

Development Glossary

With simple math explained.

Compiled by SEG April 2009

motiveSpace **COALITION**

HELPING NEIGHBORS BUILD
NEIGHBORHOODS



PRO FORMA:

A financial statement that projects gross income, operating expenses, and net operating income for a future period on the basis of a set of specific assumptions.

CAPITALIZATION RATE-

(annual net operating income/ value)

Developers use capitalization rates as an indirect measure of how fast a property will pay for itself. Ie, if a \$1 M building has a cap rate of 10%, then it makes \$100K/year, and will pay itself off in 10 years. If it has a cap rate of 5%, it will take 20 years to 'capitalize,' or pay itself back.

LOAN-TO-VALUE RATIO- **(Loan Amount/Market Value)**

The relationship between the amount of a mortgage loan and the value of the real estate securing it.

FLOOR AREA RATIO-

(gross building area/ site area):

The ratio of total floor area to land area, expressed as a percentage or decimal fraction. Determined by dividing the total floor area of the building by the area of the lot. FAR typically is used as a formula to regulate building volume.

DEBT COVERAGE RATIO - (Net operating income/Loan payments) Measures a property's ability to cover monthly Loan payments. It is defined as the ratio of net operating income over the Loan payments. A Debt Coverage Ratio of less than 1.0 means that there is insufficient cash flow generated by the property to cover required debt payments.

Debt Coverage Ratio - DCR (Net operating income/Loan payments) Measures a property's ability to cover monthly Loan payments. It is defined as the ratio of net operating income over the Loan payments. A Debt Coverage Ratio of less than 1.0 means that there is insufficient cash flow generated by the property to cover required debt payments.

AMENITY: Nonmonetary benefit derived from real property, such as recreational facilities, concierge services, or planned community activities.

CAP RATE:

(annual net operating income/ value)

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ZONING: Classification of land by local authorities according to use categories, or zones; most often used to regulate density and permitted uses.

TITLE: Evidence of ownership of real property to indicate a person's right to possess, use, and dispose of property.

TENANT

ALLOWANCE: A cash payment made by the developer to a tenant (usually of income-producing property) to enable the tenant, rather than the developer, to complete the interior construction finish and/or fixturing work for the leased premises.

TENANT IMPROVEMENTS:
Improvements made to the
property at the tenant's
expense.

LOAN-TO-VALUE RATIO- LTV

(Loan Amount/Market Value)

The relationship between the amount of a mortgage loan and the value of the real estate securing it.

JOINT VENTURE: An association of two or more firms, individuals, or organizations united to carry on a single business or social enterprise.

CONSTRUCTION LOAN: A loan made, usually by a commercial bank to a builder, for the construction of improvements on real estate with a term usually running six months to two years.

HIGHEST AND BEST

USE: The property use that, at a given time, is deemed likely to produce the greatest net return in the foreseeable future, whether or not such use is the current use of the property.

FEASIBILITY STUDY: A

combination of a market study and an economic study that provides the investor with knowledge of both the environment in which the project exists and the expected returns from investment in it.

FAR (floor/area ratio):

The ratio of floor area to land area, expressed as a percentage or decimal fraction, that is determined by dividing the total floor area of the building by the area of the lot. FAR typically is used as a formula to regulate building volume.

DUE DILIGENCE: The systematic evaluation of all reasonable considerations affecting the proposed project, including environmental, financial, legal, and other considerations, that affect the feasibility of the project.

DEVELOPMENT

TEAM: The range of participants engaged by a developer, both public and private, to assist in the planning, design, construction, marketing, and management of a development project.

DEVELOPMENT FEE:

Compensation paid to a developer in return for managing a development project on behalf of a client.

DENSITY: The level of concentration (high or low) of buildings, including their total volume, within a given area. Density often is expressed as a ratio, for example, dwelling units per acre or floor/area ratio.

REDEVELOPMENT: The
redesign or rehabilitation of
an existing property.

PASS-THROUGH: Lease provision whereby certain costs flow through directly to the tenants rather than to the owner. (Utility costs, for example, or property tax increases on a long-term lease).

MARQUEE TENANTS: Major tenants in an office building.

REAL ESTATE INVESTMENT TRUST (REIT): An ownership entity that provides limited liability and liquidity and that is exempt from U.S. income tax. Ownership is evidenced by shares of beneficial interest similar to shares of common stock.