

# **MAIN STREET DEVELOPMENT KEY TERMINOLOGY USED IN COMMUNITY ECONOMIC DEVELOPMENT**

**Absorption Rate:** The frequency at which real estate is sold or leased in the marketplace.

**Abstract of Title:** A synopsis of the history of a title, indicating all changes in ownership including items, mortgages, charges, encumbrances, encroachments or any other matter that might affect the title.

**Acceleration Clause:** A stipulation in a mortgage agreement that allows one lender to demand full payment of the loan immediately if any scheduled payment is not made by a given time.

**Accrued Interest:** The interest that has been earned, but not paid.

**Acquisition Loan:** The Money borrowed for the purpose of purchasing a property.

**Adaptive Use:** The reuse of a building for a purpose different than its original use. Adaptive reuse may involve structural or design changes that facilitate the new use while preserving the building's character-defining historic materials and appearance.

**Affordable Housing:** A commonly accepted guideline for determining affordability is a housing cost that does not exceed 30% of a household's gross income. Housing costs considered in this guideline generally include taxes and insurance for owners, and usually include utility costs for renters or owners. When the monthly carrying costs of a home exceed 30–35% of household income, then the housing is considered unaffordable for that household.

**Alteration:** Any change or modification to a designated or contributing structure, including such actions as changing the exterior paint color, removing character-defining features and making building additions.

**Amortization:** a) The schedule by which a borrower reduces a debt gradually through monthly payments of principal and interest.; b) Also refers to the accounting process by which a taxpayer can deduct the cost of intangible assets like franchise agreements, copyright patents, goodwill, permanent loan fees, etc.

**Annual Percentage Rate (APR):** The annual cost off credit over the life of a loan, including interest, service charges, points, loan fees, mortgage insurance, and other items.

**Appraisal:** Report required by lenders and regulators, giving an estimate or opinion of values of real property based on analysis of pertinent market data by a qualified appraiser.

**Appreciation:** The increase in the value of a property.

**Assessed Property Value:** The value of a property as determined by the assessor for the municipality, which is used in determining annual property taxes. Assessed value and fair market value are not necessarily the same thing.

**Asset Mapping:** The process of identifying the human, material, financial, entrepreneurial and other resources available in a community and using those assets as the foundation for new, improved and/or additional programming and services.

**Balloon:** A loan which has a series of monthly payments (usually for 5 years or less) with the remaining balance due in a large lump sum payment at the end. The term of the loan is shorter than the amortization schedule.

**Baseline:** Used to document and measure progress (where are we today, how do we compare with others, and what would we like to look like in 3, 5, and 10 years?).

**Break-Even Point, Business:** The point at which revenues equal expenses.

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**Break-Even Point, Real Estate:** The measure of a project's risk cushion. It is calculated by dividing the expenses and debt service of the project by the gross rent. The break-even point indicates the percentage of occupancy required in order to meet fixed obligations.

**Bridge Financing:** Interim financing provided to a company or project that is to be taken out by another loan, typically a long-term or permanent loan.

**Building Codes:** State or locally adopted regulations, enforceable by police powers, that control the design, construction, repair, quality of building materials, use and occupancy of any structure under its jurisdiction.

**Business Environment:** what are the sources of the business-generated revenue and jobs in the defined geographical area (community)?

**Buy-down:** A subsidy (usually paid by a builder or developer) to reduce the monthly payments on a mortgage loan.

**Cap:** A limit to the amount an interest rate or a monthly payment can increase for an adjustable rate loan either during an adjustment period or over the life of the loan.

**Cash Flow:** The income remaining after all expenses and debt service has been paid.

**Catalyst Project:** A project whose undertaking provokes, causes or accelerates change or actions.

**Certificate of Occupancy:** A document from an official agency stating that the property meets the requirements of local codes, ordinances, and regulations.

**Certified Development Entity (CDE):** An entity treated as a domestic corporation or partnership for federal income tax purposes that: (a) has been certified by the Community Development Financial Institutions Fund (CDFI Fund) of the US Department of Treasury; (b) has a primary mission of serving or providing investment capital for low-income communities or low-income persons; and (c) maintains accountability to the residents of low-income communities through their representation on any governing board of the entity or any advisory board to the entity. The CDFI Fund certifies CDEs on an ongoing basis, and allocates New Markets Tax Credit Allocations annually to select CDEs through a competitive application process.

