

Glossary

10 Yr US Treasury

An index rate; a published interest rate (or interpolation of rates) usually corresponding to the current yield of a US Treasury note or bond, Prime Rate, LIBOR, etc. The Final Note Rate is typically equal to the sum of the index rate plus the spread. Index rate yields are typically published in daily papers by financial information services (e.g. Wall Street Journal, Bloomberg).

ADO - Average Daily Occupancy

A ratio, expressed as a percentage, that shows the average number of paid guests for each room sold; calculated by dividing number of paid room guests by number of rooms sold. Measures management's ability to effectively operate and promote the lodging facilities.

ADR - Average Daily Rate

A hotel rate used to evaluate the average daily rate of a hotel inclusive of vacancy and seasonality; the average rate charged by a hotel for one (1) room for one (1) day; arrived at by dividing the total room revenue by the actual rooms occupied. A measurement used to gauge the financial competitiveness of the market for similar properties, facilities and/or guest rooms.

Advertising & Marketing

An expense line item that includes expenses for advertising, promotion, sales, and publicity managers, secretaries and clerks and all related printing, stationary, artwork, magazine space, broadcasting, and postage related to marketing.

Amortization

Identifies the loan amortization that is being quoted (in years); the period of time over which principal and interest payments are scheduled. For example, a loan with a 10-year term and a 25-year amortization will have a balloon payment at the end of 10 years. Also, the maximum number of periodic installments (expressed in years) over which repayment of a mortgage debt is calculated; a portion of each payment consists of a blend of interest and amortization of principal.

Anchor

Identifies whether the tenant is an anchor tenant. An anchor tenant is a well-known commercial business such as a national chain store, regional department store or Fortune 500 company strategically placed in a shopping center or other commercial building.

Annual Rent

Identifies the total annual rent, or base rent, paid by the tenant to the lessor.

Application Fee

A fee or schedule of fees charged by a lender at the time of loan application. This fee may include the cost of an appraisal, credit report, processing fee or other closing costs which are incurred during the process or the fee may be in addition to other charges.

Appraisal

An estimate of the value of a property, made by a qualified professional called an appraiser; results in the estimated market value of the property.

Appraisal Fee

A quoted or estimate fee to cover the cost of the appraisal required by the lender to obtain a mortgage.

Appraised Value

Identifies the indicated value or "fair" market value based on the last appraisal made on the property.

Asking Rent

Rental rate offered by the landlord to a prospective tenant; see Est. Market Rent.

Assumption Fee

A fee paid by the borrower for the paperwork and processing of records necessary to approve and document a new debtor.

Average Lease Term

The average term (or length) of all leases encumbering the collateral property.

Bankruptcy

Identifies whether a borrowing entity has filed for bankruptcy in the past. Bankruptcy - court proceedings to relieve the debts of an individual or business unable to pay its creditors. An individual, firm, or corporation who, through a court proceeding, is relieved from the payment of all debts. Bankruptcy may be declared under one of several chapters of the federal bankruptcy code.

Base Rent

The minimum stipulated rental rate in a lease agreement before adjustments for lease concessions (if any); also the minimum fixed guaranteed rent in a commercial property lease; separate from any overages or additional rental fees.

Base Year

The year in which the instrument begins; in a lease, base year is the year in which the lease starts. In a mortgage note, base year is the year in which the mortgage note is executed.

Blanket Loan

Refers to a mortgage that covers more than one parcel of real estate owned by the mortgagor.

Borrower Type

The legal structure of the borrower/sponsor; options include Individual, Corporation, Limited Liability Company (LLC), Trust, Limited or General Partnership, or Other.

Bridge Loan

Short-term mortgage financing that is in place between the termination of one loan and the beginning of another loan. Also, a form of interim loan, generally made between a short term loan and a permanent (long term) loan, when the borrower needs to have more time before taking the long term financing.

CAM & Utilities

Common Area Maintenance (CAM); Operational expenses related to the utilities and maintenance of retail and office properties; under a Triple-Net lease the Tenant is required to reimburse the Landlord for their proportionate amount (based on square footage) of this expense.

