of principal are made in installments throughout the year,

**Annual percentage rate (APR)** continued

but interest is charged at the beginning of the year), but not the actual expenses incurred by the lender in making the loan and recharged to the borrower. (Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

**Annuity**

Regular fixed payments or receipts over a designated period of time.

**Appreciation**

An investment's increase in value.

**Appreciation potential**

The possibility or probability that a real estate investment will increase in value during the holding period.

**Assessed value**

The value of real property established by the tax assessor for the purpose of levying real estate taxes.

**Average annual effective rate**

The average annual effective rent divided by the square footage.

**Average annual effective rent**

The tenant's total effective rent divided by the lease term.

**Averaging method**

A simple technique used to forecast next period's/year's vacancy rate by averaging previous years' vacancy rates; especially effective where vacancy rates have remained relatively flat or show little variability over time.

-- **B**

**Balloon payment**

The final payment of the balance due on a partially amortized loan.

**Base** (in lease terminology)

A face, quoted, dollar amount representing the rate or rent in dollars per square foot per year and typically referred to as the base rate.

**Base rent**

The minimum rent due to the landlord. Typically, it is a fixed amount. This is a face, quoted, contract amount of periodic rent. The annual base rate is the amount upon which escalations are calculated.

**Basic employment**

Employment that is considered to be export-oriented or export-driven, associated with activities that generate income from the sales of products and services in markets outside the local economy.

**Basis**

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

**Before-tax investment value**

The sum of the present values of the mortgagor and mortgagee of property.

**Break-even point**

The stage at which an investment produces an income that is just sufficient to cover recurring expenditure. For an investment in real property, the point at which gross income is equal to normal operating expenses, including debt service (the stage at which the next cash flow becomes positive). Also known as the *default point*. (Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

**Breakpoint**

The sales threshold over which percentage rent is due. It is calculated by dividing the annual base rent by the negotiated percentage applied to the tenant's gross sales.

**Business risk**

The uncertainty associated with the possible profit outcomes of a business venture.

**Buy/rent threshold**

The point at which there is a recognizable shift of expenditure allocations away from owner-occupied housing and to the rental housing market (or vice-versa) as a result of changing market conditions.

**-- C****CAM**

See *common area maintenance*.

**CAM cap**

The maximum amount for which the tenant pays its share of common area maintenance costs. The owner pays for any CAM expenses exceeding that amount.

**Cap rate**

See *capitalization rate*.

**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.

**Capital market**

The supply and demand for resources to invest in real estate and other investments.

**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 as *cap rate*.

**Capital tax**

Any tax on a change in capital value (including capital gains tax, estate tax, or inheritance tax); as distinguished from a tax on income. (Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

**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 service 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 service
- 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, plus other 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.

**Cash flow model**

The framework used to determine the cash flow from operations and the cash proceeds from sale.

**Cash-on-cash rate**

A return measure that is calculated as cash flow before taxes divided by the initial equity investment.

**Cash proceeds from sale**

The sales price less sales costs, mortgage balance, and tax liability on sale. Also known as *sales proceeds after tax*.

**Central place theory**

A location theory that accounts for the size, distribution, and organization of settlements, places, market areas, and establishments in a competitive and interdependent urban system, to explain differences in the locational tendencies and preferences of businesses as they seek to maximize market accessibility, sales, and profits.

**CFAT**

See *cash flow after tax*.

**CFBT**

See *cash flow before tax*.

**City**

An urban settlement or system containing various functions, agents, institutions, and components which interact and work together to satisfy the wants and needs of its inhabitants (as well as a portion of the population in surrounding rural areas).

**Class life**

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

**Close**

Third stage of four-stage transaction management process pertaining to bringing the parties together and consummating an agreement. The acronym CLOSE represents the contingencies, legal instruments, obstacles, signatures, and execution involved in the close stage.

**Commercial real estate**

Any multifamily residential, office, industrial, or retail property that can be bought or sold in a real estate market.

**Common area**

For lease purposes, the areas of a building (and its site) that are available for the non-exclusive use of all its tenants, such as lobbies, corridors, and parking lots. (Real Estate Information Standards)

**Common area maintenance (CAM)**

Charges paid by the tenant for the upkeep of areas designated for use and benefit of all tenants. CAM charges are common in shopping centers. Tenants are charged for parking lot maintenance, snow removal, and utilities.

**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

**Community center (continued)**

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.

**Comparative advantage**

The principle that cities or regions tend to produce those items or support those activities for which they have the greatest advantage over other areas as defined by the factors of production, demand, supporting industries, and quality of life considerations, as defined in relation to human, financial, and physical resources, and opportunity costs—costs expressed in terms of opportunities foregone.

**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.

**Compound interest**

Interest computed on the original principal and accumulated interest.

**Compounding**

A type of calculation in which interest earned is reinvested and earns additional interest.

**Confidence range method (95%)**

A statistical method of estimating a range of vacancy rates with a 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).

**Contract rent**

The total rental obligation, expressed in dollars, as specified in a lease. Also known as *base rent*. (Real Estate Information Standards)

**Cost**

The actual dollar amount paid for a property or the amount needed to build or improve it at a specified time in the future.

**Cost approach**

A method of determining the market value of a property by evaluating the costs of creating a property exactly like the subject.

**Cost approach improvement value**

The current cost to construct a reproduction of, or replacement for, the existing structure less an estimate for accrued depreciation from all causes. [Appraisal Institute]

**Cost of capital**

See *weighted average cost of capital*.

**Cost of occupancy**

Expenditures that are required to assume and maintain occupancy of a space. Such expenditures include rent and/or mortgage payments, and recurring costs, such as real estate taxes, repairs, operating expenses, and other outgoings directly resulting from the use of the property. (Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

**Cost recovery**

An annual deduction based on the class life of an asset.

**Cost recovery recapture**

According to the Taxpayer Relief Act of 1997, for properties sold after May 6, 1997, a noncorporate taxpayer will have to recapture, or pay taxes on, any straight-line cost recovery taken during the holding period, to the extent there is any gain.

**Cross-over chart**

A visual representation of the relationship between the costs of leasing and owning at varying discount rates.

**Cross-over (office use) demand**

Industrial space that is used as office space in order to lower the rental rate of a property. Also known as *flex space*.

**Customer-spotting approach**

An approach to estimating the retail trade area (and sales/revenue potential) for a given establishment or center based on the location of existing customers via point-of-sale information (by obtaining customer address or zip code data) or customer surveys (by interviewing customers as they enter the store); data which can later be mapped to determine the extent of the trade area.

**-- D****Data**

Refers to information collected and presented in a form that facilitates processing and analysis.

**Data dispersion**

The amount or degree to which data points in a series are spread or dispersed about their mean (also referred to as variation about the mean).

