

GLOSSARY OF TERMS YOU SHOULD KNOW

Capital Stack: Debt Equity Amounts: The different layers of financing on one transaction. It typically includes debt, investor equity, and sponsor equity.

Cash-on-Cash Return: The unleveraged (all cash) rate of return that a property produces. Often used to compare real estate investments with other investment returns, such as bonds, treasury notes, etc. (Formula #7)

Debt Service Coverage (DSC): A ratio that measures the difference between the property cash flow (NOI) and the debt service payments. The DSC is a measure of a loan's safety, and is typically expressed as a multiple over breakeven, such as 1.10x, 1.20x or 1.50x.

Leverage Cash-on-Cash Return: The leveraged (use of debt) rate of return that a property produces after debt service, relative to the equity investment.

Loan Constant: The "all-in" true cost of borrowing money which takes into account both the interest and the amortization of the principal balance.

Loan-to-Value (LTV): The total loan amount divided by the asset value. The LTV is the key metric of risk for lenders.

Negative Leverage: When a property does not produce enough cash flow to cover the debt service obligations.

Net Operating Income: The income stream operated by a property after operating expenses are deducted, but before debt service payments and taxes are deducted (Formula #1)

Positive Leverage: When the cost of debt is less than the property's cash-on-cash return

Rent Roll: Roll Schedule: A summary of the tenants that occupy a property, which displays the tenant's rental terms and concessions.

Stabilized Property: A property that is leased to market occupancy at market rates, tenant turnover is minimal in the short term and is staggered in the long term, and there are no major capital improvements necessary.

Unstabilized Property: A property that is not operating at its full potential (i.e. below market rents, below market occupancy, poor location, bad property conditions, etc.)