



Advanced Property Analysis

Residential – Commercial – Industrial – Retail

REAL ESTATE TERMINOLOGY GUIDE

Real estate investment terminology can vary from project-to-project, and it can vary slightly among various analysis programs and formats. Here are some common definitions and the specific definitions used in our reports.

15 Year Pre-Tax Average Annual Yield

Pre-Tax Cash-on-cash Return is the annual Pre-Tax Cash Flow divided by the Initial Investment in the property. The Pre-Tax Cash Flow includes projected income less expenses and debt services. Initial Investment includes the down payment, lender fees, transaction closing costs, etc. It is calculated as: $(\text{Pre-Tax Cash-on-cash Flow} / \text{Initial Investment})$. This calculation produces the yield for one year. This process is repeated for each of the 15 years in the report and an average is calculated.

15 Year Average Return on Equity (ROE)

A measure of an investment's profitability that reveals how much profit a property or stock generates from the equity invested. It is calculated as: $(\text{Total Return} / \text{Total Equity})$. To arrive at the Total Return, it begins with the Pre-Tax Cash Flow adds Principal Reduction From All Loan Payments and adds Appreciation (aka Property Value increase). This calculation produces the return for one year. This process is repeated for each of the 15 years in the report and an average is calculated. The key differences with this calculation are:

1. It is based on TOTAL EQUITY not the Initial Investment.
2. Total Equity includes unrealized gains from annual Appreciation and Loan Principal Reduction.
3. Every year the Total Equity increases. In other words, the denominator increases.
4. Therefore, every year the % return could go down because the denominator (Total Equity) may grow faster than the numerator (Total Return) for a given year.

15 Year Average Return on Investment (ROI)

A measure of an investment's profitability which is helpful in comparing a number of different investments. ROI, is expressed as a percentage or a ratio and is calculated as: $(\text{Gain from Investment} - \text{Cost of Investment}) / \text{Cost of Investment}$. This calculation produces the return for one year. This process is repeated for each of the 15 years in the report and an average is calculated.

1% Rule

The 1% rule in real estate is a rule of thumb that says the monthly rent should be equal to or greater than one percent of the total purchase price of an investment property. Keep in mind, the one percent rule doesn't account for other property expenses, such as loan

and acquisition fees, closing costs, repairs, maintenance, insurance, property taxes, etc. It is calculated as: $\text{Rent} / \text{purchase price} \times 100$. In general, the 1% rule is a not a very useful guideline, and investors are better off using detailed investment measures such as IRR, ROI, & ROE to evaluate an investment property.

2% Rule

The 2% rule in real estate is a rule of thumb which suggests that a rental property is a good investment if the monthly rental income is equal to or higher than 2% of the investment property price. For example, if a rental property price is \$200,000, the rental income has to be at least \$4,000 to meet the 2% rule. Real estate investors can use the 2% rule when they're looking for positive cash flow as opposed to appreciation. Some markets are cash flow markets and other real estate markets have such bad cash flow that the investor relies on appreciation to make the investment work. In general, the 2% rule is a not a very useful guideline, and investors are better off using detailed investment measures such as IRR, ROI, & ROE to evaluate an investment property.

50% Rule

The 50% Rule says that you should estimate your operating expenses to be 50% of gross income (sometimes referred to as an expense ratio of 50%). For example, if a rental property makes \$30,000 per year in gross rents, you should assume that \$15,000 of that will go towards expenses, NOT including the mortgage payment.

Adjustable-Rate Mortgage (ARM)

A mortgage with an interest rate that is adjusted periodically based on an index. Adjustable-rate mortgages generally have lower initial interest rates than fixed-rate mortgages because the lender is able to transfer some of the risk to the borrower; if prevailing rates go higher, the interest rate on a variable mortgage may adjust upward as well.

Acquisition Cost

Acquisition Cost is total cost to acquire the investment. This includes the Market Value or the Purchase Price, all Loan Fees, Escrow Fees, Brokerage Commissions, Inspection Costs, Closing Costs, and any other costs incurred in acquiring the property. Additionally, if the property requires rehabilitations, general improvements, or code enhancements before it can be rented, those one-time costs should be included in the Acquisition Cost totals because they were required to rent the property.