Capital Expenses

An expense line item that includes expenses for anticipated capital expenditures required to maintain a building and future capital improvements of major building systems (e.g. HVAC, parking lot, carpets, roof, etc.). Replacement reserves are typically calculated on a per unit basis (e.g. multifamily - per unit; office, retail, industrial - per square foot; etc.).

Capitalization Rate

The cap rate is the rate of return on net operating income considered acceptable for an investor and used to determine the capitalized value. This rate should provide a return on, as well as a return of, capital; also known as "cap rate". It is the ratio of the annual NOI to the property price (or value). The formula is: $Value = \text{annual Income} \div \text{the capitalization Rate } (V=I/R)$. For example, if a property generates \$100,000 of net operating income and the capitalization rate is 10.0%, then the capitalized value of the income stream is \$1,000,000. Conversely, if a property generated \$100,000 of net operating income and was sold for \$1,000,000, then the sales cap rate is 10.0%. Cap rates are determined by various methods including market driven (derived from comparable sales), band of investment technique (mortgage equity analysis), Ellwood formula, Akerson format, etc.

CBD Office

An Office subtype characterized by its location in a Central Business District (CBD); the downtown section of a city, generally consisting of retail, office, hotel, entertainment, and government land uses with some high-density housing.

Class A

A property classification for properties that are above average in terms of design, construction and finish; command the highest rental rates; have a superior location, in terms of desirability and/or accessibility; generally are professionally managed by national or large regional management companies.

Class B

A property classification for properties that frequently do not possess design and finish reflective of current standards and preferences; construction is adequate; command average rental rates; generally are well maintained by national or regional management companies; unit sizes are usually larger than current standards.

Class C

A property classification for properties that provide adequate functionality, exhibit some level of deferred maintenance; command below average rental rates; usually located in less desirable areas; generally managed by smaller, local property management companies; tenants provide a less stable income stream to property owners than Class A and B tenants.

Clubhouses

Identifies the number of clubhouses located on the property.

Co-op

A Multifamily subtype; characterized by its method of multiple ownership in which a corporation or business trust entity holds title to a property, (usually an apartment complex) and grants occupancy rights to shareholder tenants through proprietary leases. Also called a "cooperative."

Common Area Maintenance

Identifies the method by which the tenant is responsible for payment or reimbursement of Common Area Maintenance (CAM) and utility charges.

Conduit

The financial intermediary that sponsors the conduit between the lender(s) originating loans and the ultimate investor. The conduit makes or purchases loans from third party correspondents under standardized terms, underwriting and documents and then, when sufficient volume has been obtained, pools the loans for sale to investors in the CMBS market.

Contract Rent

Actual rent as specified in a rental or lease agreement, as opposed to actual market or economic rent. Different from Market Rent which is the rental income that a property is likely to command in the under current market conditions. Market rent, also referred to as economic rent, may be either higher or lower than contract rent.

Corporation

A borrowing entity structured as a group of people granted a charter legally recognizing them as a separate entity having its own rights, powers, privileges and liabilities distinct and separate from those of its members.

Credit Rated

Identifies whether the tenant is an investment grade tenant with a BBB- rating or higher.

Current Index Yield

The corresponding yield of a published interest rate, such as the Prime Rate, LIBOR, Treasury Bill / Treasury Note rate, 11th District COFI, etc. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. A final note rate typically includes an Index Yield plus a Spread.

Debt Coverage Ratio

Measures a mortgaged property's ability to cover monthly payments defined as the ratio of net operating income over the mortgage payments. A DCR, or DSCR (debt service coverage ratio), of less than 1.0 means that there is insufficient cash flow generated by the property to cover required debt payments.

Discount Rate

The rate applied to each year's cash flow from a building to determine the net present value (NPV) of a series of cash flows.

Effective Gross Income

Term used for an income-producing property, derived from the potential gross income, less a vacancy factor and a collection loss amount.

Engineering Fee

A quoted or estimate fee to cover the cost of the engineering report or property inspection required by the lender to obtain a mortgage.

Est. Market Rent

The amount for which the competitive rental market indicates property should rent. Also referred to as "economic rent." Generally, contract lease rates are "marked to market" if contract rent is greater than or less than market rent.

Est. Market Vacancy

The overall percentage of all units or space that is unoccupied or not rented in a market or sub-market. On a pro-forma income statement a projected vacancy rate is used to estimate the vacancy allowance, which is deducted from potential gross income to derive effective gross income.

