



TRACTION

REAL ESTATE MENTORS



Glossary of Real Estate Investing Terms

Tom Zeeb

www.TractionRealEstateMentors.com

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Traction Real Estate Mentors, LLC
611 Pennsylvania Ave SE #365
Washington, DC 20003
USA

www.TractionRealEstateMentors.com

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Glossary of Real Estate Investing Terms

ABSTRACT

A synopsis of the legal history of ownership of real property. A summary of recorded instruments, which affect title, arranged in the order of recording.

ACCELERATION CLAUSE

A clause in a mortgage that provides, at the option of the lender, the entire unpaid balance of the note would be due immediately upon failure to make a required payment or upon the sale of the property. In the later case it is known as a due-on-sale clause.

ACCRUED INTEREST

Accumulated interest earned or due but not yet paid.

ACRE

A measure of land equaling 43,560 square feet.

ADJUSTED COST BASIS

For accounting purposes, the original cost plus improvements minus depreciation or cost recovery taken.

AFTER TAX CASH FLOW

Effective gross income minus operating expenses and debt service plus or minus any tax savings or tax liability.

AGENCY

A relationship of trust whereby one party, the principal, entrusts another party, the agent, to act in their behalf and to represent them in doing business with other parties.

ALLIGATOR

A property that has a negative cash flow.

ALL-INCLUSIVE TRUST DEED (AITD)

The borrower obtains a new mortgage, which is structured to include the old mortgage. The borrower makes payments on the new mortgage directly to the lender, who makes payments on the old first mortgage.

AMORTIZATION

A method of gradually paying off principal on a mortgage. Each payment reduces or amortizes the original amount

AMORTIZED LOAN

A loan in which the principal as well as the interest is payable in monthly or other periodic installments over the term of the loan.

ADMINISTRATOR

A party appointed by a court to administer the estate of a person who has died without leaving a will.

ANNUITY

A payment of equal installments paid periodically for a given number of periods.

APPRAISAL

An estimation of value of real property at the present time or past date, never future. Any of three methods are used where applicable. (A) cost approach (B) income approach (C) market data approach.

APPRAISER

A disinterested party who evaluates a property and determines its value.

APPRECIATION

A property's growth in value.

APPURTENANCE

Anything attached to the land, which becomes a part of the property.

ARREARS

The payment of money after the fact. Interest and taxes paid in arrears would represent money paid for a period of time gone by.

ASKING PRICE

The price an appraiser has determined for a property and the price for which it is on the market.

ASSESSED VALUE

The value as determined by the local tax assessor's office for the purpose of levying local taxes.

ASSESSMENT

Value set on property by local government for the purpose of real estate taxes.

ASSET

Any possession of value that an individual owns which may be used for payment of a debt.

ASSIGN

To transfer one's rights in a bond, mortgage, lease, or other legal instrument to another person.

ASSUMING/MORTGAGE

Taking of title to a property by a buyer, whereby he assumes payment of note or bond secured by a mortgage against the property.

BALANCE SHEET

A financial statement showing assets, liabilities, and net worth.

BALLOON PAYMENT

A large final payment due on a note, usually after partial amortization of the debt through installment payments.

BANKRUPTCY

Proceedings against a debtor, who has been declared legally insolvent, to distribute the debtor's property among the creditors.

BINDER

Small deposit money paid with a temporary agreement to purchase property under specified terms.

BIRD DOG

People who are on the lookout for properties that are for sale.

BLANKET MORTGAGE

One mortgage that covers several different parcels of real property.

BLENDED INTEREST RATE

The interest rate resulting from half the difference of the interest rate originally written for the mortgage and the current market rate of interest.

BOILER PLATE

Preprinted sections of a contract.

BOOK VALUE

The value of a property carried on a company's books. It is usually the cost less depreciation or cost recovery plus capital additions.

BOND

The evidence of a personal debt which is secured by a mortgage on real estate.

BOUNDS

Boundaries that are natural or artificial, i.e.-roads, trees, rocks, railroad tracks, etc.

