

Investment Terms Made Easy

**Compiled for your
convenience by**

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Introduction

The glossary of terms which follows has been drawn primarily from the excellent publication *A Glossary of Terms used in Real Estate and Valuation Practice* (second edition), published by The Real Estate Institute of Australia, Canberra, and available from the Real Estate Institute of Australia, Canberra.

We hope that the terms mentioned within will be a useful guide to refer to on your property investing journey.

Investment Terms

Absorption

May be gross or net. The amount of space leased over any period (usually one year) is gross absorption. When allowance is made for space vacated a net absorption figure is deduced.

Access Rights

The right of ingress to or egress from a property which abuts upon an existing street or highway. It is an easement in the street which is appurtenant to abutting property and is a private right as distinguishable from rights of the public. Details will be shown on Certificates of Title of both parties granting and receiving the right.

Agent

An agency is the relationship which exists at law between two or more persons whereby one (the agent) is authorised to act on behalf of another (the principal) to do certain specified acts which affect the principal's rights and duties in relation to the third parties. In most States, in all real estate transactions, agents must always be appointed in writing pursuant to the relevant Act, to legally have a claim on the principal for the payment of commission.

Air Rights

Rights vested by a grant of an estate in real property to build upon, occupy or use in the manner and degree permitted, all or any portion of space above the ground, or any other stated elevation within vertical planes.

Amortisation

The process of recovering, over a stated period of time, the capital investment through scheduled, systematic repayments at regular intervals. Periodic contributions to a sinking fund to discharge a debt or make a replacement at a future date.

Anchor Tenant

The main, usually the largest tenant, who attracts other tenants and customers to a shopping centre.

Annuity

- An annual income.
- The return from an investment of capital, in a series of periodic payments which comprise both interest and a partial return of capital.
- The annual return may be in equal annual amounts, called a level annuity or in increasing or decreasing annual amounts, called an increasing or a decreasing annuity.
- It may be expressed as an annuity in advance or annuity due, depending upon whether the income payments are prepaid or post paid.

Appraisal

The term commonly used in America to indicate what in Australia is termed a valuation. In New South Wales the term means an opinion or summation of the saleability of a property without resorting to a full-scale valuation.

Assessed Value

The valuation placed upon a property, both real and personal by the tax assessor for the purpose of taxation.

Assignment

Generally, transfer of property, e.g. an assignment of interest under a will; an assignment of rights in a patent; an assignment of a lease or mortgage. An assignment of contract is an act by which one person to a contract substitutes another person for himself as a party to that contract either for some or all of the purposes of the contract. The assignment of rights and liabilities under

contracts is limited by law. Assignment of a lease must be in writing.

Auction

The selling of any property, real or personal, in public by a licensed auctioneer, who offers the property for sale, starting at a price possibly much below its value, and endeavours to persuade those present to make successively increased offers until it is knocked down to the highest bidder. A reserve price may be placed on the property by the owner and no sale can then be made below this price. A Dutch Auction is one in which the property offered is started at a high price, which is gradually reduced until someone accepts the offer. This latter type of auction is generally made use of only at fetes, bazaars, etc.

Average, Subject to

An insurance term indicating that if a person insures property for less than its full value, then should a claim arise, the amount of insurance payment shall be based on its value proportionate to the total sum insured. The average clause applies to various types of insurance, e.g. buildings, chattels, stock in trade.

Balloon Payment

An American term meaning the final payment terminating a debt in which the amount paid is substantially more than previous instalments.

Betterment

An improvement which adds to the capital value of the structure. It is distinguished from repairs or replacement by the fact that the original character is improved and the value is increased. A physical change in an existing property or equipment which increased its value or usefulness and is not a mere restoration. It is reflected in the accounting by an equivalent increase in book value. Also it may arise as the result of a change in town planning or from a physical change external to the property as street improvements, improved drainage facilities, etc. The measure of value is not in increased cost but enhanced value imparted to the property.

Body Corporate (Strata Company)

Under legislation relating to Villas, Town Houses, Flats and Home Units, the control and administration of common properties is vested in a statutory Body Corporate which comes into existence automatically on the registration of the plan, and to which the provisions of the Companies Act do not apply. The registered proprietors of the units are the only members of the Body Corporate. The rights and obligations of the members and the Body Corporate are fixed by scheduled by-laws. Easements for the protection and enjoyment of the units and common property are also provided for. The name also applies to shareholders in Units under Company Title.

Bond Rate (Yield)

(See Trend Bond)

The 10-year rate (yield) is commonly adopted by investors as being the minimum return required for a property investment, before adding to that yield a risk premium of 3 - 5 % to reflect the real estate risk of the investment.

Bridging Finance

The need often arises for purchasers to effect settlement of a real estate transaction prior to the date that the finance becomes available. Under these circumstances it is necessary to obtain bridging finance (a temporary loan) to provide for the time gap in order to comply with the terms of the contract in regard to settlement pending the availability of the long term finance.

Building Alignment

A line, a specified distance back from the boundary of the property. That line being specified to identify an area within which buildings are prohibited and therefore has the effect of requiring all buildings (usually with the exception of fences) to be set back that specified distance from the boundary.