Fannie Mae

Federal National Mortgage Association; commonly known as "Fannie Mae", the FNMA is the largest buyer of existing mortgages. The Federal National Mortgage Association was originally organized by the federal government in 1938 to purchase FHA-insured mortgages. The association was reorganized in 1968 as a quasi-private corporation whose entire ownership is private. Fannie Mae raises capital by issuing corporate stock which is actively traded on the New York Stock Exchange and by selling mortgages out of its portfolio to various investors.

Federal National Mortgage Association

Federal National Mortgage Association; commonly known as "Fannie Mae", the FNMA is the largest buyer of existing mortgages. The Federal National Mortgage Association was originally organized by the federal government in 1938 to purchase FHA-insured mortgages. The association was reorganized in 1968 as a quasi-private corporation whose entire ownership is private. Fannie Mae raises capital by issuing corporate stock which is actively traded on the New York Stock Exchange and by selling mortgages out of its portfolio to various investors.

FNMA/DUS Financing

A loan program through a lender designated by Fannie Mae who originates, underwrites, closes, and services Fannie Mae approved multifamily mortgage loans.

Franchise Affiliated

(Hotel) A franchise agreement allows the hotel to operate under a particular brand name and assures the hotel will be competently managed. Most hotels rely on their franchise agreement to give the property a brand name, to identify and define the service the hotel sells, and to produce a large percentage of its reservations. Franchises, or flags, include Holiday Inn, Marriott, Hilton, Comfort Inn, etc.

Freddie Mac

Federal Home Loan Mortgage Corporation.

Free Standing Retail

A Retail property subtype in which the property is occupied by one tenant and the property is utilized for retail purposes; fast-food franchises and high-scale retail stores are often free-standing buildings; sometimes called "big-box"; typical gross building area ranges from 2,000 to 100,000 square feet.

Full Service - Luxury Hotel

A Full Service Hotel property subtype typically has a full array of services available to the traveler. The extent of these amenities varies, depending on the type of the hotel/motel (star rating, etc.), particular chain, etc. However, at a bare minimum, the property should offer: on-site restaurant or dining facilities; meeting or banquet rooms; swimming pool; and 24-hour lobby/front desk. Other amenities frequently found in full-service facilities include: business centers; one or more retail shops to serve guests; more extensive health clubs; and transportation to and from airports or other nearby destinations. Floor plans of the guest rooms vary the most of any type of hotel property, from basic guest rooms, to "junior" suites, to larger suites suitable for VIP parties. This type of property is usually the most susceptible to profitability pressure, due to the fact that there are relatively high operating costs, due to the full service nature of the property, while the same time there is pressure on revenues, due to the fact that the property often competes with limited service properties in close proximity, which can charge lower room rates. This subtype typically ranges from 500-room resorts to 300-room all-suite hotels. Luxury hotels would include Crowne Plaza, Doubletree, Embassy Suites, Hilton, Hyatt, Marriott, Omni, Radisson, Residence Inns, Sheraton, Stouffer Hotels, Sonesta and Westin, in addition to a wide array of well-known independent hotels.

Full Service - Midscale Hotel

A Full Service Hotel property subtype typically has a full array of services available to the traveler. The extent of these amenities varies, depending on the type of the hotel/motel (star rating, etc.), particular chain, etc. However, at a bare minimum, the property should offer: on-site restaurant or dining facilities; meeting or banquet rooms; swimming pool; and 24-hour lobby/front desk. Other amenities frequently found in full-service facilities include: business centers; one or more retail shops to serve guests; more extensive health clubs; and transportation to and from airports or other nearby destinations. Floor plans of the guest rooms vary the most of any type of hotel property, from basic guest rooms, to "junior" suites, to larger suites suitable for VIP parties. This type of property is usually the most susceptible to profitability pressure, due to the fact that there are relatively high operating costs, due to the full service nature of the property, while the same time there is pressure on revenues, due to the fact that the property often competes with limited service properties in close proximity, which can charge lower room rates. This subtype typically ranges from 200-room resorts to 100-room all-suite hotels. Mid scale hotels would include hotel types from 250-room airport locations to 100-room roadside franchise properties. Such properties may include Best Western, Clarion, Days Inn, Holiday Inn, Howard Johnson, Marriott Courtyard, Park Inn, Quality Inn, Rodeway Inn and Ramada Inn, as well as quality independent hotels.

