**Real Estate Terms**

* **1% Rule:** used to determine if the monthly rent earned from a piece of investment property will exceed that property’s monthly mortgage payment.
* **2% Rule:** This is a general guideline many investors use to determine if a rental property is a good deal. The basics of the 2% rule say the monthly rent from a rental property should be 2% or more of the cost of a rental property.
* **50% Rule:** one way to estimate what the expenses will be on rental properties. This rule states that the expenses on a rental property will be 50% of the rents. The 50% rule does not account for any mortgage expenses.
* **70% Rule:** used among many investors when flipping houses. This rule is a way to determine what price to pay for a fix and flip to make money the rule states that an investor should pay [70% of the ARV](https://investfourmore.com/calculators/fix-flip-70-percent-rule/) (after repair value) of a property minus the repairs needed.
* **1031 Exchange:**A section of the U.S. Internal Revenue Service Code that allows investors to [defer capital gains](https://investfourmore.com/1031-exchange-rental-property/) taxes on any exchange of like-kind properties for business or investment purposes.
* **Active Status:** Most MLS systems use specific status to show if a home is available. Active means the home is available and has no accepted offers on it. Active/backup means the home has an accepted offer, but the seller is accepting backup offers. Pending means the home has an accepted offer and the seller is not accepting backup offers. The status meaning can vary by MLS.
* **Acre:**  unit of land area used in the imperial and US customary systems. It is defined as the area of 1 chain by 1 furlong (66 by 660 feet), which is exactly equal to 43,560 square feet.
* **Adjustable-Rate Mortgage:** type of mortgage in which the interest rate applied on the outstanding balance varies throughout the life of the loan.
* **Amortization:** A method of equalizing the monthly mortgage payment over the life of the loan by adjusting the proportion of principal to interest over time. At first, the interest payment is high, and the principal payment is low.
* **Appraisal:** Most lenders require an appraisal on homes to confirm they are worth what the buyer is paying. The appraisal is conducted by a licensed appraiser.
* **ARV:** [After repaired value.](https://investfourmore.com/arv-value/) This is the value of a property once it has been remodeled and marketed.
* **Asbestos:** A natural material made up of tiny fibers that is used as thermal insulation. Inhalation of asbestos fibers can lead to asbestosis and mesothelioma.
* **Assignment:** Is a term used with similar meanings in the law of contracts and in the law of real estate. In both instances, it encompasses the transfer of rights held by one party—the assignor—to another party—the assignee.
* **Attached home:** Any property that is attached to another property. This could be half of a duplex, a condo or townhome, which is attached to another unit.
* **Backup Offer:** A backup offer can be accepted by the seller but will not go into effect unless the current offer terminates.
* **Bird Dog:** A real estate investing term that refers to someone who spends their time trying to locate properties with substantial investment potential. Usually, the intent is to find properties that are distressed and selling at a discount that can be repaired or remodeled and sold for a sizable profit.
* **Broker:** A [real estate broker](https://investfourmore.com/real-estate-broker-fee/) has different definitions in different states. Usually, a broker has more experience and education than an agent, which allows them to work independently or manage an office of agents. In most states, real estate agents who are not brokers must work under a broker.
* **BRRRR:** A real estate investment strategy: buy, rehab, rent, refinance, repeat.
* **Buyer’s Agent:** A real estate agent who is contractually obligated to help a [buyer find a house](https://investfourmore.com/real-estate-agent-salary/). Agents also work with buyers without a contract but do not have as much responsibility towards helping that buyer find a house.
* **Carport:** A shelter for a car consisting of a roof supported on posts.
* **Cap Rate:** Capitalization rate which is often used as the rate of return on commercial properties. The Net income divided by the value or purchase price = [the CAP rate](https://investfourmore.com/cap-rate/)
* **Crawl Space:** An area of limited height under a floor, giving access to wiring and plumbing.
* **Central Air Conditioning:** Circulate cool air through a system of supply and return ducts.
* **Cistern:** A reservoir, tank, or container for storing or holding water or other liquid.
* **Close in Escrow:** This means essentially that a real estate transaction has been completed and that the [sale is final.](https://investfourmore.com/what-is-escrow-disbursement/) An ‘escrow’ is a common feature of standard real estate transactions. They function as an independent third party that holds all monetary funds and documents until the close of the sale.
