



## Glossary of Commercial Investment Real Estate Terms

### 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. Contrast with *passive income*.

**Add-on factor** • Calculated by dividing rentable square feet by useable square feet, the add-on factor can be used to evaluate different sites with comparable rents. Also known as *load factor* and *rentable-to-useable ratio*. Contrast with *efficiency percentage*.

**Add value** • Final stage of the 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. See *CLOSE, MATCH, and QUALIFY*.

**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** • *Annual debt service*

**Agglomeration economies** • Cost reductions or savings that result from efficiency gains associated with the concentration or clustering of firms/producers or economic activities and the formation of a localized production network.

**Aggregate 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. See *gap analysis*.

**Aggregation** • A method for estimating a functional region by combining standard formal geography units, such as zip codes.

**Amortization** • The repayment of loan principal and interest through equal payments over a designated time period.

**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 into account all charges made to the borrower, including compound interest, discount points, commitment fees, and mortgage insurance premiums. APR also takes into account the time at which the principal is repaid (particularly payments of principal made in installments throughout the year, when interest is charged at the beginning of the year), but not the actual expenses the lender incurs in making the loan that are recharged to the borrower.

**Annuity** • Regular fixed payments or receipts over a designated time period.

**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.

**APR** • *Annual percentage rate*

**Assessed value** • The value of real property that the tax assessor establishes for the purpose of levying real estate taxes.

**Assignment** • A transfer in which all of the tenant's leasehold interest in a property goes to another party. Nevertheless, the original tenant remains liable unless released from future obligations by the owner.

**Average annual effective rate** • The average annual effective rent divided by the total square feet.

**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 or year's vacancy rate by averaging previous yearly vacancy rates. It is especially effective when vacancy rates have remained relatively flat or show little variability over time.

**Axial growth theory** • A theory of land use that builds on the concentric circle theory by adding transportation routes; it posits that while the central business district (CBD) is the most extensively used land, growth outside of the CBD occurs along axes of transportation such as major roads or train routes. See *concentric circle theory*.

## B

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

**Barrier to entry** • An obstacle preventing a competitor from coming into the marketplace. In terms of the real estate market, a barrier to entry is anything that keeps developers from creating supply in the market. Barriers to entry in real estate markets may result from geographic scarcity, uniqueness of locations, lack of access to capital markets, and land-use regulations.

**Barrier to growth** • Any hindrance to growth patterns and vectors. These may be physical barriers such as a river, mountain, or limited-access highway; political barriers such as an anti-growth city council; or intangible barriers such as a perception of an area as undesirable.

**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. Escalations are calculated from the annual base rate. See *contract rent*.

**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 property to the mortgagor and mortgagee.

**Break-even point** • The stage when an investment produces an income that is just sufficient to cover recurring expenditures. For a property investment, it is the point at which gross income equals normal operating expenses, including debt service (when the next cash flow becomes positive). Also called default point.

**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.

**Build-to-suit** • A contract in which the owner agrees to develop or finish a property or space to the specifications of the tenant. The tenant may partly carry the cost in the form of increased rent.

**Bulk** • Industrial space category that describes properties consisting of little more than four walls, a roof, and a floor. They can be very large, averaging 50,000 square feet.

**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 to the rental housing market (or vice-versa) as a result of changing market conditions.

## C

**CAM** • *Common area maintenance*

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

**Cap rate** • *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. They are 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. See *operating expenses*.

**Capital gain** • Taxable income derived from the sale of a capital asset. It equals the sale price less the costs 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.

**Capital tax** • Tax on a change in capital value, including capital gains tax, estate tax, or inheritance tax. It is distinguished from a tax on income.

**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 known as cap rate.

**Cash-on-cash rate** • A return measure that is calculated as cash flow before taxes divided by the initial equity investment.

**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 taxes (CFAT)** • For properties, it is the result of several steps (see following formula), 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, tax liability (savings), CFBT, and CFAT.

Net operating income	
– Interest	
– Cost recovery	
– Amortization of loan points	
Real estate taxable income	
x 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 taxes (CFBT)** • For properties, it is the result of several steps; 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. See *cash flow after taxes*.

**Cash flow model** • The framework used to determine the cash flow from operations and the cash proceeds from sale.

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

**Census block** • The smallest geographic area for which census data is collected.

**Census block group** • Agglomerations of census blocks with approximately three or four block groups on average per census tract; block groups are convenient areas for market analysis and are the smallest area for which detailed census information is available to the public.