Full Service Lease

Lease structure under which the landlord pays all building expenses. Also called a Gross Lease.

General & Administrative

A line item expense that includes expenses incurred in property operation. The items in this category depend on the nature of the real estate, but usually include payroll expenses to all employees whose services are essential to property operation and management, but whose salaries are not included in other specific expense categories. Also includes fees paid for any professional services contracted for or incurred in property operation, and any other general administrative expenses incurred in property operation. The salaries of property managers, rent of offices, office and general expenses, and costs for non-custodial personnel and the services needed to operate the property are also included. For Hotels - Administrative & General (Undistributed) Includes all of the managerial and operational expenses that cannot be attributed to a particular department. Components include: salaries and wages, payroll taxes, and payroll benefits. Other administrative and general expenses include: accounting services, armored car, audit/tax preparation, bad debt, bank service charges, computer services, conference/meeting expense, corporate office expense, other commissions, consulting services, contract labor, credit card charge backs and commissions, discounts, donations and contributions, dues and subscriptions, education assistance, employee relations, entertainment and meals, equipment rent, general insurance, laundry allocation, legal, licenses, losses and damages, miscellaneous expense, office supplies, operating supplies, over/short, pager rental, partnership office expense, payroll processing fees, penalties, piped-in music, postage and shipping, postage-express delivery, printed supplies, professional services, provision for doubtful accounts, recruiting, relocation,

returned checks, sales and use tax, security services, special awards, telephone administrative, training materials, travel, travel meals and lodging, and uniforms.

Ginnie Mae

Government National Mortgage Association.

Gross Building Area

The total building area; referred to as GBA; generally excluding all rental area plus any common areas (e.g. elevators, hallways, stairways, etc.).

Gross Leasable Area

The area for which tenants pay rent; referred to as GLA.

Gross Lease

Lease structure under which the landlord pays all building expenses. Also called a Full Service Lease.

HVAC

Heating, ventilation, and air conditioning.

Improvement Cost

If the Loan Purpose is Refinance, identifies the cost of the improvements (e.g. renovations, capital improvements) made to the property following the acquisition.

Improvements Made

If the Loan Purpose is Refinance, identifies the whether improvements (e.g. renovations, capital improvements) were made to the property following the acquisition.

Income Subsidized

Identifies whether any of the income to the property is subsidized; rents that are partly paid by the government (e.g. Section 8 residential subsidies).

Increase of Base Yr. Expense Reimbursement

Identifies that any cost of the associated item over the base year is paid by the lessee. The base year is the year upon which a direct expense escalation of rent is based.

Index Rate

Identifies the loan Index Rate that is being quoted.

Individual

A borrowing entity such as a person and may include a borrower plus a co-borrower or co-borrowers.

Industrial

A general property type or building type classification characterized by its usage for industrial purposes. In Loamier, subtypes include Warehouse Single-Tenant, Warehouse Multi-Tenant, Manufacturing, Research & Development, Flex Space, Light Industrial, Heavy Industrial, Other.

Industrial Property

A property used for light or heavy manufacturing or warehouse space. Property type also includes office/warehouse.

Interest Rate Cap

Limits the interest rate or the interest rate adjustment to a specified maximum. This protects the borrower from increasing interest rates.

Interest Rate Index

A published interest rate, such as the Prime Rate, LIBOR, Treasury Bill / Treasury Note rate, 11th District COFI, etc. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. A final note rate typically includes an Index Yield plus a Spread.

Interest Rate Spread

The number of basis points over a base rate index; the difference between the rate at which money can be borrowed and the rate at which it is loaned. A final note rate typically includes an Index Yield plus a Spread.

Legal Fee

A quoted or estimate fee to cover the cost of the legal services required by the lender to obtain a mortgage.

Letter of Interest

Provide a preliminary loan quote or expression of interest to a borrower; also referred to as an "Expression of Interest."

