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Accredited Investor Acquisition

An accredited investor is an individual who qualifies to invest in real estate syndications by satisfying one of the requirements for an annual income of $200,000—or $300,000 for joint income—or a net worth of at least $1 million (not including primary residence).

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Acquisition Fee

Compensation earned by the general partner in syndication for sourcing, screening, arranging to finance, and closing on a investment asset.

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Active Investing

This is the opposite of passive investing. An active investor does all the work of finding, structuring, managing, and exiting investments.

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Asset Management Fee

Typically, a recurring fee is paid from property revenues to the general partner for asset management.

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Bridge Loan

Typically, short-term loans enable investors to leverage the equity in one property to finance another or access cash for a down payment on a new acquisition.

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Capital Expenditures

These expenses are funds used by the managing company or partners to acquire, improve, or maintain a property. Also referred to as CapEx. It specifically applies to when these funds improve the useful life of a property.

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Capitalization Rate

The cap rate. Calculated by dividing net operating income by the current market value of a property to determine an expected rate of return.

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Cash Flow

Remaining liquid profit after deducting operating expenses and any debt service payments.

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Cash-on-Cash Returns

A rate of return is calculated by dividing the cash flow being produced by a property by the initial cash investment.

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Cost Segregation

This is the process of identifying assets and costs, and their classification for tax purposes. Applies for reducing current tax liability and deferring taxes.

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Closing Costs

Costs required to close on a real estate or financing transaction. May include origination, application, processing, underwriting, appraisal, and recording fees.

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Debt Investment

A debt investment is an investment in debt.
For example, a mortgage loan. Debt investors typically earn interest until the debt is fully repaid.
There may be an option to convert to equity.

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Debt Service

The number of loan payments required to be paid back to a lender. Also used to calculate the DSCR for qualifying for commercial real estate financing.

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Debt Service Coverage Ratio

The DSCR is the ratio commercial mortgage lenders use to evaluate and qualify a deal for financing. The DSCR measures how much cash flow will be available to cover debt service. A DSCR ratio of 1 means the cash flow should cover the debt payments. Lenders typically expect a minimum DSCR of 1.2 in order to get a loan. A better ratio may qualify the borrower for better terms.

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Distributions

These are the funds paid out to investors. These profits may be paid monthly or quarterly or upon a successful exit.

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Due Diligence

Due diligence describes a group of tasks to screen and evaluate a property and satisfy lender underwriting requirements. May include appraisals, surveys, inspections, and title work.

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Earnest Money

An earnest-money deposit is placed into escrow by the buyer of an apartment building to demonstrate their commitment to executing the purchase contract. Will be credited toward the acquisition cost at closing.

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Effective Gross Income

The EGI is the effective income derived by subtracting losses due to vacancy, concessions, employees, model units, and any bad debt.

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Equity Investment

The cash is put into an investment. In an apartment building syndication, this capital may be used toward the down payment, closing costs, borrowing costs or funding of an operating account funding, along with any compensation earned by the general partners.

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Equity Multiple

The EM is a way to calculate the rate of return on a commercial investment property. This is calculated by dividing the total cash distributions (cash flow and cash on exit) by the equity investment made.

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Exit Strategy

This is how the syndicator plans to cash investors out of their investment in the future. This may be by selling the property, purchasing their shares, or refinancing them out.

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Floating Interest Rate

This is the same as a variable or adjustable interest rate loan. The interest rate—and typically the payments—will float and change with the market.

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Gross Potential Rent

The hypothetical amount of revenue if the apartment community was leased at 100 percent occupancy year-round at market rental rates. Also known as "GPR."

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Gross Potential Income

The potential income a multifamily property could produce if it had no vacancies, and all leases were signed at market rates—plus any other revenue.

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Gross Rent Multiplier

This calculation shows the number of years it would take for the property to pay for itself based on the gross potential rent. This is calculated by dividing the property purchase price by the annual gross potential rent.

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Holding Period

The holding period is the amount of time the sponsor plans to hold the property.

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Interest Rate

The cost charged by a lender for using their funds to finance a deal.

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Interest-Only Payment

A monthly mortgage payment that only requires interest, not the principal balance, to be paid. The balance may be due on sale, refinancing, or at the maturity of the loan.

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Internal Rate of Return

The IRR is calculated based on all future anticipated cash flow, principal paydown of debt, and proceeds on the exit of a property.

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Joint Venture

A “JV” is a partnership between two or more investment partners who collaborate on a deal.

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Key Principal

A key principle in apartment syndication is a vital person to the ongoing success of the investment. It is someone who should be insured to compensate for any interruptions if something happens to them.

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Letter of Intent

An LOI is a non-binding agreement drafted by the buyer proposing their purchase terms. Typically used as a faster method to make an offer, without being tied into the deal.

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Limited Partner

The LIBOR is a benchmark interest rate that is often used to calculate loan rates and interest rate adjustments on a variable rate loan.

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Loan-to-Cost Ratio

The LTC ratio shows the value of the anticipated loan amount against the total costs (acquisition and renovations).

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Loan-to-Value Ratio

The LTV calculates the ratio of the loan amount divided by the apartment building’s appraised value.

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Market Rent

The market rent refers to the market value of a rental unit for lease based upon comparable rental rates for similar units in close proximity to the subject. Used to calculate value, cash flow, and potential loan amounts.

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Metropolitan Statistical Area

An MSA is a geographic region with a substantial population. These are cities pooled together with neighboring communities that have high degrees of integration. An example is the Miami Metropolitan Area.

This MSA actually encompasses Miami, Fort Lauderdale, and West Palm Beach, three counties, dozens of cities, and even more neighborhoods.

Net Operating Income

The NOI of a property is calculated by adding up all of the incoming revenue from a property and subtracting the operating expenses.

Non-Recourse Loan

A non-recourse loan is a loan on which the borrower is not personally signing a guarantee. The lender generally has no recourse to pursue the borrower in default, beyond the pledged real estate collateral the loan was made on.

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Operating Expenses

Operating expenses are what it costs to run and maintain an investment property. In apartment syndications, these operating expenses usually include payroll, maintenance, repairs, contractors, marketing, admin, utilities, management fees, property taxes, insurance, and capital reserves.

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Offering Memorandum

Also known as the private placement memorandum, this document lays out the risks, terms, and objectives of an investment, as well as documents the syndicators' business operations and condition.

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Passive Investing

The strategy of placing your capital into real estate syndication that is managed for you.

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Permanent Agency Loan

This is a long-term mortgage loan guaranteed by government-sponsored agencies Fannie Mae or Freddie Mac. Loans may be amortized for as many as 30 years.

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Preferred Return

Investors with preferred shares or preferred returns receive their distributions and returns up to an agreed-upon percentage before the sponsor. This holds them accountable and ensures interests are aligned.

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Prepayment Penalty

A penalty for paying off a loan balance early. These clauses can be especially complicated calculations in commercial mortgage lending.