Advanced Analysis Return

This is a complex return using Monte Carlo return calculations. See the Advanced Analysis Section of the Detailed Report for more information.

After-Tax Cash Flow

After-Tax Cash Flow is the annual cash flow after taxes. Included in the After-Tax Cash Flow is operating income less all operating expenses, all debt payments, and income taxes. It is calculated as: $(\text{Net Operating Income} - \text{Annual Debt Service} - \text{Taxes})$.

The After-Tax Cash Flow may be larger than the Pre-Tax Cash Flow if depreciation expenses create a tax savings for the investor. This After-Tax Cash Flow may or may

not be applicable to your circumstances. Always check with your tax advisor regarding the tax impact of any investment.

After-Tax Cash-on-cash Return

After-Tax Cash-on-cash Return is the annual After-Tax Cash Flow divided by the Initial Investment in the property. The After-Tax Cash Flow includes projected income less expenses, debt service, and income taxes. The Initial Investment includes the down payment, lender fees, transaction closing costs, etc. It is calculated as: (After-Tax Cash-on-cash Return / Initial Investment).

After-Tax Return

The return on an investment (ROI) after subtracting any taxes due.

Annual Appreciation Rate

Appreciation is an increase in the value of an asset over time. The increase can occur for a number of reasons including increased demand or weakening supply, or as a result of changes in inflation or interest rates. This is the opposite of depreciation, which is a decrease over time. The Annual Appreciation Rate is the appreciation of an asset over one year expressed as a percentage.

Annual Income Increases or (decreases)

This is the annual increase (or decrease) in the income from an asset over time. The increase can occur for a number of reasons including increased demand or weakening supply, or as a result of changes in inflation or interest rates. The Annual Income increase/decrease is expressed as a percentage.

Annual Operating Expense Increases

This is the annual increase (or decrease) in the operating expenses of an asset over time. The increase can occur for a number of reasons including increased demand or weakening supply, or as a result of changes in inflation or interest rates. The Annual Operating Expense Increase/decrease is expressed as a percentage.

Annual Percentage Rate (APR)

The yearly cost of a loan expressed as a percentage of the loan amount. The APR includes interest owed and any fees or additional costs associated with the agreement.

Annual Residential Turnover

This is the ratio of rental unit turnover / the number of total rental units in the area.

Appraisal

A formal assessment of a property's value at a specific point in time, performed by a qualified professional.

Asset

Anything owned that has a current value that may provide a future benefit.

Barclays US Aggregate Bond Index

The Barclays Capital U.S. Aggregate Bond Index is the most common index used to track the performance of investment grade bonds in the U.S. The Barclays Capital U.S.

Aggregate Bond Index is weighted according to market capitalization, which means the securities represented in the index are weighted according to the market size of the bond category. Treasury securities, mortgage-backed securities (MBS) foreign bonds, government agency bonds and corporate bonds are some of the categories included in the index. The bonds represented are medium term with an average maturity of about 4.57 years. As of January 2015, the index represents about 8,200 fixed-income securities with a total value of approximately \$15 trillion (about 43% of the total U.S. bond market).

To be included in the index, bonds must be rated investment grade (at least Baa3/BBB) by Moody's and S&P. However, almost 80% of bonds represented on the index have a AAA rating. If a real estate investment cannot out-perform this index, the investor should consider replacing the property with another investment.

Capitalization Rate (Cap rate)

Capitalization rate (or "cap rate") is a measure of the ratio between the cash flow produced by an asset (usually real estate) and its capital cost (the original price paid to buy the asset) or alternatively its current market value. The cap rate is calculated as follows: $(\text{Rental Income} - \text{Expenses}) / \text{Cost (or Value)} = \text{Capitalization Rate}$. For example, a building is purchased for a \$1,000,000 sale price, and it produces a \$100,000 annual income after subtracting expenses. The Cap Rate is 10% ($\$100,000 / \$1,000,000 = 10\%$).

Cash-on-Cash Return (Year 1)

Pre-Tax Cash-on-cash Return is the annual Pre-Tax Cash Flow divided by the Initial Investment in the property. The Pre-Tax Cash Flow includes projected income less expenses and debt services. Initial Investment includes the down payment, lender fees, transaction closing costs, etc. It is calculated as: $(\text{Pre-Tax Cash-on-cash Return} / \text{Initial Investment})$. This measures the first year only.