Building Lease

A lease under which the lessee covenants with the lessor to erect certain buildings, clearly outlined in the lease agreement. This type of lease is usually a lengthy one so

as to enable the lessee to gain the benefit of the buildings he has constructed, which at the termination of the lease becomes the property of the lessor. The rental paid under a building lease is referred to a Ground Rent.

Building Permits

A permit issued by Local Government Authorities for the erection or structural alterations of all structures.

Building Regulations

Laws adopted and enforced by Local Government Authorities, which specify the method of construction of buildings and the nature and materials to be used, below which standards the buildings must not fall. They are designed to ensure public safety, health and the minimum acceptable society standards as to design, construction alteration, repair and occupancy. Also referred to as Building By-laws and Building Code.

Buying Commission

The sum of money paid to an Agent by a purchaser where the Agent is appointed to find a specific property, eg. Industrial, Commercial, Rural and in some cases, Residential properties. Appointments of this type in some States are made in writing pursuant to the relevant Act in order to be enforced as law.

Capital Gains

The difference between purchase price and selling price in the sale of an asset (actual profit made); used primarily in income tax and capital gains tax calculations.

Capitalisation Rate

Method of arriving at the value of a property by reference to net rent being multiplied by the reciprocal of the capitalisation rate. For example if the capitalisation rate is 8%, the multiplier is 12.5.

Carrying Charges

Expenses necessary for holding property, such as rates and taxes on idle property or property under construction and can include interest paid on mortgage loan. Also referred to as Holding Charges.

Cash Flow

Total income received from an investment or business after all operating expenses and debt servicing costs. It may be on a pre or post tax basis.

Cash on cash Return

The initial yield from the property without any adjustments for being under or over let.

Certificate of Title

The document of title to land held under the Torrens System. It consists of duplicate deeds stating the fact and extent of the interest of a person (the registered proprietor) in land held under the Torrens System. The deeds are numbered. One is kept in the Titles Office and the other is held by the registered proprietor. When the land is dealt with, a note of the dealing is made on both copies by the Titles Office.

Commercial Property

Property intended for use by all types of retail and wholesale stores, office buildings, hotels and service establishments.

Commission

Remuneration of a real estate agent for services rendered eg. To effect the sale of property. The amount being a prescribed percentage based on the consideration of the contract or agreement.

Company Title

Rights to occupation in perpetuity of property based on the ownership of shares in a company in which is vested the title to the property. This was the common method of home unit ownership prior to the introduction of the more acceptable and efficient method of strata title ownership.

Consolidation of Title

The issue of a new Certificate of Title for land previously comprised in more than one certificate.

Cost Approach

That approach in valuation analysis that is based on the proposition that the prudent purchaser would pay us more than the cost of producing a substitute property with the same utility as the subject property. It is particularly applicable when the property being valued involves relatively new improvements, which represent the highest and best use of the land, or when unique or specialised improvements are effected on the site and for which there exists no comparable properties on the market.

Council By-laws and Regulations

Rules controlling the construction, use and alteration of properties within a respective municipal area. May also control the assessment of rates, control of weeds, health requirements etc.

Covenant

An agreement or promise by deed, by which one party pledges to the other that something has been done or will be done, or stipulates for the truth of certain facts. He who promises is called the covenanter; and he whom the promise is made is the covenantee. Covenants are either positive or negative, and relate as a rule to the relationship between vendor and purchaser, or landlord and tenant. A positive covenant is one by which the party binds himself to do some act or carry out some work; and a negative covenant is one by which the party is restricted in his rights in relation to the implied: express, where they are set out in terms; implied, where the mere relationship of the parties automatically creates the covenant.

Deed

An instrument (i.e. document) whereby an agreement is made, obligation entered into, or property conveyed, and is under the seal of a party thereto.

Defect of Title

Any encumbrance, etc., which prevents the purchaser from obtaining a clear title to the property, constitutes a defect of title. Examples: the existence or alleged existence of an easement or covenant restricting the use and enjoyment of the property; registered mortgages, caveats and unregistered dealings.

Depreciation

A loss from the upper limit of value. An effect caused by deterioration, or obsolescence, or both.

Deterioration is evidenced by wear and tear, decay, dry rot, cracks, encrustation, or structural defects.

Obsolescence is divisible into two parts, functional and economic. Functional obsolescence may be due to: poor plan, functional inadequacy or over-adequacy due to size, style, age, or otherwise. It is evidenced by conditions within the property. Economic obsolescence is caused by changes external to the property such as neighbourhood infiltrations of inharmonious people or property uses, legislation and the like.

- **Accrued:** the difference between the cost of replacement new and present value.
- **Book:** the amount reserved upon the books of an owner to provide for the retirement or replacement of an asset, as distinguished from accrued depreciation.

Development Costs

In the public utility practice, the term has been accepted to mean the cost or expense incurred in creating a business as distinguished from the physical property, eg. In subdivisional lands, development costs refer to the expenses incurred in dividing in-globo land into building allotments.

Direction Costs

Direct construction costs include the following:-

- Cost of Site:
 - Purchase price of land
 - Title, legal and recording expenses
 - Brokerage commission if paid by purchaser.

