Glossary

The Glossary section reports some of the most frequently real estate terms used in practice and some terms used in the text with the intended meanings given to them by the Authors. The use of capital letters is not intended to confer importance to the individual terms, the definitions of which may not be strictly "rigorous" from a legal or economic point of view, but only to make the text easier to read and indicate unequivocally certain concepts which are often referred to in the text with the same meaning. The authors certainly have no intention of proposing new definitions! Note, furthermore, that the following list does not include terms with meanings that are widely accepted in the relevant literature and in practice (including yield, cap rate, Net Operating Income, etc.) and the definitions or explanations for which can easily be found within the same text.

Break option An early withdrawal clause which allows the tenant to terminate the lease agreement at certain specific time without incurring into penalties.

Brownfield Property that is currently unusable and which in order to generate some utility (Space for which there is a real demand) requires a Residual Value Method (i.e. replacement or refurbishment of the Building by improving its quality or changing its current use).

Buildable Area See "Buildable Land".

Buildable Land Land which fulfils all the legal and/or economic requirements for buildings to be erected for a purpose that complies with existing legislation authorising their construction and the cost of which can be covered.

Building The structure built on the Land and representing the component of the property that loses its utility over time.

Build-Up Approach A method to estimate Property Return Rates which consists in the identification of the main elements according to which the risk of an investment can be defined, in the research of a tool in order to quantify them and, at the end, in a synthesis of those quantities, applying the necessary weighting factors, in order to obtain a single number representative of the intensity of the risk considered.

CapEx Capital investment expenditures, i.e. investments made to improve and increase usability, and therefore value, of the property, by maximising its capacity to generate income. Unlike extraordinary maintenance, which is intended exclusively to maintain the Building in appropriate physical conditions, CapEx are aimed at increasing its quality.

Commercial Business premises in which Space is a means of production to make other goods and services, where strategic control is often of less value.

Commercial Property See "Commercial".

Commercial Space Space which constitutes a means of production for businesses in a broad sense, both private and public, i.e. which is used in a production process by Users.

Comparable Property see "Comparables".

Comparables Properties that are comparable to the property being valued and that compose the comparative set from which comparative data can be derived. If the Sales Comparison Methods are used, the comparative data, at the property level, are the sale prices of transactions involving properties. If the Income Capitalisation Methods are used, the comparative data, at the property level, are the yield rates of assets recently sold (Investment Market) and the rents (Space Market).

Cost Approach Methods Property Valuation methods based on the cost involved in building a property.

Depreciated Cost Approach Methods See "Cost Approach Methods".

Depreciated Cost Methods See "Cost Approach Methods".

Development Project This is the property production activity which involves acquisition of the area (purchase of raw materials) and construction (production process) in a real industrial Residual Value Method in which the raw materials (Land and Building) are used to obtain a final product (the property, i.e. the space available for use) which will be sold to the end client (direct User or Investor).

Direct Capitalisation Approach Valuation model (within the Income Capitalisation Approach Methods) which allows the expected income for a single period to be converted into an indication of value by means of direct capitalisation.

Direct Comparison Approach Valuation model (within the Sales Comparison Approach Methods), which is based on the values of Comparable Properties recently sold.

Discounted Cash Flow Approach (DCFA) Valuation model (within the Income Capitalisation Approach Methods) which allows all future Cash Flows to be converted into a Present Value, discounting every expected future benefit at an appropriate discount rate.

Effort rate The ratio of the rent (or rent and expenses) on the tenant's turnover. In Trade-Related Properties it is an important measure of the sustainability of the rent paid by the tenant.

Expected Rental Value (ERV) See "Market Rent".

Flexible Commercial Property Property used by businesses for whom the use of a specific property is not key to their decisions regarding Space Use, but in which the opportunity to use a certain amount of space with specific characteristics is important.

Greenfield Land on which no Building has ever been built before.

Gross Buildable Area Total floor area including surface areas that cannot be leased or sold (such as lobby and reception, amenity space, mechanical rooms, etc.).

Gross Surface Area The sum of all the surface areas (covered and uncovered) of a property, divided by purpose and floor, as well as by primary and secondary purpose (lift shafts, corridors, utilities areas, etc.).

Headline rent In lease agreements which foresee free-rent periods or step-up rent formulas, it is the rent amount that will be paid by the tenant "at operating speed".

Highest and Best Use (HBU) Any use of the property that is physically possible (i.e. technically achievable), financially sustainable, legally permitted (or allowed by town planning regulations), economically convenient (which offers the best profitability) and which therefore allows the value itself to be maximised.

Income Capitalisation Approach Methods See "Income Capitalisation Comparison Approach Methods".

Income Capitalisation Methods See "Income Capitalisation Comparison Approach Methods".

Income Capitalisation Comparison Approach Methods Property Valuation methods which allow the value of a property to be expressed based on the future Cash Flows and return required.

Income-producing Property Property already built which typically generates rental income/ cash flow. This may be a property needing to be upgraded or a property completed but not yet leased.

Investment Market The market in which the ownership of the properties is traded between Owners/Investors.

Investment Property Property whose Owner derives utility not from the end-use of the same, but from the income derived from the offer of the Space Use, i.e. the rental income.

Investment Value (or Worth) *"The value of an asset to the owner or a prospective owner for individual investment or operational objectives"* (RICS, 2017).

