

# Glossary

**AMORTIZING LOAN:** a loan for which interest and principal are paid steadily throughout the loan's term.

**APPRAISER:** someone who determines the fair market value of a property.

**AREA MEDIAN INCOME (AMI):** the median income, generally defined by the U.S. Department of Housing and Urban Development, for a household in a given area.

**ASSET:** something you own that represents an economic benefit (e.g., cash, accounts receivable, or buildings).

**BALLOON LOAN:** when the loan term and amortization period do not match (e.g., 15 years versus 30 years), and, at the end of the loan term, the borrower is required to pay off the loan, the borrower must make a lump sum or "balloon" payment.

**BUILDING CODES:** the rules or standards set by a municipality that dictate how a building must be constructed.

**BUILDING OUT:** the customized interior changes a landlord may make to prepare a commercial space for a tenant.

**CAPITAL:** another word for money; see "debt" and "equity."

**CASH FLOWING:** when the cash inflows of a project are higher than cash outflows, during a given period.

**COMMUNITY DEVELOPMENT OFFICE:** a department in a municipality that is responsible for managing the housing and economic and community development needs of its residents.

**COMPARABLES ("COMPS"):** rental properties with similar characteristics as the property to which they are being compared. These characteristics generally include building size, age, class, amenities and location.

**DEBT:** capital that is lent with the expectation that the borrower will repay the full amount plus interest, on a regular basis, usually monthly.

**DEBT SERVICE:** the amount of money needed to pay the principal and interest of a loan.

**EFFECTIVE INCOME (EI):** projected income from a rental property, minus its anticipated vacancy and collection losses.

**EQUITY:** capital provided by you, your business partners, or an investor that is required by lenders as part of the total funding sources. Equity investors are generally rewarded by fees for use of their capital, a portion of the NOI (after your monthly debt payment is paid), tax benefits, and a portion of the property's value at the time of sale or some other predetermined time.

**EXPENSES:** the costs associated with keeping a rental property stable and well maintained.

**FIXED RATE:** an interest rate that remains the same during the term of the loan.

**FULLY AMORTIZING LOAN:** when the loan term and amortization period match (e.g., 30 years/30 years), such that the full loan amount will be paid off once the borrower reaches the end of the loan term.

**GENERAL CONTRACTOR (GC):** an individual or company who manages the daily logistics and oversight of a construction project.

**HABITABLE:** when a building is healthy (see definition of “healthy” below) enough for it to be occupied. One measure of a building’s habitability is whether it meets a municipality’s building codes.

**HARD COSTS:** direct construction costs.

**HEALTHY:** a stable and well-maintained property.

**IMPUTED VALUE:** assumed value given to an item when the actual value is not known or available.

**INCOME:** for a rental property, the money a tenant gives an owner in exchange for use of a space (residential or commercial units) or for use of an amenity (e.g., on-site parking or laundry).

**INCOME VERIFICATION:** in instances where subsidies are used, the process by which owners confirm that their tenants qualify given the income ceiling parameters for the subsidies.

**INTEREST:** amount charged to a borrower by a lender (as a percent of the loan principal) for a loan.

**LAND BANKS:** organizations which (generally in partnership with a government entity) acquire distressed buildings or land for the purposes of redevelopment (for the public good).

**LAWYER:** a person who practices law and is qualified to provide legal advice and services.

**LEASE-UP THRESHOLD:** a requirement (prior to converting a construction loan) that a certain percentage of a property’s units have signed leases (even if the renters are not yet able to move in).

**LIABILITIES:** something that is a future obligation (money that has to be paid).

**LINE ITEMS:** entries in an income and expense statement or construction or rehabilitation budget.

**MIXED USE:** properties with a combination of residential and commercial uses.

**MORTGAGE OFFICER OR LOAN OFFICER:** an employee of a lender who helps borrowers through the process of borrowing money.

**NET OPERATING INCOME (NOI):** the difference between a rental property’s income and its expenses, other than debt service.

**PERFORMING:** a performing property is one with low vacancy rates that is generating income in keeping with projections, with no large, unforeseen expenses, and that is paying its debt service.

**PLAN AND COST REVIEW:** a review of the architectural drawings and the construction costs of a particular project to ensure they are in line with industry standards.

**PRINCIPAL:** initial amount of a loan (not including interest payments).

**PRO FORMA:** an evolving set of calculations that help determine whether the project meets the feasibility criteria of you and your lender.

**PROPERTY MANAGER:** a person or company who is responsible for performing all activities associated with keeping a rental building operating efficiently and at full occupancy.

**REALTOR:** a real estate agent who supports the buying and selling of properties, usually for a fee.

**RENT ROLL:** a list of all of the tenants of a building, as well as the rents due and the rents paid.

**SCOPE OF WORK:** work to be performed according to a contract, broken down by cost per item.

**SMALL BUILDINGS:** generally understood to be any multifamily rental property (or combination of properties) with a total of between 5 and 49 units.

**SOFT COSTS:** any construction project cost that is not a direct construction cost.

**SUBCONTRACTORS:** individuals or companies hired during a project to perform trade-specific tasks, such as plumbing, electric, drywall, and painting.

**STABILIZE:** work performed on a property to ensure it is healthy.

**SUBSIDY:** funding provided by some level of government (e.g., municipal, county, or state) and made available to a project because that project has been deemed by the issuing entity to provide a public good.

**TERM:** the period during which a borrower will make payments on a loan. The loan may or may not be fully paid off at the end of the loan term (see amortizing loan).

**THIRD PARTY:** an individual or entity that is involved in the loan process but is not the borrower or the lender.

**TITLE REPORT:** a written analysis of a property's ownership and lien history.

**TRAILING TWELVE MONTHS ("T-12"):** documentation of a building's income and expenses from the prior 12 months.

**UNDERWRITING:** the due diligence lenders perform to ensure their borrowers (based on the likely performance of their rental properties), as well as their character, credit, liquidity, etc.) can repay their loans in a timely manner.

**VARIABLE RATE:** an interest rate that fluctuates during the term of a loan.

**ZONING:** the division of a municipality's land into zones, each designated for specific purposes and subject to associated regulations.