BROKER

State licensed agent who represents buyers and sellers in real estate proceedings.

BROKERS PRICE OPINION

The opinion of a Real Estate Broker as to the value of a property. Similar to a "lite" appraisal. Abbreviated as BPO.

CAPITAL

Money used for investment purposes.

CAPITAL GAINS

The profit realized above adjusted cost basis on the sale of property.

CASH FLOW

Effective gross income minus operating expenses and debt service.

CAVEAT EMPTOR

Latin for Let the buyer beware. Buyer must inspect the goods or property and purchase at their own risk.

CHATTEL

Personal property.

CHATTEL MORTGAGE

A mortgage on personal property.

CLOSING

Procedure whereby property title is conveyed from seller to buyer.

COLLATERAL

Real or personal property pledged as security for repayment of a loan or debt.

COMMISSION

Usually a percentage of the purchase price paid to the broker or agent for services rendered.

COMPETENT PARTY

A person legally able to contract being of legal age and of sound mind.

CONCESSIONS

During negotiations, these are the items that each party is willing to give up in order to get the items each party really wants.

CONDEMNATION

The process by which property of a private owner is taken, with or without consent, for the public use. Fair compensation must be paid.

CONDOMINIUM

Individual ownership of an apartment and an undivided interest in the common areas and facilities which serve the multi-unit property.

CONSIDERATION

Something of value exchanged by a party to influence another party to enter into a contract.

CONTINGENCY

A possible event based on the happening of an uncertain future event.

CONTRACT

An agreement between competent parties in the performance of a legal consideration, whereby each party obtains a right to what the other owns.

CONTRACT FOR DEED

A contract for the sale of real property wherein the seller is obligated to provide a merchantable title after the buyer has paid for the property, usually in installments. Abbreviated as CFD. Also called Land Contract (LC) or Agreement for Deed (AD).

CONTRACT FOR PURCHASE AND SALE

An agreement between buyer and seller of real property to transfer title to that property at a future time for a specific sum of money.

CONVEYANCE

The transfer of real estate from one party to another.

COOPERATIVE

An apartment house or similar property owned, usually in corporate form, by all the tenants. Each has stock in the corporation, which owns the building.

COVENANT

Insertion of written agreement into deeds and other documents promising performance of certain acts, or stating certain uses of real estate.

COW

Term used to describe an income property with a high positive cash flow.

CREDITOR

The lender. The one to whom the debt is owed.

CURE DATE

The last day given for bringing mortgage payments current at the beginning of the foreclosure process.

DEAD ASSET

An asset that an investor does not want-in the investor's eyes it has no value.

DEBT SERVICE

The sum of the annual principal and interest payments expressed as a percentage of the amount owed.

DEED

A legal document which conveys real estate from seller to buyer when properly executed.

DEFAULT

Failure to discharge a duty or obligation.

DEFICIENCY JUDGMENT

A judgment rendered in court for the difference in the amount realized at a foreclosure sale and the amount owed by the mortgagor, if the foreclosure sale fails to completely liquidate or satisfy the debt.

DEPRECIATION

Decline in property value due to obsolescence, age, natural wear, or any other conditions.

DISCOUNT

The percentage of the original balance of the loan that is charged the borrower. Sometimes referred to as points. Also, the difference between the selling price of a mortgage and the amount due.

DISCOUNTING A NOTE

The process of offering a promissory note for less than its face value to enhance its marketability.

DISTRESSED PROPERTY

A bargain property that is substantially below its present or projected renovated value.

DUPLEX

A two family home where the units share a common divider and are situated either side by side or up and down.

EARNEST MONEY

A deposit of money given by a party to bind the contract usually credited toward the sales price.

EASEMENT

Right of way granted by a property owner to another allowing use of land for a specific reason.

EFFECTIVE GROSS INCOME

The difference between the total gross income and the vacancy allowance.

EFFECTIVE INTEREST

The interest rate the borrower actually pays as opposed to the nominal interest rate. The effective interest rate is made higher than the nominal rate by addition of points or discounting a loan.