* **Closing:** When a home is sold. This usually occurs at a title company or attorney’s office.
* **Closing Costs:** Expenses over and above the price of the property in 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.
* **Closing Fee:** A fee charged by the Title Company to close a real estate transaction.
* **Code Violations:** Each city, county or state creates or adopts municipal codes. There are codes for building, landscaping, and more. If a property violates these codes it could be in violation, which allows the city to fine the property owner until the violation is fixed. If the property was once in adherence to the codes, but the codes changed a property may be grandfathered in. When a property is grandfathered in, they may not be in violation of codes as long as the use of the property does not change.
* **Commercial Real Estate**: Properties that are used for [commercial purposes](https://investfourmore.com/commercial-vs-residential/): stores, offices, etc.
* **Commissions:** A fee paid to a broker/salesperson in exchange for services in facilitating or completing a sale transaction.
* **Condo:** A condo is like an apartment, but you own the space. [A condo](https://investfourmore.com/condo-vs-townhouse-investment/) may have neighbors above, below, or beside you. The space in the building is owned, but not the land in most cases. Condos will have association dues that cover exterior maintenance, landscaping, and common amenities.
* **Contingency:** A clause in the contract that allows the buyer or seller to back out based on certain conditions (inspection, appraisal, etc.).
* **Consignor:** If a buyer cannot qualify for a loan, they may be able to use a consignor. If a consignor signs for a loan, they are responsible for that loan and it can count against their debt to income ratio.
* **Conventional:** Refers to a loan that is not insured or guaranteed by the federal government. A conventional, or conforming, mortgage adheres to the guidelines set by Fannie Mae and Freddie Mac. It may have either a fixed or adjustable rate.
* **Counteroffer:** The seller can accept, reject or counter any offer. When they counter an offer, the seller can change the price, dates, contingencies, or many other terms. Any changes the seller wants must be listed in the counter.
* **Covenants:** Most HOAs have covenants which are rules the properties within the HOAs must follow. They could cover parking, size of the home, outbuildings and much more.
* **Credit:** Credit is how lenders, banks, and other financiers judge a person’s ability to pay back a loan. The higher your credit is, the better chance you have of getting a loan. Late payments, judgments, foreclosures, and short sales all hurt credit scores. If you never have loan payments, it can also hurt your credit score.
* **Debt to Income Ratio:** This is the ratio a lender looks at when qualifying a buyer. The lender looks at the buyers’ monthly income versus their monthly debts. The ratio allowed varies based on the type of loan the buyers are getting.
* **Deed in Lieu:** A potential option taken by a mortgagor (a borrower) to avoid foreclosure under which the mortgagor deeds the collateral property (the home) back to the mortgagee (the lender) in exchange for the release of all obligations under the mortgage.
* **Disclosure:** What a seller has to tell the buyer of a home. They must disclose any material facts that are known.
* **Double Closing:** The simultaneous purchase and sale of a real estate property involving three parties: the original seller, an investor (middleman), and the final buyer. Commonly used by wholesalers.
* **Due on Sale Clause:** A clause in most mortgages that states when the owner of the home sells the property, the mortgage must be paid off.
* **Earnest Money Deposit**: The money needed for a deposit to buy a property. This can be refundable under certain circumstances based on inspection, loan approvals, appraisal, and other contingencies.
* **Easement:** A right to cross or otherwise use someone else’s land for a specified purpose.
* **Eminent domain:** The right of a government or its agent to expropriate private property for public use, with payment of compensation.
* **Escrow (held in escrow):** Funds pertaining to a real estate transaction can be held in Escrow. That means the title company, a real estate office or another party can collect funds and hold them until they are ready to be released. Earnest money, money to repair a house after closing, and much more can be held in escrow.
* **Escrow (house in escrow):** Some states call a house “in escrow” when someone has a contract to buy and the price is accepted by the seller. This is similar to a house going “under contract.” Once the buyer and seller have signed a contract on a home, the seller cannot accept another contract from a new buyer (except a backup offer) unless the current contract terminates.
* **Fee simple:** It is a way that real estate may be owned in common law countries and is the highest possible ownership interest that can be held in real property.
