

Important Real Estate Definitions



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IMPORTANT REAL ESTATE DEFINITIONS

Appreciation: When a property or asset goes up in value either by supply and demand or inflation.

Amortization: Payment of principal and interest at stated periods for a stated time until debt is extinguished.

Capital Gain: That profit on the sale of an asset that is subject to taxation.

Cap Rate: The rate of return on a property if you owned it free and clear. Net Operating Income divided by the Value of the Property.

Cash Flow: Your net income after all expenses are subtracted from your gross income.

Depreciation: A term applied to an improved asset that says that the economic life is only so long and after that it has no value. The IRS allows you to depreciate the improvements of residential income property over 27.5 years no matter what the age of the property.

Debt Reduction: The amount of principal reduction on an amortizing loan over a period of time.

Financial Independence: Earning enough income, independent of your time, so that you can live the lifestyle you want to live whether you decide to work or not.

Gross Rent Multiplier: A number that you get when you divide the sales price by the gross rental income. The lower the Gross Rent Multiplier, the better.

Leverage: The use of financing or other people's money (OPM) to control large pieces of real property with a small amount of your invested capital.

Net Operating Income: The income that is left after you subtract all of the expenses of the property except loan payments.

Net Worth: Your assets minus your liabilities

Pre-tax Cash Flow: Cash flow before taking into effect the tax consequences of owning the property

Post-tax Cash Flow: Cash flow after taking into effect the tax consequences of owning the property.

Wealth: When your assets minus your liabilities is a large number. True wealth not only means you have a large net worth, but also the time to enjoy it.