- Cost of Improvements:
 - Preliminary: constructions, surveys or permits
 - Architects' and Engineers' fees
 - Cost of building and equipment
 - Cost of improvements on land, such as landscaping, walls, fences, roads, grading.

Direct Comparison Approach

A valuation technique which relies on recent sales of similar property to establish value. This approach is applicable when an active market provides sufficient quantities of reliable data which can be verified from authoritative sources. The direct sales comparison approach is relatively unreliable in an inactive market or in estimating the value of properties for which no real comparable sales data are available. It is also questionable when sales data cannot be verified with vendor and purchase involved in the transaction. Also referred to as the Market Comparison or Market Data Approach.

Discharge

To deprive a right or obligation of its binding force, to release a person from an obligation or prison; thus payment discharges a debt.

Discounted Cash-Flow Method

A means of isolating differences in the timing of cash flows by discounting these cash flows to their present values. The two discounted cash flow methods are the internal rate of return method and the net present value method.

Discount Rate

The total rate of return required from an investment. It is often based on a risk premium above the risk free rate (Government bonds).

Discounted Rate of Return

Synonym for internal rate of return.

Discounting

A concept of time preference which holds that future income or benefits are worth less than the same income or benefits now, and that they decrease in value systematically as the time for their receipt is further deferred into the future. In appraisal analysis, discounting is the arithmetic procedure of applying a specific rate (usually) derived from the market to the anticipated future income stream in order to develop a present worth estimate.

Easement

A right which a person has to use land belonging to another in a particular manner not involving the taking of any part of the natural produce of that land – or of any part of its soil; or a right to prevent the owner of that land from using his land in a particular manner. This right must be appurtenant to (ie. Attached to) another piece of land, called the dominant tenement. The most usual easements are rights of way, easements for light, easements for the flow of water over and through another's land, and easements of support.

Economic Obsolescence

A decline in the market value of property due to any external influence, such as zoning regulations or a deteriorating neighbourhood. Apart from circumstances mentioned, buildings which are unsuitable due to design or generally inadequate to suit current requirements will suffer from economic obsolescence.

Economic Rent

In real estate the term refers to the market rental, ie. The rental income that a property would most probably command on the open market at a given time. It represents a rental rate that comparable properties are bringing.

Economic Value

Value based on the monetary return, or its equivalent, that a real estate property brings.

Effective Gross Income

Gross income after allowance for incentives.

Encumbrance

An interest or right in real property which diminishes the value of the property does not prevent conveyance of the property by the owner. Any impediment to the use or transfer of land, including such things as easements mortgages, caveats, notices of intention to resume, leases etc. which are usually registered on the title.

Escrow

A deed, a bond, money, or other instrument placed in the hands of a third person (sometimes called the escrowee or escrow holder) for delivery upon the performance of certain conditions or the happening of certain contingencies.

Estate

An estate is an interest in land. Estates are generally freehold or cash hold.

Expense Recoveries

Involves revenues payable by a tenant to a lessor for recovery of costs applicable to the operation of the building in which he is located. The lease nominates the extent to which the tenant is liable. It could include such operating expenses as rates and taxes, security, insurances, property management, lift and air conditioning maintenance and running costs, building repairs and maintenance, cleaning etc.

Face Rent

Rent before allowance for incentives usually expressed as “Gross Face Rent”.

Fair Rent

The likely market rent that a property could command on the open market as indicated by current rentals being paid for comparable properties. It is the same as ‘market rent’.

Fair Value

Value that is reasonable and consistent with all of the known facts. See Market Value.

Feasibility Survey

An analysis of the cost benefit ratio of an economic endeavour. The study of property to determine all possibilities for bringing it to its highest and best use.

Fee Simple

The fullest and highest possible estate one can possess in real estate. Ownership of unlimited duration. Upon the owner's death, real estate will pass to the heirs (see Freehold).

First Mortgage

A mortgage which has priority as a lien over all other mortgages.

Fixed Price Contract

In its basic form, one in which the builder contracts to carry out certain works at a predetermined lump sum payment. This type of contract does not contain the rise and fall clause and is not affected by spiralling building costs which have prevailed in recent years.

Foreclosure

A legal action instituted by a mortgagee, when a mortgagor defaults, to end all rights and possession of the mortgagor. The subject asset then becomes the property of the mortgagee.

Freehold

The highest form of estate in land, and the nearest the law allows a real property owner to approach complete ownership. A freehold estate is one which is of unlimited duration, that is to say, it cannot be said of an estate of freehold at the time of its creation when it will come to an end. Thus, an estate for life is a freehold estate, as, when it is created, while it is clear that it must come to an end with the death of a life tenant, as the person to enjoy for life is called, no one can say for certain when it will end.

Gross Building Area (G.B.A.)

For use related primarily for the purpose of site coverage calculations and development application. Gross Building Area is determined by measuring each floor plan at all levels to the normal outside faces of enclosing walls, balustrades and supports, and the outside faces of projecting columns. Areas should be calculated in square metres and the following subdivisions of G.B.A. should be shown in summary of areas; areas for car parking and ramps and car lifts, areas for plant and lift motor rooms, areas for habitable occupation, areas for service cores eg. Lifts, stairs, escalators, toilets and ducts, areas of columns projecting beyond the enclosing walls and areas for porches, verandas ad balconies.

