

### Investment Property Types

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

Office Building Classes are based on GAAP

### Key Terminology

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

### Key Terminology (cont)

<b>gross income</b>	the total amt collected from rents & other income producing opportunities
<b>debt service</b>	annual amt to be paid by a debtor on an obligation to repay borrowed money
<b>tax shelter</b>	any method of reducing taxable income resulting in a reduction of the payments to tax collecting entities
<b>before tax cash flow</b>	the net profit/loss calculated by subtracting expenses from income before taxes are paid
<b>after tax cash flow</b>	the net profit/loss realized after taxes are deducted
<b>rate of return</b>	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

<b>commencement date</b>	contracted date when activities begin
<b>move-in date</b>	the date at which the tenant will move in

### Lease Clause for Tenants (cont)

<b>estoppel</b>	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
<b>lease escalation clause</b>	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

- Gross potential income
- effective gross income
- expenses
- net operating income (NOI)
- 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

<b>Subordination</b>	tenant subordinates lease to mortgage
<b>Non-Disturbance</b>	protects tenants from being thrown out of the property
<b>Attornment Agreement</b>	tenant commitment to allow for ownership to change



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Published 7th January, 2021.

Last updated 7th January, 2021.

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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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