**Debt-coverage ratio (DCR)**

Ratio of net operating income to annual debt service. Expressed as net operating income divided by annual debt service.

**Depreciation**

The loss of utility and value of a property.

**Demand**

The volume or quantity of a product or service purchased, or willing to be purchased, in relation to price.

**Demand factors**

Elements or forces that influence the demand for goods and services in a given market area.

**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.

**Depreciation**

The loss of utility and value of a property.

**Desktop GIS**

GIS software programs that support a wide variety of functions, queries, and mapping capabilities for personal computer-based applications, geared toward visual presentation and descriptive analyses of geo-coded data.

**Differential cash flow**

The difference that results when the cash flows from one alternative are subtracted from the cash flows from another alternative.

**Direct survey method**

The use of personal interviews with key personnel in all major firms within a given community to determine the percentage of a firm's revenues obtained from sales made outside the local economy for the purpose of estimating firm-specific basic employment and, by aggregation, the total basic employment in that community; a method that is known to be costly and time consuming.

**Disaggregating demand**

The process of separating and identifying the various forces and factors which affect the demand for a given property type in a given market or the differentiation of demand by category (in reference to tenure, household income, and geographic submarket).

**Disaggregating supply**

The process of separating and identifying the various forces and factors which affect the supply of a given property type in a given market or the differentiation of supply by category (including leased versus owned, unit type, price, and geographic submarket).

**Discount rate**

The percentage rate at which money or cash flows are discounted. The discount rate reflects both the market risk-free rate of interest and a risk premium. Also see *opportunity cost*.

**Discounted effective rent**

The cash flows over the term of the lease, discounted to the present value.

**Discounting**

The process of reducing the value of money received in the future to reflect the opportunity cost of waiting to receive the money.

**Displaced sales**

Sales that result from purchases made by customers who are not located in the subject service area (represents a revenue gain for retail establishments as sales are generated from consumers who reside outside the local trade area).

**Diversification**

A method of reducing risk by investing in unrelated (uncorrelated) assets.

**Drain information**

Information (substantiated and rumored) regarding inventory that is to be removed from the market by the forecast period.

**Drive-time approach**

An approach to estimating the trade area (and sales/revenue potential) for a given retail establishment or center based on the central place theory concept of *range* and how far people are willing to travel to obtain retail goods as defined by drive time or mileage.

**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.

**Dynamic system**

A complex and ever-changing or evolving set of diverse and interrelated entities and agents which are organized into a coherent and working totality which serves multiple and/or common purposes or objectives. Also see *system* and *market dynamics*.

**-- E****Economic base**

Those economic activities or sectors in a local or regional economy that account for a certain share of the area's income that is generated from exports of goods and services.

**Economic base analysis**

Inquiries that focus on the extent to which changes in basic employment (export-oriented activities and associated wage-income) affect the economic, employment, and population growth of a local or regional economy.

**Economic base multiplier**

A measure that provides a rough estimate of how changes in basic employment will affect total employment in a given region (all other things being equal); defined as the ratio of total employment to basic employment.

**Economic characteristics**

Attributes of the workforce, including production and employment activities.

**Economic obsolescence**

The reduction in a property's value due to external circumstances such as legislation or changes in nearby property use.

**Economic sectors**

Branches or divisions of a local or regional economy in which particular activities take place.

**Effective**

An amount after a base amount has been adjusted for concessions, allowances, and costs.

**Efficiency**

A measure of the capacity or effectiveness of space to produce the desired results with a minimum expenditure of time, money, energy, and materials.

**Efficiency percentage**

The relationship of useable area to rentable area on a given property. Also see *add-on factor*, *load factor*, and *rentable-to-useable ratio*. Formula:

$$\text{Efficiency \%} = \frac{\text{Useable square feet}}{\text{Rentable square feet}}$$

**Employment ratios**

The percentage of total employees (at the firm or industry level) that are office space users.

**Environmental conditions**

Features or state of the physical environment and the surroundings, factors, or forces which influence or modify that environment.

**Environmental hazards**

Any physical or natural condition or event which possesses a risk to humans.

**Environmental impacts**

The repercussions of an activity or specific land use on the physical/social environment as a consequence of emissions, waste disposal, water and power useage, etc.

**Equilibrium point**

The price at which the quantity supplied equals the quantity demanded.

**Equity lease**

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

**Equity yield rate**

The return on the portion of an investment financed by equity capital.

**Exchange**

Under Section 1031 of the Internal Revenue Code, like-kind property used in a trade or business or held as an investment can be exchanged tax-deferred. Under a fully qualified Section 1031 exchange, real estate is traded for other like-kind property. All capital gains taxes are deferred until the newly acquired real estate is disposed of in a taxable transaction. The underlying philosophy behind the deferral of capital gains taxes is that taxation should not occur as long as the original investment remains intact in the form of (like-kind) real estate (like-kind refers to real property as such, rather than the quality or quantity of property).

**Expansion**

A phase of the real estate or business cycle characterized by the dramatic short-term increase in the supply of available units in a given market (due to economic growth and increasing construction activity) as a response to increasing and/or pent-up demand and rising price levels.

**Expected value (EV)**

The sum of the weighted averages of all possible outcomes of a probability distribution. Probability distribution is the collection of all possible outcomes for an event and their corresponding probabilities of occurrence. The probabilities of occurrence for each possible outcome are used as the weights. The sum of each possible value multiplied by its probability of occurrence equals the EV of the outcome. EVs can be calculated for any type of outcome the investor chooses to analyze: net operating incomes, after-tax cash flows, and rates of return (IRRs). An example of calculating the EV of the IRR for an investment follows:

## Expected value (EV)

Scenario	IRR%	Probability	Weighted Average
Best-case	17.0	0.10	1.70
Most-likely case	14.6	0.80	11.68
Worst-case	13.2	0.10	1.32
		Sum = 1.00	EV = 14.70

## Expenditure patterns

The tendencies or propensities of individuals/households to spend disposable income on a given good or service in comparison to other goods and services (typically defined as a percentage of disposable income) in relation to income level or range and/or other demographic or socio-economic characteristics.

## Expense stop

The level (or maximum amount) up to which the landlord will pay certain operating expenses. Amounts above the stop are the responsibility of the tenant.

## External economies

Savings or cost-cutting allowances realized by firms or industries within a given city that are primarily due to the advantages of sharing production inputs, information, and infrastructure and/or possibly linked to a city's comparative advantage to support a given activity.

## External obsolescence

A form or source of accrued depreciation considered in the cost approach to market value. The loss of value is because of external forces and change. For example, a new mall causes traffic and congestion, negatively affecting residential property values nearby, or a motel is no longer viable because a highway is rerouted, or another example would be depressed market conditions.

