



FINANCING NEW MEXICO'S AFFORDABLE HOUSING

DEFINITIONS

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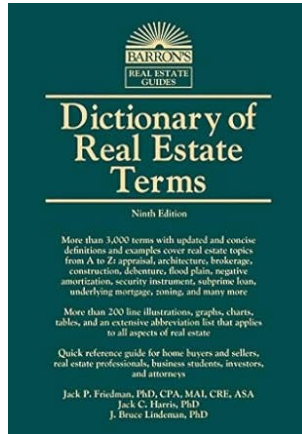


VENTANA FUND
NEW MEXICO



An Overview of Building Wealth in Investment Real Estate

Course Definitions: Dictionary of Real Estate Terms (Ninth Edition)



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Course 1 - **Step 1:** Connecting the Pieces to become an Investor

Affordable Housing- a general term applied to public- and private-sector efforts to help low- moderate-income people purchase homes. Usually, the program offer lower cash down payments, eased loan-qualifying rules, and/or below market interest rates.

Demographics- pertaining to the characteristics of the population, such as race, sex, age, household size, and to population growth and density.

Construction Loans- one that finances subdivisions cost and/or improvements to real estate.

Affordable-no more than 30% of monthly income on housing including utilities

Attainable rents- 120% AMI AREA Median Income

Low Income Rents- 60% median

Exit Strategy

Stabilize Value-the value of a property after it reaches a normal occupancy rate and operating expense

Refinance-Means replace an old loan with a new loan.

Rehabilitate – to restore a structure to a condition of good repair.

Value Add- Strategy making aggressive improvements to existing property.

Course 2 - **Step 2:** The Business of Investments

Annual Property Operating Data- A financial statement that summarizes a rental property's income, and expense over a year.



An Overview of Building Wealth in Investment Real Estate

Comparative (or Competitive) market analysis (CMA) an estimate of the value of property using only a few indicators taken from sales of comparable properties, such as price per square foot. These values estimate, often provided by a broker or salesperson, are not appraisals and do not meet the standards of appraisal as defined by USPAP.

Capitalization Rate - Measures: the yield of the property over one year

Cash on Cash - Measures: the total cash earned on the total cash (equity) invested in a deal

Discount Rate-

1. a compound interest rate used to convert expected future income into present value. See capitalization rate, present value of annuity, present value of one.
2. the rate charged by members of banks who borrow from the Federal Reserve System. Same as rediscount rate.

Effective Tax Rate (With/Without Taxes) - Measures: overall taxes paid by the investor

Gross Rent Multiplier - Measures: How much of a return an investor might make on a specific investment

Internal Rate of Return (IRR) unleveraged - Measures: profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero

Internal Rate of Return (IRR) With/without taxes with leverage Measures: profitability of potential investments. IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero with financing/leverage.

Low Income Housing- housing that is eligible for special tax credits. Strict rules must be followed concerning tenants' qualifications, certificate, and project financing.

Market Rents- the rent that a comparable unit would command if offered in the competitive market.

Net Operating Income (NOI)- income from property or business after operating expenses have been deducted, but before deducting income taxes and financing expenses (interest and principal). Formula $NOI = \text{gross income} - \text{operating expense}$.

Net Present Value: a method of determining whether expected performance of a proposed investment promises to be adequate.



An Overview of Building Wealth in Investment Real Estate

Proforma: A financial statement showing what is expected to occur as opposed to actual results.

Course 3 **Step 3**: Understanding the Loan Process Through the 5 C's of Credit and Securing Funding

Character- This refers to your reputation and track record as a borrower.

Capacity- when trying to determine whether you have the means to pay off the loan, the underwriter will review your employment, income, debt and assets. They'll look at your savings, checking, 401K and IRA accounts, tax returns and other records of income, as well as your debt-to-income ratio.

Capital- 1. sum of money used to purchase long-term assets. 2. stock, bonds, or mortgages that were sold to raise money to purchase assets, as well as retained earnings.

Collateral- property pledged as security for debt. Example: A borrower who arranges a mortgage loan pledge the property as collateral.

Conditions: provision(s) in a contract that some or all terms of the contract will be altered or cease to exist upon a certain event. Condition of items such as location of property, market conditions and overall health and use of funds are all factors in the loan underwriting process.

Threshold Loan (Acquisition Rehab) -In banking, a threshold is defined as a predetermined level or limit that, when reached or exceeded, triggers a specific action, requirement, or consequence.

Construction Loan- one that finances subdivisions cost and/or improvements to real estate.

Type of loans SBA 504 loan , Conduit/CMBS loans , Commercial bridge loans and Soft and hard money loans

Course 4 **Step 4: Business of Investing- Part 1- Speak the Language**

Investment Basics A to Z- Part Two: Know the Numbers (the analysis)



An Overview of Building Wealth in Investment Real Estate

Discount Rate: 1. a compound interest rate used to convert expected future income into present value. 2. the rate charged member banks who borrow from the federal reserve system. Same as the rediscount rate.

GRM (Gross Rent Multiplier) • Measures: How much of a return an investor might make on a specific investment

Proforma- Financial statement showing what is expected to occur, as opposed to actual results.

Internal Rate of Return- Measures: How much of a return an investor might make on a specific investment

NOI- Net Operating Income

Cap Rate- Measures: the yield (return) of the property over one year

NPV - Net Present Value: a method of determining whether expected performance of a proposed investment promises to be adequate. See also internal rate of return, present value of one.

