

MULTIFAMILY GLOSSARY

ABSORPTION RATE The proportion of newly completed units that are or have been leased, usually over a given period (such as 3 months).

ABSORPTIONS The net change in the total number of apartment homes leased.

APARTMENT A rental dwelling unit, contained in a building of five or more units.

ASSISTED HOUSING A privately owned rental property that, through government subsidy, houses low-income residents who otherwise would not be able to afford market rents.

1. Property-based: the owner receives government assistance in the form of mortgage insurance, a reduced mortgage interest rate, or tax incentives.

2. Resident-based: the residents receive some form of rental subsidy.

BASIS POINTS A hundredth of a percentage point, often used in relation to interest rates. A unit of measure for the change in interest rates for bonds and notes. Example: if an interest rate rises from 5.00% to 5.30%, that is a rise of 30 basis points (it can also be described as an increase of three-tenths of a percentage point).

CAPITALIZATION RATE (or "CAP RATE") 1. The cap rate is the ratio of net operating income to property value. As such, it provides a current snapshot of the (unlevered) percentage return an investor would get on purchasing the property.

2. If the cap rate for comparable properties is known, it can be used to estimate the property value.

CAPITAL STACK All debt and equity sources combined that were used to fund an investment in real estate.

CASH ON CASH RETURN The annual before-tax cash flow of an investment expressed as a percentage of the initial cash invested.

CONCESSION An economic incentive granted by an owner to encourage the leasing of space or the renewal of a lease. Concessions are usually related specifically to the rental rate (e.g., a month's free rent).

CONSUMER PRICE INDEX (CPI) Bureau of Labor Statistics: a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Percentage changes in the CPI provide one measure of inflation.

DEBT SERVICE COVERAGE RATIO (DSCR) The ratio of Net Operating Income (NOI) to mortgage debt service. DSCRs are most commonly expressed as a decimal (e.g., 1.20), but sometimes as a percentage (120 percent).

ECONOMIC BASE The businesses or industries that provide an area with the basis for its economy.

EQUITY MULTIPLE The total net profit returned over the lifetime of an investment plus the maximum equity invested, expressed as a multiple of the maximum equity invested. While the equity multiple provides an intuitive measure of the number of times an equity investment will be returned, it does not consider the timing or risk characteristics of an investment's returns.

Equity Multiple = (total net profit + max equity) / max equity

FAIR MARKET RENT The 40th percentile rent for rental units in a given metropolitan area. The FMR is calculated by HUD using data from the American Community Survey, and is updated annually. FMRs are used to determine payment standards for rental assistance, predominantly through HUD's Section 8 program. A related topic, Small Area Fair Market Rents (SAFMRs), uses the same methodology, but at the zip-code level, in an effort to address problems in high-cost areas.

GARDEN APARTMENT An apartment on the ground level of a building, typically in a single-family house.

GARDEN-STYLE APARTMENT BUILDINGS Apartment buildings typically no more than four stories high, with multiple apartments per story, and landscaped grounds surrounding them. In most instances buildings are arranged with interior courtyards open at one end, and parking either in front of the buildings or along the perimeter. Each apartment has its own building entrance off an open breezeway or shares an entrance via a stairwell and interior hallway that connects other units immediately above and/or below it. Each apartment occupies only one level. Garden-style apartment buildings typically do not have elevators.

GROSS DOMESTIC PRODUCT (GDP) The total market value of final goods and services produced within the United States in a year.

GROSS POTENTIAL RENT (GPR)	The amount of rent that an owner would collect if all apartments were occupied and all residents were paying the market rent.
INFLATION	Bureau of Labor Statistics: the overall general upward price movement of goods and services in an economy. (An overall downward movement in prices is called deflation.)
INTERNAL RATE OF RETURN (IRR)	The discount rate that equates all future returns of an investment to the initial outlay on that investment.
LEVERAGE	The use of borrowed funds to help finance an investment, to increase either the potential rate of return or one's purchasing power.
LIQUIDITY	The ease with which assets can be converted into cash.
LOSS TO LEASE	For all leased units, the difference between market rents and actual contract rents.
LOW INCOME HOUSING TAX CREDIT (LIHTC)	LIHTC is dollar-for-dollar tax credit housing investments. It was created under the Tax Reform Act of 1986 that gives incentives for the utilization of private equity in the development of affordable housing aimed at low-income tenants. As the maximum rent that can be charged is based upon the Area Median Income (AMI), LIHTC housing remains unaffordable to many low-income (<30% AMI) renters. The credits are also commonly called Section 42 credits in reference to the applicable section of the Internal Revenue Code. The tax credits are more attractive than tax deductions as the credits provide a reduction in a taxpayer's federal income tax, whereas a tax deduction only provides a reduction in taxable income.
MEDIAM HOUSEHOLD INCOME	For any geographic area, the household income for which half of households in that area have more income and half have less.
MEZZANINE DEBT	A loan often used by developers to secure supplementary financing for development projects. These loans are often secured by a lien subordinate to the first or senior mortgage lenders.
MIXED-USE DEVELOPMENT	A type of development combining retail, office-residential, or industrial-office residential development in one parcel or group of parcels of land.
MORTGAGE DEBT SERVICE	The amount of money required to cover a mortgage's principal payments, interest payments, and any credit enhancement costs such as FHA mortgage insurance premiums or guarantee fees.
NET OPERATING INCOME (NOI)	Revenue minus all operating costs, excluding debt service, depreciation, capital expenditures, and income taxes.

OCCUPANCY RATE	The percentage of total apartment units that are occupied.
RETURN ON COST	A term used by developers to evaluate the viability of a project by dividing the return or net income of a property by the cost to develop the property.
RETURN ON INVESTMENT (ROI)	An undiscounted return over a single period expressed as a percentage of the initial capital invested. ROI = (Gains – Cost) / Cost
SECTION 8 HOUSING	Privately owned residential rental units that are used by a property owner to participate in the low-income rental assistance program created by the 1974 amendments to Section 8 of the 1937 Housing Act. There are two types of Section 8 programs, known as “place-based” and “tenant-based”. Under the tenant-based program, HUD pays a rent subsidy to the landlord on behalf of qualified low-income residents so they pay a limited portion of their income for rent (voucher program). Alternatively, residents may receive rent subsidies for the entire rent and not pay any portion of the rent themselves (certificate program). Alternatively, for place-based Section 8 programs, the rental assistance is tied to a rental property, not an individual household.
SOFT MARKET	Used in referring to a real estate market in which supply significantly exceeds demand, enabling potential buyers or renters to obtain lower prices or rents. Often a reason for leasing concessions related to rent.
SPECIAL ASSESSMENT	A special tax levied by a local government to fund public improvements (sidewalks, curbs, or other infrastructure) within a small area; only properties directly benefitting from the improvements are assessed the tax. In a condominium or other common interest association, monies collected from owners to fund a capital expenditure (e.g., roof replacement) when reserve funds are insufficient. This is in addition to the regular assessment for maintenance of common areas.
TOTAL OPERATING EXPENSES	The sum of all operating costs, not including interest, depreciation, and amortization.
TURNOVER RATE	Typically expressed as the ratio between the number of move-outs or units vacated during a specific time period, usually one year, and the total number of units in a property.
UTILITY	A public service such as gas, water, or electricity. Telephone and cable service are often considered utilities, as well.
VACANCY COST	The amount of rent that could have been collected from vacant units if they had been occupied and leased at current market rates.

