PARK CAPITAL PROPERTIES
LLC

34 TERMS EVERY NEW COMMERCIAL INVESTOR NEEDS TO KNOW

1. Cash-on-Cash Return: Cash flow divided by money into the deal.
2. Effective Gross Income (EGI): Total potential rent minus vacancy plus other income.
3. Net Operating Income (NOI): Effective gross income (EGI) minus expenses. It shows you the total cash flow before debt service.
4. Capitalization Rate (Cap Rate): NOI / sales price. If you paid all cash this would be your return.
5. Gross Scheduled Income (GSI): The total annual rent value of all units in the property.

6 Vacancy Rate: Number of vacancies per month / number of units.

7 Economic Occupancy: Considers the economic loss from physical vacancy as well as the loss from occupied units that are underperforming.

8 Physical Occupancy: The number of empty units divided by the total number of units.

9 Operating Expenses: The total expenses to operate property. Does not include debt service.

10 Debt Service: The mortgage.

11 Price Per Unit: The sales price / number of units.

12 Debt Service Coverage Ratio (DSCR): The NOI / total debt service. A DSCR of less than 1 means negative cash flow. Lenders typically want to see at least 1.25.

13 Breakeven Occupancy: Expenses plus annual mortgage payments / GSI. It tells you the occupancy required to break even.

14 Loss to Lease: The difference in value between the leased rate (how much the property is being leased for) and the market rate (going fair market rental rate).

15 Internal Rate of Return (IRR): An investment is the “annualized effective compounded return rate”. The rate needed to convert the sum of all future uneven cash flow to equal your initial investment or down payment.

16 Class A, B, C and D property; and Neighborhood Property:

Class A: 0-10 years old, command highest rent in area, high end amenities
Class B: 10-20 years old, well maintained, little deferred maintenance
Class C: built within the last 30 years, shows age, some deferred maintenance
Class D: over 30 years old, no amenity package, high turnover, worn properties

Neighborhood Property

Class A: most affluent neighborhood, expensive homes nearby
Class B: middle class part of town, safe neighborhood
Class C: low-to-moderate income neighborhood
Class D: high crime, very bad neighborhood

17 Accredited Investor: A person that can invest in securities (i.e. invest in an apartment syndication as a limited partner) by satisfying one of the requirements regarding income or net worth. The current requirements to qualify are an annual income of $200,000 or $300,000 for joint income for the last two years with expectation of earning the same or higher or a net worth exceeding $1 million either individually or jointly with a spouse.

18 Sophisticated Investor: A person who is deemed to have sufficient investing experience and knowledge to weigh the risks and merits of an investment opportunity.

19 Apartment Syndication: A temporary professional financial services alliance formed for the purpose of handling a large apartment transaction that would be hard or impossible for the entities involved to handle individually, which allows companies to pool their resources and share risks and returns. In regards to apartments, a syndication is typically a partnership between general partners (i.e. the syndicator) and the limited partners (i.e. the investors) to acquire, manage and sell an apartment community while sharing in the profits.

20 General Partner (GP): An owner of a partnership who has unlimited liability. A general partner is also usually a managing partner and active in the day-to-day operations of the business. In apartment syndications, the GP is also referred to as the sponsor or syndicator. The GP is responsible for managing the entire apartment project.

21 Limited Partner (LP): A partner whose liability is limited to the extent of the partner's share of ownership. In apartment syndications, the LP is the passive investor and funds a portion of the equity investment.

22 Capital Expenditures (CapEx): The funds used by a company to acquire, upgrade and maintain an apartment community. An expense is considered to be a capital expenditure when it improves the useful life of an apartment and is capitalized – spreading the cost of the expenditure over the useful life of the asset.

Capital expenditures include both interior and exterior renovations.

23 Cash Flow: The revenue remaining after paying all expenses. Cash flow is calculated by subtracting the operating expense and debt service from the collected revenue.

24 Financing fees: The one-time, upfront fees charged by the lender for providing the debt service. Also referred to as a finance charge. Typically, the financing fees are 1.75% of the purchase price.

25 Operating Account Funding: A reserves fund, over and above the price of the property, to cover things like unexpected dips in occupancy, lump sum insurance or tax payments or higher than expected capital expenditures. The operating account fund is typically created by raising extra money from the limited partners.

26 Bridge Loan: A mortgage loan used until a person or company secures permanent financing, which are short-term (6 months to three years with the option to purchase an additional 6 months to two years). They generally have a higher interest rate and are almost exclusively interest-only. Also referred to as interim financing, gap financing or swing loan. The loan is ideal for repositioning an apartment community.

27 Permanent Agency Loan: A long-term mortgage loan secured from Fannie Mae or Freddie Mac and is longer-term with lower interest rates compared to bridge loans. Typical loan term lengths are 5, 7 or 10 years amortized over 20 to 30 years.

28 Ration Utility Billing System (RUBS): A method of calculating a tenant's utility bill based on occupancy, apartment square footage or a combination of both. Once calculated, the amount is billed back to the resident, which results in an increase in revenue.

29 Preferred Return: The threshold return that limited partners are offered prior to the general partners receiving payment.

30 Underwriting: The process of financially evaluating an apartment community to determine the projected returns and an offer price.

31 Pro-forma: The projected budget of an apartment community with itemized line items for the income and expense for the next 12 months and 5 years, which is an output of the underwriting.

32 Rent Roll: A document or spreadsheet containing detailed information on each of the units at the apartment community, along with a variety of data tables with summarized income.

33 Exit Strategy: The plan of action for selling the apartment community at the end of the business plan.

34 Private Placement Memorandum (PPM): A document that outlines the terms of the investment and the primary risk factors involved with making the investment. The four main sections are the introduction, which is a brief summary of the offering, the basic disclosures, which includes general partner information, asset description and risk factors, the legal agreement and the subscription agreement.

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