Glossary of Common Real Estate Terminology

**Affordable Housing**: Defined by the HUD as a dwelling that can be rented or owned using 30% or less of the monthly household income. The income amount varies from place to place. Apartments that are ‘affordable housing’ may not necessarily meet the requirements of being ‘low-income housing.’

Affordable housing can be built by private developers, often as a part of a larger building with market-rate housing to meet certain requirements.

**Appraisal**: A process through which a real estate appraiser determines the fair market value of a home. Appraisals are also often used to determine property taxes, which makes them a requirement in most counties.

Appraisals have a long history of systemic racism. After the Federal Housing Association (FHA) was established in 1934, it ensured bank mortgages for certain property purchases it deemed at low risk of default. Within these stipulations were “whites-only” standards that automatically disqualified properties from the federal mortgage program if they were in, or close to, neighborhoods with Black Americans.

Even today, appraisals have been regularly pointed out as a place where systemic racism and bias can show up.

**Build to Rent**: Also known as “BFR” and “B2R.” These are detached (i.e. not apartment or townhome) units, often single-family homes, built specifically for the purpose of long-term rental.

**California Environmental Quality Act (CEQA)**: Laws and policies that require state and local government agencies to inform decision-makers and the public about the potential environmental impacts of proposed projects, and to reduce those environmental impacts as much as possible. ([CA Governor’s Office](http://www.ca.gov))

**City Council**: A set of elected legislators who govern a certain city or town. The chief elected official is the mayor.

Los Angeles has 15 Council Members in addition to the Mayor, Attorney, and Controller. ([LA City Gov](http://www.lacity.gov))
City Planner: Also known as Urban Planners. City planners help design cities and make such determinations as the height of buildings, the width of streets, the number of street signs, and the design and location of street “furniture” (everything from bus stops and lampposts to newsstands and wastebaskets). (Princeton Review)

Commercial Use: Property meant for the primary purpose of buying, selling or trading of merchandise or services. This includes everything from hotels to shopping malls, offices to restaurants, bus stations to storage facilities.

Community Benefits Agreement (CBA): A contract between a developer and community-based organizations representing residents’ interests. The agreement spells out the benefits the community will receive in return for supporting the developer’s project in their neighborhood. (LISC)

Community Land Trust: Nonprofit, community-based organizations that acquire land (can be residential or commercial) and maintain ownership of it permanently.

For prospective homeowners, CLTs enter into a long-term, renewable lease instead of a traditional sale. When the homeowner sells, the family earns only a portion of the increased property value. The remainder is kept by the trust, preserving the affordability for future low- to moderate-income families. (Community Wealth)

Entitlement: A land entitlement is a legal right created by an agreement with a local regulatory body. It dictates how a given piece of property may or may not be used. These are usually part of a county or city’s general plan, which establishes land use and development requirements. There are specific areas set aside for residential, commercial, and public use areas.

Gentrification: The process by which a previously dis-invested neighborhood changes significantly due to renewed investment and development in the area, often in conjunction with the arrival of more affluent residents and the displacement of long-time residents, which eventually shifts the cultural character of the area. Read more in our Understanding…Gentrification primer.

Highest and Best Use (HBU): A fundamental property of real estate appraisals, defined as the reasonably probable and legal use of property that meets the criteria of legal permissibility, physical possibility, financial feasibility, and maximum productivity. Simply said, the use of a piece of land or an improved property garners the most profit given its circumstances.

Hospitality: Businesses that center around welcoming, entertaining, and caring for guests. The big four hospitality sectors are food & beverage, travel & tourism, lodging, and recreation.

Housing Levy: Levies refer to actions taken by the Internal Revenue Service (IRS) to seize property as to appease unpaid taxes. A housing levy is a term being used to refer to taxes that property owners
will pay into a joint pool that is then distributed to build affordable and/or low-income housing, or support low-income individuals to buy homes. ([Seattle Housing Levy](https://www.seattle.gov/))

**Improved Property:** A property upon which a residential, commercial or other building has been built.

**LOI:** A Letter of Intent (LOI) is a preliminary agreement that is negotiated between a tenant and landlord or buyer and seller. The LOI or Letter of Intent states the primary economics and deal points with proposed terms before it is finalized.