Community Property

State laws under which most property and debts acquired during a marriage—except for gifts or inheritances—are owned jointly by both spouses and are divided upon divorce or annulment. In the United States, nine states have community property laws: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Compound Annual Growth Rate (CAGR)

The compound annual growth rate (CAGR) is the rate of return (RoR) that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span.

Compound Interest

A process under which interest is computed both on an account's principal and on any gains reinvested in prior periods. This is contrasted with simple interest, in which interest is calculated only on the principal amount.

Consumer Price Index (CPI)

The U.S. Government's main measure of inflation, calculated monthly by the U.S. Department of Labor.

Credit Score

A statistical estimation of how likely a potential borrower is to pay his or her debts and, by extension, how much credit the borrower should have.

Debt

An obligation owed by one party (the debtor) to a second party (the creditor).

Debt Coverage Ratio

Debt Coverage Ratio is the ratio between Net Operating Income and Annual Debt Service. It tells the lender how much income is available to pay the annual loan payments. A Debt Coverage Ratio less than 100% means that the property cash flow is not sufficient to pay the mortgage payments, and most lenders will not make this loan. A Debt Coverage Ratio of 200% means that the Net Operating Income is double the amount needed to pay the mortgage(s). A Debt Coverage Ratio of 115% - 135%+ is preferred by lenders. Lenders may not lend when the project's Debt Coverage Ratio is below the preferred range. The Debt Coverage Ratio is calculated as: $(\text{Net Operating Income} / \text{Annual Debt Service})$.

Deed

A legal document that confirms ownership of an asset or that confirms the passage of an interest, right, or ownership in the asset from one person or legal entity to another.

Depreciable Basis

This is calculated as Acquisition Costs - Land Value. All tax calculations and tax assumptions are complex. Always consult with your tax advisor regarding tax issues and tax calculations.

Depreciable Life

This is the time period over which an asset is depreciated. The depreciable life for residential property is 27.5 years, and the depreciable life for commercial property is 39 years. Always consult with your tax advisor regarding tax issues and tax calculations.

Depreciation

A decline in the value of property; the opposite of appreciation. Depreciation is also an accounting term which shows the declining monetary value of an asset and is used as an expense to reduce taxable income. Since this is not a true expense where money is actually paid, lenders will add back depreciation expense for self-employed borrowers and count it as income.

Dow Jones Industrial Average

Sometimes called the "Dow", "Dow 30", or "DJIA". This is an average calculated by summing the prices of 30 actively leading stocks on the New York Stock Exchange (NYSE) and the NASDAQ, and dividing the sum by a divisor which has been adjusted to account for cases of stock splits, spinoffs, or similar structural changes. Individuals cannot invest directly in an index. The Dow Jones Industrial Average and the S&P 500 are the two primary measures of equity investment performance in the U.S.

Equity

The value of real property or a business after all liabilities have been paid. A home worth \$300,000 with a \$200,000 mortgage would have \$100,000 in equity.

Expense Ratio

Expense Ratio is the ratio of the income of a real estate investment to its annual expenses such as property taxes, insurance, property management, utilities, etc. It provides the investor with a partial measure of the property's cash flow before debt service. For the investor, a higher Expense Ratio (possibly 60%) is a poorer opportunity, whereas a lower Expense Ratio (maybe under 40%) is better. It is calculated as: $(\text{Operating Expenses} / \text{Gross Scheduled Income})$.

Federal Income Tax Bracket

A series of income ranges within which a taxpayer's income is taxed at a certain rate. Taxpayers pay the tax rate in a given bracket only for that portion of their overall income that falls within the bracket's range.

Federal Reserve System (The Fed)

The United States' central bank. The Federal Reserve System consists of a series of 12 independent banks that operate under the supervision of a seven-member, federally appointed board of governors. The Fed strives to maintain maximum employment, stable price levels, and moderate long-term interest rates. It establishes and enforces the regulations banks, savings and loans, and credit unions must follow. It also acts as a clearing house for certain financial transactions and provides banking services to the federal government.

Fixed-Rate Mortgage

A mortgage with a set interest rate that will not change over the life of the loan.

Foreclosure

The legal process under which a creditor seizes the property of a borrower who has not made timely payments on his or her debt.