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### Factors of production

The rudimentary components of any production process or system consisting of: land and land-based resources (including raw materials); capital, which includes real capital such as machinery, facilities, and infrastructure and financial capital to start or expand businesses; labor or human input (as defined in terms of labor hours or quality/productivity); and technology which includes production know-how and methods, as well as management and operations skills.

### Fair value of an asset (or liability)

The amount at which the asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. (Real Estate Information Standards)

**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.

**Feasibility analysis**

The process of evaluating a proposed project to determine if that project will satisfy the objectives set forth by the agents involved (including owners, investors, developers, and lessees).

**Financial leverage**

The use of borrowed funds to acquire an investment.

**Financial risk**

The possible change in an investment's ability to return principal and income.

**Fixed expenses**

Costs that do not change with a building's occupancy rate. They include property taxes, insurance, and some forms of building maintenance.

**Fixed lease**

A lease in which the lessee pays a fixed rental amount for the duration of the lease.

**Flex space**

Space that is flexible in terms of what it can be used for (for example, space that could be utilized for industrial or office activities). Also see *cross-over (office use) demand*.

**Forecast**

An estimate or prediction of a future condition or outcome.

**Forecast period**

An upcoming time period of interest in which a forecast is to be made.

**Formal (or geographic) data**

Information/data collected and presented by formal region. Also see *formal region*.

**Formal region**

A region identified by political jurisdiction or on the basis of the presence or absence of one or more distinguishing features or characteristics.

**Free rent**

See *rent concessions*.

**Fully amortized mortgage loan**

A method of loan amortization in which equal periodic payments completely repay the loan.

**Functional components**

Factors which determine how a location or site functions.

**Functional data**

Information/data collected and presented by functional region. Also see *functional region*.

**Functional feasibility**

Considerations made in the site selection process which assist in the evaluation of site potential as defined in terms of the practicality of a site, the best site for a given use, or the determination of a site's best use, through the examination of linkages, competition, demographics, and market conditions.

**Functional obsolescence**

A form or source of accrued depreciation considered in the cost approach to market value. The reduced capacity of a property or improvements to perform their intended functions due to new technology, poor design, or changes in market standards.

**Functional region**

A region delineated in terms of linkages or economic interactions that are typically organized as a trade area about a dominant location, center, or economic activity.

**Future value (FV)**

The amount to which money grows over a designated period of time at a specified rate of interest.

**FV**

See *future value*.

**-- G****Gap analysis**

An evaluation of the difference in the demand and supply of space (measured in terms of square footage) for a particular type of commercial property in a given market area where gaps are expressed as the amount of square footage demanded less the amount of square footage available in a given time period. Note that if demand exceeds supply, the gap will be positive. A positive gap indicates that potential opportunities exist for successful commercial real estate transactions. However, transactions might be avoided when supply exceeds demand (or when a negative gap occurs), as there is an oversupply of available space in the market.

**General market area gap analysis**

A gap analysis that is carried out for a city or several cities (simultaneously) to identify one or more general market areas where a positive gap exists for a particular type of commercial real estate. Also see *gap analysis*.

**General market factors**

Factors influenced by the demographic, economic, and locational characteristics and the organizational aspects of a market.

**Generic space**

Commercial space that can be used for a variety of purposes, such as *multiple-use office space*.

**Geographic Information System(s) (GIS)**

System(s) (usually computer-based) used for capturing, handling, storing, retrieving, managing, manipulating, and displaying geographic information or geo-coded data.

**Geographic submarket**

The total number of households or housing units within a given area as defined by tenure, income, and other socio-economic attributes that are known to exist or estimated to be within specific geographic units or divisions (for example, in various census tracts).

**Globalization**

The condition of being or becoming globalized. A concept used to recognize cross-jurisdictional interdependencies and the continuing integration of local, regional, and national economies which now form a larger economic and production system that is worldwide in scope and application; a trend that has greatly affected local economic change and real estate values.

**Government incentives**

Concession given or measures taken by local or regional government to attract firms or investment dollars to a given locality for the purposes of promoting economic growth and encouraging development.

**Gravity model**

A model that is used to account for a wide variety of flow patterns in human/economic systems, based on Newton's gravity equation which defines gravity or the flow potential (between two sites or locations) as directly proportional to the product of their masses (or size) and inversely proportional to the square of the distance between them:  $\text{gravity} = (\text{mass} \times \text{mass}) \div \text{distance}^2$ .

**Gross area**

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

**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 lease**

A lease in which all expenses associated with owning and operating the property are paid by the landlord. Also see *net lease*.

**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 rent multiplier (GRM)**

A method investors may use to determine market value. This method calculates the market value of a property by using the gross rents an investor anticipates the property will produce at end of year 1 multiplied by a given factor (known as the gross rent multiplier extracted from the marketplace).

**Ground lease**

A lease of the land only. Usually the land is leased for a relatively long period of time to a tenant that constructs a building on the property. A land lease separates ownership of the land from ownership of buildings and improvements constructed on the land.

**Growth patterns**

In reference to the patterns of urban or population growth in a geographic market, an important consideration in retail trade area analyses as growth patterns are known to affect sales/revenue potential within a market given the tendency of retail to follow population movement and income concentrations over time.

**-- H****Heavy utility needs**

In reference to location-decision considerations made in relation to the energy or power requirements of a firm/user in the assessment of the feasibility of a location to support a given activity.

**Hedging**

Protecting oneself against negative outcomes.

**High order good**

A good or service requiring a high threshold population before it is offered to a market. Such a good or service requires a large number of consumers to support its business and requires a larger trade area than a low order good. Also see *lower order good*.

**High-tech**

Economic sectors and activities oriented toward the creation and production of high-technology products and the use of advanced designs, techniques, or devices in fields like electronics, optics, lasers, aerospace, computers, semiconductors, and telecommunications.

**Highest and best use**

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. [Appraisal Institute]

**Highest and best use (financial) analysis**

A determination of the highest and best use of one or more sites (either vacant or as though vacant) or properties as improved by examining the profitability of all possible use scenarios (including renovation, rehabilitation, demolition, and replacement).

**Household**

A housing unit or residence at a given location that is occupied by one or more persons (that is, a social unit comprised of one or more individuals living together in the same dwelling or place).

**Household population**

The total number of households in a given geographic market or submarket as defined by specific demographic and socio-economic characteristics.

**Housing demand**

The total number of housing units demanded in a given market, defined as occupied household units divided by one minus the vacancy allowance for that market (where demand is affected by the rate at which new households are being added to the market, allowing for a normal level of vacancy).

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### **Imbalances**

Unstable or nonsustainable conditions which arise out of a market disequilibrium or the lack of balance between the forces of supply and demand in any or all subcategories of commercial properties in one or more geographic submarkets over a given time period.