**Character-Defining Features:** Character refers to the visual aspects and physical features that make up a building's appearance. Character-defining features include the overall shape of the building (including its roof, cupolas), recesses (galleries, arcades), openings (especially windows and doorways), projections (porches, balconies, bay windows, etc.), construction materials, craftsmanship, and architectural and decorative details, as well as the site and environment.

**Closing Costs:** Expenses over and above the price of the property (legal fees, title and recording fees, etc.) that must be paid before title is transferred. Also known as settlement costs.

**Collateral:** A tangible asset like land, building, inventory, machinery and equipment, etc., offered as security on a loan. Typically the value of the collateral is greater than the amount borrowed.

**Commitment:** A lender's written commitment to a borrower that it will loan a certain amount of money at a particular rate of interest, contingent upon specific conditions being met by the borrower.

**Community Development Financial Institutions (CDFI):** Financial intermediaries that have community development as their primary mission and that develop a range of financial products and development services. CDFIs ensure credit and financial services to low- and moderate-income neighborhoods.

**Community Development Corporation/Organization (CDC):** A nonprofit organization that addresses community and neighborhood issues, which can include housing development, economic development and community organizing.

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**Community Reinvestment Act (CRA):** Passed in 1977, it requires commercial banks and thrifts to have a continuing and affirmative obligation to help meet the credit needs and engage in non-discriminatory financial services and practices in the local communities which they serve, especially in low- and moderate-income neighborhoods. CRA requires regulatory agencies to evaluate the financial institutions' records of meeting the credit needs of their designated community, consistent with the safe and sound operation of the institution.

**Community Vitality Center (CVC):** A Regents' approved Center with a Board representing diverse community interests, agencies, and education entities from across the state of Iowa. CVC serves as a catalyst in conducting research, demonstration, and collaboration projects designed to examine innovative strategies for enhancing the vitality of communities and rural areas in Iowa.

**Construction Loan:** A loan, usually short term, which is made to finance the actual construction or renovation of improvements. The funds are disbursed as needed or in accordance with a prearranged plan, and the money is repaid upon completion of the project, usually from the proceeds of a permanent mortgage.

**Credit Rating:** A report ordered by a lender from a credit bureau to determine if the borrower is a good credit risk.

**Davis Bacon Requirements:** The federal law that establishes minimum wages per hour by trade, by product type and by location of the project. Construction workers on federally funded projects must pay wages at or above the Davis Bacon minimums.

**Debt Service:** Regular payments of the principal and interest of the loan.

**Debt Coverage:** The ratio of estimated project net operating income to debt service. This ratio is used by lenders to determine the amount of funds it should lend to a project.

**Default:** A breach of a contract (such as not making monthly payments).

**Density:** Number of dwellings and commercial units per acre of land. Allowable densities are usually determined by local jurisdictions.

**Designation:** Listing of a building, structure, district, site or object on a local, state or national register.

**Developer Fee:** Fees earned by a developer of a real estate project for construction and development activities, including conceptualizing the project, obtaining approvals, and financing and managing the construction process. The developer's fee usually ranges between six and 15 percent of the hard costs of the development budget.

**Distressed Property:** A property that is in poor physical or financial condition.

**Easement:** A right-of-way granted to a person or company authorizing access to the owner's land. An owner may voluntarily grant an easement, or in some cases, be compelled to grant one by a local jurisdiction. Water, sewage and utility suppliers frequently hold an easement across private property.

**Economic Development:** The efforts undertaken to improve the economic well-being and quality of life for a community by creating and/or retaining jobs and supporting or growing incomes and the tax base.

**Eminent Domain:** The right by which a government, upon payment of reasonable compensation, may acquire private property for public use.

**Environmental Assessment:** Official report required by lenders which evaluates a piece of property to determine whether the site may have been contaminated by hazardous wastes. Usually only a Phase One report is performed, but additional phases may be required if Phase One uncovers evidence that possible environmental problems might exist.

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**EPA Brownfield:** Abandoned or under-used industrial and commercial land or facilities whose redevelopment may be complicated by the presence of low concentrations of hazardous waste or pollution. The land has the potential to be reused once it is cleaned up.

**Equity:** The value an owner has in a piece of property exclusive of its mortgage and other liens.

**Escrow:** The handling of funds or documents by a third party on behalf of the buyer and/or seller.

**Facade Improvement:** An upgrade of a commercial building exterior. Local facade improvement programs may be part of a broader commercial revitalization strategy, as improvements to commercial buildings can directly improve and benefit the business district, both visually and economically.