**Census tract** • The largest contiguous geographic areas below the county level for which census data is available; census tracts are agglomerations of census block groups.

**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. It explains differences in the locational tendencies and preferences of businesses as they seek to maximize market accessibility, sales, and profits.

**Centroid** • A point on a map that typically represents the population center of a defined region. (A centroid also could be used to identify the center point of any criteria of concern, not just population. For example, a centroid might identify the source of regional sales.)

**CFAT** • *Cash flow after taxes*

**CFBT** • *Cash flow before taxes*

**City** • An urban settlement or system containing various functions, agents, institutions, and components that 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).

**City as a system** • A complex and structured urban environment 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. Also known as urban system.

**Class life** • The useful economic life of an asset defined by the Internal Revenue Service.

**CLOSE** • Third stage of the 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. See *add value*, *MATCH*, and *QUALIFY*.

**CMSA** • *Consolidated Metropolitan Statistical Area*

**Commercial real estate** • Any multifamily (residential income), office, industrial, or retail property that can be bought or sold in a real estate market.

**Commercial strip property** • A strip of commercially zoned land divided into parcels to be developed for retail use. These properties usually have a fairly narrow trade area and offer a variety of products and services.

**Common area** • Areas within a building and its site, such as lobbies, hallways, grounds, and parking lots, that are available for non-exclusive use by all tenants.

**Common area maintenance (CAM)** • Charges the tenant pays for the upkeep of areas designated for use and benefit of all tenants. CAM charges are common in shopping centers, where tenants are charged for items such as parking lot maintenance, snow removal, and utilities.

**Community center** • Retail property type that typically offers a wider range of apparel and other soft goods than neighborhood centers. Among the more common anchors are supermarkets, super drugstores, and discount department stores. Community center tenants sometimes are off-price retailers selling such items as apparel, home improvement/furnishings, toys, electronics, or sporting goods. The center is usually configured as a strip, in a straight line, or L- or U-shaped. Of the eight shopping center types, community centers encompass the widest range of formats. For example, certain centers anchored by a large discount department store refer to themselves as discount centers. Others with a high percentage of space devoted to discount retailers are termed off-price centers.

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

**Competition (retail)** • A market condition or setting in which numerous firms compete for a share of the retail market in a given geographic area. The term also denotes 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.

**Concentric circle theory** • A theory that most cities have a clearly visible core that serves as the central business district (CBD) where office buildings, major department stores, and government offices are located. The second area, which surrounds the CBD, represents a zone of transition where some manufacturing takes place and where some low-

income housing is located. The third area or ring is low-income residential. The outermost ring contains middle and higher-income housing. See *axial growth theory*.

**Confidence range method (95%)** • A statistical method of estimating a range of vacancy rates with 95% confidence, using sample mean vacancy rate and corresponding standard deviation, such that the expected vacancy rate for the next time period falls within that range.

**Consolidated Metropolitan Statistical Area (CMSA)** • A combination of two or more MSAs. See *Metropolitan Statistical Area (MSA)*.

**Contract rent** • The total monetary rental obligation specified in a lease. See *base rent*.

**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 it.

**Cost approach improvement value** • The current construction cost to reproduce or replace an existing structure, less the estimate of all accrued depreciation.

**Cost of capital** • See *weighted average cost of capital*.

**Cost recovery** • An annual deduction based on the class life of an asset.

**Cost-recovery recapture** • According to the Internal Revenue Service 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 demand** • Industrial space that is used as office space in order to lower the rental rate of a property. See *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 later can be mapped to determine the extent of a trade area.

## D

**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).

**DCR** • *Debt coverage ratio*

**Debt-coverage ratio (DCR)** • Ratio of net operating income to annual debt service. Expressed as net operating income divided by annual debt service.

**Demand** • The volume or quantity of a product or service purchased, or that users are willing to purchase, in relation to price.

**Demand conditions/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 socioeconomic conditions.

**Depreciation** • The loss of utility and value of a property.

**Designated market area (DMA)** • Television or broadcast market areas as defined by Nielsen Media Research.

**Desktop geographic information system (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 geocoded data.

**Differential cash flow** • The difference that results when cash flows from one alternative are subtracted from cash flows from another alternative. See *IRR of the differential*.

