67+ Key Real Estate Terms You Need to Know

Abstract of Title: The condensed history of a title to a particular parcel of real estate, consisting of a summary of the original grant and all subsequent conveyances and encumbrances affecting the property and a certification by the abstractor that the history is complete and accurate.

Acceleration clause: The clause in a mortgage or deed of trust that can be enforced to make the entire debt due immediately if the borrower defaults on an installment payment or other covenant.

Affidavit of Title: A written statement, made under oath by a seller or grantor of real property and acknowledged by a notary public, in which the grantor: (I) identifies himself or herself and indicates marital status, (2) certifies that since the examination of the title on the date of the contracts no defects have occurred in the title and (3) certifies that he or she is in possession of the property (if applicable).

Agency: The relationship between a principal and an agent wherein the agent is authorized to represent the principal in certain transactions.

Agent: One who acts or has the power to act for another. A fiduciary relationship executes a listing agreement or management contract authorizing a licensed real estate broker to be his or her agent.

Amortized loan: A loan in which the principal, as well as the interest, is payable in monthly or other periodic installments over the term of the loan.

Annual percentage rate (APR): The relationship of the total finance charges associated with a loan. This must be disclosed to borrowers by lenders under the Truth-in-Lending Act.

Appraisal: An estimated value of property; the report that details the value of the property as well as the process used to obtain the estimation.

Appreciation: An increase in the worth or value of a property due to economic or related causes, which may prove to be either temporary or permanent; opposite of depreciation.

Assessment: The imposition of a tax, charge or levy, usually according to established rates.

Assignment: The transfer in writing of interest in a bond, mortgage, lease or other instrument.

Assumption: Acquiring title to property on which there is an existing mortgage and agreeing to be personally liable for the terms and conditions of the mortgage, including payments.

Balloon payment: A final payment of a mortgage loan that is considerably larger than the required periodic payments because the loan amount was not fully amortized.

Beneficiary: (1) The person for whom a trust operates or in whose behalf the income from a trust estate is drawn. (2) A lender in a deed of trust loan transaction.

Blanket loan: A mortgage covering more than one parcel of real estate, providing for each parcel's partial release from the mortgage lien upon repayment of a definite portion of the debt.

Breach of contract: Violation of any terms or conditions in a contract without legal excuse; for example, failure to make a payment when it is due.

Broker: A real estate professional who works as an intermediary for a fee or commission.

Buy down: A financing technique used to reduce the monthly payments for the first few years of a loan. Funds in the form of discount points are given to the lender by the builder or seller to buy down or lower the effective interest rate paid by the buyer, thus reducing the monthly payments for a set time.

Buyer-agency agreement: A principal-agent relationship in which the broker is the agent for the buyer, with fiduciary responsibilities to the buyer. The broker represents the buyer under the law of agency.

Capital gain: Profit earned from the sale of an asset (the difference between what you paid for the property plus improvements and the price for which it was sold).

Capitalization rate: The rate of return a property will produce on the owner's investment.

Cash flow: The net spendable income from an investment determined by deducting all operating and fixed expenses from the gross income: When expenses exceed income, a negative cash flow results.

Caveat emptor: A Latin phrase meaning "Let the buyer beware."

Certificate of Sale: The document generally given to the purchaser at a tax foreclosure sale. A certificate of sale does not convey title; normally it is an instrument certifying that the holder received title to the property after the redemption period passed and that the holder paid the property taxes for that interim period.

Certificate of title: A document that specifies the owner of a piece of property based on research.

Chain of title: The succession of conveyances, from some accepted starting point, whereby the present holder of real property derives title.

Closing statement: A detailed cash accounting of a real estate transaction showing all cash received, all charges and credits made, and all cash paid out in the transaction.

Cloud on title: Any document, claim, unreleased lien or encumbrance that may impair the title to real property or make the title doubtful; usually revealed by a title search and removed by either a quitclaim deed or suit to quiet title.

