

THINK

MULTIFAMILY

GLOSSARY

MULTIFAMILY TERMS

> **DOOR**

Industry term used instead of Unit.

> **T 1 2**

Trailing 12 P&L (Profit & Loss).

> **T 3**

Trailing 3 P&L (Profit & Loss).

> **OM**

Offering Memorandum – broker document describing the property.

> **RR**

Rent Roll – lists all tenants; their lease amount and lease start/end date.

> **PRO FORMA/UNDERWRITING**

Industry term referring to financially analyzing investment real estate.

> **CAP Rate**

A cap rate measures a property's rate of return for a single year without taking into account debt on the asset.

> **HARD MONEY**

Money that the seller keeps if you walk away from a deal. Hard money can be at time of contract, after due diligence, or any other time agreed upon.

MULTIFAMILY TERMS

➤ **RECOURSE VS. NON RECOURSE LOAN**

Recourse – personally liable

Non-Recourse – not personally liable

➤ **SYNDICATION**

Sponsor raises funds from a group of people.

➤ **ECONOMIC VACANCY**

This is the % that is not being collected against the market rents. Includes vacancy, bad debt/non-payment, actual rents vs. market rents.

➤ **LOI**

Letter of Intent (non-binding offer to purchase – 1 or 2 pages with key terms).

➤ **PSA**

Purchase and Sale Agreement – Contract between the buyer and seller.

➤ **NOI**

Net Operating Income.

➤ **RUBS**

Ratio Utility Bills System – Billing back the tenants for utilities.

MULTIFAMILY TERMS

> **ABP**

All Bills Paid - property pays for all utilities.

> **CASH FLOW**

Buy for cash flow and pay market price.

> **APPRECIATION**

Buy for appreciation (forced through rehab and/or operations; or natural based on the market).

> **DD**

Due Diligence – inspecting the property’s exterior and interior to determine the condition and deferred maintenance (required maintenance that the current seller has not performed); also includes lease audit.

> **KP/GUARANTOR**

Key Principal – Signs on the loan + equity
Guarantor – Signs on the loan, but no equity

> **PRICE TBD**

This is when a price is not listed in the OM. However, contact the broker and they will let you know the Strike Price/Whisper Price.

MULTIFAMILY TERMS

➤ **RE-TRADE**

After due diligence, the buyer goes back to the seller asking for items to be fixed and/or a credit to fix deferred maintenance items.

➤ **DISPOSITION**

Disposing or selling of a property.

➤ **LEVERAGE**

Using other money such as a loan.

➤ **AMORTIZATION PERIOD**

Number of years it will take you to repay the loan. Typically 20-30 years.

➤ **OA**

Operating Agreement - Most deals are created with a LLC governing how the LLC's business will be operated.

➤ **SA**

Subscription Agreement - Application by an investor to join a limited partnership (LLC) for real estate investing.

➤ **PPM**

Private Placement Memorandum - Private offering used to raise money from investors.

MULTIFAMILY TERMS

➤ **BOV**

Broker Opinion of Value – Broker provides this to a seller when the broker is trying to get the listing to sell the property.

➤ **BEST & FINAL**

Process whereby a seller down-selects buyers to a smaller group and asks them to submit their best and final offer.

➤ **PFS**

Personal Financial Statement – Has your assets and liabilities; net worth.

➤ **ASSET MANAGER**

Manages the property mgt. company. Fee is typically 1.5-2% to the asset manager.

➤ **LISTING BROKER**

The broker that has the property listed.

➤ **BUYER BROKER**

A broker representing the buyer.

➤ **JV**

Joint Venture – Sponsoring a deal with one or more other people.

MULTIFAMILY TERMS

➤ **WORKING CAPITAL**

Funds used for future capital items
(rule of thumb = 1 month of rents)

➤ **REVERSION CAP RATE**

Cap rate you think at time of sale for
the property.

➤ **DEFERRED MAINTENANCE (DM)**

Required maintenance that has not
been performed.

➤ **CAPITAL COSTS**

Costs can be capitalized over x# or
years for tax purposes. Example,
replace an AC unit.

➤ **MAINTENANCE EXPENSES**

Costs are expensed for tax purposes.
For example, fix an AC unit.

➤ **RISK FEE**

A fee charged to a tenant that has a lower
credit score.

➤ **PRIMARY MARKET**

5 million or more people, but also need to
look at the investment activity. For
example Detroit has more than 5 million
people, but low investment so it is
considered a secondary market.

MULTIFAMILY TERMS

- **SECONDARY MARKET**
2-5 million people, but also need to look at investment activity. For example, Austin has less than 2 million people, but is considered secondary due to investment activity.
- **TERTIARY MARKET**
Less than 2 million people.
- **YIELD MAINTENANCE**
A prepayment penalty that, in the event the borrower pays off a loan before maturity, allows the lender to attain the same yield as if the borrower had made all scheduled mortgage payments until maturity.
- **ALURA**
A Land Use Restrictions Agreement – Seller bought the property and received tax credits and now there is a limit on the amount of \$ a tenant can make. You will have a harder time selling this type of property.
- **PROOF OF FUNDS**
Account statements (excluding retirement) showing liquidity to close the deal.
- **PROPERTY TRADED FOR**
Term used to represent what a property sold for.