

## Definitions

- Capitalization
  - The conversion of expected income and rate of return into an estimate of value in the income approach; the conversion of income into value.
- Capitalization Rate
  - A composite rate used for converting a property's single year income into an indication of property value; any rate used to convert an estimate of income to an estimate of market value; also called a cap rate.
- Depreciation
  - Loss in value of an object relative to its replacement cost, reproduction cost, or original cost, whatever the cause for the loss in value. It is often divided into three categories; physical deterioration, functional obsolescence, and economic (external) obsolescence.
- Discount Rate
  - The rate of return on investment; the rate an investor requires to discount future income to its present worth.
- Economic Life
  - The period of time during which a given building or other improvement to property is expected to contribute positively to the value of the total property. This period is typically shorter than the period during which the improvement could be left on the property, that is, its physical life.
- Economic (External) Obsolescence
  - Loss in value of a property (relative to the cost of replacing it with a property of equal utility) that stems from factors external to the property; typically incurable.
- Effective Gross Income
  - Potential gross rent less vacancy and collection loss plus miscellaneous income.
- Effective Tax Rate
  - The tax rate expressed as a percentage of market value; this will be different from the nominal tax rate when the assessment ratio is not equal to 1.00.
- Functional Obsolescence
  - Loss in value of a property resulting from changes in tastes, preferences, technical innovations, or market standards; may be curable or incurable.
- Hospitality
  - Relating to or denoting the business of housing or entertaining visitors;
- Hotel
  - A facility that offers lodging accommodations and a wide range of other services, such as restaurants, food and beverages, convention facilities, meeting rooms, recreational facilities, commercial shops; usually located in an urban area.

- Industrial
  - Of or relating to industry, or related to companies engaged in industrial production or service.
- Industry
  - Systematic labor especially for some useful purpose or the creation of something of value; manufacturing activity as a whole; a distinct group of businesses that provide a particular product or service; the process of making products by machinery or factories;
- Interest Rate
  - A rate of return on capital; usually expressed as a nominal annual percentage of the amount loaned or invested; the premium paid for the use of money.
- Investment
  - Monies placed in a property, usually with the expectation of financial returns.
- Investment Value
  - The worth of an investment property to a particular investor.
- Investor
  - Any person who commits capital with the expectation of financial returns.
- Lodging
  - Pertaining to the lodging industry
- Mall
  - Also called a shopping mall, a large retail complex containing a variety of stores and often restaurants and other business establishments housed in a series of connected buildings, adjacent buildings, or in a single large building.
- Market
  - The “place” in which buyers and sellers interact. The collective body of buyers and sellers for a particular product; a gathering of people for buying and selling things.
- Motel
  - A building or groups of buildings located on or near a highway designed to serve the needs of travelers by offering lodging and parking; may also provide other amenities such as telephones, food and beverages, recreational areas, service stations and shops.
- Multifamily
  - A classification of housing where multiple separate units for residential inhabitants are contained within one building or several buildings within one complex.
- Net Operating Income
  - Annual net income, after operating expenses are subtracted from effective gross income, before deducting debt service and depreciation. Payments for principal and interest are not deducted as an expense to derive NOI.

- Net Operating Income Ratio
  - The ratio between net operating income and effective gross income, as calculated by dividing the net operating income by the effective gross income.
- Office
  - A room, set of rooms, or building used as a place for commercial, professional, or bureaucratic work.
- Physical Deterioration
  - Loss in value caused by wear and tear; may be curable or incurable
- Potential Gross Income
  - The total income attributable to real property at full occupancy (100%), including miscellaneous income, before deduction for vacancy and operating expenses
- Recapture Rate
  - The annual rate at which capital investment is returned to an investor over a specified period of time; the annual amount, in addition to interest or return on interest, which can be recaptured from an investment, divided by the original amount invested.
- Retail
  - The sale of goods or commodities to the public, ultimate consumers, in relatively small quantities for use or consumption rather than for resale (opposed to wholesale); pertaining to, connected with, or engaged in sale at retail.
- Tax Rate
  - The percentage of assessed value at which each property is taxed in a given district; also called the nominal tax rate.