Gross Floor Areas (G.F.A.)

For use related to all types of building primarily for purposes of preliminary cost estimates. G.F.A. is the sum of the Fully Enclosed Covered Area (F.E.C.A.) and the Unenclosed Covered Area (U.C.A.) Fully Enclosed Covered Area (F.E.C.A.) – each floor plan should be measured at all useable levels to the normal inside faces of exterior enclosing walls, ignoring projections such as columns and the like. Open courtyards, light wells, and the like should not be included in the area measurement. Unenclosed Covered Area (U.C.A.) – each useable roofed or covered floor plan including useable space under buildings, should be measured to the normal inside faces of exterior walls (ignoring projections such as columns and the like), balustrades or supports. Areas should be calculated in square metres. The following subdivisions of F.E.C.A. should be shown in a summary of areas; areas for car parking and ramps or car lifts, areas for plant and lift motor rooms, areas for habitable occupation, areas for service cores such as lifts, stairs escalators, toilets and ducts ad U.C.A. areas should be shown separately in the summary of areas.

Gross Leasable Area (G.L.A.)

Used by owners, Architects, etc. for the purpose of establishing the rentable areas occupied by tenants, particularly, in shopping centres, retail stores, warehouses and industrial buildings, Gross leasable

areas are measurements of all floors occupied by a tenant, for the exclusive use, from the centre of line joint partitions or walls and from outside faces of external walls or the building alignment including shop fronts.

Gross Lease

A lease whereby the landlord pays for all repairs, taxes and operating expenses incurred through ownership. It is the opposite of a net lease in which these costs are borne by the lessee.

Gross Rent

The rent reserved by a letting plus any payment, to or on behalf of the landlord for which the payment is subsequently applied, excluding payments made as security deposits.

Gross Sales

The total amount of sales as shown by invoices, before deducting returns, allowances, and so on.

Ground Lease

A lease which gives the right of use and occupancy of land eg. A railway or crown lease normally on the condition that the lessee erect buildings of a certain nature and standard.

Ground Rent

The net rent paid for the right of use and occupancy of a parcel of unimproved land, or that portion of the total rental paid that is considered to represent return upon the land only.

Highest and Best Use

The most profitable likely use to which a property can be put. The opinion of such use may be based on the highest and most profitable continuous use to which the property is adapted and needed, or likely to be in demand in the reasonably near future having taken into consideration zoning regulations. However, elements affecting value which depend upon events or a combination of occurrences which, while within the realm of possibility are not fairly shown to be reasonably probable, should be excluded from consideration. Also if the intended use is dependent on an uncertain act of

another person, the intention cannot be considered. That use of land which may reasonably be expected to produce the greatest net return to land over a given period of time. That legal use which will yield to land the highest present value, sometimes called optimum use. The use of, or programme of utilisation of, a site which will produce the maximum net land returns in the future, although such returns need not be in dollar amounts, eg. Social welfare buildings, schools, etc. The optimum use for a site.

Hurdle Return

The minimum acceptable return an investor requires from an investment. The method of calculation will vary amongst investors but is frequently calculated by reference to 3 to 5 percentage points above the long-term bond rate.

Improved Value

That portion of the current market value of a property, which is in excess of its cost and which may be expected to persist. The expected performance of the excess is due to an anticipated increase in the value of the land, or reproduction costs of the building, or both. Usually, this condition is found in new and rapidly developing districts.

The combined value of land and all improvements thereon as distinguished from their separate valuers.

Income

Money or other benefit, generally assumed to be received periodically.

- *Gross:* The annual income derived from the property before any expenditures are incurred.
- *Net:* The annual income derived from a property after the payment of all outgoings.
- *Operating:* Income derived from the general operation of a business. Not synonymous with net profit, but rather indicates a stage in the profit-and-loss account where all direct costs of operation and all direct income from operation have been taken into the account and nothing else. See also Income, net.

- *Stabilised:* As used in appraisal practice, represents the estimated gross income after allowance has been made for vacancies and other losses of income. It is the estimated amount of probable rent receipts for a specific period, usually a year. It includes extraneous incomes only when these amounts are essential elements in the operation of an enterprise and where they are customarily expected and included in the trade.
- *Surplus:* Same as excess income.

Insurable Interest

An implied condition in all enforceable insurance policies that the person insured will obtain some advantage from the property insured so that its safety or quality should continue or may suffer prejudice in connection therewith.

Investment Return

The return produced by both income and resale expressed as a periodic rate. It is the rate at which both income and reversion are discounted to equal the cost of the investment.

Joint Tenants and Tenants in Common

Property, whether real or personal, may be owned under joint tenancy or tenancy in common. Joint tenancy is ownership in equal undivided shares, stated to have the technical requisites of unity of possession, interest, title and time. The most important feature of joint tenancy is known as survivorship; on the death of one joint tenant, that share passes to the survivors so that they remain joint tenants as a whole. Joint tenants are regarded collectively as a single person in respect of their dealings with others. In the case of tenancy in common, although each has an undivided share, such share is distinct and separate. The interests need not be equal; thus 'A' may have one undivided third share, and 'B' two undivided third shares of the sale property. The most important feature is that the share of a tenant in common may be separately disposed of by him during his lifetime, or by Will. On death it passes, not to the other tenants in common, but by Will, or the laws of intestacy.