EMINENT DOMAIN

The power of the government to take private property for public use in return for fair compensation. This power is exercised through condemnation.

ENCROACHMENT

An obstruction or building which intrudes upon or trespasses upon the property of another.

ENCUMBRANCE

Anything that mars title to a property, such as a mechanic's lien, lien for back taxes, an unpaid mortgage, judgment, etc.

EQUITY

Value of property minus the debts or liens against it. Increasing ownership margin during the years as the mortgage is paid off.

ESCAPE CLAUSE

A clause added to the contract that allows either party the option of exiting the contract. Both parties are no longer bound by any contractual obligations.

ESCROW

Funds held by a third party to be released when certain conditions in a contract are fulfilled.

ESTATE

Ownership interest in real property.

ESTATE BY THE ENTIRETIES

Ownership by husband and wife with the right of survivorship.

ESTOPPEL LETTER

A letter certifying the exact balance of a mortgage or other loan at a given time.

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EXCHANGE

The exchange or trade of business property you own for another trade or business property that is like it. No taxes are due in such an exchange under a given set of circumstances.

EXCULPATORY CLAUSE

A clause in a contract relieving one of the parties of personal responsibility or liability.

EXPENSES

The costs of maintenance, repairs, and rental costs that are deducted from a property's gross income.

EXTENSION CLAUSE

A clause contained within some lease option contracts that provides for the terms under which the contract may be extended.

FACE VALUE

In reference to a note, the face value is the full amount for which the note has been written.

FAIR MARKET VALUE

The appraised value of a property as compared with other property values on the market.

FLIPPING

The turnover of property. An investor buys a property to immediately sell it for a profit.

FEE SIMPLE

The highest estate in real property. The ownership of real property without reservation or restriction.

FIDUCIARY

An agent in the position of confidence to his principal. Also, a relationship of trust and confidence imposed by law.

FINANCIAL ANALYSIS

An investor's determination of the value of a property according to their specific needs.

FINANCIAL LEVERAGE

The use of other people's money for investment purposes.

FINANCING

The way in which an investor obtains the capital with which to purchase a property.

FIRST DEED OF TRUST

A deed of trust recorded first. Equivalent to a first mortgage.

FIXTURE

Personal property attached permanently to real estate and thus becoming part of it.

FORCED SALE

The sale of a property used as security for a loan to repay the creditor, or others, in the event of default on the loan.

FORECLOSURE

A legal procedure where the property is sold by the lending agency because the borrower is in default of the payment terms of the mortgage.

FRONT FOOT

The width of a lot at the front, usually given as the first measurement.

GENERAL PARTNERSHIP

A form of business where two or more persons enter into an agreement to conduct business. Profits and losses are shared in a predetermined fashion and all partners are jointly and severally liable for debts of the general partnership.

GRACE PERIOD

Additional time granted to perform an act or make a payment before default.

GRANDFATHER CLAUSE

Properties that do not conform to current ordinances, codes, or regulations, but are allowed to continue to be occupied because the properties predate the institution of the ordinances, codes, and regulations.

GRANTEE

-A person or entity who is receiving interest/rights of real estate. e.g. Buyer

GRANTOR

-A person or entity who conveys their interest/rights in real estate. e.g. Seller

GROSS INCOME

The total income from a property before the deduction of expenses.

GROSS INCOME MULTIPLIER

That number which, when multiplied times the gross income, would give an indication of property value. It is strictly a guide and frequently abused.

HOMESTEAD EXEMPTION

Protection extended by law preventing the forced sale of an owner occupied dwelling by certain creditors.

HOMESTEAD TAX EXEMPTION

The credit against taxes, given in some states, to a person who owns and occupies a dwelling and to certain other individuals including disabled veterans, those over age 65, widowed, or handicapped.

IMPROVEMENT

Buildings or other structures which become part of the land.

INSTALLMENT LOAN

A loan that must be repaid in no less than two payments. A loan of six months or greater is preferable when establishing credit.