* **FHA:** The Federal Housing Administration (FHA) is a U.S. agency that offers mortgage insurance to lenders that are FHA-approved and meet specified qualifications… If a borrower defaults on a loan, the FHA pays the lender a specified claim amount.
* **FHA Loan:** An FHA loan is a mortgage issued by federally qualified lenders and insured by the Federal Housing Administration (FHA). FHA loans are designed for low-to-moderate income borrowers who are unable to make a large down payment.
* **Fix and Flip:** A type of [real estate investment strategy](https://investfourmore.com/70-rule-real-estate/) in which an investor purchases properties with the goal of reselling them for a profit. Profit is generated either through the price appreciation that occurs as a result of a hot housing market and/or from renovations and capital improvements.
* **Fixed-Rate Loan:** A loan with an interest rate that remains the same for the entire term of the loan.
* **Flood Zone:** Are geographic areas that the FEMA has defined according to varying levels of flood risk. These zones are depicted on a community’s Flood Insurance Rate Map (FIRM) or Flood Hazard Boundary Map. Each zone reflects the severity or type of flooding in the area.
* **Forced Air Heat:** One which uses air as its heat transfer medium. These systems rely on ductwork, vents, and plenums as means of air distribution, separate from the actual heating and air conditioning systems.
* **Foreclosure:** If a homeowner stops making payments on their loan, the bank can take the home back. The foreclosure process is different in every state in regard to how the bank takes possession of a home.
* **Habitable:** Suitable or good enough to live in.
* **Hard Money:** A loan typically used for fix and flips that is short (6 months to 18 months usually). [Hard money loans](https://investfourmore.com/hard-money-for-rentals/) normally have interest rates from 10 to 16 percent.
* **HOA:** Homeowners Association. HOAs are present in most newer subdivisions and regulate neighborhood ordinances or covenants. They may also take care of yard maintenance, common utilities, trash service and other services for a monthly, quarterly or yearly fee.
* **Hold Harmless Agreement:** An agreement or contract in which one party agrees to hold the other free from the responsibility for any liability or damage that might arise out of the transaction involved.
* **Homeowners Insurance:** This protects against damage to a home. Lenders require that homeowners have homeowner’s insurance against a home to protect their investment. If your house burns down, homeowner’s insurance will rebuild your house. It also protects against roof damage from storms, water damage from plumbing leaks, wind damage, and vandalism. However, it may not protect against actual floods unless you have separate flood insurance.
* **Hot Water Heat:** Central heating by means of hot water circulated through pipes or radiators.
* **House Hacking:** Is when you live in one of the multiple units of your investment property as your primary residence, and have renters from the other units pay your [mortgage and expenses](https://investfourmore.com/house-hacking/).
* **HUD Home:** Is when a [government-insured loan](https://investfourmore.com/buying-a-hud-home/) (FHA) gets foreclosed and the Federal Housing and Urban Development pays the defaulted loan off, and then puts the home on the market.
* **ILC:** Improvement Location Certificate (ILC) An ILC is not a survey, but a certificate. Used in order for mortgage and/or title companies to have some assurance that the improvements to a property are not encroaching into an easement or beyond the deed lines.
* **Industrial Real Estate:** Properties that are used for storage, manufacturing, and possibly commercial as well.
* **Inspection:** Most contracts allow a buyer to conduct an [inspection on a home](https://investfourmore.com/get-home-inspection/), which allows the buyers to look for problems or code violations.
* **Interest Rate:** A rate which is charged or paid for the use of money. An interest rate is often expressed as an annual percentage of the principal.
* **Leach Field:** Are subsurface wastewater disposal facilities used to remove contaminants and impurities from the liquid that emerges after anaerobic digestion in a septic tank.
* **Lead-Based Paint:** The U.S. government defines “lead-based paint” as any “paint, surface coating that contains lead equal to or exceeding one milligram per square centimeter (1.0 mg/cm2) or 0.5% by weight.”
* **Lease:** A contract outlining the terms under which one party agrees to [rent property owned by another party](https://investfourmore.com/triple-net-lease/). It guarantees the lessee, the tenant, use of an asset and guarantees the lessor, the property owner or landlord, regular payments from the lessee for a specified number of months or years.
* **Leasehold:** The holding of property by lease.
* **Landlord:** Someone who owns a property that they rent out to a tenant.
