Common Investor Terms

1031 or 1031 Exchange – A tax deferred method to sell one property and exchange it for another property of a similar type. If you follow all of the IRS rules carefully, you can postpone your payment of capital gains taxes.

After Repaired Value (ARV) - Estimated value of the property after all repairs have been made.

Credit Score – An independent, third party assessment of how well you have managed your credit in the past. Three national companies track your credit scores; a lender will usually request all three and take the middle value (the Mid Score) for determining the terms of your loan. As slang, you will often hear the Loan Officer say that they need to "pull your credit," which is to get the three credit reports to discover your mid score.

Debt Service – For apartment buildings and commercial loans, the principal and interest payment for the loan. Often, commercial loans are amortized on a basis less than thirty years (20-25 is common). The underwriter will want to make sure that the Debt Service Coverage Ratio of the Net Operating Income ÷ by the Debt Service achieves a target ratio, often 120% or more.

Debt Service Coverage Ratio (DSCR)– For apartment buildings and commercial loans the DSCR = Net Operating Income ÷ by the debt service on the property. Typically the debt service will be amortized over twenty five years. The minimum coverage ratio varies by lender, but will often be at least 120%.

Exit Strategy – The investor's plan for what they will do with the property when they have finished adding their value to it. Often the exit strategy is to sell to a retail buyer at top dollar or to rent the property to a tenant. The better your understanding of your exit strategy, the more effective you will be as an investor.

Gross Rent – The scheduled rent multiplied by the number of units. The theoretical maximum income that a building could produce if all of the units were occupied all of the time. In reality, some units are vacant some times, so the Net Rents after vacancy are lower.

Loan to Cost – The amount of money a Lender may be willing to provide for a construction loan or hard money loan. The cost might be the purchase price of the building ($100,000) plus the costs renovation costs needed ($50,000) or $150,000. If the lender is willing to loan 70%, the loan amount would be $105,000.

Loan to Value (LTV)– The amount of money that the Lender is willing to provide for the purchase of a given property. For example, if you are purchasing a home for $100,000 and you want to borrow $80,000, the LTV is 80%. Higher LTVs are available for Residential properties than for Commercial properties.

Non-Recourse - A loan where the borrower is not liable to the lender if the loan goes into default. Typically only an option with larger (at least $1 million) commercial loans or special circumstance loans.

P&I – Part of the total mortgage payment. Principal and interest, but not taxes and insurance.

PITI-Principal, Interest, Taxes & Insurance. Generally the total mortgage payment when the taxes & insurance are escrowed.

Common Investor Terms

Capital Gain – Taxes that you pay based on the gain that you earn on the sale of an investment property. If the gain has been realized in less than a year, it is often taxed as ordinary Income, which is usually a higher tax rate. If the property has been held for more than a year, it is often taxed at the Capital Gains tax rate, which is usually lower. **Consult your CPA**.

Sample Capital Gain

Sales Price	$300,000
Selling Costs	-$21,000
Purchase Price	-$200,000
Buying Costs	-$5,000
Capital Improvements	-$20,000
Capital Gain	=$54,000

Cap Rate—This is the annual return on investment if you paid cash for the property. Also a simple way to compare across multiple asset classes.

Sample Cap Rate

Value	$150,000
Annual Rent	-$15,000
Annual Expenses	-$4,000
Annual Profit	=$11,000

$\frac{\$11,000}{\$150,000}$ = 7.3% Cap Rate

Cash on cash return – The ratio of before tax cash flow to the total amount of cash invested.

Sample Cash on Cash Return

Annual Return	$3,000
Initial Investment	$10,000
Cash on Cash Return	=30%

Gross Rent Multiplier (GRM)—Simple calculation of purchase price ÷ by rent. Lower is better.

Sample GRM

Price	$200,000
Rent	$1,500
GRM	=133

Reserves—Liquid savings in the bank after all the funds used for the down payment. Lenders generally want to see a minimum of 6 months reserves on all properties.

Sample Reserves

Property 1 PITI	$1,200
Property 2 PITI	+$1,000
Total PITI	=$2,200
	X 6
Min. Reserves	=$13,200

Return on Investment (ROI) – Is the profit made from an investment ÷ by how much money you had to invest to earn that returns.

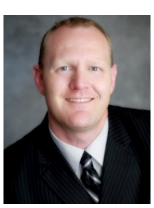
Sample Return on Investment

Profit	$5,000
Investment	$10,000
ROI	=50%

Vacancy—This is the percentage of the year that the rental property will be vacant. Expressed as a percentage and multiplied by annual rents in order to give an estimated monetary loss for the vacant time.

Sample Vacancy

Yearly Rent	$15,000
Vacancy	X 5%
	=$750/year



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