**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. This method is used to estimate firm-specific basic employment and, by aggregation, the total basic employment in that community; it is known to be costly and time-consuming.

**Disaggregating demand** • The process of separating and identifying various forces and factors that 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 various forces and factors that 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. See *opportunity cost*.

**Discounted effective rent** • The cash flows over the lease term, 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. See *opportunity cost*.

**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 since sales are generated from consumers who reside outside the local trade area).

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

**DMA** • *Designated market area*

**Drain information** • Information (substantiated and rumored) regarding inventory that is to be removed from the market within a forecasted 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 can determine whether actual conditions reflect the information represented.

## E

**Economic base** • 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 constant); 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 measurable activities attributable to employment take place.

**Efficiency** • A measure of the capacity or effectiveness of space to produce 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 is calculated by dividing useable square feet by rentable square feet. Contrast with *add-on factor*, *load factor*, and *rentable-to-useable ratio*.

**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 that influence or modify that environment.

**Environmental hazards** • Any physical or natural condition or event that 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 activities such as emissions, waste disposal, and water and power usage.

**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.

**EV** • *Expected value*



**Exchange** • Real estate traded for other like-kind property. 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 with all capital gains taxes deferred until the newly acquired real estate is disposed of in a taxable transaction. The 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 increasing and/or pent-up demand and rising price levels. During this phase, construction activity increases dramatically, but vacancy rates remain at the normal level or lower.

**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 outcome are used as weights. The sum of each possible value multiplied by its probability of occurrence equals the expected value of the outcome. EVs can be calculated for various outcomes such as net operating incomes, after-tax cash flows, and internal rates of return (IRRs). An example of calculating the EV of the IRR for an investment follows:

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** • Tendencies or propensities of individuals/households to spend disposable income on given goods or services 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 socioeconomic characteristics.

**Expense stop** • The level (or maximum amount) up to which the landlord will pay certain operating expenses. Amounts above the expense stop are the tenant's responsibility. See *rent escalators*.

**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. Another example is depressed market conditions.

## F

**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 an asset (or liability) could be bought (or incurred) or sold (or settled) in a transaction between willing parties, other than in a forced or liquidation sale.

**Fashion/specialty center** • This retail center type 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 sophisticated, emphasizing a rich decor and high-quality landscaping. These centers usually are in trade areas having high-income levels.

**Feasibility analysis** • The evaluation of a proposed project to determine if it will satisfy the objectives set forth by the agents involved (including owners, investors, developers, and lessees). See *market feasibility*.

**Financial feasibility** • The capability of the projected financial picture of a project to indicate sufficient profit to justify the risk to a particular investor or user.

**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 its potential use (for example, space that could be utilized for industrial or office activities). 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 region** • A region identified by political jurisdiction or on the basis of the presence or absence of one or more distinguishing features or characteristics. See *formal/geographic data*.

**Formal/geographic data** • Information collected and presented by formal region. See *formal region*.

**Freestanding** • A term used to describe industrial and commercial properties. The property type often is developed in an industrial park setting or as a build-to-suit on a selected piece of property. Freestanding properties usually are designed for manufacturing, distribution, assembly, packaging, and similar uses. In commercial establishments providing goods and services in single- or multiple-use buildings of various sizes, the larger, newer freestanding stores also are referred to as big boxes.

**Fully amortized mortgage loan** • A method of loan amortization in which equal periodic payments completely repay the loan.

**Functional components** • Factors that determine how a location or site functions.

**Functional data** • Information collected and presented by functional region. See *functional region*.

**Functional feasibility** • Considerations made in the site-selection process that 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. It is 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 typically are organized as a trade area about a dominant location, center, or economic activity. See *functional data*.

**Future value (FV)** • The amount to which money grows over a designated time period at a specified interest rate.

**FV** • *Future value*

## G

**Gap analysis** • An evaluation of the difference in the demand and supply of space (measured in terms of square feet) for a particular type of commercial property in a given market area where gaps are expressed as the amount of square feet demanded less the amount of square feet available in a given time period. If demand exceeds supply, the gap will be positive, which 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), since an oversupply of available space exists in the market. See *aggregate market area gap analysis* and *retail gap analysis*.

**General market factors** • Factors influenced by 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. See *multiple-use office space*.

**Geocode** • The process of defining any geographic point, line, or area by its latitude and longitude, then displaying it on a map; a feature included in most GIS programs.