Investor The Owner of a property who does not use it directly but who, for investment purposes, benefits from income derived from granting Space Use.

Key money The amount of money paid from a new tenant in order to "buy" the lease agreement from the current tenant of a retail unit (it is common practice especially for High Street Retail units). In this way the new tenant will substitute the old one in all its contractual obligations.

Land The area on which the Building stands, including the building rights and the rights associated with its location.

Market Rent "*The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*" (RICS, 2017).

Market Value The estimated amount of money, or equivalent means, for which a property should be sold or purchased, as of the valuation date, by a seller and a buyer with no particular ties and both interested in the sale, on a competitive basis, following an appropriate marketing activity in which both have acted in an informed, conscious and unrestricted way. This amount, with certain limits, must reflect the Highest and Best Use of the asset, i.e. a use which is physically possible, financially sustainable, legally permitted and economically convenient for the ordinary market players.

Multiple Periods Residual Value Approach The Residual Value Method applied using a Discounted Cash Flow Approach and therefore taking into account all future Cash Flows converting them into a Present Value, discounting every expected future benefit.

Net Leasable Area See "Net Lettable Area".

Net Lettable Area The surface area of a property that can be leased to one or more tenants; generally, this excludes the surface area of the entrance hall, atrium, utilities area, lift shaft, etc.

Net Sellable Area The equivalent of the Net Lettable Area, but for Residential Properties developed for sales.

No Buildable Area See "No Buildable Land".

No Buildable Land Land which does not fulfil the legal and/or economic requirements for Building (see "Buildable Land").

Non-Flexible Commercial Property Property used and usable only by a specific User which, either for intrinsic characteristics of the Building, or in view of the absence of demand in a particular real estate market, is unlikely to be used by an alternative User.

Off-plan sale Sale of a property (usually residential units) that needs to be built yet, before the Development has started, in order to reduce the market risk of the developer and generate some positive cash flow.

Over rent A situation when the passing rent is above the ERV, thus increasing the chances that the tenant might leave the property or renegotiate its lease agreement at break options or lease agreement expiry.

Owner The person who owns a property and who receives some utility from it, either through direct use or through the income derived from offering the Space Use (i.e. the rental income). In the latter case he can be defined also as the "landlord".

Passing rent The actual rental amount paid by a tenant for a specific property under the lease agreement.

Property Return Rates Rates which express the amount of return expected by Investors and which are needed for the purpose of applying the Income Capitalisation Methods. In the Direct Capitalisation Approach, where the reference amount is the income, the formula requires the use of a cap rate, a measure of income return. It ideally projects the current income into the future, determining the value of the asset. In the Discounted Cash Flow Approach, where the reference amount is the cash flow, the formula requires the use of a discount rate, a total return. It ideally relates future income flows to the present.

Property Valuation The process of estimating the value of a property. In the broadest sense, the term "valuation" involves a judgement on the equivalence of a property (the one being valued) and an amount of money (unit of measurement), given certain conditions and within a certain period of time. Valuing a property, therefore, means expressing its value in an amount of money.

Rent roll This might refer either to a list of properties belonging to an individual or company, stating the rents owed by and received from each tenant, or to the gross income generated by a rented property. In this book it is considered as the synoptic table which summarises the main details of the existing lease agreements for a particular property.

Residential Property (typically apartments, condominium and single-family homes, etc.) in which the Space is residential and is a consumer good.

Residential Property See "Residential".

Residential Space Space which constitutes a final consumer good for its User, without being used directly to produce other goods or services.

Residual Value Method The process of applying the Income Capitalisation Approach Methods based on the estimated value of the property and the respective costs.

Sales Comparison Approach Methods Property Valuation methods according to which the value of an asset is obtained based on the identified prices of transactions that can be defined as comparable.

Sales Comparison Methods See “Sales Comparison Approach Methods”.

Single Period Residual Value Approach The Residual Value Method applied on a single period process. The sale value of the property that can be built and its construction costs are gathered in a single period, without directly considering the time required for the actual construction and sale of the property.

Space See “Space Use”.

Space Market The market in which the “Space Use” property is traded when there is a separation between Users and Owners/Investors.

Space Use In the sense of the physical use of a property, it is the utility produced by it, which depends on many factors associated with the Building (e.g. size, shape, quality, efficiency) and the location (e.g. centrality, connection, accessibility), in other words, the Land.

Trade-Related Commercial Property Property in which the company’s production activity is directly connected to the Space and consistent with the product/service offered, as in the case of hotels and retail premises.

Trade-Related Property See “Trade-Related Commercial Property”.

Trading Operation Operations in which a property is sold in a short period of time, either as a result of a strategic decision or because market conditions have changed and led to an unexpected Capital Gain.

Under rent A situation when the passing rent is below the ERV.

User The person who benefits from the “Space Use” in exchange for an amount of money (rent). This may be the Owner of the property, in which case the opportunity cost rather than the rent has to be considered, i.e. the cost of renouncing the opportunity to receive an amount of money from a third party.

Weighted Lettable Area The surface area resulting from the application of weighting factors, estimated by the valuer, to the various areas of the Net Lettable Area (such as archives, technical rooms or parking spaces), in order to obtain a single uniform piece of data for each use of the property.

Yield Capitalisation See “Discounted Cash Flow Approach”.