Light Industrial

An Industrial property subtype in which the property is occupied by one or more tenants and the property is utilized for light industrial purposes (e.g. warehouse, light assembly, public utility plants, wholesale, motor vehicle assembly or repair, heavy equipment garages, distribution centers, mini-warehouses for storage, etc.).

Limited or General Partnership

A borrowing entity structured as a partnership in which there is at least one partner who is passive and limits liability to the amount invested, and at least one partner whose liability extends beyond monetary investment.

Limited Service - Economy Hotel

A Limited Service Hotel property subtype is typically characterized by standardized accommodations, little or no extra services available to guests and a discounted price. Frequently, these properties are part of a limited-service division of a major hotel chain. They offer a value-conscious alternative to full-service hotels for travelers not needing restaurants, etc. Limited-service hotels have experienced tremendous growth over the past 10 years. This would include franchise hotels such as Comfort Inn, Hampton Inns, Homewood Suites, Holiday Inn Express, La Quinta Motor Inn, Shoney's, Budgetel Inns, Econo Lodge, Fairfield Inn, Knights Inn, Nendels, Red Carpet Inn, Red Roof Inns, Sleep Inns, Super 8 Motels, Travelodge, Friendship Inns and Motel 6, in addition to numerous independent properties in this market.

Limited Service - Extended Stay Hotel

A Limited Service Hotel property subtype is typically characterized by standardized accommodations, little or no extra services available to guests and a discounted price. Frequently, these properties are part of a limited-service division of a major hotel chain. They offer a value-conscious alternative to full-service hotels for travelers not needing restaurants, etc. Limited-service hotels have experienced tremendous growth over the past 10 years. Extended stay properties offer basic accommodations catering primarily to long-term guests (one week or greater). They usually are basic in nature, offer few, if any, amenities, and are promoted on the basis of price, functionality and convenience. Most properties of this type offer only one floor plan, usually a kitchenette-type unit, and a telephone and television in the rooms. The properties also feature a long-term rate (weekly and/or monthly), and are often utilized by long-term employees in the area, people relocating to the area, or others needing longer-term accommodations at a reasonable price. Operating costs tend to be lower with this type of property, due to the limited services provided, and the semi-residential nature of the property.

Limited Service - Midscale Hotel

A Limited Service Hotel property subtype is typically characterized by standardized accommodations, little or no extra services available to guests and a discounted price. Frequently, these properties are part of a limited-service division of a major hotel chain. They offer a value-conscious alternative to full-service hotels for travelers not needing restaurants, etc. Limited-service hotels have experienced tremendous growth over the past 10 years. Mid scale hotels would include hotel types from 250-room airport locations

to 100-room roadside franchise properties. Such properties may include Best Western, Clarion, Days Inn, Holiday Inn, Howard Johnson, Marriott Courtyard, Park Inn, Quality Inn, Rodeway Inn and Ramada Inn, as well as quality independent hotels.

LLC

Limited Liability Company; a borrowing entity structured as a company wherein the restriction of one's potential losses to the amount invested. The absence of personal liability. Provided to stockholders in a corporation and limited partners of a limited partnership.

Loan Amortization

Indicates the requested Loan Amortization (in years); the period of time over which principal and interest payments are scheduled. For example, a loan with a 10-year term and a 25-year amortization will have a balloon payment at the end of 10 years.

Loan Assumption

The act of taking over the previous borrower's obligation of a mortgage note. Assumptions may be advantageous if the terms of the mortgage are advantageous and they are not changed by the lender when the mortgage is assumed.

Loan Maturity Date

If the Loan Purpose is Refinance, identifies the date on which the existing mortgage note expires or is called.

Loan Term

Indicates the requested Loan Term (in years). The period of time over which the loan is repaid (e.g. a loan with a 10-year term and a 25-year amortization will have a balloon payment at the end of 10 years).

Loan-to-Value Ratio

The ratio between the principal amount of the mortgage balance, at origination or thereafter, to the current value of the underlying real estate collateral; referred to as LTV. The ratio is commonly expressed to a potential borrower as the percentage of value a lending institution is willing to finance. The ratio is dynamic and varies by lending institution, property type, geographic location, property size, among other things.