**Geographic information system (GIS)** • System (usually computer-based) used for capturing, handling, storing, retrieving, managing, manipulating, and displaying geographic information or geocoded data.

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

**GIS** • *Geographic information system*

**GLA** • *Gross leasable area*

**Globalization** • A concept used to recognize cross-jurisdictional interdependencies and the continuing integration of local, regional, and national economies to form a larger economic and production system that is worldwide in scope and application.

**GOI** • *Gross operating income*

**Government incentives** • Concession given or measures taken by local or regional government to attract firms or investment dollars to a given locality to promote economic growth and encourage development.

**Gravity model** • A model 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. It is calculated by multiplying mass times mass, then dividing by distance squared. See *retail gravity model*.

**GRM** • *Gross rent multiplier*

**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, 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 the landlord pays all expenses associated with owning and operating the property. Contrast with *net lease*.

**Gross operating income (GOI)** • The total income generated by property operations before payment of operating expenses. It is calculated from potential rental income, 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. It calculates the market value of a property by using the gross rents an investor anticipates the property will produce at end of year one multiplied by a given factor. This factor is known as the gross rent multiplier, which is derived from the marketplace.

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

**Growth patterns** • The patterns of urban or population growth in a geographic market. These are 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.

**Growth vectors** • An existing land use of an area that accelerates the direction of city growth along or toward that area; for example, along a transportation route or at the intersection of major routes.

## H

**Heavy utility needs** • 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 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 lower order good. Contrast with *lower order good*.

**High-rise** • An office building that the Building Owners and Managers Association defines as greater than 25 stories above ground.

**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, according to the Appraisal Institute.

**Highest and best use financial analysis** • A determination of the highest and best use of one or more vacant or as though vacant 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.

**Household population** • The total number of households in a given geographic market or submarket as defined by specific demographic and socioeconomic 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. Demand is affected by the rate at which new households are being added to the market, allowing for a normal vacancy level.

## I

**Imperfect market** • A market in which product differentiation exists, important product information is lacking, 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 outside areas.

**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. 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. It is calculated by dividing net operating income by capitalization rate.

**Index lease** • A lease in which the rental amount adjusts according 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 park** • Industrial space category that is a planned development often controlled and administered by one person or an investment entity such as a real estate investment trust (REIT). The types and character of uses are controlled to protect and preserve compatibility. Industrial parks can serve mixed-use, single-use, special scientific and technological uses, or sophisticated communications uses.

**Industrial property** • Commercial properties that are used for the purposes of production, manufacturing, or distribution. Types of industrial properties include: bulk, freestanding, industrial park, multi-tenant, office/service, office/warehouse, and research and development.

**Industrial service area** • The geographic market area 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.

**Insurable value** • The value of the portions of the property that are physically destructible.

**Intangible characteristics** • Attributes 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 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. See *internal rate of return* and *IRR of the differential*.

**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** • *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. See *differential cash flow* and *internal rate of return method*.

## L

**L/V** • *Loan-to-value ratio*

**Labor pool** • A body or core group of employed and employable workers that make up the local labor force.

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

**Landlord** • The owner of a leased property. See *lessor* and *owner*.

**Landlord-paid tenant improvements (LPTI)** • The total cost (outlay) of necessary tenant improvements the landlord pays netted against any tenant contribution.

**Leakage** • 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 stating the relationship between landlord and tenant that grants a right to exclusive possession or use of property, usually in return for a periodic payment called rent.

**Lease buyout** • The process by which a landlord, tenant, or third party pays to terminate the tenant's remaining lease obligation and rights under its existing lease agreement.

**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).

**Leased fee** • In exchange for permitting a tenant to use the property, the owner/lessor has the right to receive rental income and to repossess the property upon termination of the lease.

**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 party renting or leasing a property. See *tenant*.

**Lessor** • The party who rents or leases a property to another. See *landlord* and *owner*.

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

**Lifestyle characteristics** • Also known as *psychographics*.

**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, such as foreclosure or tax sale. This value is 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 can be used to evaluate different sites with comparable rents. Also known as the *add-on factor* and *rentable-to-useable ratio*. Contrast with *efficiency percentage*.

**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.

**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 the lender recognizes when securing a loan.

**Loan points** • Also known as *points*.

**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 feasibility** • An analysis technique that attempts to establish whether a general location is both possible and practical for a specific use. See *site feasibility*.