Commingling: The illegal act by a real estate broker of placing client or customer funds with personal funds. By law, brokers are required to maintain a separate trust or escrow account for other parties' funds held temporarily by the broker.

Commission: Payment to a broker for services rendered, such as in the sale or purchase of real property; usually a percentage of the selling price of the property.

Community property: A system of property ownership based on the theory that each spouse has an equal interest in the property acquired by the efforts of either spouse during marriage. A holdover of Spanish law found predominantly in western states; the system was unknown under English common law.

Comparables: Properties used in an appraisal report that are substantially equivalent to the subject property.

Competitive Market Analysis (CMA): A comparison of the prices of recently sold homes to those similar to a seller's home in terms of location, style and amenities.

Condemnation: A judicial or administrative proceeding to exercise the power of eminent domain, through which a government agency takes private property for public use and compensates the owner.

Conditional-use permit: Written governmental permission allowing a use inconsistent with zoning but necessary for the common good, such as locating an emergency medical facility in a predominantly residential area.

Condominium: The absolute ownership of a unit in a multi-unit building based on a legal description of the airspace the unit actually occupies, plus an undivided interest in the ownership of the common elements, which are owned jointly with the other condominium unit owners.

Conformity: The appraisal principle that holds that the greater the similarity among properties in an area, the better they will hold their value.

Consideration: (1) That received by the grantor in exchange for his or her deed. (2) Something of value that induces a person to enter a contract.

Constructive eviction: Actions of a landlord that so materially disturb or impair a tenant's enjoyment of the leased premises that the tenant is effectively forced to move out and terminate the lease without liability for any further rent.

Constructive Notice: Notice given to the world by recorded documents. All people are charged with knowledge of such documents and their contents, whether or not they have actually examined them. Possession of property is also considered constructive notice that the person in possession has an interest in the property.

Contingency clause: A provision in a contract that requires a certain act to be done or a certain event to occur before the contract becomes binding.

Contract: A legally enforceable promise or set of promises that must be performed and for which, if a breach of the promise occurs, the law provides a remedy. A contract may be either unilateral, by which only one party is bound to act, or bilateral, by which all parties to the instrument are legally bound to act as prescribed.

Conventional loan: A loan that requires no insurance or guarantee.

Conveyance: A term used to refer to any document that transfers title to real property. This term is also used in describing the act of transferring.

Cooperative or co-op: A residential multi-unit building whose title is held by a trust or corporation that is owned by and operated for the benefit of persons living within the building, who are the beneficial owners of the trust or stockholders of the corporation, each possessing a proprietary lease.

Corporation: An entity or organization, created by operation of law, whose rights of doing business are essentially the same as those of an individual. The entity has continuous existence until it is dissolved according to legal procedures.

Counter offer: An offer made in response to an offer received. It effectively rejects the original offer, but allows negotiation to continue.

Covenant: A written agreement between two or more parties in which a party or parties pledge to perform or not perform specified acts with regard to property; usually found in such real estate documents as deeds, mortgages, leases and contracts for deed.

Covenant of quiet enjoyment: The covenant implied by law by which a landlord guarantees that a tenant may take possession of leased premises and that the landlord will not interfere in the tenant's possession or use of the property.

Credit: On a closing statement, an amount entered in a person's favor--either an amount the party has paid or an amount for which the party must be reimbursed.

Debit: On a closing statement, an amount charged; that is, an amount that the debited party must pay.

Decedent: A person who has died.

Dedication: The voluntary transfer of private property by its owner to the public for some public use, such as for streets or schools.

Deed: Legal document with which title to real property is transferred from one owner to another. The deed contains a description of the property, and is signed, witnessed, and delivered to the buyer at closing.

Deed of Trust: A legal document that conveys title to real property to a third party. The third party holds title until the owner of the property has repaid the debt in full.