Maintenance

An expense line item that represents all expenses for the general repairs and maintenance of the building including common areas and general upkeep. Includes both in-house payroll and contracted services. Repairs and maintenance expense includes payroll, elevator, HVAC, electrical and plumbing, structural/roof, trash removal, and other repairs and maintenance expense items.

Management Fees

A line item expense that represents the sum paid for management services; a variable operating expense. Management services may be contracted for or provided by the property owner. Management expenses may include supervision, on-site offices or apartments for resident managers, telephone service, clerical help, legal or accounting services, printing and postage, and advertising. Management fees may occasionally be included among recoverable operating expenses.

Manufacturing

An Industrial property subtype in which the property is occupied by one or more tenants and the property is utilized for manufacturing purposes.

Market Rent

The amount for which the competitive rental market indicates property should rent. Also referred to as "economic rent." Generally, contract lease rates are "marked to market" if contract rent is greater than or less than market rent.

Minimum DSCR

Identifies the minimum debt service coverage ratio (DSCR) we are willing to accept.

Minimum Management Fee

The minimum required property management fee reserve for the proposed loan.

Minimum Occupancy

Identifies the minimum physical property occupancy a lender is willing to accept.

Mixed Use

A general property type or building type classification characterized by its multiple uses; a real estate development that contains two or more different uses all intended to be harmonious and complementary (e.g. a high-rise building with retail shops on the first two floors, office space on floors three through ten, apartments on the next ten floors, and a restaurant on the top floor). Building types available for mixed-use analysis include office, retail, industrial, multifamily and healthcare. Hotel and self-storage properties are analyzed as single-purpose properties.

Mobile Home Park

A general property type or building type classification characterized by its usage as a mobile home park.

Mortgagee

The lender in a mortgage transaction.

Mortgagor

The borrower in a mortgage transaction who pledges property as a security for a debt.

Multi-family Property

A general property type or building type classification characterized by its usage for multifamily residential purposes. Subtypes include Low-Rise Garden Apartments, Mid-Rise Apartments, High-Rise Apartments, Student Housing, Military Housing, Townhouse style, Co-op, Other.

Multi-family Property - Class A

Properties are above average in terms of design, construction and finish; command the highest rental rates; have a superior location in terms of desirability and/or accessibility; and generally are professionally managed by national or large regional management companies.

Multi-family Property - Class B

Properties frequently do not possess design and finish reflective of current standards and preferences; construction is adequate; command average rental rates; generally are well maintained by national or regional management companies; and unit sizes are usually larger than current standards.

Multi-family Property - Class C

Properties provide functional housing; exhibit some level of deferred maintenance; command below average rental rates; usually located in less desirable areas; generally managed by smaller, local property management companies; tenants provide a less stable income stream to property owners than Class A and B tenants.

Net Cash Flow

Total income less operating expenses, adjustments, capital expenditures, tenant improvements and leasing commissions; does not include mortgage payments.

Net Effective Rent

Rental rate adjusted for lease concessions.

Net Operating Income

Total income less operating expenses, adjustments, etc., but before mortgage payments, tenant improvements and leasing commissions.

Net Rental Area

In a building, the floor space that may be rented to tenants or the area upon which rental payments are based. Generally excludes common areas and space devoted to the heating, cooling, other equipment of a building, hallways, lobbies, elevator shafts, etc.

Net-Net Lease

Usually requires the tenant to pay for property taxes and insurance in addition to the rent; referred to as NN.

NNN Reimbursement Structure

A lease structure that requires the tenant to pay for property taxes, insurance and maintenance in addition to the rent (also referred to as "Triple Net Lease").

Non-Recourse

A mortgage in which the lender will not pursue personal liability against the borrower. The lender's security is the real estate being financed. Usually subject to standard carveouts including fraud and misrepresentation.

Notice of Default

To initiate a non-judicial foreclosure proceeding involving a public sale of the real property securing the deed of trust, the trustee under the deed of trust records a Notice of Default and Election to Sell the real property collateral in the public records.

Office

A general property type or building type classification characterized by its usage for office purposes. Subtypes include Suburban Garden Office, Suburban High Rise, Medical Office, CBD Office.

Operating Expense Ratio

The ratio of total operating expenses, excluding debt service, to effective gross income. Also, a comparison of the operating expenses to potential gross income. This ratio can be compared over time and with that of other properties to determine the relative operating efficiency of the property considered.