**Location quotient** • An index, defined as a ratio, that compares the proportion of a local activity to the proportion of that activity found on some larger geographic scale, such as a 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.

**Low-rise** • An office building that the Building Owners and Managers Association defines as fewer than seven stories above ground.

**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. Contrast with *high-order good*.

**LPTI** • *Landlord-paid tenant improvements*

## M

**Macroeconomy** • Used synonymously with national economy, it is used in reference to matters of economy or economic factors and forces portrayed or operating at the macrolevel.

**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.

**Market adjustment** • 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 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 data** • Information collected and displayed for a given market or by market area.

**Market data approach** • A method of determining a property's value by analyzing recent sales or rental prices of comparable properties.

**Market dynamics** • Changing market conditions and the underlying processes responsible for defining or redefining interrelationships among components in an economic system. For example, the change in price levels of a given commodity is considered an outcome of the forces of supply and demand.

**Market equilibrium** • A state in which supply equals demand; that is, there is no upward or downward pressure on prices since these forces are in balance.

**Market feasibility** • Pertaining to the evaluation or selection of a site or an analysis of a site's highest and best use. 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. See *aggregate market area gap analysis*.

**Market opportunities** • Advantageous circumstances in a market that facilitate a given action or outcome generally viewed as favorable from an investment perspective.

**Market pricing** • The pricing of commodities, including rental rates of various types of commercial properties, determined by the forces and factors influencing a market.

**Market risk** • The possibility that downward market trends will reduce an investment's market value.

**Market share** • 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, the market strategy of avoiding real estate transactions may be used when an oversupply of space exists 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.

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

**MATCH** • Second stage of the four-stage transaction management process to gather and evaluate 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. See *add value*, *CLOSE*, and *QUALIFY*.

**Mean** • A measure of central tendency for a distribution of values. Mean is the average value of a variable in a sample, calculated by adding all the values observed in a data set and dividing the sum by the number of values observed.

**Median** • The middle value of a data set or sample when the values are ordered 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 that 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 midway between the two middle values. 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 defines an MSA as a city with a population of at least 50,000, or an urbanized area with a population of at least 50,000 within a total metropolitan population of 100,000.

**Mid-rise** • An office building that the Building Owners and Managers Association defines as between seven and 25 stories above ground.

**Midmonth convention** • A requirement of the Tax Reform Act of 1984 for taxpayers to use the 15th of the month as the acquisition and disposition dates 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. It is assumed to be the employment/activity level that is necessary to serve the needs of a community and 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 obtained by comparing employment levels by economic sector to the identified minimum requirement. See *minimum requirement*.

**Mortgage** • The legal document that secures property for the repayment of funds borrowed to purchase real estate.

**Moving allowance** • A specified dollar amount paid by the owner to cover, in part or in whole, tenant moving expenses. See *moving expense*.

**Moving expense** • The cost incurred by the tenant to move into a new space. The owner may pay a portion or all of the expense, depending on what is negotiated in the lease. See *moving allowance*.

**MSA** • *Metropolitan Statistical Area*

**Multi-tenant** • Industrial space category that attracts the smallest user of industrial space (1,000 to 5,000 square feet). It often is situated in a complex of similar buildings, where necessary support services are located in or near the

complex. Multi-tenant properties might contain incubator space for start-up high tech, warehousing, or distribution tenants renting on a short-term basis. Buildings for such tenants usually require 18-foot or higher ceilings, efficient truck-loading arrangements, and office space.

**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. See *generic space*.

**Multiple nuclei theory** • A theory describing urban growth patterns in which new urban centers are created within residential areas; the new centers appear as satellite communities that are smaller versions of the central business district.

## N

**n** • A component of a T-bar that represents the number of periods over which an investment is held.

**North American Industry Classification System (NAICS)** • The system was developed as a byproduct of the North American Free Trade Agreement. NAICS classifies an additional 350 industries not included in the Standard Industrial Classification codes. NAICS focuses on the production process and describes exactly which manufacturing process is performed in a facility. See *Standard Industrial Classification (SIC)*.

**Negative leverage** • An investment situation in which borrowed funds are invested at a rate of return lower than the cost of funds to the borrower.

**Neighborhood center** • A center designed to provide convenience shopping for the day-to-day needs of consumers in the immediate neighborhood. Supermarkets and drug stores anchor many of these centers. Stores supporting these anchors offer pharmaceuticals and health-related products, sundries, snacks, and personal services. A neighborhood center usually is 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. Contrast with *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 equal to the yield provided by the investment.