**Low Income Housing:** Can also be referred to as government-subsidized housing. There are two types: Public Housing and Section 8 Housing. Both of these are overseen by Housing and Urban Development (HUD).

Public Housing is government-run rental buildings meant for eligible low-income families, the elderly, and persons with disabilities. HUD sets the **lower income** limits at 80% of the Area Median Income (AMI), **very low-income** limits at 50% of AMI, and **very very low-income** limits at 30% of AMI. ([HUD](https://www.hud.gov))

Section 8 Housing is a voucher program that gives low-income housing a redemption voucher that makes up the difference in what they can afford and the actual cost of the apartments for rent that are available to them, available at specific apartment buildings. ([Syracuse](https://www.syracuse.com))

**Market-Rate Housing:** Housing available for rent or purchase that does not involve any subsidies by the government, so the market supply/demand sets the price.

**Mixed-Use:** Combinations of property that allow for multiple purposes, such as a building that has residential units and commercial units (e.g., retail). These could be vertical (different sections stacked on top of each other) or horizontal (different sections built side-by-side).

**Neighborhood Council:** Advisory committees formed by those who live in one neighborhood, that advocate for their communities within the local and regional governmental bodies.

In Los Angeles, Neighborhood Council board members are City officials who are elected by the members of their local communities, but they donate their time as volunteers. There are currently 99 Neighborhood Councils. ([LA City Gov](https://www.lacity.gov))

**NIMBY:** “Not In My Backyard” is a term used to describe residents – often white and affluent ones – who lobby against upzoning in their neighborhoods that would increase overall (and especially affordable) housing availability in their area.
**Option to Purchase:** An option-to-purchase agreement gives a home buyer the exclusive right to purchase a property within a specified time period and for a fixed or sometimes variable price. This, in turn, prevents sellers from providing other parties with offers or selling to them within this time period. During the specified option period, the seller is forbidden from working with any other potential homebuyers.

**Permit:** A type of authorization that must be granted by a regulatory body before the construction of a new or existing building can legally occur. Originally created to protect the public by regulating for safety and habitability of buildings, these now extend to requirements such as environmental concerns. These are decided on and enforced by city and county building codes, which change from place to place. Most local jurisdictions in the United States have adopted all or most of the International Building Code (IBC).

Note: An upsurge of commercial building permits often indicates businesses are expanding, or new companies are being established. If there is a rise in building permits for more warehouses, it can be a sign that commerce will increase in the coming years. ([Investopedia](https://www.investopedia.com))

**Property Manager:** A property manager is an individual or entity hired by the property owner to oversee and manage the daily workings of their real estate investment. Property manager responsibilities include setting and collecting rent, handling maintenance requests, filling vacant units, and potentially setting the budget for the property.

**Real Estate Developer:** A person or company responsible for building or renovating homes, offices, retail centers, or industrial sites.

**Residential Use:** Property that is designated to house human beings, such as apartments or houses. Can also include facilities such as parks, schools, hospitals, and daycare.

**Retail:** A category within the commercial real estate sector that consists of establishments that build and develop shopping and entertainment properties. This includes everything from shopping malls and movie theaters, to restaurants and bars.

Within some small business owners, “retail” may be thought of as traditional retailers that sell specific objects (e.g., phones) versus experiences (e.g., a meal). As a result, this term may be confusing for some operators within the food, beverage, and hospitality space.

**Right of First Refusal:** This means a tenant has the option to purchase the property after the seller makes an offer to an outside party. Once the seller begins negotiations with another party, the buyer can choose to purchase on those same terms or decline.
**Subsidies**: A general term of dollars that are contributed by some party, usually the government, to lower the overall cost of taking an action such as acquiring, building, or renovating land or property.