### **Imperfect market**

A market in which product differentiation exists, there is a lack of important product information, and certain buyers or sellers may influence the market. Commercial real estate is bought and sold in an imperfect market.

### **In-migration**

The process by which a given geographic area absorbs new individuals/households from locations outside that area (an influx of individuals/households to a given area).

### **In-the-door approach**

An approach to estimating the trade area (and sales/revenue potential) for a given retail establishment or center based on observed flow patterns or traffic counts, where estimates are obtained for both the percentage of traffic that stops or patronizes that establishment/center and the percentage of people coming in-the-door who make a purchase.

### **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.  $\text{Value} = \text{net operating income} \div \text{capitalization rate}$

### **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 gap**

The difference between the demand for an industrial property and the supply of that property in a given market or area.

### **Industrial location decision-making**

A decision-making process that involves the examination and evaluation of alternative locations or sites for a particular industrial activity based on location/site feasibility characteristics; great importance is placed on the national or regional location decision (usually narrowing the location decision to a handful of cities or localities), with less importance given to the local site selection process.

### **Industrial property**

Commercial properties that are used for the purposes of production, manufacturing, or distribution.

### **Industrial service area**

The geographic area within a market that contains either an acceptable number of employees (and meets necessary labor requirements), or the necessary service and resources needed to support a given industrial activity or facility.

**Initial investment**

The outlay of cash needed to acquire an investment.

**Input-output modeling**

A mathematical approach to the description of a local or national economy, which takes explicit account of the flows and linkages within and between economic sectors.

Recognizing that output (products and services) from one sector may require production inputs for other sectors, used to estimate sector- and region-specific multipliers for the purpose of analyzing the direct and indirect impacts of a given change in a particular sector or region.

**Insurable value**

The value of the portions of the property that are physically destructible.

**Intangible characteristics**

Attributes that are not directly measurable or quantifiable, and therefore must be expressed in a qualitative or abstract manner.

**Interest-only loan**

A method of loan amortization in which interest is paid periodically over the term of the loan and the entire original loan amount is paid at maturity.

**Internal growth**

The rate at which a base population or the number of new households is changing due to natural increase (births less deaths) and time (the aging and maturation of that population), as children are born, grow up, and form families and households of their own.

**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.

**Internal rate of return method**

A comparison method that calculates the internal rate of return of the differential cash flow between any two investment alternatives, then compares that rate with the user's opportunity cost. Also see *internal rate of return*.

**Inventory**

The supply or stock of a given commodity or a listing thereof.

**Investing**

Limiting current consumption in favor of future consumption.

**Investment value**

The value to a specific investor, based on that investor's requirements, tax rate, or financing.

**IRR**

See *internal rate of return*.

**IRR of the differential**

The internal rate of return on the difference between the cash flows for any two investment alternatives. Also see *internal rate of return method* and *differential cash flow*

## -- J

No glossary terms are available.

## -- K

### **Key federal laws**

With respect to the handling of hazardous materials, they are important laws or statutes enacted to enforce the responsible handling of materials to minimize the danger to human beings and/or the environment.

## -- L

### **Labor pool**

A body or core group of workers (employed and employable) that make up the local labor force.

### **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.

### **Land sale-leaseback**

The same concept as a sale-leaseback, but only the land is sold and leased back using a ground lease.

### **Leakage (retail)**

Purchases made in other service areas by consumers located within the subject area (representing a loss of revenue for retailers located within the trade area in which those consumers reside).

### **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 2nd 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 terminology**

Terms commonly used in reference to a lease.

### **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.

### **Leased fee interest**

The value (to the owner) of the rental payments plus the value of the property at the end of the lease term (reversionary interest).

**Leasehold estate**

In exchange for rent, the tenant has the right to occupy and use the property for the duration of the lease.

**Leasehold interest**

The value (to the tenant) of the lease. The value of the leasehold interest is determined by present value of the difference between market rent and the contract rent.

**Leasing**

A means of obtaining the physical and partial economic use of a property for a specified period without obtaining an ownership interest.

**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*.

**Leverage**

The use of borrowed funds to finance a portion of the cost of an investment.

**Lifestyle characteristics (psychographics)**

Intangible characteristics of a local economy that define and shape the quality of life element and the social and cultural identity of the local population.

**Linkages**

The cost to transport goods, services, or people to and from a site measured in time, distance, and inconvenience.

**Liquidation value**

The likely price that a property would bring in a forced sale (foreclosure or tax sale). Used when a sale must occur with limited exposure time to the market or with restrictive conditions of sale.

**Liquidity**

The ability to convert an investment into cash quickly without loss of principal.

**Load factor**

The ratio of rentable area to useable area. The load factor is a gauge by which a user can evaluate different sites with comparable rents. It is also known as the *add-on factor*.

Formula:

$$\text{Load factor} = \frac{\text{Rentable square feet}}{\text{Useable square feet}}$$

**Loan balance**

The amount of money remaining to be paid on an amortizing loan at a given time.

**Loan or mortgage value**

That portion of the value of real property recognized by the lender when used to secure a loan.

**Loan point**

A charge prepaid by the borrower upon the origination of a loan. One point equals one percent of the loan amount.

**Loan-to-value ratio (L/V)**

The amount of money borrowed in relation to the total market value of a property. Expressed as the loan amount divided by the property value.

**Location analysis**

The process of evaluating whether a general location meets the requirements of being both possible and practical as defined on the basis of technical and functional components.

**Location quotient**

An index, defined in ratio form that compares the proportion of a local activity to the proportion of that activity found at some larger geographic scale, such as the nation.

**Location quotient method**

A method for estimating a community's economic base multiplier using basic employment estimates obtained from estimated location quotients (under various simplifying assumptions).

**Lower order good**

A good or service requiring a low threshold population to be offered. A good or service is considered to have a low threshold if it does not require a large number of consumers to support its business and thus requires a small trade area. Also see *high order good*.

**-- M****Macro-economy**

Generally used in reference to matters of economy or economic factors and forces portrayed or operating at the macro-level (as opposed to micro-level), used synonymously with national economy.

**Management**

The ability to monitor the performance of an investment and make changes as needed.

**Managing risk**

The steps taken by an investor or manager to control or reduce investment risk.

**Mapping GIS software**

Computer-mapping programs that perform any of a wide variety of map-making tasks (for both on-screen and file-oriented use).

**Marketability**

The ability to sell or lease a property quickly. Marketability deals with the appeal and demand for a property, good, or service.

**Market area**

A geographical area in which supply and demand operate to influence the course of industrial and commercial activities, for example, a Metropolitan Statistical Area (MSA).

**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 decision 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 data approach**

A method of determining the property's value by analyzing recent sales or rental prices of comparable properties.