INSTALLMENT NOTE

A note, which specifies how mortgage payments, will be made, when they will be due, and for what amount.

INSTALLMENT SALE

A sale which, for income tax purposes. Is not taxed totally in the first year of the sale. To be valid there must be a minimum of two installment payments over two tax years.

INSTRUMENT

A written legal document delineating the rights of the parties.

INTEREST RATE

An amount a borrower must repay in addition to the full amount of the loan.

INTESTATE

A person who has died without leaving a valid will.

INVOLUNTARY LIEN

A lien, like real property tax liens, which are recorded against a property without consent of the owner.

INSTANT EQUITY

The difference between the property's value and what you paid for it.

JOINT TENANCY

Ownership of real estate by two or more persons, each of whom has an undivided interest with the right of survivorship.

JOINT VENTURE

An arrangement where two or more individuals or corporations join together on a single project as partners.

JOINTLY AND SEVERALLY

A legal term indicating that a contract has been entered into by two parties and the two parties are not only liable together but individually as well.

JUDGMENT

The verdict of a court on a matter presented to it. A money judgment dictates that a party must make payments to another to settle a claim.

JUNIOR LIEN

A mortgage or other encumbrance with a secondary interest. A lien junior to another mortgage or lien.

LAND TRUST

A form of ownership whereby property is conveyed to a person or an institution called a trustee, to be held and administered on behalf of another person called the beneficiary.

LEASE

A contractual agreement between the owner and the tenant which allows the tenant the use and occupancy of the property for a specified period of time. A lease is an encumbrance against a title and gives the tenant an actual interest in the property known as an estate for years.

LEASE OPTION

An agreement between two parties where the party who owns the property extends the right to purchase the property at a future date. The second party lives in the property until the lease option expires. Abbreviated as LO or L/O.

LEASEHOLD

The estate or interest held by the lessee in the property of another.

LEGAL DESCRIPTION

The means to identify the exact boundaries of a property. A surveyor will use the recorded plat method, metes and bounds method, or the government survey method to describe real property.

LESSEE

One who contracts to hold occupancy rights in the real property of another.

LETTER OF CREDIT

A letter, usually from a financial institution, guaranteeing a debt incurred by a third party.

LETTER OF INTENT

A letter stating a buyer's intent to make an offer to acquire a certain property. It is not a binding contract.

LEVERAGE

Obtaining a higher return on borrowed money than the cost of borrowing it. A situation where the smallest amount of cash is invested to obtain the best yield, percentage wise.

LIEN

A claim lodged against real estate to effect repayment of an indebtedness. For example, a mechanic's lien, where the contractor records his lien for work done and not paid for.

LIMITED PARTNERSHIP

A partnership composed of a limited partner(s) and a general partner(s). The limited partner(s) contributes capital but is not liable for any debts of the partnership, nor can they manage or control the partnership.

LIQUIDATED DAMAGES

Damages, usually monetary, spelled out in a contract which would be available in the event of a default, to the party not in default.

LIS PENDENS

A legal instrument recorded in the county clerk's office, giving notice that a legal action is pending in the courts affecting the title to property.

LISTING

An agreement whereby owner of property gives a real estate agent the right to handle the sale or lease of property and to receive a commission for this service.

MARKETABLE TITLE

A title free and clear of liens and encumbrances that might be objectionable.

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MARKET VALUE

The highest price for a property which a buyer is willing to pay, and the lowest price which a seller agrees to accept.

MECHANICS LIEN

A lien existing in favor of mechanics, suppliers, or other persons who have supplied materials or performed work in connection with the construction or repair of a building or other improvement.

MEETING OF MINDS

A condition whereby all parties to contract agree to its terms.

METES

Measures such as inches, feet, yards, or miles.

METES & BOUNDS

A description of the boundary lines of land, setting forth the boundary lines with their terminal points and angles.

MORATORIUM OF INTEREST

A time during the term of a loan wherein no payment of interest due is made.

MORTGAGE

A legal instrument or document that conveys title to real estate as collateral for the payment of a debt.