Joint Venture

The joining of two or more people to carry out a specific business venture.

Landlord and Tenant

The relationship of landlord and tenant is created by contract (bywords, writing eg. a tenancy agreement; or deed eg. a lease) whereby a tenant occupies the landlord's house or land subject to certain conditions such as the payment of rent etc. The phrase is used to denote the law applying to this relationship.

Lease

A grant of the possession of real property to last for a fixed or ascertainable period at will or in perpetuity, and usually with the reservation of a rent. The person who grants the lease is called the lessor, the person to whom it is granted being the lessee. A lease must be for a less estate or term that the lessor has in the property, for if it comprises his whole interest it is a conveyance or assignment and not a lease. Where a person who is a lessee grants a lease of the same property to another person for a shorter term, it is called an underlease or sub-lease.

Leasehold Value

The value of a lease from the points of view of both the lessee and the lessor. As economic conditions change, a lease may be worth more or less with the passing of time. Leasehold value is that increase in the market value of a lease over what is being paid.

Managing Agent

A real estate agent authorised to manage the business affairs in connection with the property of another.

Market Price

The price actually paid, or to be paid, for a property. It differs from market value in that it is an accomplished fact, whereas market value is and remains an estimate until proved. Market price involves no assumption of prudent conduct by the parties concerned.

Market Value

As defined by the courts, the highest price estimated in terms of money which a property will bring if exposed for sale in the open market allowing a reasonable time to find a purchaser who buys with knowledge of all uses to which it is adapted and for which it is capable of being used and assumes a willing buyer and willing seller.

Mortgage Guarantee Insurance

Protecting the lender against loss. Mortgagee insurance means that lenders, a Building Society for example, can confidently make advances for homes where the borrower has a lower equity than the expected margin. The lenders are protected against loss on the loan should the borrower default on the repayments or other covenants of the mortgage. The mortgage insurer will reimburse the lender for the total amount of the loss, which may also include costs of selling the property, essential repairs and maintenance, unpaid rates and so on.

Mortgagee in Possession

To protect their interest a mortgagee obtains a court order and takes possession of property about to be dispossessed. Usually this is done when a mortgagor defaults under the terms of the mortgage.

Net Absorption

Is the net amount of space leased ie. all space leased less space vacated. It may be negative. In the 1970's industry data for absorption was often 'take-up' or 'gross absorption'.

Net Annual Rent

The rent from a property after allowance for all outgoings eg. if the Gross Annual Rental is \$100,000 p.a. and the total outgoings (rates, taxes and operating expenses) are \$20,000p.a. then the net annual rent is \$80,000p.a.

Net Ground Lease

The lease of unimproved land with the lessee agreeing to accept and pay the owner's expenses, viz. taxes, assessments and all expenses for any improvements created by the lessee.

Net Lease

A lease where, in addition to the rental stipulated, the lessee assumes payment of all property charges, such as taxes, insurance and maintenance.

Net Lettable Area (N.L.A.)

The net rentable area of commercial office buildings is normally the floor space confined within the building at each floor level, adopting the following method of measurement:

- Measurements to be taken between internal surfaces of exterior walls.
- Areas occupied by structural columns to be disregarded and the area included in the Net rental Area.

The following areas of each floor are to be excluded from Net Rentable Areas calculations:

All stairs, toilets, cleaners cupboards, vertical ducts, lift shafts, escalators, tea rooms, lobbies between lifts, areas set aside for public use, plant rooms and areas set aside for service vehicles, for delivery of goods and car parking.

Notice to Quit

Where there is a tenancy of land or tenements a notice to quit is required to enable either the landlord or the tenant to determine the tenancy without the consent of the other. The notice must be strictly correct or it will be void. It must specify the correct date or time for the termination of the tenancy; it must be unconditional and relate to the whole of the premises.

Occupancy Ratio for Commercial Property

Sometimes referred to as the 'Rent to Turnover Ratio'. It is an important benchmark in shopping centres and measures the tenant's financial ability or lack of ability to pay all related occupancy charges such as minimum rent, overage rent and expense reimbursements – and still

make a profit from their business operation. The ratio is calculated by dividing the tenant's total occupancy costs into their Gross Turnover(sales). For an average specialty shop an occupancy ration of 12% -13% is generally considered affordable although some can pay considerably more and some considerably less.

Old System

A reference to the form of title to land, known as Old System, as distinct from the title created by Statute and known as Torrens Title, it title held under a Crown Lands Act. Also known as common or General Law Title.

Open Contract

A memorandum in writing of the sale of land. If it complies with the provisions of existing legislation it may constitute a binding contract. Correspondence setting out sufficient details of an offer and acceptance may amount to an open contract. Parties not wishing to be finally committed to a transaction pending clarification of some aspects thereof should exercise care in writing letters and signing documents without first having had the benefit of legal advice.

Operating Cost

Costs involved in operating a building such as rates and taxes, insurances, security, property management, building repairs and maintenance, lift and air-conditioning running cost and maintenance, property management fees, cleaning, etc.

Operating Expenditure

Refer 'Property Revenue and Expenses Analysis' lecture notes.