**Market dynamics**

In reference to changing market conditions and the underlying processes responsible for creating change and defining/redefining interrelationships amongst components in an economic system (consider the change in price levels of a given commodity as an outcome of the forces and interplay of supply and demand).

**Market feasibility**

Pertaining to the evaluation or selection of a site or an analysis of a site's highest and best use. Also see *feasibility analysis*.

**Market gap**

The demand for space minus the supply of space for a specific type of commercial property in a given real estate market. Also see *general market area gap analysis*.

**Market opportunities**

Advantageous circumstances in a market which facilitate a given action or outcome that is generally viewed as favorable from a money-making standpoint.

**Market pricing**

The pricing of commodities (including rental rates of various types of commercial properties) as determined by the forces and factors of influence operating in a market.

**Market risk**

The possibility that downward market trends will reduce an investment's market value.

**Market share**

Refers to the percentage of total sales in a retail category that each competing outlet is expected to capture based on current patterns and trends in the market.

**Market strategy**

A course of action defined with respect to a particular real estate market phase. For example, consider the market strategy of avoiding real estate transactions when there is an oversupply of space available in the market.

**Market value**

The most probable price that a property would bring in a competitive and open market under fair sale conditions. Market value also refers to an estimate of this price.

**Match**

Second stage of four-stage transaction management process pertaining to gathering and evaluating property information to unite the investor and user. The acronym MATCH represents the activities to market, analyze, target, compare, and highlight during the match stage.

**Mean**

A measure of central tendency (for a distribution of values) defined as the average value of a variable in a sample and calculated by adding together all the values observed in a data set and dividing by the number of values observed.

**Median**

Defined as the middle value of a data set (or sample) when the values are arranged in order (by size ranking, in ascending or descending order). Note that for an odd number of values in an ordered data set, the median is identified as the value which divides the data set into two data sets of equal size on each side of the median or middle value. For an even number of values arranged in order, the median is found by simply calculating the value mid-way between the two middle values. Note that the position of the median value of an ordered data set containing  $n$  observations may be found by using the formula: position of the median =  $n/2 + 1/2$ .

**Metropolitan Statistical Area (MSA)**

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

**Mid-month convention**

A requirement of the Tax Reform Act of 1984 that taxpayers use the 15th of the month to establish the date of acquisition and date of disposition when calculating cost recovery deductions. This act applies to real estate placed in service after June 22, 1984 (with the exception of low-income housing).

**Minimum requirement**

The observed minimum proportion of employment in a given economic sector for communities within a given size range, assumed to be that employment/activity level that is necessary to serve the needs of a community that falls within a predetermined size range (the minimum amount of nonbasic employment necessary to support a typical mix of industry for a population base of a given size range).

**Minimum requirements method**

A method for estimating a community's economic base multiplier using basic employment estimates that are obtained by comparing employment levels by economic sector to the identified *minimum requirement*.

**Moving allowance**

A specified dollar amount paid by the owner to cover, in part or in whole, tenant moving expenses. Also known as *owner's moving expense*.

**Moving expenses**

The cost incurred by the tenant to move into the new space. The landlord may pay a portion or all, depending on what is negotiated in the lease. Also see *moving allowance*.

**Multifamily housing**

Housing units that accommodate more than one family or household.

**Multiple-use office space**

Office space that can be used for a variety of purposes; sometimes referred to as *generic* office space.

**-- N****n**

A component of the T-bar that represents the number of periods over which the investment is held.

**Negative leverage**

Borrowed funds are invested at a rate of return lower than the cost of funds to the borrower.

**Neighborhood center**

This center is designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighborhood. According to ICSC's SCORE publication, a supermarket anchors half of these centers, while about a third have a drugstore anchor. Stores offering pharmaceuticals and health-related products, sundries, snacks and personal services, support these anchors. A neighborhood center is usually configured as a straight-line strip with no enclosed walkway or mall area, although a canopy may connect the storefronts.

**Net lease**

A lease in which the tenant pays, in addition to rent, all operating expenses such as real estate taxes, insurance premiums, and maintenance costs. Also see *gross lease*.

**Net operating income (NOI)**

The potential rental income plus other income, less vacancy, credit losses, and operating expenses.

**Net present value (NPV)**

The sum of all future cash flows discounted to present value and netted against the initial investment.

**Neutral leverage**

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

**NOI**

See *net operating income*.

**Non-basic employment**

Employment that is considered to be of the nonexport-oriented variety: employment not associated with export-oriented activities. Nonbasic employment is best characterized by industries and activities that produce goods and services exclusively for local use or consumption.

**Non-household population**

That portion of the total population that is not considered to be part of the local residential housing market; composed of individuals living in dormitory-like facilities (including military bases) or institutional settings (such as students in residence halls).

**NPV**

See *net present value*.

**-- O****Obsolescence**

In reference to the inadequacy, disuse, outdated, or nonfunctionality of facilities, infrastructure, products, or production technologies due to effects of time, changing market conditions, or decay (a factor considered in depreciation to cover the decline in value of fixed assets due to the invention and adoption of new production technologies, or changing consumer demand).

**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.

**Office**

Low-rise - Fewer than seven stories high above ground level.

Mid-rise - Between seven and twenty-five stories above ground level

High-rise - Higher than twenty-five stories above ground level. [BOMA]

**Office gap**

The difference between the demand for office space and the supply of office space by property type, submarket, sector, or user classification in a given geographic market.

**Office property**

A commercial property type used to maintain or occupy professional or business offices. Such properties typically house management and staff operations. The term *office* can refer to whole buildings, floors, parts of floors, and office parks. Office space that can be used for a variety of purposes is sometimes referred to as *generic* office space. Office properties may be classified as Class A, B, or C. Class A properties are the most functionally modern. Properties Classed B and C in the same market typically command lower rents because they are older and in need of modernization. They may not be as efficient or desirable as Class A properties because their design or condition causes functional problems.

**Operating expense stop**

A negotiable amount at which the owner's contribution to operating expenses stops. It also can be stated as the amount above which the tenant is responsible for its pro rata share of operating expenses.

**Operating expenses**

Cash outlays necessary to operate and maintain a property. Examples of operating expenses include real estate taxes, property insurance, property management and maintenance expenses, utilities, and legal or accounting expenses. Operating expenses do not include capital expenditures, debt service, or cost recovery.

**Opportunity cost**

The *cost* of selecting one alternative is the benefit foregone from the next best alternative. Also see *discount rate*.

**Original basis**

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

**Out-migration**

The process by which a given geographic area expels or loses individuals/households to locations outside that area (an outflux of individuals/households from a given area).

