

# The Glossary

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This glossary is always a work in progress. If, in reading this manual or any of the other materials or anywhere else for that matter, you found certain terms difficult or confusing, please email them to us at [info@thecondokit.com](mailto:info@thecondokit.com), and I can include them in future editions, as well as add them immediately to the online version of this glossary, which can be found in the members only section of [www.TheCondoKit.com](http://www.TheCondoKit.com).

Remember that simply knowing the vocabulary and jargon of this—or any—industry gets you a long way toward expert status. Not only does understanding the definitions of terms mean that you have a grasp on the important ideas contained therein, you also will find it easier to sound like an old pro if you use all the right words. Sounding like you know what you're doing is surprisingly effective in helping you get bank loans, secure investors, get lower bids from contractors, pass city inspections, and so on. I know, it shouldn't matter, but it really does. So spend some time reading through this glossary so you can begin using the terms yourself.

## **1031 Tax-Deferred Exchange, a.k.a. 1031**

This is a legal tax loophole or benefit that many real estate investors use to put off paying capital gains taxes on the appreciation of their properties. Some investors manage to legally put off paying these taxes virtually indefinitely. To do a 1031 when selling a property on which a lot of taxes would be owed, an investor must use an intermediary to hold all the proceeds from equity from the sale of a property. Then, the investor has a specific time period within which to identify and purchase a new property or properties of equal or higher value. Think of it as an interest-free loan from the IRS for as long as you continue to own real estate, which, for many investors, means for their entire lives. Investors get very rich doing 1031s.

Many other countries have similar rules and tax laws to the United States, including equivalents to 1031s.

## **Absorption Rate**

This is a figure that calculates how long it will take to sell all the current inventory of properties listed in a particular market, given the current rate of sales. This number is usually given in weeks, as in 22.5 weeks. You'll

want to watch to see if this number goes up or down from month to month (down is good, when you are selling). You'll also need to know this number to see how long it might take to sell all your units. Knowing this is important when you are planning the likely sales timeline of your conversion project.

## **Agency**

The relationship that a real estate broker has with a client he or she represents.

## **Basis, a.k.a. Tax Basis**

This is the price you pay for a property, minus depreciation, plus the costs of any capital improvements made. When you sell an investment property, you owe a capital gains tax on the difference between your basis and your net proceeds from the sale, unless you defer those taxes by rolling them into a new property that you buy with the proceeds of your sale by completing what is known as a 1031 Tax Deferred Exchange, or 1031 for short.

## **Burn Rate**

The amount of money you spend per month on mortgage interest, line of credit interest, utilities, and other monthly non-construction expenses, minus any incomes the property produces. For example, if your mortgage payment (escrowed or not) is \$5000 per month, your utilities cost another \$500 per month, you have a line of credit that you used for a down payment that cost you \$500 per month, and you have \$2000/mo in rent coming in, your burn rate would be \$4000 per month:  $\$5000 + 500 + 500 - 2000 = 4000$ . This is what it costs you every month to keep the project alive. A month delay in construction will eat \$4000 of your profits.

Burn rate is especially important to know if you have a mortgage interest escrow, because that escrow will run out eventually, at which point you will all of a sudden have to come up with a great big mortgage payment every month. If you don't have it, the bank will take the property back through foreclosure. It's important to know your burn rate if you don't have an interest escrow, but at least you won't be caught unaware, since you'll obviously have had to plan for that payment from the beginning.