Gross Rent Multiplier (GRM)

Gross Rent Multiplier is the ratio of the price of a real estate investment to its annual rental income before expenses such as property taxes, insurance, property management, utilities, etc. To sum up Gross Rent Multiplier, it is the number of years the property would take to pay for itself in gross received rent. For the investor, a higher GRM (perhaps over 20) is a poorer opportunity, whereas a lower GRM (12 or lower) is better. It is calculated as: $(\text{Purchase Price} / \text{Gross Rental Income} = \text{GRM})$.

Holding Period Return (HPR)

Here's the formula to calculate the holding period return:

$$\text{HPR} = \text{Income} + (\text{End of Period Value} - \text{Initial Value}) \div \text{Initial Value}$$

This return/yield is a useful tool to compare returns on investments held for different periods of time. It simply calculates the percentage difference from period to period of the total portfolio NAV and includes income from dividends or interest. In essence, it's the total return from holding a portfolio of assets—or a singular asset—over a specific period of time.

Home Equity

The real value of a home after all liabilities have been paid. For example, a home worth \$300,000 with a \$200,000 mortgage would have \$100,000 in equity.

Index

An average of the prices of a hypothetical basket of securities representing a particular market or portion of a market. Among the most well-known are the Dow Jones Industrial Index, or the Dow; the Standard & Poor's 500 Index, or the S&P 500; and the Russell 2000 Index, or the Russell Small-Cap Index. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index.

Inflation

An upward movement in the average level of prices. Each month, the Bureau of Labor Statistics reports on the average level of prices when it releases the Consumer Price Index (CPI).

Initial Investment

Initial Investment is the total investment in the property. This includes Down Payment, all Loan Fees, Escrow Fees, Brokerage Commissions, Inspection Costs, Closing Costs, and any other costs incurred in acquiring the property. Additionally, if the property requires rehabilitations, general improvements, or code enhancements before it can be rented, those one-time costs should be included in the Initial Investment totals because they were required to rent the property.

Interest Rate

The cost to borrow money expressed as a percentage of the loan amount over one year.

Internal Rate of Return (IRR)

This is the discount rate often used in capital budgeting and one of the most common return calculations. This is helpful in comparing a number of different investments and investment types such as real estate vs. stock vs. bonds vs. other investments. IRR uses After-tax Cash Flows.

Jointly Held Property

Property owned simultaneously by more than one person. All co-owners have an equal right to use the property, and no co-owner can exclude another co-owner from the property. The most common forms of jointly-held property are joint tenancy, tenancy in common, and, in some states, community property.

Liquidity

The ease and speed with which an asset or security can be bought or sold. Liquidity is the measure of the investor's ability to sell the investment and turn it into cash. Real estate is illiquid, and it can take from 45 days to several years to sell a real estate investment. Real estate is complex and expensive to sell. Factors affecting a property's liquidity include the local market, interest rates, local and national economy, supply, demand, local customs, etc. Though real estate liquidity may range from 45 days to several years, many other investments have greater liquidity. For example, mutual funds,

stocks, bonds, and marketable securities range from 1-5 day liquidity. Bank savings accounts and checking accounts usually have immediate liquidity.

Liquidity Cost

Liquidity cost is a measure of the expenses associated with selling the asset. Real estate selling expenses range from 6% to 12% of the sale price. Securities generally range from 1% to 3% and banking accounts generally have no cost.

Long-Term Capital Gain Tax Rate

This is the tax rate applied to capital gains on assets held longer than 12 months. Currently the rate is 15% - 20% depending on other factors. Long-Term Capital Gain Tax Rate is different from Ordinary Income Tax Rate, Short-Term Capital Gain Tax Rate, and other tax rates. Always consult with your tax advisor regarding tax issues and tax calculations.

Modified Internal Rate of Return (MIRR)

The modified internal rate of return (MIRR) assumes that positive cash flows are reinvested at the firm's cost of capital and that the initial outlays are financed at the firm's financing cost. By contrast, the traditional internal rate of return (IRR) assumes the cash flows from a project are reinvested at the IRR itself. The MIRR, therefore, more accurately reflects the cost and profitability of a project.

NASDAQ Composite Index

A market-capitalization weighted index of the more than 3,000 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks. The index includes all Nasdaq listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debentures. The NASDAQ Composite Index is a popular measure of U.S. equity performance.