Outgoings

Total annual costs involved with owning real estate, e.g. rates, insurance, cleaning, agents fees, etc. Income tax is not an outgoing.

Payback

A method of evaluating investment opportunities in which the annual cash flow generated is divided into the equity investment to determine the number of years required for a return of the funds invested.

Percentage Lease

This may be short term or long term. A percentage of the tenant's gross or net sales, as defined by the lease, will constitute the stipulated rental. A minimum rent is usually included although straight percentage lease is occasionally encountered. Also, it may provide for a ceiling rental. In effect, the percentage leases makes the landlord a partner in the tenant's business. With the advent of discount houses, large chain stores and modern regional shopping centres, this has become an increasingly popular method of leasing.

Perpetuity

The state of being continued forever; for example, an annuity which extends into the future without termination. Generally applied to an amount which accrues periodically for an indefinite number of instalments; that is without known or expected limitation.

Price

The amount a purchaser agrees to pay and a seller agrees to accept. Price is sometimes value expressed in the following terms:

- **Forced:** The price paid in a forced sale or purchase, that is, a sale in which there was not allowed a reasonable time to find a purchaser, or in which the purchase was forced to buy.
- **Liquidation:** A forced price if there is not allowed a reasonable time to find a purchaser. However, if a reasonable time is allowed then the term liquidation price becomes synonymous with fair market price.
- **Market:** The price paid for property regardless of pressures, motives, or intelligence.
- **Unit:** The price or cost of one of a number of similar items or units of property which, when

multiplied by the total number, will determine the price or cost of the whole.

- **Upset:** A term of legal significance used to designate an amount representing the minimum bid at which a property may be sold.
- **Warranted:** Amount justified in exchange. The fixing of a warranted price presupposes a prospective exchange of property; that is, of real estate for money. Warranted refers to that which is justified or fair. As the price which is warranted can vary according to whether it is one which a seller should accept, or a buyer should pay, and according to the circumstances of either or both of these parties, there can be no determination of that which is warranted except in connection with definite assumptions as to related matters for with definite limiting conditions. Thus the term warranted price by itself, without a statement of the underlying assumptions or limiting conditions, is not intelligible. A warranted price to the seller in consideration of his peculiar circumstances might be different from a warranted price, which a buyer should pay in view of prospective benefits obtainable through purchase.
- **Reserve Price:** The minimum price at which the owner of a property is prepared to sell that property at auction.

Prime Cost Sum

A sum allowed for and included in the building contract to cover certain items, which are subject to a later selection by the owner. Generally the items include, stove, bath fixtures, tiles and the like.

Public Liability

It is common practice for business people to insure against this liability to others for death, injury or damage accidentally caused by their negligence or by their employees, servants or agent, e.g. excessive polishing of floor, making it so slippery that a customer falls and is injured, may give rise to a claim.

Ratchet Clause

A clause in a lease which operates when a rent review is being carried out and provides that the rent shall not fall below its previous level. This effectively prevents the rent being decreased when a market or CPI review would otherwise decrease it.

Rate

- A sum assessed or made payable by a local authority in respect of the occupation of property in proportion to its value (pro rate, hence 'rate'). The various councils are the rating authorities for their respective areas.
- A percentage of interest paid for money loaned or borrowed.

Real Property

This refers to the interests, benefits and right inherent in the ownership of the physical real estate. It is the bundle of rights with which the ownership of real estate is endowed.

Real Time Pricing

Usually relates to the pricing of listed property trust units on the ASX.

Redevelopment

The development or improvement of cleared or undeveloped land in an urban renewal area. In technical usage, this term includes demolition of existing buildings, erection of buildings and other development and improvement of the land, by private or public redevelopers to whom the land has been made available, but it does not include site or project improvements installed by a local public agency in preparing land for disposition by sale or lease.

Rental

The monetary amount reasonably expectable for the right to the agreed use of real estate. It may be expressed as an amount per week or other period of time; or per room, per square metre, or other unit of property. Usually, it is established by competitive conditions.

Rent

- **Base Rent:** Usually found in shopping centre leases. Refers to a minimum rent payable by a tenant. In addition, overage rent and certain outgoings may also be payable.
- **Contract Rent/Face Rent:** The rent not including any allowance for side deals such as rent-free periods, contributions to fit-out or cash incentives. This is normally the rental quoted in the lease document.
- **Economic:** The reasonable rental expectancy if the property were available for lease.
- **Effective Rent:** The rental arrived at after calculating the amounts allowed for incentives. That is the passing or contract rent, less allowances for incentives.
- **Gross Rent:** The rent reserved by a letting plus any payment to or on behalf of the landlord for which the tenant is made responsible under the letting agreement, irrespective of the purpose for which the payment is subsequently applied, excluding payments made as security deposits.
- **Ground Rent:** The net rent paid for the right of use and occupancy of a parcel of unimproved land; or that portion of the total rental paid that is considered to represent a return upon the land only.
- **Market Rent/Current Market Rent:** The rental that would be applicable at a particular date and for particular premises as may be negotiated between a willing but not anxious landlord and a willing but not anxious tenant assuming vacant possession. It may be expressed as either a gross or net rent.
- **Net Rent:** The gross rental income less the operating expenses and in general terms is the resultant figure to which a capitalization rate is applied to arrive at an indication of the value for an investment property.
- **Overage Rent:** Usually applies to shopping centres where tenants' leases may provide for a base rent plus a percentage of sales (the overage rent) over a nominated sales level (sometimes known as the breakeven point). This level is usually their base rent capitalised at their overage rate. For example, if their base rent is \$70,000 p.a. and their overage rent rate is

5%, then their sales breakeven point before overage rent is payable is \$1.4m ($\$70,000 \times 100 \div 5$).