STEP 5 – Property Management

Property Manager

NMUORRA:

47-8-3 Definitions As used in the Uniform Owner-Resident Relations Act [47-8-1 NMSA 1978]:

A. “Abandonment” means absence of the resident from the dwelling, without notice to the owner, in excess of seven continuous days; providing such absence occurs only after rent for the dwelling unit is delinquent;

B. “Action” includes recoupment, counterclaim, set-off, suit in equity and any other proceeding in which rights are determined, including an action for possession;

C. “Amenity” means a facility appurtenance or area supplied by the owner and the absence of which would not materially affect the health and safety of the resident or the habitability of the dwelling unit;



An Overview of Building Wealth in Investment Real Estate

D. “Codes” includes building codes, housing codes, health and safety codes, sanitation codes and any law, ordinance or governmental regulation concerning fitness for habitation or the construction, maintenance, operation, occupancy or use of a dwelling unit;

E. “Deposit” means an amount of currency or instrument delivered to the owner by the resident as a pledge to abide by terms and conditions of the rental agreement;

F. “Dwelling unit” means a structure, mobile home or the part of a structure, including a hotel or motel, that is used as a home, residence or sleeping place by one person who maintains a household or by two or more persons who maintain a common household and includes a parcel of land leased by its owner for use as a site for the parking of a mobile home;

G. “Eviction” means any action initiated by the owner to regain possession of a dwelling unit and use of the premises under terms of the Uniform Owner-Resident Relations Act; H. “Fair rental value” is that value that is comparable to the value established in the market place;

I. “Good faith” means honesty in fact in the conduct of the transaction concerned as evidenced by all surrounding circumstances;

J. “Normal wear and tear” means deterioration that occurs based upon the use for which the rental unit is intended, without negligence, carelessness, accident, abuse or intentional damage of the premises, equipment or chattels of the owner by the residents or by any other person in the dwelling unit or on the premises with the resident’s consent; however, uncleanliness does not constitute normal wear and tear;

K. “Organization” includes a corporation, government, governmental subdivision or agency thereof, business trust, estate, trust, partnership or association, two or more persons having a joint or common interest or any other legal or commercial entity;

L. “Owner” means one or more persons, jointly or severally, in whom is vested: (1) all or part of the legal title to property, but shall not include the limited partner in an association regulated under the Uniform Limited Partnership Act [54-2-1 NMSA 1978]; or (2) all or part of the beneficial ownership and a right to present use and enjoyment of the premises and agents thereof and 8 includes a mortgagee in possession and the lessors, but shall not include a person or persons, jointly or severally, who as owner leases the entire premises to a lessee of vacant land for apartment use.

M. “Person” includes an individual, corporation, entity or organization; N. “Premises” means facilities, facilities and appurtenances, areas and other facilities held out for use of



An Overview of Building Wealth in Investment Real Estate

the resident or whose use is promised to the resident coincidental with occupancy of a dwelling unit;

O. "Rent" means payments in currency or in-kind under terms and conditions of the rental agreement for use of a dwelling unit or premises, to be made to the owner by the resident, but does not include deposits;

P. "Rental agreement" means all agreements between an owner and resident and valid rules and regulations adopted under Section 47-8-23 NMSA 1978 embodying the terms and conditions concerning the use and occupancy of a dwelling unit or premises;

Q. "Resident" means a person entitled under a rental agreement to occupy a dwelling unit in peaceful possession to the exclusion of others and includes the owner of a mobile home renting premises, other than a lot or parcel in a mobile home park, for use as a site for the location of the mobile home;

R. "Roomer" means a person occupying a dwelling unit that lacks a major bathroom or kitchen facility in a structure where one or more major facilities are used in common by occupants of the dwelling units. As referred to in this subsection, "major facility", in the case of a bathroom, means toilet and either a bath or shower and, in the case of a kitchen, means refrigerator, stove or sink;

S. "Single family residence" means a structure maintained and used as a single dwelling unit. Notwithstanding that a dwelling unit shares one or more walls with another dwelling unit, it is a single family residence if it has direct access to a street or thoroughfare and shares neither heating facilities, hot water equipment nor any other essential facility or service with any other dwelling unit;

T. "Substantial violation" means a violation of the rental agreement or rules and regulations by the resident or occurring with the resident's consent that occurs in the dwelling unit, on the premises or within three hundred feet of the premises and that includes the following conduct, which shall be the sole grounds for a substantial violation: (1) Possession, use, sale, distribution or manufacture of a controlled substance, excluding misdemeanor possession and use; unlawful use of a deadly weapon; (2) Unlawful action causing serious physical harm to another person; 9 sexual assault or sexual molestation of another person; entry into the dwelling unit or vehicle of another person without that person's permission and with intent to commit theft or assault; (3) Theft or attempted theft of the property of another person by use or threatened use of force; or (4) Intentional or reckless damage to property in excess of one thousand dollars (\$1,000);



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An Overview of Building Wealth in Investment Real Estate

U. “Term” is the period of occupancy specified in the rental agreement; and;

V. “Transient occupancy” means occupancy of a dwelling unit for which rent is paid on less than a weekly basis or where the resident has not manifested an intent to make the dwelling unit a residence or household

Course 6 **Step 6:** Capstone Course – Apply your knowledge