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Glossary

Real Estate



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Real Estate Glossary

Abstract of Title: A history of the ownership of a parcel of land, which lists transfers of title, rights, and liabilities.

Acre: A measure of land equal to 43,560 square feet.

Ad Valorem: A prefix meaning "based on value". Most local US governments levy an ad valorem tax on property.

Amortized Loan: A financial debt that is paid off over a period of time by a series of periodic payments. A loan can be fully amortized or partially amortized requiring a balloon payment to satisfy the debt at the end of the term.

Annual Percentage Rate (APR): The yearly cost of credit. Interest Rate plus finance charge.

Appraised Value: An evaluation of a property's value based on a given point in time that is performed by a professional appraiser during the mortgage origination process. The appraiser is usually chosen by the lender, but the appraisal is paid for by the borrower. An opinion or estimate of value performed by a person licensed to do so.

Assessed Value: The value placed on property, by the tax assessor, for the purpose of determining the property tax.

Bilateral Contract: a contract in which a promise is given for the promise of another. It becomes binding when mutual promises are communicated. (A real estate contract).

Building Code: Ordinances passed by local US governments with special minimum standards of construction for new buildings. They also apply to major additions to old construction.

Bundle of Rights: The rights of an owner to possess, control, enjoy, sell, lease, mortgage, and dispose of the property.

Bylaws: Legal documentation in a condominium regime which provides the establishment of the home-owner's association; provides the powers and authority given to the board of directors; and indicates various rights and responsibilities of the unit owners.

Capital Gains: The tax profit realized from the sale of property. (A "tax free" exchange is a deferment of capital gains).

Capitalization: Used in the income approach to value. To capitalize income means to convert future income into present (current) value.



Capitalization Rate: The rate of return considered to be a reasonable return on investment - given the risk.

Certificate of Title: A document given by the title examiner stating the quality of title the seller possesses.

Civil Rights Act of 1866: A law which prohibits discrimination in all real estate transactions based on race - commercial and residential.

Closing Costs: The expenses, over and above the price of the property that buyers and sellers normally incur to complete a real estate transaction. Costs incurred include loan origination fees, discount points, appraisal fees, title searches, title insurance, surveys, taxes, deed-recording fees and credit report charges.

Cloud on Title: Any claim affecting title to property.

Collateral: Property which has been pledged as security for a loan.

Comparative Analysis: A method of determining the value of property in which the selling prices of similar properties are used as the basis for estimating the value of the subject property.

Condominium: A large property complex that is divided into individual units and sold. Ownership usually includes a non-exclusive interest in certain "common properties" controlled by the condominium management

Contract: An agreement resulting from the objective expression of mutual assent by competent parties, which the law recognizes in some way as a duty, and the breach of which the law gives a remedy.

Cost Approach: A method of estimating value based on the economic principle of substitution; the value of a building cannot be greater than the cost of purchasing a similar site and constructing a building of equal utility.

Counteroffer: A rejection of an offer to buy or sell, by a seller or buyer, with a simultaneous substitute offer.

Curable Depreciation: Depreciation is considered curable if the cost of the repair is less than what the repair adds to the value of property.

Deed: A legal document that grants the bearer a right or privilege, provided that he or she meets a number of conditions. In order to receive the privilege - usually ownership, the bearer must be able to do so without causing others undue hardship.



Deed in Lieu of Foreclosure A potential option taken by a mortgagor (a borrower) to avoid foreclosure under which the mortgagor deeds the collateral property back to the mortgagee (the lender) in exchange for the release of all obligations under the mortgage. Both sides must enter into the agreement voluntarily and in good faith.

Deed of Release: Given by lien holders, remainder-men or mortgages to relinquish their claims on the property.

Deed of Trust: A deed to real property, which serves the same purpose as a mortgage, involving three parties instead of two. The third party holds naked title for the benefit of the lender. Beneficiary (Lender), Trustor (Borrower), Trustee (Third Party)

Depreciation: A decrease in value due to physical deterioration, functional or economic obsolescence.

Discount Points: A fee charged by the lender at settlement that results in increasing the lender's effective yield on the money borrowed. One discount point equals one percent of the loan amount.

Earnest Money: A deposit made to a seller showing the buyer's good faith in a transaction. Often used in real estate transactions, earnest money allows the buyer additional time when seeking financing. Earnest money is typically held jointly by the seller and buyer in a trust or escrow account.

Economic Life: The time period over which an improvement to land earns more income than the cost incurred in generating the income. Profitability.

Economic Obsolescence: A loss in value due to factors outside the subject property, such as changes in competition or surrounding land use. Also referred to as external obsolescence.