- **Percentage Rent:** The rental paid by retail tenants based on a percentage of sales. There is no base rent payable and a minimum sales figure does not have to be achieved.
- **Rental Recovery:** The rental designed to recover the costs of running a property that a tenant may occupy in the form of increases in outgoings over a base figure or it may be the entire running costs for a property. It should be noted that recovery of outgoing does not constitute revenue that can be capitalised as it is the recovery of a cost.

Rental Value

A term of specifically limited significance and application; the worth for a stated period of the right to use and occupy property, the rent which a prospective tenant is warranted in paying for a stated period of time, i.e. a month, a year, etc. for the right to use and occupy certain described property under certain prescribed or assumed conditions.

Replacement Cost

A method of appraising property on the basis of producing a reasonable facsimile.

Requisition of Title

A list of questions which a purchaser or mortgagee of real or leasehold property or their solicitor puts in writing to the vendor, or mortgagor or their solicitor, for the purpose of ascertaining any defects in title and obtaining information as to rates, rents, etc. A contract of sale of real property usually provides that requisitions shall be made within a short time after particulars of title are given and the requisitions are made following a search of the certificate of title if land is under the Torrens system, or inspection of the title deeds if it is not. In South Australia the relevant information is provided to the purchaser by the Vendor and Agent on the prescribed forms as required under the Land and Business Agents Act.

Reserve Price

The minimum price at which the owner of a property is prepared to sell the property at auction.

Restrictive Covenant

A covenant on a title restricting the full use of the land. It may be removed by order of the court, or in some cases by consent of the person or persons named in the covenant as having this power. A common example is a covenant not to erect more than one dwelling on the allotment to which the covenant relates. Another typical covenant is that buildings to be erected on the subject land must have brick external walls.

Reversionary Interest

Any right in property the enjoyment of which is deferred, e.g. a reversion or remainder, or analogous interests in personal property.

Rise and Fall Clause

A clause in a contract (normally in building contracts) providing for an adjustment of the contract price upwards or downwards according to movement of prices, wages or other factors specified in the clause.

Sale

A misnomer for sale price.

Scarcity

Value caused by a demand for items, the supply of which cannot be increased. Land and antique furniture are examples.

Sentimental

An emotional relationship between a person (usually the owner) and a property.

Set-off

A claim in a liquidated amount by the defendant to a sum of money as a defence to the whole or part of a money claim made by the plaintiff, which may be included in the defence and set-off against the plaintiff's claim, whether or not it is added as a counterclaim. There can be no set-off against the Crown.

Settlement

- The process of making adjustments in a business transaction, an estate or in a legal dispute. Settlement is reached when the parties themselves come to agreement as to terms – contrast the position when a court decides the matter for the parties.
- In real estate, it is the transfer of title with the resulting financial proportions and adjustments.
- Settlement takes place when a building is erected on unstable ground and part or all of it sinks and/or cracks.

Site Value

Also refer Unimproved Capital Value.

Means the sum which the land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge thereon, might in ordinary circumstances be expected to realise at the time of the valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to require and assuming that the improvement (if any) had not been made. (Definition from Local Government Act, Victoria). The value of the land component in a developed property.

Sound

A term commonly used synonymously with depreciated cost for fire insurance purposes.

Special Value to Owner

The special value which a property gives to the owner. In cases of compulsory acquisition or resumption the valuer is required to assess Special Value as well as the market value of the property.

Square Metre Method

One of the methods of estimating construction, reproduction or replacement costs of a building by multiplying the square metre floor area by an appropriate square metre construction cost figure.

Statutory

A value determined in accordance with the requirements of a statute, law, Act of Parliament. Used for rating or taxing.

Strata Company

See 'Body Corporate'.

Strata Title

A system of land title based on the horizontal and vertical subdivision of air space. In practice, plans of a building are registered, containing internal units marked as to their boundaries, and each allocated a lot number as in a plan of subdivision. This system is used to provide a certificate of title for each unit within a residential, commercial or factory building.

Strategic Plan

A long term concept concerned with the broad urban (or regional) structure, guiding principles and policies; a framework within which effective local planning can take place.

Subjective

The importance which a commodity is considered to possess with reference to the satisfaction of desires felt by an individual. It is also called personal value. The measure of the subjective value of property is the amount which might be paid by a specific person for possession. Usually, this depends upon the amount of benefits expectable, as estimated by the individual, such as net income.

Survey

- The process of ascertaining the quantity and/or location and boundaries of a piece of land; it may include physical features affecting it, such as grades, contours, structures etc. A statement of the courses, distance and quantity of land.
- An inspection or investigation of the condition, amount, etc of something and generally results in an account of this investigation or report.