**Outlet center**

A retail property type usually located in rural or occasionally in tourist locations, outlet centers consist mostly of manufacturers' outlet stores selling their own brands at a discount. These centers are typically not anchored. A strip configuration is most common, although some are enclosed malls, and others can be arranged in a village cluster.

**Overage rent**

See *percentage rent*.

**Oversupply**

In reference to commercial real estate, oversupply is a stock or supply of a given commercial property type that is greater than that which can be cleared under prevailing prices levels and market conditions (for example, excess supply). Also, a phase of the real estate market cycle denoting that period of time in which commercial real estate markets become saturated with units due to overbuilding.

**Owners moving expense**

See *moving allowance*.

**Owning**

A means of obtaining the full economic use of a property for an unspecified period by obtaining an ownership interest.

**-- P****Partially amortized mortgage loan**

The payments do not repay the loan over its term and thus a lump sum (balloon) is required to repay the loan.

**Participation mortgage**

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

**Passive income**

Income from rental activity, limited business interests, or other activities in which the investor does not materially participate.

**Passive losses**

Losses from the ownership of passive investments.

**Payment (PMT)**

A periodic amount paid or received for two or more periods.

**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**

The additional rent (over a base amount) that is paid by tenants to owners on tenant sales over a specified dollar amount. It is frequently found in retail leases. Also known as *overage rent*.

**Perfect market**

A market in which the products are homogenous, there is complete information, and no buyers or sellers may influence the market.

**Physical depreciation or deterioration**

A form or source of accrued depreciation considered in the cost approach to market value. The physical decay or deterioration of a property that may result from breakage, deferred maintenance, effects of age on construction material, and normal wear and tear. (Barron's Dictionary of Real Estate Terms)

**Physical limitations**

Limitations imposed by the physical size, shape, or characteristics of a property or its level of development.

**Pipeline information**

Information (substantiated and rumored) regarding new inventory that is in the process of being added to the market by a specified forecast period.

**Planned additional inventory**

In reference to commercial real estate, it is the supply or stock of a specific type of commercial unit or the amount of space that will be available in an upcoming forecast period from expansions, conversions (in), and new construction.

**Planned removed inventory**

In reference to commercial real estate, it is the supply or stock of a specific type of commercial unit or the amount of space that will not be available in an upcoming forecast period due to demolitions and conversions (out).

**PMT**

See *payment*.

**Population/expenditure approach**

An approach to estimating the trade area (and sales/revenue potential) for a given retail establishment or center based on the minimum area (or threshold population) that would be required to sustain a business, by calculating the population necessary to support total square footage of both existing and proposed space for a specific-use and determining/mapping the extent of the trade area based on population density.

**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.

**Population migration**

The movement and relocation of people from one place of residence to another in response to social and economic factors and forces; a long-term trend that can be expected to affect local economies and real estate values.

**Portfolio income**

Income from interest, dividends, royalties, or the disposition of property held for investment.

**Positive leverage**

Borrowed funds are invested at a rate of return higher than the cost of the funds to the borrower.

**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.

**Present value (PV)**

The sum of all future benefits or costs accruing to the owner of an asset when such benefits or costs are discounted to the present by an appropriate discount rate.

**Present value method**

A comparison technique that compares the present values of the cash flows for any two real estate alternatives. The best user alternative is based on the lower present value amount. It is not the same as net present value.

**Prestige and property classes**

In reference to the recognition that various levels of status may be assigned to commercial properties as defined by user needs, the quality of a property and its amenities in relation to site factors, and its general location, suggesting the division of properties into distinct classes.

**Price**

The dollar amount that was offered, asked, or actually paid for a property.

**Primary source data**

Information obtained directly from field observations and survey instruments (by observing or monitoring a phenomenon or site firsthand), typically involving quantitative measurement and/or qualitative assessment of that which is observed or monitored.

**Principal**

The portion of a loan payment used toward reducing the original loan amount.

**Probabilities and expected value**

A quantifiable method of risk analysis. This method assigns probabilities to specific, possible investment outcomes, calculates an expected outcome for the investment based on these probabilities, and measures the likelihood that actual results will differ from the expected

**Probabilities and expected value** (continued)

outcome. This method of risk analysis can be applied directly to real estate investments. It also can be used in conjunction with the forecasts generated through sensitivity analyses. This technique requires that probabilities be assigned to possible outcomes. Probabilities on the best-case, most-likely, and worst-case scenarios can be assigned to the resulting expected values for the return. Variances also can be computed using the assigned probabilities.

**Production**

Any economic activity that alters, enhances, or transforms a product or material, thereby increasing the value of that product or material by changing its physical form and/or location.

**Property data**

Property/site-specific information obtained from primary and secondary sources.

**Property market**

The supply and demand for ownership interests in property.

**Property-specific factors**

Factors influenced by the site-specific and technical characteristics of a property or parcel including its layout, limitations, orientation, physical features, and ability to comply with government imposed zoning and land-use restrictions.

**Property type**

The classification of commercial real estate based on its primary use. The four primary property types are: retail, industrial, office, and multi-family residential.

**Proprietary data**

Information obtained (usually at a cost) from private sources or firms that hold the exclusive rights to manufacture and distribute information created for specific commercial applications, supplying business, sales, and market-potential data and other information services to a targeted audience.

**Purchasing power risk**

The variability in the future purchasing power of income received from an investment.

**PV**

See *present value*.

**-- Q****Qualify**

First stage of four-stage transaction management process pertaining to the process of gathering and evaluating information to measure a client's readiness, willingness, and ability to consummate a transaction. The acronym QUALIFY represents the considerations of quantify, usage, authority, latitude, intention, financial, and yield involved in the qualify stage.

**Quality of life**

The psychological and individual aspects of social well-being as perceived and experienced by people in reference to a given geographic area, which reflect a state of mind or position on the prevailing quality of existence in relation to various socio-economic and environmental conditions and/or amenities known to be associated or found within that area.

**-- R****Range**

The maximum distance consumers are willing to travel to purchase a good or service from a given establishment or location. Hence, the boundary or outer limits of the market area circumscribed about a location at which a good or service may be purchased can be easily identified having knowledge of the range.

**Rate of return**

The percentage return on each dollar invested. Also known as *yield*.

**Real estate**

See *commercial real estate*.

**Real estate cycles (phases)**

The regularly repeating sequence of economic downturns and upturns and associated changes in real estate market transactions tied to market dynamics and changing macro-economic conditions, whose phases include (in order) recession, recovery, expansion, and oversupply.

**Real estate fluctuations**

Short-term variations in real estate prices or rents (usually lasting anywhere from one day to a few months) caused by natural hazards (such as tornadoes, hurricanes, floods, earthquakes, and wildfires) or boosts or shocks to the local economy (such as the entry or exit of major employers).