**NOI** • *Net operating income*

**Nonbasic 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.

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

**NPV** • *Net present value*

## O

**Obsolescence** • The inadequacy, disuse, outdatedness, or nonfunctionality of facilities, infrastructure, products, or production technologies due to effects of time, changing market conditions, or decay. This factor is 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** • Expenditures required to assume and maintain occupancy of a space. These include rent and/or mortgage payments and recurring costs, such as real estate taxes, repairs, operating expenses, and other costs directly resulting from property use. The occupancy cost is 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 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 maintained or occupied by 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 sometimes is called generic office space. Office properties may be classified as Class A, B, or C. Class A properties are the most functionally modern. Class B and C properties in the same market typically command lower rents because they are older and in need of modernization.

**Office/service** • Industrial space category in attractive, park-like settings with landscaping. They are usually at the highest end of market rents and devote more than 25 percent of their space to offices. Office/service properties are similar to research and development facilities.

**Office/warehouse** • Industrial space category that may devote 5 to 25 percent of its space to office requirements and typically is constructed of metal, brick, block, or wood. This category usually features dock-high loading.

**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. See *discount rate* and *discounting*.

**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. These centers consist mostly of manufacturers' outlet stores selling their own brands at a discount and typically are not anchored. A strip configuration is most common, although some are enclosed malls, and others can be arranged in a village cluster.

**Overage rent** • Also known as *percentage rent*.

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

**Owner** • The party who has the right to possess, use, lease, and sell a property. See *landlord* and *lessor*.

**Owner's moving expense** • Also known as *moving allowance*.

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

## P

**Partially amortized mortgage loan** • A loan in which the payments do not repay the loan over its term, so a lump sum (balloon) is required to repay the loan at the end of the term.

**Participation mortgage** • A mortgage that provides the lender a share in the property's annual net cash flow, gain on sale, or proceeds from refinancing.

**Passive income** • Income from rental activity, limited business interests, or other activities in which the investor does not materially participate. Contrast with *active income*.

**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 rent over a base amount that tenants pay to owners on tenant sales over a specified dollar amount. It frequently is 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** • Accrued depreciation that is considered in the cost approach to market value. This physical decay or deterioration of a property may result from breakage, deferred maintenance, aging construction materials, and normal wear and tear.

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

**Pipeline information** • Information, both 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** • 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, and new construction.

**Planned removed inventory** • 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.

**PMT** • *Payment*

**Points** • Charges prepaid by the borrower upon origination of a loan. One point equals 1 percent of the loan amount. Also known as loan points.

**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 housing demand.

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

**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 required to sustain a business. The trade area is derived by calculating the population necessary to support total square feet of both existing and proposed space for a specific-use and determining the extent of the area based on population density.

**Portfolio income** • Income from interest, dividends, royalties, or the disposition of property held for investment.

**Positive leverage** • An investment situation in which 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** • A retail center 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 anchors and only a minimum number 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 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. Contrast with *net present value*.

**Prestige and property classes** • Recognition that various status levels 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. It typically involves 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 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. With this technique, probabilities of the best-case, most-likely, or 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.

**Promissory note** • The written promise to repay the mortgage loan that accompanies the mortgage.

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

**Property market** • The supply and demand for ownership interests in property.

**Property type** • The classification of commercial real estate based on its primary use. The four primary property types are retail, industrial, office, and multifamily (residential income).

**Proprietary data** • Information obtained, usually at a cost, from private sources or firms. These sources hold exclusive rights to manufacture and distribute these business, sales, and market-potential data and other information services to a targeted audience.

**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. Also known as lifestyle characteristics.

**Purchasing power risk** • The variability in the future purchasing power of income received from an investment.

**PV** • *Present value*

## Q

**QUALIFY** • First stage of the 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. See *add value*, *CLOSE*, and *MATCH*.

**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. They reflect a state of mind or position on the prevailing quality of existence in relation to various socioeconomic 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 around a location where a good or service may be purchased can be identified easily through knowledge of the range. Note that in central place theory context, the terms trade area and range are used interchangeably. See *trade area*.

**Rate of return** • A gauge of the percentage return on each dollar invested. See *yield*.

**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 macroeconomic conditions, whose phases include (in order) recession, recovery, expansion, and oversupply.