Deed restriction: Clauses in a deed limiting the future uses of the property. Deed restrictions may impose a vast variety of limitations and conditions, for example, they may limit the density of buildings, dictate the types of structures that can be erected or prevent buildings from being used for specific purposes or even from being used at all.

Default: The nonperformance of a duty, whether arising under a contract or otherwise; failure to meet an obligation when due.

Defeasance clause: A clause used in leases and mortgages that cancels a specified right upon the occurrence of a certain condition, such as cancellation of a mortgage upon repayment of the mortgage loan.

Deficiency judgment: Point levied against the borrower when a foreclosure sale does not produce sufficient funds to pay the mortgage debt in full.

Depreciation: (I) In appraisal, a loss of value in property due to any cause, including physical deterioration, functional obsolescence, and external obsolescence. (2) In real estate investment, an expense deduction for tax purposes taken over the period of ownership of income property.

Developer: One who attempts to put land to its most profitable use through the construction of improvements.

Discount point(s): Points are an up-front fee paid to the lender at the time that you get your loan. Each point equals one percent of your total loan amount. Points and interest rates are inherently connected: In general, the more points you pay, the lower your interest rate. However, the more points you pay, the more cash you need up front since points are paid in cash at closing.

Dual agency: Representing both parties to a transaction. This is unethical unless both parties agree to it, and it is illegal in many states.

Due-on-Sale clause: A provision in the mortgage that states that the entire balance of the note is immediately due and payable if the mortgagor transfers (sells) the property.

Duress: Unlawful constraint or action exercised upon a person whereby the person is forced to perform an act against his or her will. A contract entered into under duress is voidable.

Earnest money: Earnest money is a deposit made by a buyer towards their down payment in evidence of good faith when the purchase agreement is signed. The earnest money becomes part of the down payment if the offer is accepted. If the offer is rejected, the earnest money is given back. Earnest money is forfeited if the buyer pulls out of the deal.

Easement: A right to use the land of another for a specific purpose, such as for a right-of-way or utilities; an incorporeal interest in land.

Eminent domain: The right of a government or municipal quasi-public body to acquire property for public use through a court action called condemnation, in which the court decides that the use is a public use and determines the compensation to be paid to the owner.

Encroachment: A building, or some portion of it—a wall or fence for instance— that extends beyond the land of the owner and illegally intrudes on some land of an adjoining owner, or a street or alley.

Encumbrance: Anything, such as a mortgage, tax, or judgment lien, an easement, a restriction on the use of the land, or an outstanding dower right that may diminish the value or use and enjoyment of a property.

Equal Credit Opportunity Act (ECOA): The federal law that prohibits discrimination in the extension of credit because of race, color, religion, national origin, sex, age or marital status.

Equalization: The raising or lowering of assessed values for tax purposes in a particular county or taxing district to make them equal to assessments in other counties or districts.

Equitable right of redemption: The right of a defaulted property owner to recover the property prior to its sale by paying the appropriate fees and charges.

Equitable title: The interest held by a vendee under a contract for deed or an installment contract; the equitable right to obtain absolute ownership to property when legal title is held in another's name.

Equity: The interest or value that an owner has in property over and above any indebtedness.

Escrow: An escrow agreement is the actual transaction in which a third party acts as the agent for seller and buyer, or for borrower and lender, in handling legal documents and disbursement of funds.

Escrow account: The trust account established by a broker under the provisions of the license law for the purpose of holding funds on behalf of the broker's principal or some other person until the consummation or termination of a transaction.

Escrow instructions: A document that sets forth the duties of the escrow agent, as well as the requirements and obligations of the parties, when a transaction is closed through an escrow.

Estate taxes: Federal taxes on a decedent's real and personal property.

Eviction: A legal process to oust a person from possession of real estate.

Evidence of title: Proof of ownership of property; commonly a certificate of title, an abstract of title with lawyer's opinion, title insurance or a Torrens registration certificate.

Exchange: A transaction in which all or part of the consideration is the transfer of like-kind property (such as real estate for real estate or a 1031 exchange).