Effective Age: The difference between the theoretical economic life of a structure and its actual remaining economic life. Maintaining the property.

Effective Gross Income: The anticipated income resulting from the estimated potential gross income from a rental property less an allowance for vacancy and bad debts.

Equal Credit Opportunity Act. (ECOA): A US federal act, which prohibits discrimination by lenders on the basis of sex or marital status in any aspect of a credit transaction.

Equity: value of real estate less any liens against it.

Escrow: The deposit of funds with a neutral third party who is instructed to carry out the provisions of an agreement.



Exclusive Agency Listing: The owner employs only one broker but retains the right to personally sell the property, and thereby not pay a commission. However, if any other real estate company sells the property, the listing broker is still entitled to the commission stipulated.

Exclusive Right to Sell Listing: Under this listing arrangement, the broker employed is entitled to a commission no matter who sells the property during the listing period. (Even the Seller)

Executed Contract: One in which the obligations have been performed on both sides of the contract and nothing is left to be completed. (Closed Deal)

Fair Market Value: The price negotiated for a parcel of real estate in a competitive market where both buyer and seller are free to act and under no undue pressure.

Federal Fair Housing Act of 1968: An act prohibiting discrimination in the sale or rental of housing on the basis of race, color, religion or national origin sex, handicap and familial status.

Fiduciary: A person who essentially holds the character of trustee. A fiduciary must carry out the duties in a manner which best serves the interest of the party for whom the fiduciary relationship is established. A real estate licensee has a fiduciary duty to his/her client. (Seller, landlord, buyer or tenant)

First Lien: Claim with highest priority against property; also known as a superior to the rights of subsequent lenders. (Recorded first)

Fixture: Broadly defined as personal property which has become realty. Examples include built-in cabinets or bathtubs. Business (trade) fixtures can be removed if they leave no damage to the real estate, and they are removed before the end of a lease or by agreement with the landlord at a later time.

Foreclosure: A legal procedure whereby property used as security for a debt is sold to satisfy the debt in the event of default in payment of the mortgage note or default of other terms in the note.

Grant: Transferring real estate by means of a deed.

Grantee: Purchaser receiving title to property.

Grantor: Owner making conveyance of title or interest in property.

Gross Income: The actual income received from property before the deduction for any expenses.

Gross Income Multiplier (GIM): A method of appraising income-producing property based on a multiple of the annual gross income; also called a gross rent multiplier.

Gross Rent Multiplier (GRM): A method of appraising single family or duplexes based on the monthly gross income.



Highest and Best Use: The legal use of a parcel of land, which when capitalized, will generate the greatest net present value of income. The first thing an appraiser should determine.

Income Approach: A traditional means of appraising property based on the assumption that value is equal to the present worth of future rights to income.

Interest Rate: The cost of using money expressed as a percent per period.

Latent Defect: A defect which cannot be discovered by ordinary inspection.

Lease: An agreement by which a landlord gives the right to a tenant to use, and to have exclusive possession, but not ownership of realty, for a specified period of time, in consideration for the payment of rent.

Lease Purchase Agreement: An arrangement whereby part of the rent payment is applied to the purchase price, and when the prearranged total amount has been paid, title is transferred.

Lessee: Tenant- The person who rents land or property from a lessor.

Lessor: Landlord- The person who rents land or property to a lessee.

Leverage: Using borrowed capital to finance the purchase of real estate or other assets. (No money down)

Lien: A legally recognized right to enforce a claim or charge on the property of another for payment of some debt, duty or obligation.

Listing Contract: An employment agreement between an owner and broker defining the duties and rights of both parties. (Unilateral contract)

Loan-to-Value Ratio (LTV): A ratio used by lenders to determine the risk of default by prospective homebuyer. It is the relationship between the amount borrowed and the appraised value of the property. (Purchase price 100,000-Loan 80,000-LTV 80%)

Management Agreement: An employment contract between the owner of real estate and a property management firm that agrees to oversee the management of the property.

Market Data Approach: A means of estimating value by comparing similar properties. Used when there is an active market and where comparables can be identified. Also called comparable sales approach.

Market Value: The price at which a willing buyer and a willing seller will agree upon, where neither is under any undue pressure, and both are negotiating at arms length with complete knowledge of the market.



Marketable Title: One which is free from reasonable doubts or objections, and which the courts would compel a purchaser to accept under the terms of a sales contract.

Mortgage: A legal document used to secure the performance of an obligation, in which the borrower or mortgagor agrees to pledge property to secure the debt represented by the promissory note.

