

TALK THE TALK: 10 CRE TERMS TO KNOW

When you're considering buying, leasing or investing in commercial real estate, you need to be able to talk the talk. Here are the words that commonly crop up:

1 ABSORPTION

The amount of inventory or units of a specific commercial property type that become occupied during a specified time period (usually a year) in a given market, typically reported as the absorption rate.

2 CAM (COMMON AREA MAINTENANCE)

Charges the tenant pays for the upkeep of areas designated for use and benefit of all tenants. CAM charges are common in shopping centers, where tenants are charged for items such as parking lot maintenance, snow removal, and utilities.

3 CAP RATE (CAPITALIZATION RATE)

A percentage that relates the value of an income-producing property to its future income, expressed as net operating income divided by purchase price.

4 CASH ON CASH

A return measure that is calculated as cash flow before taxes divided by the initial equity investment.

5 DCR (DEBT COVERAGE RATIO)

Ratio of net operating income to annual debt service. Expressed as net operating income divided by annual debt service.

6 1031 TAX DEFERRED EXCHANGE

Real estate traded for other like-kind property. Under Section 1031 of the Internal Revenue Code, like kind property used in a trade or business or held as an investment can be exchanged with all capital gains taxes deferred until the newly acquired real estate is disposed of in a taxable transaction. The philosophy behind the deferral of capital gains taxes is that taxation should not occur as long as the original investment remains intact in the form of like-kind real estate (like-kind refers to real property as such, rather than the quality or quantity of property).

7 IRR (INTERNAL RATE OF RETURN)

The percentage rate earned on each dollar that remains in an investment each year. The IRR of an investment is the discount rate at which the sum of the present value of future cash flows equals the initial capital investment.

8 NOI (NET OPERATING INCOME)

The potential rental income plus other income, less vacancy, credit losses, and operating expenses.

9 POSITIVE LEVERAGE

An investment situation in which borrowed funds are invested at a rate of return higher than the cost of the funds to the borrower.

10 SALE LEASEBACK

A leasing and financing strategy in which a property owner sells its property to an investor, then leases it back. This strategy frees capital that otherwise would be frozen in equity.

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A co-founder and partner of Linville Team Partners, Aubrey's 16-year career in real estate has produced hundreds of successful transactions across asset classes including investment, office, multifamily, and retail properties. His personal experience in real estate investing and extensive education in the arena allows his clients to look to him for knowledgeable direction in all aspects of the commercial property transaction.