Exclusive-agency listing: A listing contract under which the owner appoints a real estate broker as his or her exclusive agent for a designated period of time to sell the property, on the owner's stated terms, for a commission. The owner reserves the right to sell without paying anyone a commission if he or she sells to a prospect who has not been introduced or claimed by the broker.

Exclusive right-to-sell listing: A listing contract under which the owner appoints a real estate broker as his or her exclusive agent for a designated period of time, to sell the property on the owner's stated terms, and agrees to pay the broker a commission when the property is sold, whether by the broker, the owner or another broker.

Executed contract: A contract in which all parties have fulfilled their promises and thus performed the contract.

Execution: The signing and delivery of an instrument.

Executory contract: A contract under which something remains to be done by one or more of the parties.

Express agreement: An oral or written contract in which the parties state the contract's terms and express their intentions in words.

Fair Housing Act: The federal law that prohibits discrimination in housing based on race, color, religion, sex, handicap, familial status and national origin.

Farmer's Home Administration (FHA): An agency of the federal government that provides credit assistance to farmers and other individuals who live in rural areas.

Federal Home Loan Mortgage Corporation (FHLMC): A corporation established to purchase primarily conventional mortgage loans in the secondary mortgage market.

Federal National Mortgage Association (FNMA): *a.k.a. FANNIE MAE*—A quasi-government agency established to purchase any kind of mortgage loans in the secondary mortgage market from the primary lenders.

Federal Reserve System: The country's central banking system, which is responsible for the nation's monetary policy by regulating the supply of money and interest rates.

FHA loan: A loan insured by the Federal Housing Administration and made by an approved lender in accordance with the FHA's regulations.

Fiduciary: A person in whom trust and confidence is placed; a reference to a broker employed under the terms of a listing contract or buyer agency agreement.

Fiduciary relationship: A relationship of trust and confidence, as between trustee and beneficiary, attorney and client or principal and agent.

Financial Institutions Reform Recovery And Enforcement Act (FIRREA): This act restructured the savings and loan association regulatory system; enacted in response to the savings and loan crisis of the 1980s.

Fixture: An item of personal property that has been converted to real property by being permanently affixed to the realty.

Foreclosure: A legal procedure whereby property used as security for a debt is sold to satisfy the debt in the event of default in payment of the mortgage note or default of other terms in the mortgage document. The foreclosure procedure brings the rights of all parties to a conclusion and passes the title in the mortgaged property to either the holder of the mortgage or a third party who may purchase the realty at the foreclosure sale, fee of all encumbrances affecting the property subsequent to the mortgage.

Ginnie Mae - (Government National Mortgage Association): A government-owned corporation within the U.S. Department of Housing and Urban Development (HUD). Created by Congress on September 1, 1968, GNMA performs the same role as Fannie Mae and Freddie Mac in providing funds to lenders for making home loans. The difference is that Ginnie Mae provides funds for government loans like FHA and VA.

Home Equity Loan or HELOC - (Home Equity Line of Credit): A mortgage loan, usually in second position, that allows the borrower to obtain cash drawn against the equity of his home, up to a predetermined amount.

Homeowner's insurance policy A.K.A. Hazard insurance: Insurance coverage that protects in the event of physical damage to a property from fire, wind, vandalism, or other hazards.

Homeowner's warranty: A type of insurance often purchased by home buyers that will cover repairs to certain items, such as heating or air conditioning, should they break down within the coverage period. The buyer often requests the seller to pay for this coverage as a condition of the sale, but either party can pay.

HUD-1 Settlement Statement: A document that provides an itemized listing of the funds that were paid at closing. Items that appear on the statement include real estate commissions; loan fees, points, and initial escrow (impound) amounts. Each type of expense goes on a specific numbered line on the sheet. The totals at the bottom of the HUD-1 statement define the seller's net proceeds and the buyer's net payment at closing. It is called a HUD-1 because the form is printed by the Department of Housing and Urban Development (HUD). The HUD-1 statement is also known as the "closing statement" or "settlement sheet."