Mortgage Banker: A financial middleman who, in addition to bringing the borrower and the lender together, makes loans, packages them, and sells the packages to both primary and secondary investors. Also services loans.

Mortgage Broker: A person who brings together the user of capital (borrower) and the supplier of capital (lender). For this service, a finder's fee is usually paid by the borrower.

Mortgagee: A lender who receives a pledge of property to secure a debt.

Mortgagor: A borrower who pledges property through a mortgage to secure a debt.

Obsolescence: A loss in value due to reduced desirability and usefulness of a structure because its design and construction have become obsolete. A loss due to a structure's becoming old fashion, not in keeping with today's standards or needs, with consequential loss of income.

Option: A right which is given for consideration to a party (optionee) by a property owner (optionor) to purchase or lease property within a specified time, at a specified price and terms. An option is irrevocable by the optionee and will not be extinguished by death or insanity of either party.

Optionee: The holder of the option. Buyer

Optionor: The seller of the option.

Periodic Tenancy: A lease, which has the original terms automatically renewed for successive periods, until proper notice to terminate is given by either the landlord or tenant. Month to month rental.

Personal Property: Movables, which are not annexed to or part of, the land; also referred to as chattels.

PITI: An abbreviation which means "Principal, Interest, Taxes and Insurance." In residential financing, it is common for the monthly mortgage to include these four payments.

Points: 1% of loan.

Prime Rate: The interest rate charged to a lender's AAA customer. This is normally the base from which other interest rates are derived.



Quiet Title: A court action to remove a cloud on the title.

Rate of Return: A percentage relationship between the investment price or equity invested and the composite returns.

Real Estate: Land and all man-made improvements both on and to the land, plus all tangible interest in the real property. Surface, subsurface and air rights.

Real Estate Investment Trust (REIT): A method of pooling investment money using the trust form of ownership if certain tax requirements are met. One advantage of the REIT is the avoidance of corporate tax (thus no double taxation) and many more.

Real Estate Owned (REO): Property owned by a lender - usually a bank - after an unsuccessful sale at a foreclosure auction. This is common because most of the properties up for sale at these auctions are worth less than the total amount owed to the bank: the minimum bid in most foreclosure auctions equal the outstanding loan amount, the accrued interest and any fees associated with the foreclosure sale.

Real Estate Settlement Procedures Act (RESPA): A law which covers most mortgage loans made for one to four-unit residential property. It requires the lender to provide the loan applicant with pertinent information so that the borrower can make informed decisions as to which lender will be used to finance the purchase.

Real Property: Refers to land and improvements both on and to the land, and also to the physical aspects of real estate, including surface, air and subsurface rights plus, bundle of rights.

Refinancing: A description of an extension of the existing financing either through the same lender or through a new financial arrangement.

Regulation Z: Regulation Z requires disclosure of all costs of financing the purchase of owner occupied residential purchases of one to four units. It also requires disclosure of the annual percentage rate of the loan. Implementation of Regulation Z is over seen by the Federal Reserve Board.

Sale-leaseback: A technique used by owners of property as a means of raising capital. The process involves the simultaneous selling and leasing back of the property usually through a net lease.

Settlement Statement: A statement that summarizes all the fees and charges that both the homebuyer and seller face during the settlement process of a housing transaction. This form, which is under the jurisdiction of the U.S. Department of Housing and Urban Development, is also known as the HUD-1..

Sublease: The transfer when the original lessee retains a reversion. Primary liability remains with the original lessee.



Syndicate: An arrangement to raise equity capital for real estate purchases or for other types of investments.

Taxation: The right of the US government to require contribution from citizens to pay for government services.

Title: The legally recognized evidence of a person's right to possess property.

Trade Fixtures: Personal property used in business which has been annexed to real property and is removable by the owner. (Tenant) If it is not taken by the tenant it becomes the property of the landlord.

Trust: A legal relationship under which title to property is transferred to a person, called a trustee, who has control over the property, and must manage it for some other person -- called a beneficiary.

Trustee: A person who holds title and control over property and manages it for another person called a beneficiary. (Called "Naked Legal Title")

Trustor: The person who creates a trust and voices the instructions to the trustee. (The borrower.)

Truth-in-Lending Law: Common name given to the National Consumer Credit Protection Act. Requires lenders to make credit disclosures to individual borrowers for certain types of loans. (Regulation Z)

Yield: The interest earned by an investor on the investment.

Zoning: Government (usually municipal) laws that control the use of land within a jurisdiction. Zoning areas may be classified as residential, commercial, farming, and so forth