**Tax Abatement**: A tax break offered by a state or municipality on certain types of real estate or business opportunities for a certain amount of time. The government often uses abatements to encourage development or economic activity within a city or community, or to prevent an important company from leaving. ([Investopedia](https://www.investopedia.com/terms/t/taxabatement.asp))

Real estate tax abatement may reduce a home's property taxes for a period of time, or may grant tax breaks to businesses.

**Urban Planner**: Also referred to as a City Planner, see above.

**YIMBY**: “Yes In My Backyard” is a term that appeared in popular culture in California in 2017 who were advocating for more housing to be built to lower overall rental and purchase prices. YIMBY movements generally try to push forward land-use deregulation bills to allow developers to build but ignore the fact that without appropriate regulation of developers these can still harm neighborhoods when landlords charge too much, or developers [demolish rent-controlled apartments](https://www.investopedia.com/terms/d/demolish-rent-controlled-apartments.asp) to turn over land for new properties.

**Zoning**: A set of codes and regulations created by city planners that control where certain types of development can take place within a city. Zones are generally defined by two categories: use and density. **Use** refers to what that zone will be used for, e.g. residential, commercial, or manufacturing; whereas **density** refers to how much space, including vertical space, those activities can take up. ([DCP Zoning Handbook](https://www.dcp.nyc/sites/default/files/DCP%20Zoning%20Handbook%202018%20 FINAL.pdf))

Upzoning: An allowance of taller buildings, and, in theory, an increase in the number of housing units in which people can live.

Downzoning: A decrease in the number of available units.

Inclusionary Zoning: Requirements set by the government generally pertaining to new developments, where affordable housing must make up a certain percentage of the new units being built.
Timeline of the Real Estate Process

Courtesy of GroundWork USA
Feasibility

Analysis of all assumptions regarding market, site, operating pro forma, development pro forma, financial requirements, financing, team and roles. The study includes suggested modifications or alternatives for concept to be feasible.

Community input:
During community meetings, residents or stakeholder organizations should be present to be asking questions related to the feasibility of the project. Do the assumptions on feasibility make sense to the community?
Dealmaking: Planning & Financing

Negotiation:
The developer decides details of the project as a result of the negotiations with the marketing and management agents, architect, contractors, lenders, and equity brokers.

Contract construction

Acquire site

Draft management operating plan

Bid construction

Raise equity

Arrange financing guarantees

Close construction financing

Manage all team members' work as per agreements

Coordinate interactions; negotiate trade-offs

Message team members' work

Detailed finances:
- Development pro forma
- Operating pro forma

Negotiate financing agreement for permanent and construction loans

Construction specifications

Site survey

Pre-lease or pre-sale to tenants

Secure necessary government regulatory action (i.e., permitting)

Marketing strategy

Implement marketing strategy

Deal
All elements of the project are definite. Letters of commitment, contracts, and loan documents, binding all participants to the specific elements of the deal are in place.

Community Input:
Community members can continue to be mindful of the process to assure that team members remember the community is engaged.
Project Construction

- Hire operating management
- Market to tenants or buyers
- Sign leases or sales contracts

- Bonding
- Contractor does construction
- Cash draws
- Construction punch lists (progress and review)
- Opening

- Draw schedule
- Lender's inspection
- Equity pay-in schedule

- Construction oversight or management through construction manager or architect
- Marketing oversight

- Publicity event for opening

Project
At this point, the project is completely built. The building is leased or units are sold, it passes all inspections, and it has a certificate of occupancy and occupants.

Community Input:
Community can still help the team be mindful of who the project is marketed to and whether it abides by the agreed upon final use of the building.
Operations or Sale

Operating maintenance and management
- Negotiate leases / sales
  - Re-lease as necessary

Close permanent financing
Equity pay-in (if scheduled)

Owner's responsibility:
- Manage
- Pay mortgage
- Report to investors

Operations
Project is effectively rented/sold, and it meets financial and other project goals. Congratulations!

Community Input:
Active engagement by stakeholders and residents provide ideas and opinions about the development concept.