**Real estate fluctuations** • Short-term variations in real estate prices or rents lasting from one day to a few months caused by natural disasters 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 ownership in a trust, which in turn invests the money in real estate and distributes at least 90 percent of its taxable income to investors. The trust is not subject to corporate income tax if it complies with REIT tax requirements. Shareholders must include their REIT income in their personal tax returns.

**Real estate trends** • Long-term movements or tendencies in the demand for commercial real estate, typically lasting for years or decades, usually tied to macroeconomic 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. It is 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 reasonable financing opportunities become available.

**Regional center** • A retail center that 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 has parking surrounding the outside perimeter and is enclosed with an inward orientation of stores connected by a common walkway.

**Regional input-output modeling (RIMS II)** • A mathematical approach to describe 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, it is 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.

**Regulatory requirements** • 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.

**REIT** • *Real estate investment trust*

**Rent concession** • A period of free rent or other allowance that the owner gives to the tenant.

**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. See *expense stop* and *index lease*.

**Rentable-to-useable ratio** • The ratio of rentable area to useable area. This ratio can be used to evaluate different sites with comparable rents. Also known as *add-on factor* and *load factor*. Contrast with *efficiency percentage*.

**Rentable area** • The computed area of a building defined by Building Owners and Managers Association guidelines 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.

**Replacement cost** • The estimated cost at current prices to construct a building with utility equivalent to a building being appraised, using modern materials and current standards, design, and layout, according to the Appraisal Institute.

**Research and development** • Industrial space category that is a hybrid of office and manufacturing. The research and development category is the most people-intensive of industrial properties. Tenants of these properties usually require many improvements, such as clean rooms for chip manufacturing, laboratories, cafeterias, lounges, and other amenities. Research and development properties have rental and sale values second only to pure office space among commercial properties.

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

**Retail** • *Retail property*

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

**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. See *gravity model*.

**Retail property** • Property used to market and sell consumer goods and services. Types of retail properties include: community center, fashion/specialty center, neighborhood center, outlet center, power center, regional center, superregional center, and theme/festival center.

**Retail trade area** • Also referred to as service area, it generally is defined as the geographic or formal area from which a sustained patronage is attracted to support a retail center or establishment. This 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 drive 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-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.

**Sale cost** • The brokerage commissions and fees plus any additional transaction costs incurred during the sale of a property.

**Sale proceeds after tax** • The sale proceeds before tax minus the tax liability on the sale.



**Sale 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 estimated value used to compare a property being appraised to similar recently sold properties. It applies appropriate units of comparison and makes adjustments to the sales prices of the comparables based on the elements of comparison.

**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 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 a property mathematically equal to the present cost of owning.

**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** • Also known as *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.

**Sector growth theory** • A theory describing the different land-use patterns around a central business district. In contrast to other concentric circle theories, growth occurs at the periphery rather than at the center.

**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.

**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 that the property's tenants serve. This concept becomes less applicable as the service area of the customer base increases.

**Shift-share analysis** • A method that helps investors examine the relative strength of different markets by measuring how well a market's businesses have performed over a defined time period relative to businesses nationally within a particular industry.

**Shopping center** • A group of commercial establishments designed, built, and managed as a unit to serve the immediate trade area. It provides on-site parking in proportion to the size, type, and number of stores in the center.

**SIC** • *Standard Industrial Classification*

**Simple average method** • A technique for calculating vacancy rate for a market area by calculating the vacancy rate for each building, then averaging these rates to get an overall rate.

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

**Site analysis** • The identification and evaluation of a site or sites to satisfy a given use or objective.

**Site factors** • Site-specific features, conditions, or attributes that are important in the analysis or evaluation of a location/site, such as relative location, visibility, aesthetics, landscaping, condition of existing structures, regulatory mechanisms, and lot size.

**Site feasibility** • An analysis technique that attempts to establish whether a specific site is both possible and practical for a specific use. See *location feasibility*.

**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 from the mean. More than 95 percent of the values of a data set will lie within two standard deviations (plus or minus) of the mean.

**Standard Industrial Classification (SIC)** • A system that government and industry use for general recording purposes to categorize and account for economic and employment activity by sector using a series of standardized and universally accepted codes. See *North American Industry Classification System (NAICS)*.

**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 lease** • A lease in which the rental amount paid by the lessee changes 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 geographic information system applications that allow the user to map objects by street address, such as commercial properties or retail establishments.