National Association of Real Estate Investment Trust Equity Index

The FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that spans the commercial real estate space across the U.S. economy. The index series provides investors with exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

Net Operating Income (NOI)

Net Operating Income of the project is the Scheduled Rental Income Less Vacancy, Credit Losses, and Operating Expenses. Net Operating Income is the income from the property before the principal and interest payments on loans are paid and before income taxes are paid. Other items excluded from the NOI calculation are capital expenditures, depreciation, and amortization.

Net Present Value (NPV)

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. NPV is used in capital budgeting

and investment planning to analyze the profitability of a projected investment or project. NPV is the result of calculations used to find today's value of a future stream of payments. Net present value, or NPV, is used to calculate the current total value of a future stream of payments. If the NPV of a project or investment is positive, it means that the discounted present value of all future cash flows related to that project or investment will be positive, and therefore attractive. To calculate NPV, you need to estimate future cash flows for each period and determine the correct discount rate.

Operating Expenses

Operating Expenses are the expenses a property owner incurs in the process of operating the property as an investment. These include property taxes, property management fees, insurance, maintenance & repairs, utilities, reserves, and other expenses.

Partnership

A contract or agreement under which two or more individuals manage and operate a business venture. Many real estate investments are owned in partnerships.

Pre-Tax Annual Return

Pre-Tax Annual Return is Pre-Tax Cash Flow divided by the Initial Investment.

Pre-Tax Annual Yield

This is Cash-on-Cash return divided by the Initial Investment. Sometimes this is called the cash-on-cash yield. It can be used to compare the returns of this investment with the pre-tax yield of other investments of similar term and risk.

Pre-Tax Cash Flow

Pre-Tax Cash Flow is the annual cash flow before taxes. Included in the Pre-Tax Cash Flow is operating income less all operating expenses and all debt payments. It is calculated as: (Net Operating Income - Annual Debt Service).

Pre-Tax Cash-on-cash Return

Pre-Tax Cash-on-cash Return is the annual Pre-tax Cash Flow divided by the Initial Investment in the property. The Pre-Tax Cash Flow includes projected income less expenses and debt service. The Initial Investment includes the down payment, lender fees, transaction closing costs, etc. It is calculated as: (Pre-Tax Cash-on-cash Return / Initial Investment).

Principal

The original amount invested in a security, excluding earnings; the face value of a bond; or the remaining amount owed on a loan, separate from interest.

Property

Anything over which a person or business has legal title. Property may be held in common or privately owned.

Rate of Return (ROR)

A measure of the performance of an investment. Rate of return is calculated by dividing any gain or loss by an investment's initial cost. Rates of return usually account for any income received from the investment in addition to any realized capital gains.

Real Estate Investment Trust (REIT)

A REIT is a pooled investment that invests primarily in real estate. REITs often trade like stocks on the major exchanges. Keep in mind that the return and principal value of REIT prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. Some REITs are not publicly traded, and these non-traded REITs often have lower liquidity and higher liquidity costs than traditional securities.

Rent / Income Ratio

This is the ratio of Annual Rent / the area's Median Household Income. A lower value is better because it means that a lower portion of the renter's income is being used for rent. It is intended to be a measure of the affordability of an area and a measure of the tenant's ability to pay rent.

Return Calculations

Return calculations are a method of measuring the profitability or investment performance of an investment. There are many different types of return calculations, and the securities industry and the real estate industry may use different calculation methods. For a detailed description of each method, see the descriptions in this guide. Some common securities return calculations include CAGR, IRR, TWR, ROI, Yield, NPV, and others. Some common real estate calculations include ROE, ROI, IRR, MIRR, Cash-on-cash Return, Cap Rate, NPV, GRM, and others. IRR is the most common method used in both industries.

Return on Equity (ROE)

Return on Equity (ROE) is the amount of income returned as a percentage of equity. Return on equity is the Cash Flow After Tax divided by Total Equity. After-Tax Cash Flow is the Net Operating Income less Interest and Depreciation expenses and +/- Taxes. The Total Equity includes the down payment plus loan principal reduction plus investment growth/appreciation each year. Since the Total Equity grows each year, the Return on Equity percentage often declines year-over-year. It is calculated as: (After Tax Cash Flow / Total Equity).