MORTGAGEE

The lender of money who holds a mortgage on a property as security for repayment of the loan.

MORTGAGOR

The borrower of money who gives a mortgage on a property as collateral for repayment of the loan.

MORTGAGE COMMITMENT

A formal notice from a lending institution stating the amount it will lend for the purchase of property.

MULTIPLE LISTING SERVICE

A multi-realty service whereby members of the local Board of Realtors exchange their listings.

NEGATIVE CASH FLOW

Properties that cost you money instead of making you monthly income.

NET INCOME APPROACH

A technique used to evaluate larger properties and determine their value by calculating the net income they produce.

NET LISTING

A price under which an owner will not sell the property. The broker is entitled to the excess over the net listing as his commission.

NET NET NET (Triple Net Lease)

An agreement which specifies that the tenant pays real estate taxes, insurance, and all maintenance costs of the property.

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NET OPERATING INCOME

Gross income minus any operating expenses. Debt service is not deducted as an expense.

NET SPENDABLE INCOME

Amount remaining after expenses and debt service and any taxes due have been deducted from the gross income.

NO DOC LOAN

A loan where the borrower is not required to present any documentation to secure a loan.

NON-OWNER OCCUPANT - NOO

A property where the owner does not live. Generally refers to rentals.

NOTE

The legal evidence of debt.

OPTION

An instrument giving the right to a party to lease or purchase the property over a specified time period for a specified consideration. It is binding for the optionor but not the optionee.

OPTIONEE

The person who has the legal right to purchase or not to purchase a specific property in the future.

OPTIONOR

The seller of a property who extends an option to someone else. If the optionee exercises the option, this person is legally bound by the contractual obligations. If the option is not exercised then the optionor is released from any responsibilities.

OWNERS OF RECORD

All owners that are listed on a deed that is recorded in the county courthouse.

PACKAGE MORTGAGE

A mortgage, which in addition to encumbering real property also includes personal property such as a refrigerator, dishwasher, or oven.

PARTNERSHIP

Two or more people associated for the purpose of carrying on business activities.

PAY DOWN

The amount of principle on a loan retired through payments at a given time

PERSONAL PROPERTY

All property other than real property.

PLAT BOOK

A public record containing maps of land showing the division of such land into streets, blocks, and lots. Includes measurements of individual parcels.

POINTS

An originating fee or a percentage based on the amount of mortgage money advanced, to be paid by the seller.

POSITIVE CASH FLOW

When rental and other income exceeds all of the costs of ownership.

PRELIMINARY TITLE SEARCH

The first review of all previously recorded documents regarding a specific property, to make sure that the property may be sold.

PREMIUM

An additional sum of money paid as an incentive for someone to do something.

PREPAYMENT CLAUSE

A clause in a mortgage giving the mortgagor the privilege of paying off the mortgage before its due date.

PRINCIPAL

The sum of money used as funds for the investment.

PROMISSORY NOTE

Usually a note given to the seller by the buyer, which promises to pay back principal to the seller. It states the interest rate and time frame for pay back.

PRO FORMA STATEMENT

A financial statement based on anticipated, not actual, income and expenses.

PRO RATA

Buyers and sellers portion of prepaid or unpaid expenses such as real estate taxes.

PURCHASE MONEY MORTGAGE

Funds advanced in the form of a mortgage by the owner of real estate to the buyer for the purpose of buying their property.

QUIT CLAIM DEED

A deed transferring whatever interest in the property that the grantor may have. They are usually used to clear title.

REAL PROPERTY

Land, and generally any improvements added to the land.

R.E.O. (REAL ESTATE OWNED)

Properties that financial institutions have repossessed as a result of default on a mortgage and which these institutions are willing to sell.

RECORDING

The act of entering in the public record any instrument affecting title to real property.

REDEMPTION

The buying back of one's own property after a forced court sale.

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RELEASE CLAUSE

A statement in a blanket mortgage that allows a specific described parcel to be released from under the blanket lien after a sum of money is paid, or a period of time is up.