Tangible

The value assigned to the physical portion of property, such as land, building, machinery, furnishings, merchandise, cash, and other items which are susceptible to the senses.

Taxable

See Value, assessed.

Tenancy Agreement

A document setting out the rights and obligations of both lessor and lessee, the rental and period of tenancy. It is not registered upon the lessors certificate of title. Usually it is used where a lease is not entered into.

Time Sharing

Involves the joint ownership of property where the rights for its use and enjoyment are formally set out.

Title Deeds

The documents are instruments conferring or evidencing the title to land. They pass with the land under a conveyance except deeds relating to the part of the estate retained by the vendor.

Title Search

An investigation of public records to abstract the nature of instruments relating to the status of the title to ownership of a specific piece of real estate. It may include liens, encumbrances, easements, and other conditions affecting the quality of the title of ownership.

Torrens Title

This is a colloquial name given to titles to land constituted by statutes, deriving its name from the late Sir Robert Torrens of South Australia, who was mainly responsible for originating this form of title more than 100 years ago. Actually, he was not the author of the scheme, but was the one who was able to put the scheme into effect. This method of dealing with titles has spread around the world. In essence – Registration of Ownership and dealings in land with a Government Department.

Trend Bond

In DCF calculations if the actual bond yield (rate) applying at time calculation is carried out is thought by the investor to be out of line with its long term position because of unusual trading conditions, then a 'trend' bond yield is estimated in lieu of the actual bond yield.

Unimproved Capital Value (Site Value)

Of land means the capital sum which the land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge thereon might in ordinary circumstances be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to require and assuming that the improvements (if any) had not been made.

Unit

- A Unit on a Registered Plan within the meaning of the Strata Titles Act.
- A stratum estate within the meaning of the Transfer of Land Act.
- A building or part of a building in the exclusive occupation of a person who is entitled to occupation by virtue of being a shareholder in a company which owns the building or a tenant of such a shareholder.
- A unit in a unit trust, which is similar to a share in a company.

Valuation, Before and After Method

This method of valuing a claimant's interest is used frequently, when land has been compulsorily acquired. It involves two separate valuations on the following basis:

- A valuation of the owner's property as it was immediately before the acquisition, but excluding any increase or decrease in its value due to the execution or proposed execution of the public work or purpose; and
- A valuation of the property immediately after the date on which part of that property had been taken.

If the first valuation exceeds the second valuation, the difference between them would be the amount of

compensation payable, which will reflect any diminution in value due to severance and injurious affection or any enhancement due to the works in the value of the remaining property.

Value

- The measure of value is the amount (for example, of money) which the potential purchaser probably will pay for possession of the thing desired.
- The ratio of exchange of one commodity for another. Thus the value of one thing may be expressed in terms of another thing. Money is the denominator by which value is measured.
- It is the power of acquiring commodities in exchange, generally with a comparison of utilities – the utility of the commodity parted with (money) and that of the commodity acquired in the exchange (property).
- Value depends upon the relation of an object to unsatisfied needs; that is, supply and demand.
- Value is the present worth of future benefits arising out of ownership to typical users and investors.

Valuer

One who estimates value. A competent valuer is one who possesses ability to discover, classify, and rate the separate influences which combine to create, sustain or destroy value, and is therefore skilled in the technique of valuation. A real estate valuer has to be qualified and registered under the appropriate statute before they undertake the valuation of real estate property.

Vendor

One who sells anything. In real estate transactions it is the person disposing of the property.

Villa Units

A compromise between a completely detached house on its own block of land and an own-your-own unit in a block of flats. The owner of a villa unit has a separate title to his or her home.

Warranty

A warranty is a term which is not vital to the contract but is of lesser importance, being subsidiary to or collateral with the main purposes of a contract. It should be contrasted with condition, which is a term of a contract absolutely essential thereto and a breach of which gives rise to a right to treat the contract as discharged.

See Price, Liquidation

Years Purchase

The number of years required for the net income from an interest in property to amount (without interest) to a sum equal to the purchase price. The years purchase in any particular instance is determined by dividing 100 by the capitalisation rate.

Note: Years purchase multiplied by net rent equals purchase price.

- That which an investment property will return; the profit or income. The money derived from any business venture. Similar to capitalisation rate.
- To turn over or surrender possession.

Yield

- *Initial Yield:* This yield disclosed by dividing the 'passing' net income (i.e. net income actually being paid at date of purchase) by the purchase price.
- *Market Yield:* This is similar to the initial yield, however, the net income is at current market levels.
- *Equivalent Yield:* Yield which takes into consideration that the net rent will rise or fall at the next rent review.
- *Passing Yield:* Same as 'Initial Yield' but based on rent being paid at date of 'calculation'.
- *Reversionary Yield:* The yield at a future date after rental review have taken place to current market levels.
- *Running Yield:* The yield disclosed by dividing the current income that is expected at some point in time by the purchase price (i.e. a 'projected yield').

- *Terminal/End Yield:* The yield utilised to capitalise the last period of a cash flow when carrying out an IRR or NPV calculation.

Zoning By-Law

A by-law made by a Local Government Authority. It prescribes business or residential areas and prohibits certain buildings and uses in those areas.