

THE ABC's of Multifamily



Absorption Rate

A market-level metric that shows how quickly available apartment units are leased over a defined period. A higher absorption rate generally signals strong renter demand and healthy market fundamentals.

Formula: Number of units leased during a period ÷ Total units available for lease

Access Agreement

A short-term agreement between a seller and a prospective buyer that allows the buyer to enter and inspect units during due diligence. These agreements typically define inspection scope, confidentiality, liability, and insurance requirements.

Accredited Investor

An individual who meets the SEC's financial criteria under Regulation D. This generally includes individuals earning over \$200,000 annually (\$300,000 jointly) for the past two years, or those with a net worth exceeding \$1 million, excluding a primary residence.

Annual Gross Revenue

The total income a property is capable of producing in a year before accounting for vacancies, concessions, or expenses. Often referred to as Gross Potential Income (GPI).

Annual Rate of Return (ARR)

A performance metric that measures the yearly gain or loss on an investment relative to the initial capital invested.

Formula: (Ending value – Beginning value) ÷ Years held

Asset Management

The ongoing oversight of a real estate investment to ensure the business plan is executed effectively. This includes financial monitoring, operational strategy, and risk management, all with the objective of maximizing long-term investor returns.



Bad Debt

Income that was billed but ultimately not collected, most commonly unpaid rent. This is typically reflected in accounts receivable reports and factored into underwriting assumptions.

Basis Points (BPS)

A unit of measurement equal to one-hundredth of one percent (0.01%). Basis points are commonly used to describe changes in interest rates or projected exit cap rates.

Best and Final (B&F)

The final bidding round in a competitive acquisition process. Short-listed buyers submit their strongest pricing and terms, after which the seller selects the winning offer.

Broker

A licensed intermediary representing buyers or sellers in a transaction. Brokers assist with valuation, negotiations, marketing, and closing coordination and are typically compensated through commissions or fees.

Broker's Opinion of Value (BOV)

A valuation estimate prepared by a broker that analyzes the property and local market to support pricing decisions.



Capital Expenditures (CapEx)

Non-recurring expenses used to improve or extend the useful life of a property, such as renovations or major system upgrades. CapEx is separate from routine operating expenses.

Capitalization Rate (Cap Rate)

A valuation metric that expresses a property's net operating income as a percentage of its market value. Lower cap rates generally indicate higher asset valuations.

Formula: $\text{Net Operating Income} \div \text{Market Value}$

Cash-on-Cash Return (CoC)

Measures annual pre-tax cash flow relative to the total cash invested.

Formula: $\text{Annual cash flow} \div \text{Total cash invested}$

Concessions

Incentives are offered to residents, such as free rent or waived fees, to attract or retain tenants. Concessions are often more cost-effective than prolonged vacancies.

Cost Segregation

A tax strategy that accelerates depreciation by identifying building components that can be depreciated over shorter timeframes, increasing early-year tax deductions.



Debt Service Coverage Ratio (DSCR)

Indicates a property's ability to cover its debt obligations using operating income. Lenders typically require a DSCR above 1.25 for multifamily assets.

Formula: $\text{Net Operating Income} \div \text{Annual debt service}$

Depreciation

An accounting method that allocates the cost of a property over its useful life, reducing taxable income while reflecting asset wear and aging.

Due Diligence

A comprehensive review process covering financials, physical condition, legal documentation, and operations prior to acquisition.

E

Earnest Money

A deposit submitted by a buyer to demonstrate serious intent. Earnest money is typically credited toward closing costs and may become non-refundable after contract execution.

Economic Vacancy

The difference between potential rental income and income actually collected, including physical vacancy, concessions, and uncollected rent.

Equity

An investor's ownership value in a property is determined by subtracting liabilities from the total asset value.

Formula: Property value – Outstanding debt

Equity Multiple

Measures total investor returns relative to the initial invested capital.

Formula: Total distributions ÷ Initial investment

Escrow Account

A third-party account used to hold funds during a transaction until contractual conditions are satisfied.