* **Legal Description:** Is the geographical description of a real estate property for the purpose of identifying the property for legal transactions. A legal description of the property unambiguously identifies the location, boundaries, and any existing easements on the property
* **Lender:** A lender is someone who works for a bank or [mortgage company](https://investfourmore.com/loan-on-rental-property/) and is the direct contact for the buyer of a home
* **Listing:** A home that is put up for sale.
* **Loan Payoff:** A statement prepared by a lender showing the remaining terms on a mortgage or other loan. The payoff statement shows the remaining loan balance and the number of payments and the rate of interest.
* **Loan Term:** Period over which a loan agreement is in force, and before or at the end of which the loan should either be repaid or renegotiated for another term.
* **Lot:** A parcel of land that a house, duplex or multi-unit property is located on.
* **Material Fact:** A fact that, if known, might have caused a buyer or seller of real estate to make a different decision with regards to remaining in a contract or to the price paid or received.
* **Mixed Use Real Estate:** Properties that are used for a variety of uses, usually residential and commercial.
* **MLS:** [Multiple Listing Service](https://investfourmore.com/mls-access/) (MLS), is a marketing database set up by a group of cooperating real estate brokers. It also is a mechanism for listing brokers to offer compensation to buyer brokers who bring a buyer for their listed property.
* **Mortgage:** A type of loan used to buy houses with a portion of the payment going towards interest and principal each month. Money may also be collected every month for property taxes and homeowner’s insurance.
* **Mortgage Broker:** A mortgage broker is a lender who can shop loans from multiple banks. Sometimes a mortgage broker can get a better deal for buyers by checking with different banks. In other cases, a lender can get a better deal because they work directly for the bank and there is no middleman.
* **Multifamily:** A multifamily or multi-unit property has more than one unit on the same property. An apartment complex or a duplex could be multifamily if they are on the same lot.
* **New Construction:** Refers to site preparation for, and construction of, entirely new structures whether or not the site was previously occupied.
* **Offer to buy:** A buyer makes an offer to buy a house with a contract. The contract lists all the terms, financing, and contingencies. The offer means nothing unless the seller accepts it by signing the contract.
* **Origination Fee:** A fee charged by a lender on entering into a loan agreement to cover the cost of processing the loan.
* **Owner Occupant:** A resident of a property who also holds the title to that property.
* **Patio Home:** A patio home is usually a free-standing home, but the landscaping and exterior is maintained by an association.
* **Pending status:**When a home goes under contract and the seller does not want to accept a backup offer.
* **Pre-qualification:** Most sellers require a buyer to be pre-qualified before they will accept an offer. A buyer must get pre-qualified with a lender who checks credit income and other financial information.
* **Prepayment Penalty:** A clause in a mortgage contract stating that a penalty will be assessed if the mortgage is prepaid within a certain time period. The penalty is based on a percentage of the remaining mortgage balance or a certain number of months’ worth of interest.
* **Principal:** The portion of a mortgage payment that goes towards paying off the balance of a loan. Part of your payment will also go towards interest.
* **Private Money:** Money borrowed from private individuals. Example: A loan from a parent to buy a house.
* **Pro-rated:** To divide or distribute a sum of money proportionately.
* **Property Disclosure:** A disclosure the seller fills out describing all material facts they know about a home.
* **Property Management:** When a landlord uses a [company to manage](https://investfourmore.com/hire-property-manager/) their rental property instead of doing it themselves.
* **Property Taxes:** Is a levy on the value of a property. The tax is levied by the governing authority of the jurisdiction in which the property is located.
* **PUD:** A planned unit development (PUD), is a type of building development and also a regulatory process. As a building development, it is a designed grouping of both varied and compatible land uses, such as housing, recreation, commercial centers, and industrial parks, all within one contained development or subdivision.
* **Radon:** A colorless, odorless, radioactive element in the noble gas group. It is produced by the radioactive decay of radium and occurs in minute amounts in soil, rocks, and the air near the ground.
* **Realtor:** A Realtor belongs to the National Association of Realtors (NAR) and is also a licensed real estate agent. NAR is a trade association for agents.
* **Recording Fees:** The fee charged by a government agency for registering or recording a real estate purchase or sale, so that it becomes a matter of public record. Recording fees are generally charged by the county.