Return on Investment (ROI)

Return on Investment (ROI) is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. ROI is the Total Return divided by the Initial Investment in the property. The annual Total Return includes pre-tax cash flow plus loan principal reduction plus investment growth/appreciation. The Initial Investment would include the down payment, lender fees, transaction closing costs, etc. The Total Return usually increases each year because more and more principal is paid on the loan. Since the Total Return usually grows each year, the Return on Equity percentage often increases year-over-year. It is calculated as: (Total Return / Initial Investment).

Risk

The chance an investment will be lost or will provide less-than-expected returns.

Risk Tolerance

A measurement of an investor's willingness or ability to handle investment losses.

Russell 1000 Index

Market-capitalization weighted equity index of US firms, which is maintained by The Russell Investment Group. The index measures the performance of 1,000 largest firms in the Russell 3,000 index representing 90 percent of the U.S. equity (stock) market.

Russell 2000 Index

This is an index measuring the performance of approximately 2,000 small-cap companies in the U.S. Small Cap companies are companies which are large, strong regional or specialty companies, but they are not huge national or multi-national companies. Small Cap companies include Big 5 Sporting Goods, Abercrombie & Fitch, KB Home, and LA Z Boy. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

S&P 500

This refers to the Standard and Poor's 500 Index. The S&P 500 is an index of 500 stocks chosen for market size, liquidity, and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. Stocks (equities) and is meant to reflect the risk/return characteristics of the investing in the stocks of large U.S. Company stocks. The S&P 500 and the Dow Jones Industrial Average are the two primary measures of equity investment performance in the U.S.

Salvage Value

This is the estimated value that an asset will realize upon its sale at the end of its useful life. Always consult with your tax advisor regarding the correct salvage value of your investments.

Scheduled Gross Income

This is also called Gross Scheduled Income (GSI). Gross scheduled income is considered as the gross income that would be collected from a rental property with all units 100% occupied and rented. It is the amount of annual rental income that would be collected if the property experienced zero vacancy and credit loss. To make this happen, vacant units (if they exist) are included in the calculation at a fair market rent. This is the potential rental income from the property rentals.

Specialty Expertise Required

In addition to familiarity with local markets, the real estate specialist should also be experienced in working with the specific type of property the investor is considering. Some of the various real estate sub-specialties include: residential, multi-family (apartment buildings), industrial, warehousing, commercial, manufacturing, retail, and others. Each property type carries risks that may be unique to or exacerbated in that market.

Taxable Income

A taxpayer's gross income, minus any adjustments, itemized deductions or the standard deduction, and personal exemptions. Taxable income is used to compute tax liability.

Tenancy in Common

A form of property ownership under which two or more people have an undivided interest in the property and in which the interest of a deceased owner passes to his or her beneficiaries rather than to the surviving owners.

Title

A legal document that serves as evidence of ownership of an asset, property, or security.

Total Return

The total of all earnings from an investment, property, or portfolio, including both capital appreciation and any income received.

Total Equity

Total Equity includes the down payment plus loan principal reduction plus investment growth/appreciation each year.

Total Return

Total Return is the total increase in the value of an asset. This includes the increase in the market value of the asset, increase in equity resulting from loan principal repayment and the cash flow from the investment operations.

Unrealized Capital Appreciation (Unrealized Capital Gain)

Unrealized Capital Appreciation is the increase in the market value of the property. It is Unrealized because gains (e.g. appreciation) are only realized when sold.

Unrealized Capital Loss

Unrealized Capital Loss is the decrease in the market value of the property. It is Unrealized because losses are only realized when sold.

Vacancy Rate & Credit Loss

Vacancy is unoccupied rental space where tenants are not paying rent and where the property is not generating income. Credit Loss is the financial loss to the property resulting from a tenant remaining in a rental unit without paying rent. The default Vacancy and Credit Loss is usually 5%. It is important to research the current and historic vacancy rate and credit loss figures for each property.

Variable Interest Rate

An interest rate that moves up and down with a specific measure or index, such as current money market rates or a lender's cost of funds.

Yield

A measure of the performance of an investment. Yield is calculated by dividing the income received from an investment by the investment's initial cost. Yield differs from rate of return in that it accounts only for income; rate of return also includes appreciation or depreciation in the value of the investment.