**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 the REIT's income in their personal tax returns. (Barron's Dictionary of Real Estate Terms and Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

**Real estate trends**

Long-term movements or tendencies in the demand for commercial real estate (which can typically last for years or decades), usually tied to macro-economic or business cycles.

**Recession**

A period of reduced economic activity or a general economic downturn marked by a decline in employment, production, sales, profits, and weak economic growth that is not as severe or prolonged as a depression. As a result, sales in real estate markets are slow, property values and price levels are flat or decreasing, and there is virtually no construction of new stock given excess supply of units in most real estate markets.

**Recovery**

A period of increasing economic activity or a general economic upturn, typically following a stabilization of key sectors and industries, marked by increasing sales and recovering prices in real estate markets as a direct result of an external shock (for example, a favorable tax code revision) or an increase in demand for commercial real estate which, in turn, leads to the absorption of excess space. Little or no construction occurs during the initial stages of this phase until most of the excess space is absorbed or until reasonable financing opportunities become available.

**Regional center**

This center type provides general merchandise (a large percentage of which is apparel) and services in full depth and variety. Its main attractions are its anchors: traditional, mass merchant, discount department stores, or fashion specialty stores. A typical regional center is usually enclosed with an inward orientation of the stores connected by a common walkway and parking surrounds the outside perimeter.

**Regulatory requirements**

In reference to land use, they are restrictions or guidelines on development or use of land, properties, or facilities as defined in accordance with design standards, building construction requirements, land use plans, occupancy codes, and zoning classifications as determined by the controlling or governing parties at the municipal or county levels.

**Rent concession**

A period of free rent given to the tenant by the lessor.

**Rentable area**

The computed area of a building as defined by the guidelines of Building Owners and Managers Association (BOMA) and typically measured in square feet, including both core/structure and useable area. The actual square foot area for which the tenant will pay rent. It is the gross area of an office building, less uninterrupted vertical space (such as stairways and elevators). Unlike useable area, rentable area includes common areas such as lobbies, restrooms, and hallways as well as the measurement of structural columns and architectural projections.

**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*.

**Rent escalators**

Items specified in a lease such as base rent, operating expenses, and taxes that may increase by predetermined amounts at stated intervals or by a constant annual percentage. Also see *index lease* and *expense stop*.

**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. [Appraisal Institute]

**Residential property**

Single- or multifamily housing units that are used, serve, or are designed as a place of residence.

**Retail**

Also see *community center, fashion/specialty center, neighborhood center, outlet center, power center, regional center, superregional center, and theme/festival center.*

**Retail gap analysis**

A gap analysis performed specifically on retail floorspace in a given market or trade area.

**Retail gravity model**

A gravity model used to estimate dollar flows to or the sale/revenue potential of competing retail establishments in a given geographic market. Also see *gravity model.*

**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.

**Reversion value**

A lump-sum cash benefit that an investor receives or expects to receive upon the sale of an investment.

**Risk**

The probability that actual cash flows from an investment will vary from the forecasted cash flows.

**-- S****Safe rate**

The rate a low risk, liquid investment achieves.

**Sale cost**

The brokerage commissions and fees, and any additional transaction costs that are incurred during the sale of the property.

**Sale-leaseback**

A leasing and financing strategy in which a property owner sells its property to an investor, then leases it back. This strategy frees capital that otherwise would be frozen in equity.

**Sales proceeds after tax**

The sale proceeds before tax minus the tax liability on the sale.

**Sale(s) proceeds before tax**

The sale price minus the sale costs and the mortgage loan balance.

**Sales comparison approach**

A way to determine market value by comparing a subject property to properties with the same or similar characteristics.

**Sales comparison value**

An estimate of value derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison, and making adjustments to the sales prices of the comparable based on the elements of comparison. [Appraisal Institute]

**Sales per square foot**

Sales revenue generated per square foot of retail floor space.

**Sales potential**

The possible or expected revenue of a retail outlet as defined by conditions within the market or trade area and the forces of competition.

**Sales price point of indifference**

The future reversionary value (sales price) that would make the present cost of leasing mathematically equal to the present cost of owning a property.

**Sales volume**

The total amount of sales/revenue generated by a retail outlet or facility in a given time period.

**Sample**

A subset of a statistical population (typically selected randomly).

**Sampling**

The practice of obtaining a sample from a given statistical population.

**Sandwich lease**

See *sublease*.

**Scale economies**

Cost reductions, savings, or advantages that come about from efficiency gains associated with increasing levels of production output or the increased size of an operation or system (as the average cost of production falls with increasing output or size).

**Secondary source data**

Information obtained from second-party or archival sources.

**Securitization**

The phenomenon of indirectly investing in real estate markets in ways that minimize risk (for example, investments made collectively with pooled money or the use of investment packages/funds, such as mortgage backed securities sold on the secondary financial market) as opposed to direct investments where investors own property or hold mortgages; a long-term trend that has had significant impact on real estate values.

**Segmentation of formal regions**

The compartmentalization or division of formal regions into smaller geographic areas for the purpose of carrying out a more detailed market area analysis.

**Sensitivity analysis**

The process of recalculating outcomes under alternative assumptions to determine the impact of the variable under analysis.

**Service area**

The geographical area that encompasses/delineates the principal share of clients or customers served by the tenants of the property (a concept that becomes less applicable as the service area of the customer base increases).

**Sinking fund**

A fund designed to accumulate a designated amount of money over a specified period of time. The periodic amount of money deposited plus compound interest will accumulate to the designated amount of money over the specified period of time.

**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.

**Space market**

The supply and demand for the use of physical space.

**Standard deviation**

A measure of the amount of dispersion or variation of data points or values about the mean. The standard deviation has a very useful property in that 95.4% of the values of a data set will lie within two standard deviations (plus or minus) of the mean.

**Standard Industrial Classification (SIC)**

A classification scheme used for general recording purposes by government and industry to categorize and account for economic and employment activity by sector using a series of standardized and universally accepted codes.

**Statistical descriptions**

Drawing a reasonable conclusion or deduction from statistical evidence based on sample statistics, while attaching a statement as to the likelihood that an assertion made about a given *statistical population* is true (in probabilistic terms).

**Statistical population**

The total set of elements or the collection of all individuals, items, or objects under consideration in a statistical inquiry. In short, a population is a universe comprising all members of a specified group.

**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.

**Street-based mapping**

Relatively easy-to-use GIS applications that allow the user to map objects such as commercial properties or retail establishments by street address.

**Sublease**

A lease in which the original tenant (lessee) sublets all or part of the leasehold interest to another tenant (known as a 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.

**Submarket**

A segment or portion of a larger geographic market defined and identified on the basis of one or more attributes that distinguish it from other submarkets or locations.