Owner Occupied

Identifies whether all or part of the property is occupied by the owner or any agent or representative of the owner. In commercial underwriting, owner-occupied space may be marked to market if there is a difference between contract rent and market rent.

Partial Recourse

A combination of recourse and non-recourse conditions in a loan.

Phase I

An assessment and report prepared by a professional environmental consultant which reviews the property - both land and improvements - to ascertain the presence or potential presence of environmental hazards at the property such as underground water contamination, PCB's, abandoned disposal of paints and other chemicals, asbestos and a wide range of other potentially damaging materials. This Phase I Environmental Site Assessment ("ESA") provides a review and makes a recommendation as to whether further investigation is warranted (a Phase II Environmental Site Assessment). This latter report would confirm or disavow the presence of an environmental hazard and, should one be found, will recommend additional review and/or mitigation efforts that should be undertaken.

Preliminary Title Fee

A quoted or estimate fee to cover the cost of the title documents and services required by the lender to obtain a mortgage.

Prepayment Lockout

The number of periods during which the borrower is restricted from prepaying the mortgage loan; typically expressed in years or months. In order to reduce prepayment risk, commercial mortgages commonly have lockout periods and/or prepayment premiums or yield maintenance. A prepayment penalty is paid by the borrower for any prepayments made on a mortgage loan if required under the loan documents. The premium is usually set at a fixed

rate which, at times, decrease in steps as the loan matures. For example, a mortgage loan can have a premium of 5% for the first seven years and during the next five years the premium decreases at a rate of 1% per year (4% in year eight, 3% in year nine); after year twelve, there is no prepayment premium.

Prime Rate

An index rate; a published interest rate (or interpolation of rates) usually corresponding to the current yield of a US Treasury note or bond, Prime Rate, LIBOR, etc. The Final Note Rate is typically equal to the sum of the index rate plus the spread. Index rate yields are typically published in daily papers by financial information services (e.g. Wall Street Journal, Bloomberg).

Processing Fee

A fee, charged by a lender, to prepare all the documents associated with your mortgage.

Professional Fees

An expense line item that includes all fees and expenses associated with legal, accounting, data processing and auditing costs.

Professionally Managed

Identifies whether the property is managed by an unrelated professional management company.

Property Class

A general classification of real property based on design, construction and finish. Options include Class A, Class B, Class C and Class D.

Property Insurance

An expense line item that includes all fees relating to property and casualty and other related insurance costs associated with the property.

Rate Index

Identifies the index corresponding to the yield of a published interest rate, such as the Prime Rate, LIBOR, Treasury Bill / Treasury Note rate, 11th District COFI, etc. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. A final note rate typically includes an Index Yield plus a Spread.

Real Estate Investment Trust

A business entity formed to invest in real estate, mortgages and/or securities backed by real estate. REITs are required to pass through 95% of taxable income to their investors and are not taxed at the corporate level. The three major types of REITs are equity, mortgage and hybrid, with equity being the dominant type; referred to as REIT.

Real Estate Mortgage Investment Conduit

A vehicle, created by the Tax Reform Act of 1986, which permits the sale of interests in mortgage loans in the secondary market. It is a pass-through entity that can hold loans secured by real property and issue multiple classes or investors without the regulatory, accounting and economic obstacles inherent with other forms of mortgage-backed securities; referred to as REMIC.

Recourse

A type of mortgage loan in which the lender's remedies in the event of borrower default are unlimited, extending beyond the property to the borrower's personal assets.

Repairs & Maintenance

A line item expense that represents all expenses for the general repairs and maintenance of the building including common areas and general upkeep. Includes both in-house payroll and contracted services. Repairs and maintenance expense includes payroll, elevator, HVAC, electrical and plumbing, structural/roof, trash removal, and other repairs and maintenance expense items. Repairs & Maintenance can be provided in total or broken down by the following subcategories:

1. Payroll - The expense of all employees involved in on-going property repairs and maintenance, but whose salaries/wages are not included in other specific expense categories.