REPRODUCTION COST ANALYSIS

A technique used to evaluate a property by estimating the cost of building the same or similar structure, adding the cost of land and subtracting an allowance for wear and tear.

RESTRICTIVE COVENANT

A clause in a deed in which there is an agreement between buyer and seller stating certain restraints as to the use of the property.

RIPARIAN RIGHTS

The landowner's right to water on, under, or next to his land.

SANDWICH LEASE

While having the option to buy a property, the investor subleases it to gain positive cash flow.

SATISFACTION PIECE

An instrument for recording and acknowledging payment of a loan secured by a mortgage.

SECURITY DEPOSIT

An amount of money paid by a tenant before moving into the premises to cover any damage incurred while living there, or to protect the landlord in the event that the tenant leaves without being current on rent payments. If the tenant is current and the unit only has a normal amount of wear and tear, then the deposit is generally refunded.

SPECIFIC PERFORMANCE

A court order requiring a person to act or do a specific thing that they had agreed to do.

SUBJECT TO

A term that means "buying a property with an encumbrance in place". In Real Estate Investing, it is generally a method of buying a property without getting new financing. Buying a house with the mortgage in place. Abbreviated as Sub2, Sub-2, Sub To, and Sub-To.

SURVEY

A map prepared by land engineers or surveyors indicating the location and boundaries of the property described in the title.

TAX CERTIFICATES

Bonds sold to recoup unpaid property taxes by the county in which the property is located. When the property is auctioned, the certificate holders may either use the certificates as money to bid on the property or redeem them for face value plus interest.

TAX SALE

Sale of property because of a delinquency in the payment of taxes.

TENANCY IN COMMON

The ownership of an interest in property by two or more persons. Their ownership interest may be equal or unequal and there is no right of survivorship as with joint tenancy. The interest of any joint owner passes to their heirs or assigns after death.

TENANT

A person having the temporary use and occupancy of real property owned by another.

TERMS

The exact way a property will be purchased.

TESTATE

One who dies leaving a will.

TIME SHARE

A piece of property purchased by two or more parties who have set specific times when each may use or occupy the property.

TITLE

A legal instrument or document certifying the right of ownership of property.

TITLE INSURANCE

Insurance issued by a guarantee company protecting the property owner against any flaws in the title that might affect ownership or potential losses.

TITLE INSURANCE COMPANY

A business that reports on the status for the title on a specific property and whether or not it has any liens against it. After this title search has been completed, the company will issue a deed to be signed by all the owners of the property, which should be notarized and recorded in the public records.

TITLE SEARCH

Investigation of title records, history of previous ownerships, to ascertain if liens, encumbrances, or other outstanding claims exist that may prevent legal conveyance of title.

TOWNSHIP

A unit of measure used in the government survey method of land description equal to 36 sections, which is 36 square miles.

UNILATERAL CONTRACT

A contract in which one party is bound by another to do something. If the second party chooses to exercise the contract, the first party must perform any contractual obligations that party may have. If the second party chooses not to exercise the contract, the first party is released from any contractual obligations.

UNSECURE LINE OF CREDIT

A credit history developed by an individual who borrows small amounts of money, which do not require collateral.

USURY

A rate of interest on a loan which is greater than the law allows.

VACANCY RATE

An estimate of the amount of time the rental property will be vacant multiplied by the rental rate of the unit(s). The amount is used in estimating the investor's value of an income property.

VIOLATION

An act, deed, or creation of a condition that violates the law in the use of property.

WARRANT

To guarantee something to be as represented.

WIN-WIN

A solution to both seller and buyer needs.

WRAPAROUND MORTGAGE

A mortgage held by the seller-mortgagee. The buyer-mortgagor pays the seller-mortgagee the debt service on the wraparound mortgage and the seller-mortgagee continues to pay the debt service on the underlying or original mortgage.

ZONE

An area designated by the authorities for specific use, subject to certain restrictions.

ZONING ORDINANCE

A ruling act by local government officials specifying the type and use to which property may be put in certain locations.