Expense Ratio

Shows how much of a property's income is consumed by operating expenses. Stabilized multifamily assets typically range from 40–50%.

Formula: Total Expenses ÷ Net Rental Income

G

General Partner (GP)

The GP, also known as sponsor or operator, is responsible for executing the investment strategy, managing operations, and making key decisions on behalf of the partnership. They are also often responsible for the liabilities of the partnership.

I

Internal Rate of Return (IRR)

An annualized return metric that accounts for the timing of cash flows and the time value of money. Higher IRRs generally indicate more attractive investments.



Job Multiplier Effect

It refers to the phenomenon where, when a new job is created, additional employment opportunities must be created to support the new positions.

Lease Audit

A detailed review of lease agreements to ensure consistency, compliance, and accuracy across tenant records and legal language.

Lease Trade-Out

The increase in rent achieved when a unit turns over to a new tenant, often used to measure value-add success.

Letter of Intent (LOI)

A non-binding document outlining proposed purchase terms before executing a formal purchase agreement.

Limited Partner (LP)

A passive investor who contributes capital but does not participate in daily operations.

Liquidity

The ease with which an investment can be converted into cash without significant loss of value.

Loss to Lease (LTL)

The revenue gap between market rent and actual rent collected reflects unrealized income potential.

Low-Income Housing Tax Credit (LIHTC)

A federal tax incentive encouraging the development of affordable housing for tenants earning below area median income.



Multifamily Syndication

A pooled investment structure where a sponsor acquires apartment properties using capital from multiple investors.

Net Operating Income (NOI)

Income remaining after operating expenses but before debt service and capital expenditures.

Formula: Net Rental Income – All Operating Expenses

Net Present Value (NPV)

The present value of future cash inflows minus outflows, adjusted for time value of money.

Net Rental Income

Total income collected after accounting for economic vacancy.

Formula: Annual Gross Income – Economic Vacancy

Non-Operating Expenses

Costs unrelated to daily operations, such as debt service and major capital improvements.

Nurture Sequence

A structured communication process used to convert prospects into investors through repeated engagement. It can include email drip campaigns and personal phone calls or texts.

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Offering Memorandum (OM)

A marketing document detailing property specifics, market analysis, and financial projections.

Operating Expenses

Recurring costs required to run the property, including maintenance, utilities, payroll, taxes, and insurance.

Operating Statement

A financial report summarizing income and expenses over a trailing period (T12, T6, or T3).

- T12 – Trailing 12 months of data
- T6 – Trailing 6 months of data
- T3 – Trailing 3 months of data

Other Income

Revenue generated from non-rent sources such as fees, utilities, parking, or amenities.



Personal Financial Statement (PFS)

A snapshot of an individual's assets, liabilities, and net worth at a given point in time.

Physical Occupancy

The percentage of units currently leased, without regard to rental concessions or discounts.

Pro Forma

A forward-looking financial projection based on assumptions about future income and expenses.

Property Management Group (PM)

The team responsible for executing daily operations and maintaining the property according to the owner's strategy.

Purchase and Sale Agreement (PSA)

A legally binding contract detailing the terms and conditions of a property transaction.



Rapid Depreciation

A depreciation approach that front-loads tax deductions during the early years of ownership.

Rent Roll (RR)

A detailed summary of all units, tenants, lease terms, and rental amounts for a property.

Renewal Trade-Out

The rent increase achieved when an existing tenant renews at a higher rate.

Return on Investment (ROI)

A profitability metric comparing gains to the original investment cost.

Formula: $(\text{Value} - \text{Cost}) \div \text{Cost}$



Schedule of Real Estate Owned (SREO)

A document listing all real estate assets owned, including values and associated debt.

Sophisticated Investor

An investor with sufficient knowledge and experience to evaluate risks, as defined under SEC Regulation D.



Terminal Cap Rate

The projected capitalization rate used to estimate property value at exit.

Formula: $\text{NOI at Exit} \div \text{Property Value at Sale}$