

## 101 Real Estate Investing Glossary

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New to real estate investing? Use this 101 glossary to learn more about common real estate investment management terms.

### **AMORTIZATION**

A gradual reduction of a loan debt through periodic installment payments of principal and interest, calculated to pay off the debt at the end of a fixed period.

### **ASSESSMENT**

A property's assessment is based on its market value. Assessments are determined by the assessor, a local official who estimates the value of property in a community.

### **BASIS POINT**

A unit equal to 1/100 of 1% and used to denote the change in a financial instrument.

### **CAPITAL EXPENDITURE OR CAP EX**

Money spent by a business to acquire or maintain fixed assets such as land, buildings, and equipment.

### **CAP RATE**

The ratio between a property's market value and its net operating income (NOI).  $\text{NOI} \div \text{market value} = \text{cap rate}$ , and/or,  $\text{NOI} \div \text{cap rate} = \text{market value}$ .

### **CASH FLOW**

The money that enters or leaves your pocket while you are operating an investment property. Positive cash flow is good; negative cash flow is bad.

### **COMMERCIAL LOAN**

A debt-based funding arrangement that a business can enter into with a financial institution.

### **DEBT SERVICE**

The cash required during a certain period for repayment of interest and principal on a debt.

### **DEPRECIATION**

The measure of how much a property's value has decreased over time.

### **DUE DILIGENCE**

A review of a potential investment, including a financial records analysis.

### **FINANCIAL INSTRUMENT**

A monetary contract between parties such as cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash. They can be created, traded, modified and settled.

## ISSUER

An issuer is a legal entity that develops, registers and sells securities to finance its operations. Issuers may be corporations, investment trusts, or domestic or foreign governments.

## LOAN TO VALUE (LTV)

The percentage of the loan to the overall property value. For example, if the loan is \$14 million and the property value is \$20 million, then the LTV is 70%.

## MARKET VALUE

The amount a property would sell for under normal conditions.

## NET OPERATING INCOME (NOI)

A measure that shows a property's ability to generate income. NOI equals all revenue from the property minus all reasonably necessary operating expenses.

## OPERATING EXPENSE

An expense incurred in carrying out the day-to-day operation and maintenance of an income-producing property.

## REAL ESTATE INVESTMENT TRUST (REIT)

A special type of corporate entity that invests in real estate and that receives special tax benefits, but also falls under various operational restrictions.

## RETURN ON INVESTMENT (ROI)

The percent gained or lost on an investment.

## SECURITIZATION

The process through which an issuer creates a financial instrument by combining other financial assets, and then marketing different tiers of the repackaged instrument to investors.

## TAX ABATEMENT

A reduction in taxes based on investments made into new construction or renovations.

## TRANCHE

A piece, portion, or slice of a deal or structured financing.

## UNDERWRITING

The process of evaluating an investment, performed by both investors and lenders.

# LCP

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