

201 Real Estate Investing Glossary

New to real estate investing? Use this 201 glossary to learn more about common real estate investment management terms.

ABSORPTION RATE

The mathematical representation, in months, of the relationship between supply and demand. It is calculated by dividing the average number of sales per month by the total number of available properties. Lower numbers favor sellers and higher numbers favor buyers.

COMPOUND ANNUAL GROWTH RATE (CAGR)

CAGR is a measure of an investment's annual growth rate, taking compounding into effect. It is often used to compare past performance or predict future returns.

CAPITAL STACK

A description of the totality of capital invested in a project, including pure debt, hybrid debt, and equity. The stack positions become less risky from top to bottom, and higher positions in the stack expect higher returns because of the higher risk.

COLLATERALIZED DEBT OBLIGATION (CDO)

A collection of pooled assets, such as mortgages or corporate bonds, packaged together with the intention of lowering risk and raising returns.

COST OF CAPITAL (COC)

The rate of return necessary to make a capital budgeting project worthwhile.

DEBT SERVICE COVERAGE RATIO (DSCR)

The DSCR is a measurement of cash flow available to pay current debt obligations. A 1.0 ratio means that there is just enough cash to pay for the debt. Most lenders require the borrower to maintain a 1.2 ratio or higher to stay in line with the loan covenants.

EARNINGS BEFORE INTEREST TAX DEPRECIATION AND AMORTIZATION (EBITDA)

EBITDA is a way to measure a company's performance without having to factor in financing decisions, accounting decisions, or tax environments.

EASEMENT

A right to the limited use of land owned by someone else.

ENCUMBRANCE

Anything that effects or limits a property's title, such as easements or unpaid back taxes.

ESCROW

Special account set up by the lender in which money is held for tax and insurance payments.

FEE SIMPLE ESTATE

The highest possible ownership interest, by law, that can be held in real property.

FUTURE VALUE (FV)

The value of a current asset at a specified date in the future based on an assumed growth rate.

INTERNAL RATE OF RETURN (IRR)

IRR is the percentage rate earned on each dollar for each period invested. IRR is helpful in determining if it makes financial sense to go forward with a project.

LEASEHOLD ESTATE

A lease in which the renter has the right to possess the leased property for a specific extended period of time.

LONDON INTERBANK OFFERED RATE (LIBOR)

LIBOR is an average interest rate calculation based on daily submissions from leading global banks. LIBOR is the interest rate at which banks lend to other banks.

NET PRESENT VALUE (NPV)

NPV is the difference between today's value of expected cash flows and today's value of invested cash. A basic finance assumption is that only projects with positive NPVs will be profitable.

NON-RECOURSE DEBT

A loan that is secured by the borrower with collateral, usually in the form of real property, and in which the lender cannot pursue anything other than the collateral in the case of default. This type of loan protects both the lender and the borrower.

PRESENT VALUE (PV)

How much a future sum of money is worth today. PV can be used to determine how much money needs to be invested today to earn "x" amount of money in "y" years.

RECEIVERSHIP

A form of bankruptcy in which a court-appointed trustee reorganizes the bankrupt entity.

TIME VALUE OF MONEY

The fundamental financial concept that money today is worth more than the same amount of money at any point in the future, due to its potential earning capacity via interest earned and/or investment.

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