Investment Property Types

Office Building Classes	Class A	newer
	Class B	
	Class C	lowest condition
	low-rise	1-3 stories
	mid-rise	3-15 stories
	high-rise	>=20 stories
Retail Property Types	strip centers	8000-30000 ft^2
	neighb-orhood centers	30,000-100,000 ft^2
	outlet centers	100,000-300,000 ft^2

Office Building Classes are based on GAAP

Key Terminology

NOI	equal to the gross income minus expenses (and sometimes debt service)
Time Value of Money (TVM)	the idea that money available at present time is worth more than the same amount in the future data due to its potential earning capacity
leverage	the use of borrowed capital (mortgage) to increase the potential return of an investment
cash on cash return	a percentage return on money invested in a property by an investor

Key Terminology (cont)

gross income	the total amt collected from rents & other income producing opportunities
debt service	annual amt to be paid by a debtor on an obligation to repay borrowed money
tax shelter	any method of reducing taxable income resulting in a reduction of the payments to tax collecting entities
before tax cash flow	the net profit/loss calculated by subtracting expenses from income before taxes are paid
after tax cash flow	the net profit/loss realized after taxes are deducted
rate of return	a profit on an investment over a period of time, expressed as a proportion of the original investment
rentable square footage	usable area that can be leased/rented to a tenant

Lease Clause for Tenants

commencement date	contracted date when activities begin
move-in date	the date at which the tenant will move in

Lease Clause for Tenants (cont)

estoppel	an instrument executed by the mortgagor setting forth the present status and the balance due on the mortgage as of the date of the execution
lease escalation clause	a contract provision allowing for one to pass an increase in costs to another party

Pro Forma Statements

Pro-Forma statement	an accounting statement that forecasts income and expenses for a period of time, typically 5 or more years
1.	Gross potential income
2.	effective gross income
3.	expenses
4.	net operating income (NOI)
5.	before tax cash flow

Typically used by investors to estimate their rate of return for a particular property
-It often takes longer to find a new tenant for commercial building than a residential building
-Lenders will typically require the buyer to have capital reserves placed in an escrow account

SNDA

Subordination	tenant subordinates lease to mortgage
Non-**D**isturbance	protects tenants from being thrown out of the property
Attornment Agreement	tenant commitment to allow for ownership to change

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Missed/Unsure Questions

How will the use of positive leverage benefit a real estate investor?

> it will allow him to purchase a larger building

How is a multi-family property valued different than an office building?

> both properties are valued the same way

What is considered a primary commercial property type?

> industrial properties

What is the term for usable area that can be leased/rented to a tenant?

> rentable square footage

What is the pricing on residential real estate based in part on?

> emotion

What is an important aspect of industrial warehouse space?

> ceiling heights

The amount of cash flow a property produces is used to determine the value of what property type?

> commercial

In addition to the cash needed for the down payment, what do you also need to run and maintain the property?

> liquidity

If an owner has enough cash to fund the operations of a commercial investment property while the cash flow becomes stabilized, what is he considered?

> liquid

What is a common management fee to assume for a large multi-family building?

> 5%

What type is largest in area?

> rentable square footage

Missed/Unsure Questions (cont)

In which type of lease does the tenant pay a fixed amt in rent, while landlord pays for building expenses?

> gross lease

Town Brokers have recently signed a lease to occupy an entire office building. What type of lease did Town Brokers most likely sign?

> NNN lease

In a typical commercial lease, who is given the option to extend a tenant's lease?

> tenant

How can a utility bill be passed through to the tenant if sub-metering proves unfeasible?

> rent inclusion

A non-recurring expense is considered what?

> capital expenditure

What are mortgage payments made up of?

> principal & interest

What do lenders typically have a buyer place in an escrow account?

> capital reserves

What is an underlying component of a cap rate?

> risk, sweat equity, cash

Which property is risky as an investment?

> duplex apartment house

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