

Key Terms and Definitions Guide for the Real Estate Exam

Essential Vocabulary to Know for Success

This **Key Terms and Definitions Guide** will help you prepare for the real estate exam by providing the most common terms and their definitions that you'll encounter during your studies and on the test. Understanding these terms is vital to your success in the real estate field.

A

- **Acceleration Clause:** A provision in a loan agreement allowing the lender to demand full repayment of the loan if the borrower defaults.
- **Adjustable-Rate Mortgage (ARM):** A mortgage with an interest rate that changes periodically based on an index.
- **Adverse Possession:** A legal doctrine allowing a person to claim ownership of land under certain conditions, such as continuous use without permission for a specific time.

B

- **Balloon Payment:** A large payment due at the end of a loan term after smaller periodic payments.
- **Broker:** A licensed individual who represents clients in real estate transactions, typically managing a real estate office.
- **Buyers Market:** A real estate market condition where there are more properties for sale than buyers, leading to lower prices.

C

- **Cap Rate (Capitalization Rate):** A measure used to assess the potential return on an investment property, calculated as the Net Operating Income (NOI) divided by the property's market value.
- **Closing Costs:** Fees and expenses that both the buyer and seller incur when finalizing a real estate transaction.
- **Comparative Market Analysis (CMA):** A tool used by real estate agents to estimate a property's market value based on recent sales of similar properties in the area.

D

- **Deed:** A legal document that transfers property ownership from one party to another.
- **Depreciation:** The reduction in the value of property over time due to wear and tear or obsolescence.
- **Down Payment:** The portion of the purchase price of a property paid upfront by the buyer, usually expressed as a percentage of the sale price.

E

- **Easement:** A legal right to use another person's property for a specific purpose, such as access or utility installation.
- **Equity:** The difference between the market value of a property and the amount owed on any liens or mortgages against it.
- **Escrow:** A neutral third-party account that holds funds or documents during a transaction to ensure that all conditions are met before closing.

F

- **Fair Housing Act:** A federal law that prohibits discrimination in housing based on race, color, religion, sex, familial status, or national origin.
- **FHA Loan:** A loan insured by the Federal Housing Administration that allows lower down payments for borrowers.
- **Foreclosure:** The process by which a lender takes ownership of a property due to the borrower's failure to make payments.

G

- **Gross Income:** Total income from all sources before taxes and expenses are deducted.
- **Gross Rent Multiplier (GRM):** A method used to estimate the value of income-producing properties based on the property's rental income.
- **Government-Sponsored Enterprises (GSEs):** Entities such as Fannie Mae and Freddie Mac that provide liquidity to the housing market by buying and selling mortgages.

H

- **Homeowners Association (HOA):** An organization that enforces rules and regulations for properties within a particular community or subdivision.
- **Housing Affordability Index:** A measure of the ability of a typical family to afford the typical home in a given area.

I

- **Interest Rate:** The percentage charged on a loan for borrowing money, expressed as an annual percentage of the loan balance.
- **Investment Property:** Property purchased with the intention of generating income, either through rental income or resale.
- **Inspection:** A thorough examination of a property to identify potential issues or needed repairs, usually done by a licensed inspector before a sale.

L

- **Lien:** A legal claim against a property for the payment of a debt or obligation.
- **Loan-to-Value Ratio (LTV):** The ratio of a loan amount to the appraised value or purchase price of a property, whichever is lower.
- **Listing Agreement:** A contract between a property owner and a real estate agent granting the agent the right to sell the property.

M

- **Mortgage:** A loan used to purchase real estate, secured by the property itself.
- **Market Value:** The price a property is expected to sell for in the open market, based on recent sales of similar properties.
- **Multiple Listing Service (MLS):** A database used by real estate professionals to share property listings and find potential buyers.

P

- **Pre-Approval:** A process in which a lender evaluates a borrower's financial information to determine the amount they are willing to lend.
- **Principal:** The original amount of money borrowed in a loan, excluding interest.
- **Probate:** The legal process of administering a deceased person's estate, including distributing assets and paying debts.

R

- **Real Estate Investment Trust (REIT):** A company that owns, operates, or finances income-producing real estate, allowing investors to pool their money to invest in real estate.
- **Real Property:** Land and anything permanently attached to it, such as buildings and improvements.
- **Rent Control:** Laws or regulations that limit the amount a landlord can charge for rent and restrict rent increases.

S

- **Seller's Market:** A market where demand for properties exceeds supply, leading to higher prices.
- **Security Deposit:** A sum of money paid by a tenant to a landlord as protection against damage or unpaid rent.
- **Square Footage:** The measurement of the area of a building or lot, calculated by multiplying length by width.

T

- **Title:** The legal right to ownership of a property.
- **Tenant:** A person who rents or leases property from a landlord.
- **Triple Net Lease (NNN):** A lease agreement where the tenant is responsible for paying all property expenses, including taxes, insurance, and maintenance.

U

- **Underwriting:** The process by which a lender evaluates a borrower's risk and determines whether to approve a loan application.
- **Usury:** The illegal practice of charging excessively high-interest rates on loans.

V

- **Vacancy Rate:** The percentage of available rental units or properties that are unoccupied in a given market.
- **Value Appreciation:** The increase in the value of a property over time due to market conditions or improvements.

Study Tips for Key Terms

- **Flashcards:** Create flashcards with the term on one side and the definition on the other for easy review.
- **Use Terms in Context:** Try to use the terms in sentences related to real estate transactions to reinforce their meanings.
- **Practice Quizzes:** Test your knowledge by taking online quizzes or practice exams to check your understanding of the terms.

This Key Terms and Definitions Guide is essential for your real estate exam preparation. Keep it handy, and review it often to ensure you are well-versed in the vocabulary that will appear on the test.