Income property: Real estate developed or improved to produce income.

Inflation: An increase in the amount of money or credit available in relation to the amount of goods or services available, which causes an increase in the general price level of goods and services. Over time, inflation reduces the purchasing power of a dollar, making it worth less.

Installment loan: Borrowed money that is repaid in equal payments, known as installments. A furniture loan is often paid for as an installment loan.

Interest: The fee charged for borrowing money.

Interim financing: An in-between or short-term type of financing, such as construction loans.

Intestate: The act of dying without a Will.

Intrinsic value: The underlying value of an object that does not diminish over time.

Investment: An outlay of cash or credit with an expected return.

Joint tenancy: A form of co-ownership that gives each tenant equal interest and equal rights in the property, including the right of survivorship.

Judgment: A decision made by a court of law. In judgments that require the repayment of a debt, the court may place a lien against the debtor's real property as collateral for the judgment's creditor.

Judgment lien: A lien on the property of a debtor resulting from the decree of a court.

Judicial foreclosure: A type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court.

Lease: A written agreement between the property owner and a tenant that stipulates the conditions under which the tenant may possess the real estate for a specified period of time and rent.

Lease Option: A lease under which the tenant has the right to purchase the property either during the lease term or at its end.

Lease Purchase: The purchase of real property, the consummation of which is preceded by a lease, usually long term, typically done for tax or financing purposes.

Legal description: A description of a specific parcel of real estate that is complete enough for an independent surveyor to locate and identify it.

Lien: A right given by law to certain creditors to have their debts paid out of the property of a defaulting debtor, usually by means of a court sale.

Listing broker: The broker in a multiple-listing situation from whose office a listing agreement is initiated, as opposed to the cooperating broker, from whose office negotiations leading up to a sale are initiated. The listing broker and the cooperating broker may be the same person.

Loan origination fee: A fee charged to the borrower by the lender for making a mortgage loan. The fee is usually computed as a percentage of the loan amount.

Loan-to-value ratio: The relationship between the amount of the mortgage loan and the value of the real estate being pledged as collateral.

Market value: The most probable price property would bring in an arm's-length transaction under normal conditions on the open market.

Mortgage: A conditional transfer or pledge of real estate as security for the payment of a debt. Also, the document creating a mortgage lien.

Mortgage broker: An agent of a lender who brings the lender and borrower together. The broker receives a fee for this service.

Mortgagee: A lender in a mortgage loan transaction.

Mortgage lien: A lien or charge on the property of a mortgagor that secures the underlying debt obligations.

Multiple-listing service (MLS): A marketing organization composed of member brokers who agree to share their listing agreements with one another in the hope of procuring ready, willing and able buyers for their properties more quickly than they could on their own. Most multiple-listing services accept exclusive right-to-sell or exclusive agency listings from their member brokers.

Option: An agreement to keep open for a set period an offer to sell or purchase property.

Option listing: Listing with a provision that gives the listing broker the right to purchase the listed property.

Parole evidence rule: A rule of evidence providing that a written agreement is the final expression of the agreement of the parties, not to be varied or contradicted by prior or contemporaneous oral or written negotiations.

Participation Mortgage: A mortgage loan wherein the lender has a partial equity interest in the property or receives a portion of the income from the property.

Partnership: An association of two or more individuals who carry on a continuing business for profit as co-owners. Under the law a partnership is regarded as a group of individuals rather than as a single entity. A *general partnership* is a typical form of joint venture in which each general partner shares in the administration, profits and losses of the operation.

A ***limited partnership*** is a business arrangement whereby the operation is administered by one or more general partners and funded, by and large, by limited or silent partners, who are by law responsible for losses only to the extent of their investments.