2. Elevator - The expense of the contract and any additional expenses for elevator repairs and maintenance. This expense item may also include escalator repairs and maintenance.
3. HVAC – The expense of the contract and any additional expenses for heating, ventilation and air-conditioning systems.
4. Electrical & Plumbing - The expense of all repairs and maintenance associated with the property's electrical and plumbing systems.
5. Structural/Roof – The expense of all repairs and maintenance associated with the property's building structure and roof.
6. Trash Removal - The expense of garbage removal services.
7. Other Repairs & Maintenance - The cost of any other repairs and maintenance items not specifically included in other expense categories.

Replacement Reserves

Replacement reserves are various account(s) maintained (typically by the Lender) to provide funds for anticipated expenditures required to maintain a building. A reserve account usually is required by a lender in the form of an escrow to pay upcoming taxes and insurance costs. A replacement reserve is usually an amount set aside from net operating income to pay for the eventual wearing out of short-lived assets; monthly deposits that a lender may require a borrower to a reserve in an account, along with principal and interest payments for future capital improvements of major building systems (e.g. HVAC, parking lot, carpets, roof, etc.). Replacement reserves are typically calculated on a per unit basis (e.g. multifamily - per unit; office, retail, industrial - per square foot; etc.).

Retail Property

Property types range from super regional shopping centers with a gross leasable area greater than one million square feet to small stores with single tenants.

SBA Financing

Financing provided or guaranteed in part by the Small Business Administration; usually requires that the owner occupy at least 51% of the collateral property.

Self Storage

A general property type or building type classification characterized by its usage for self storage purposes (also called Mini-Storage); provides personal storage for lease by consumers.

Single Tenant Investment Grade

A Retail property subtype in which the property is net leased to one investment grade tenant (BBB- rating or higher) and the property is utilized for retail purposes.

Single Tenant Non-Investment Grade

A Retail property subtype in which the property is net leased to one non-investment grade tenant (BBB- rating or lower) and the property is utilized for retail purposes.

Special Purpose Corporation

A bankruptcy-remote entity established by the borrower whose sole asset is the property of properties being financed. The SPC protects the lender from having the underlying property(ies) become involved in bankruptcy proceedings against other assets of the borrower of the property. Also known as SPE (Special Purpose Entity) with other than corporate owners.

Standard & Poor's

Standard & Poor's Rating Service is one of the four primary rating agencies and is a division of McGraw-Hill Companies, Inc.; referred to as S&P.

Tenant Improvements

The expense to physically improve the property to attract new tenants to new or vacated space which may include new improvements or remodeling. May be paid by tenant, landlord, or both. Typically, tenants are provided with a

market rate TI allowance (\$/sq. ft.) that the owner will contribute towards improvements. The tenant must pay for amounts above the TI allowance desired by the tenant.

Total Operating Expenses

The calculated total for all operating expenses.

Trailing 12 Months

Information from only the 12 months preceding the month of the analysis.

Trust

A borrowing entity structured wherein a fiduciary relationship whereby legal title to a property is transferred to a trustee with the intention that such property be administered by the trustee for the benefit of another, the beneficiary, who holds equitable title to such property.

Unanchored Retail

A Retail property subtype in which the property is occupied by multiple tenants of which none are anchor tenants and the property is utilized for general retail purposes. An anchor tenant is a well-known commercial retail business such as a national chain store or regional department store strategically placed in a shopping center so as to generate the most amount of customers for all of the stores located in the shopping center.

Vacancy & Collection Loss

Vacancy and Collection Loss is the percentage of all units or space that is unoccupied, not rented or from which there is no rental income. On a normalized or pro-forma income statement a projected vacancy rate is used to estimate the vacancy allowance (both physical and economic), which is deducted from potential gross income to derive effective gross income; also, an estimated amount reflecting probable vacancy, non-payment of rent by tenants, and any other income loss. These funds are set aside to cover either expected or unanticipated income losses.

Variable Rate

A mortgage with an interest rate that changes periodically, according to an index that is selected when the mortgage is issued. The initial interest rate is lower than that of fixed rate mortgages, but monthly payments can increase or decrease as the rate is adjusted.

Warehouse Multi-Tenant

An Industrial property subtype in which the property is occupied by two or more tenants and the property is utilized for warehouse purposes.

Warehouse Single-Tenant

An Industrial property subtype in which the property is occupied by one tenant and the property is utilized for warehouse purposes.