* **REIT:** Real estate investment trust (REIT) is a company that owns, and in most cases operates, income-producing real estate. REITs own many types of commercial real estate, ranging from office and apartment buildings to warehouses, hospitals, shopping centers, hotels and timberlands.
* **Rent to Own:** An alternative way to buy a home: a rent-to-own agreement, also called lease option. When buyers sign this kind of contract, they agree to rent the home for a set amount of time before exercising an option to purchase the property when or before the lease expires.
* **REO:** Real estate owned or REO is a term used in the United States to describe a class of property owned by a lender.
* **Residential Real Estate:** Properties that are zoned for residential use. You may not be able to legally run a business out of them.
* **REI:** Real Estate Investors
* **Senior Living:** Some subdivisions are designated for seniors only, usually 65 or older. Only people who are seniors are able to buy or rent properties in those areas.
* **Septic System:** A septic system is a type of OWTS (Onsite wastewater treatment system).
* **Settlement Statement:** Is an itemized document of services and charges relating to the closing of a property.
* **SFR:** Single Family Residence. This is a home that is zoned for one family to live (It is possible that zoning may allow more unrelated people to live in the property). The home can be detached (standalone) or attached (a neighbor connected), but the property comes with land ownership rights.
* **Short Sale:**A short sale is when the mortgage company allows a homeowner to sell a house but pay less to the mortgage company than what they are owed. Mortgage companies allow this in some cases when the homeowners are behind on payments because it is faster and cheaper than a foreclosure.
* **Space Heater:** A self-contained appliance, usually electric, for heating an enclosed room.
* **Staging:** Is the act of preparing a private residence for sale in the real estate marketplace. The goal of staging is to make a home appealing to the highest number of potential buyers.
* **Survey:** Is a process carried out to determine property lines and define true property corners of a parcel of land described in a deed. It also indicates the extent of any easements or encroachments and may show the limitations imposed on the property by state or local regulations.
* **Tax-exempt:** Some organizations like churches and non-profits are exempt from paying property taxes. In some areas, seniors pay fewer property taxes. In some areas, locals pay fewer taxes than those who live out-of-state.
* **Tax Lien:** When Homeowners stop paying property taxes, the state can place a tax lien against the home or even sell the home at a tax sale. If you have a mortgage on the home, the mortgage company will usually pay the taxes if the homeowner does not.
* **Tenant:** Anyone who leases a property instead of purchasing it.
* **Title Company:** A company that provides title insurance and many times provides closing services as well for real estate transactions.
* **Title Insurance:** Insurance provided that guarantees a property has no debts or liens against it when sold.
* **TI:** Tenant improvements that are completed by the landlord for commercial tenants.
* **Townhouse**: A townhouse is like a condo but there aren’t any neighbors above or below the unit.
* **Transactional Funding:** Is a form of short term, hard money lending, which allows a wholesaler the opportunity to purchase a property with none of his/her funds, provided that there is already an end buyer in place to purchase the property from the wholesaler within a short time frame, usually 2-5 days.
* **Turn-key Rental Property:** A fully renovated home or apartment building that an investor can [purchase and immediately rent out.](https://investfourmore.com/turnkey-rental-properties/)
* **Under Contract:** A home goes under contract when a buyer and seller accept a contract. A new buyer cannot buy a home that is under contract unless the accepted offer terminates.
* **USDA:** USDA home loan from the USDA loan program, also known as the USDA Rural Development Guaranteed Housing Loan Program, is a mortgage loan offered to rural property owners by the United States Department of Agriculture.
* **VA:** Is a mortgage loan in the United States guaranteed by the U.S. Department of Veterans Affairs (VA). The loan may be issued by qualified lenders. The VA loan was designed to offer long-term financing to eligible American veterans or their surviving spouses (provided they do not remarry).
* **Water Rights:** The right to make use of the water from a stream, lake, or irrigation canal.
* **Well Water:** Is an excavation or structure created in the ground by digging, driving, boring, or drilling to access groundwater in underground aquifers.
* **Wholesaling:** A real estate wholesaler contracts with a home seller, markets the home to his potential buyers, and then assigns the contract to the buyer.
* **Zoning:** How the city, state or county classifies the use of land.