Payment cap: The limit on the amount the monthly payment can be increased on an adjustable-rate mortgage when the interest rate is adjusted.

Prepaid items: On a closing statement, items that have been paid in advance by the seller, such as insurance premiums and some real estate taxes, for which he or she must be reimbursed by the buyer.

Prepayment penalty: A charge imposed on a borrower who pays off the loan principal early. This penalty compensates the lender for interest and other charges that would otherwise be lost.

Principal: (I) A sum loaned or employed as a fund or an investment, as distinguished from its income or profits. (2) The original amount (as in a loan) of the total due and payable at a certain date. (3) A main party to a transaction—the person for whom the agent works.

Private Mortgage Insurance (PMI): Insurance provided by a private carrier that protects a lender against a loss in the event of a foreclosure and deficiency.

Probate: A legal process by which a court determines who will inherit a decedent's property and what the estate's assets are.

Promissory note: A financing instrument that states the terms of the underlying obligation, is signed by its maker, and is negotiable (transferable to a third party).

Quitclaim Deed: A conveyance by which the grantor transfers whatever interest he or she has in the real estate, without warranties or obligations.

Recording: The act of entering or recording documents affecting or conveying interests in real estate in the recorder's office established in each county. Until it is recorded, a deed or mortgage ordinarily is not effective against subsequent purchasers or mortgagees.

Rent: A fixed, periodic payment made by a tenant of a property to the owner for possession and use, usually by prior agreement of the parties.

Rent schedule: A statement of proposed rental rates, determined by the owner or the property manager or both, based on a building's estimated expenses, market supply and demand and the owner's long-range goals for the property.

Right of first refusal: Clause in a lease which gives the lessee (tenant) the right to purchase the rented property if during the term of the lease the lessor (landlord) receives an offer to purchase from a buyer. Usually the lessee must purchase on the terms and conditions of the buyer's offer.

Security deposit: A payment by a tenant, held by the landlord during the lease term and kept (wholly or partially) on default or destruction of the premises by the tenant.

Subletting: The leasing of premises by a lessee to a third party for part of the lessee's remaining term.

Survey: The process by which boundaries are measured and land areas are determined; the onsite measurement of lot lines, dimensions and position of a house on a lot, including the determination of any existing encroachments or easements.

Tax Deed: The instrument of conveyance when a property is sold by a government body to pay for arrears of taxes.

Tax lien: A claim registered against a property by a government authority for non-payment of assessed taxes.

Tax sale: Sale of property by a government body for non-payment of taxes, either by tender or auction.

Title: (1) The right to or ownership of land. (2) The evidence of ownership of land.

Title insurance: A policy insuring the owner or mortgagee against loss by reason of defects in the title to a parcel of real estate, other than encumbrances, defects and matters specifically excluded by the policy.

Title search: The examination of public records relating to real estate to determine the current state of the ownership.

Trust Deed: An instrument used to create a mortgage lien by which the borrower conveys title to a trustee, who holds it as security for the benefit of the note holder (the lender); also called a deed of trust.

Trust Deed lien: A lien on the property of a trustor that secures a deed of trust.

Trustee: The holder of bare legal title in a deed of trust loan transaction.

Trustee's Deed: A deed executed by a trustee conveying land held in trust.

Variance: An indulgence granted by a local zoning commission or authority to allow a nonconforming use of a property to continue.

Voidable contract: A contract that may be treated as legally unenforceable at the option of a party (usually the injured party) but remains enforceable until that party exercises her option.

Wraparound loan: A secondary financing option in which new money borrowed is blended with money already owed and registered on title to the property. A second mortgage is registered as security for the new money but the old mortgage remains in existence and the rate of interest is a blend of the rate chargeable on the old mortgage and the rate chargeable on the newly borrowed money.

Zoning ordinance: A set of rules passed by local government which regulates the use of property according to its location within the municipality, placement of structures on the property, maximum floor area, minimum lot area, minimum floor-to-lot area ratios, etc.