**Substitute basis**

The basis in a property acquired in a qualified Section 1031 Exchange is reduced by deferred gain and becomes the substitute basis. For example, if the market value of property given up is \$200,000, and the basis in that property was \$75,000, then realized gain equals \$125,000. Assume the market value of property acquired through a tax-deferred exchange is \$350,000, then subtracting the unrecognized gain of \$125,000 equals the substitute basis of \$225,000. The effect of this adjustment to basis is to build in the deferred \$125,000 gain into the property acquired. If the new property were sold the next day for \$350,000, a \$125,000 gain would be reported.

**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 multilevels.

**Supply**

The amount of property that will be made available for sale or rent at a given price or rental rate.

**Supply factors**

Elements or forces that influence the supply of goods and services in a given market.

**Supporting industries**

Industries that offer goods or services that are necessary as inputs in a production process or for the transportation and marketing of intermediate or finished products.

**Suspended losses**

Passive losses that cannot be used in the current year are suspended for use in future years or at the time of sale.

**Synthetic lease**

A leasing and financing strategy whereby the terms of the lease under specific Financial Accounting Standard Board guidelines change the lease obligation from a capital lease (long-term lease on the company's balance sheet) to an operating lease (short-term lease on the company's balance sheet).

**System**

See *dynamic system* and *systems analysis*.

**Systems analysis**

A methodological framework for investigating the structure, components, and functions of a system.

**-- T****T-bar**

A chart used to summarize the timing of real estate cash flows.

**Tangible characteristics**

Attributes that are quantifiable, measurable, factual, or expressed numerically as data or statistics.

**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 impact**

The impact of taxes on investment income and rate of return.

**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 by 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.

**Taxation**

How an investment is affected by tax laws and codes.

**Technical components**

Factors that determine whether a location or site is suitable or able to support a given use.

**Technical feasibility**

In the case of site selection, it is an evaluation of multiple sites to determine which sites should be considered further based upon their physical limitations, regulatory requirements, and environmental and legal considerations; whereas in the case of highest and best use, it refers to the determination of the possible uses of a particular site as based upon technical considerations.

**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.

**Tenure**

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

**Theme/festival center**

These retail centers typically employ a unifying theme that is carried out by the individual shops in their architectural design and, to an extent, in their merchandise. The biggest appeal of these centers is to tourists; restaurants and entertainment facilities can anchor them. These centers, generally located in urban areas, tend to be adapted from older, sometimes historic, buildings and can be part of mixed-use projects. [International Council of Shopping Centers (ICSC) Shopping Center Descriptions]

**Threshold population**

The minimum number of people or minimum market area or sales volume necessary to sustain a business or make it economically viable. Also see *high order goods* and *lower order goods*.

**TI**

See *tenant improvements*.

**TI allowance from owner**

Entry on the tenant's Cash Flow Form. A specified amount of money the owner will pay for tenant improvement.

**Time value of money (TVM)**

An economic principle recognizing that a dollar today has greater value than a dollar in the future because of its earning power.

**Total effective rate**

The rate per square foot paid by the tenant over the entire period analyzed. Formula:

$$\text{Total effective rate} = \frac{\text{Total effective rent}}{\text{Square footage rented}}$$

**Total effective rent**

The total dollar amount (cash flow) that the tenant actually will pay out over the entire period analyzed.

**Total employment**

The total number of actively employed people in the workforce within a given geographic area at a particular point in time.

**Total existing inventory**

In reference to commercial real state, it is existing and currently available supply or stock as represented by the total number of units or total amount of space available of a specific commercial property type in a given market at a particular point in time.

**Total forecast supply**

Total existing inventory plus forecast planned additional inventory minus forecast planned removed inventory for a specific commercial property type in a given market area.

**Total supply of commercial real estate**

Refers to all existing space vacant or occupied, built, forecasted, or demolished, for a particular market area for a specific period of time.

**TPTI**

See *tenant-paid tenant improvements*.

**Trade area**

An area delineated about a central or dominant location, comprising a zone that is dependent upon production output from that location to meet internal demand, whose outermost boundaries are defined in terms of the presence or absence of interactions with that central or dominant location (for example, a localized area over which some specific activity or transaction takes place). Note that in central place theory context, the terms trade area and range are used interchangeably. Also see *range*.

**Trade area gap analysis**

A gap analysis performed on a specific trade area located within a predetermined market area or city.

**Traffic generators**

A business, retailer, or site that draws business to a given location (for example, a large retail store/anchor in a regional shopping mall that generates traffic for smaller retail shops located within the mall or nearby).

**Transaction management process**

A continuous, cyclical four-stage process in which a transaction manager is involved with qualifying, matching, closing, and adding value for clients. Also see *qualify, match, close, and add value*.

**Transfer income**

Money that is transferred to a local economy from outside sources without the exchange of any good or service (including social security, welfare and retirement benefits, interest dividends and rent on investments).

**TVM**

See *time value of money*.

## -- U

### **Urban system (city as a system)**

A complex and structured urban environment or system composed of highly diverse, interacting, and interdependent parts and activities aggregated or organized in such a way as to serve a common purpose and/or satisfy the needs and wants of people residing in and dependent upon that system.

### **Useable 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 × building efficiency percentage.

### **User criteria**

In reference to the identification and classification of properties and the evaluation of feasibility characteristics of various locations/sites in accordance with the specific needs of the user as defined by its business requirements, and the use and zoning restrictions in any given jurisdiction or municipality.

## -- V

### **Vacancy**

The number of units or space (of a specific commercial type) that are vacant and available for occupancy at a particular point in time within a given market (usually expressed as a vacancy rate).

### **Vacancy allowance**

A desirable level of vacancy that is known to facilitate transactions and turnover in a housing market (for example, a vacancy rate that allows the market to operate smoothly and efficiently by enhancing household mobility); an index used for estimating housing demand.

### **Vacancy rate**

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

### **Variable**

A measurable attribute of a person, place, property, location, or other phenomenon of interest, whose value may vary from observation to observation.

### **Variable expenses**

Costs, such as utilities, that vary with a building's occupancy rate.

## -- W

### **Weighted average cost of capital (WACC)**

The average cost of capital (whether equity or debt), taking into account the relative proportions of each source of capital. (Encyclopedia of Real Estate Terms 2nd Edition, Damien Abbott)

**Workstation GIS**

Mainframe-oriented or UNIX-based computer-software products, programs, and systems that are specifically geared toward large-scale applications, requiring large platforms and advanced programming skills and knowledge.

**-- X**

No glossary terms are available.

**-- Y****Yield**

A measure of investment performance that gauges the percentage return on each dollar invested. Also known as *rate of return*.

**-- Z****Zoning**

The designation of specific areas by a local planning authority within a given jurisdiction for the purpose of legally defining land use or land use categories.