**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 Internal Revenue Service Section 1031 exchange and reduced by deferred gain. For example, if the market value of a property given up is \$200,000 and the basis in that property was \$75,000, then realized gain equals \$125,000. If 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 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 outlays 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 multiple levels.

**Supply** • The amount of property available for sale or rent at a given price or rental rate.

**Supply factors** • Elements or forces that influence the quantity of goods and services available in a given market.

**Supporting industries** • Industries that offer goods or services 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 that are held for use in future years or at the time of sale.

## T

**T-bar** • A chart used to summarize the timing of real estate cash flows.

**Tangible characteristics** • Attributes that are quantifiable, measurable, factual, or can be expressed numerically as data or statistics.

**Target market** • Likely users or investors whose needs match a 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 Lease Analysis 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 Lease Analysis Form. 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** • The affect of tax laws and codes on an investment.

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

**Technical feasibility** • An evaluation of multiple sites to determine which sites should be considered further based on physical limitations, regulatory requirements, and environmental and legal considerations. In highest and best use, it refers to the determination of the possible uses of a particular site based on technical considerations.

**Tenant** • A person or entity that has possession of a property through a lease. See *lessee*.

**Tenant-paid tenant improvements (TPTI)** • The total cost (outlay) of necessary tenant improvements paid by the tenant netted against any allowance provided by the landlord.

**Tenant improvements (TI)** • 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.

**Tenure** • A designation that distinguishes between the renter versus owner-occupied status of housing units or households.

**Theme/festival center** • A retail center that typically employs a unifying theme carried out by individual shops in their architectural design and, to an extent, in their merchandise. The biggest appeal of theme/festival centers is to tourists; restaurants and entertainment facilities can anchor them. Generally located in urban areas, these centers tend to be adapted from older, sometimes historic, buildings and can be part of mixed-use projects.

**Threshold population** • The minimum number of people or minimum market area or sales volume necessary to sustain a business or make it economically viable. See *high-order good* and *lower order good*.

**TI** • *Tenant improvements*

**TI allowance from owner** • Entry on the tenant's Lease Analysis Form. A specified amount of money the owner will pay for tenant improvements.

**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 the tenant pays over the entire period analyzed. It is calculated by dividing the total effective rent by the square feet 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** • The existing and available supply or stock 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** • For a specific commercial property type in a given market area, it is total existing inventory plus planned additional inventory minus planned removed inventory.

**Total supply of commercial real estate** • Refers to all existing space—vacant, occupied, built, forecasted, or demolished—for a particular market area for a specific time period.

**TPTI** • *Tenant-paid tenant improvements*

**Trade area** • An area delineated by a central or dominant location, comprising a zone that depends on 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).

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

**Traffic generator** • A business, retailer, or site that draws business to a given location. For example, a large retail store/anchor in a regional shopping mall can generate traffic for smaller retail shops located within or near the mall.

**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. See *add value*, *CLOSE*, *MATCH*, and *QUALIFY*.

**Transfer income** • Money transferred to a local economy from outside sources without the exchange of goods or services (including social security, welfare and retirement benefits, interest dividends, and rent on investments).

**TVM** • *Time value of money*

## U

**Urban system** • Also known as *city as a system*.

**Useable area** • Area available for the exclusive use of the tenant. It is the tenant's rentable area less certain common areas shared by all tenants of the office building (such as corridors, storage facilities, and bathrooms). It is calculated by multiplying the rentable area by the building's efficiency percentage (which is the useable square feet divided by the rentable square feet).

**User criteria** • The identification and classification of properties and the evaluation of feasibility characteristics of various locations/sites in accordance with user-specific needs as defined by the user's business requirements and use and zoning restrictions in any given jurisdiction or municipality.

## V

**Vacancy** • The number 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 (usually expressed as a vacancy rate).

**Vacancy allowance** • A desirable level of vacancy 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. It is calculated by dividing vacant space by total space.

**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 utility costs, that vary with a building's occupancy rate.

## W

**WACC** • *Weighted average cost of capital*

**Weighted average cost of capital (WACC)** • The average cost of capital (whether equity or debt), that considers the relative proportions of each capital source. See *cost of capital*.

**Weighted average method** • A technique for calculating the vacancy rate for a market area by dividing the sum of the vacant space by total space in the market.

## **Y**

**Yield** • The percentage return on each dollar invested. See *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.