**Federal Home Loan Bank Board:** The 12 regional Federal Home Loan Bank Boards assist member banks and savings and loans by providing wholesale credit, correspondent services and assistance with CRS initiatives. Program for affordable housing include the Affordable Housing Program (AHP) and the Community Investment Program (CIP).

**Fixed-price Contract:** A type of contract where the price is preset and invariable, regardless of the actual costs of production. In construction, a contract between the developer and the general contractor where the contractor agrees to complete the project for its final bid.

**Forgivable Loan:** A loan with no repayment obligation if program requirements are met for a specific time period. Usually only provided by public sector programs.

**Gentrification:** The process whereby dilapidated neighborhoods are restored and refurbished, usually in conjunction with changing demographics and an influx of wealthier residents. Attempts to control gentrification include rent control, affordable housing and inclusionary zoning.

**Geographic Information System (GIS):** Integrates hardware, software and data for capturing, managing, analyzing, and displaying all forms of geographically referenced information. Using GIS allows us to view, interpret and visualize data in ways that reveal relationships, patterns and trends.

**Ground Lease:** The public agency that owns the underlying ground and leases it to a developer on favorable terms.

**Hazard Insurance:** Protection against damage caused by fire, windstorm, or other common hazards. Many lenders require borrowers to carry it in an amount at least equal to the mortgage.

**Highest and Best Use:** That use of real property which will produce the highest property value and develop a site to its fullest economic potential.

**Historic District:** A geographically definable area with a concentration of buildings, structure, sites or objects unified by past events, physical development, design, setting materials, workmanship, sense of cohesiveness, or related historical and aesthetic associations. A district's significance may be recognized through listing in a local, state or national historic register.

**Historic Integrity:** The ability of a property or district to convey its historic significance through certain features and qualities, including location, design, architectural style (e.g. Victorian, Gothic, Art Deco) setting (including set back, side yards etc.), materials, workmanship, feelings and associations. (See also "Character-defining features")

**Historic Landmark:** A building or district that has been designated under a local ordinance or other law as being worthy of preservation because of its historic, architectural, archaeological or cultural significance.

**Historic Resource:** A building, structure, district, site, object, monument or document that is historically, architecturally, culturally, or archaeologically significant.

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**Historic Rehabilitation Tax Credit:** A federal or state income tax credit for rehabilitation of eligible income producing property.

**Housing Stock & Grid:** What does it currently consist of and how is it laid out?

**Human capital plan:** A plan to change/improve the lives of vulnerable and/or impacted residents (systems and programs in place, new systems to be created, when and by whom)

**Imminently Dangerous Building:** Term used by Philadelphia's Neighborhood Transformation Initiative in making demolition decisions. General criteria used by the Department of Licenses and Inspections is whether the building has extensive damage to or bowing of its exterior walls, severely damaged roof, unsecured utility lines and other conditions that could cause a full or partial collapse of the structure.

**Infrastructure:** The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems

**Interest:** The cost paid to a lender for the use of borrowed money.

**Iowa Foundation for Microenterprise and Community Vitality (IFMCV):** A statewide microloan intermediary that operates the Iowa MicroLoan Program to support small entrepreneurs who are beyond risk acceptability for conventional financing. IFMCV is a 501(c) 3 tax exempt nonprofit charitable foundation. IFMCV's mission is to operate model programs for microfinance and enhancing community vitality, particularly that enhance opportunities for low income and underserved populations.

**Iowa Historic Preservation Alliance (IHPA):** IHPA (also known as Preservation Iowa) builds partnerships that enhance our economic and cultural future through the preservation of Iowa's historic resources. IHPA is the coordinating entity for the Main Street Development program.

**Iowa MicroLoan:** A statewide loan and technical assistance program for small entrepreneurs who have sound business plans but have been denied credit from more conventional lenders. The program is operated by Iowa Foundation for Microenterprise and Community Vitality (IFMCV).

**Land Bank:** Accumulation or stockpiling of vacant land for future use not yet determined.

**Land Use:** How the land currently is being utilized, what are its highest and best uses.

**Line of Credit:** An arrangement in which a bank or vendor extends a specified amount of unsecured credit to a borrower for a specified period of time.

**Low-Income Housing Tax Credit:** Federal income tax credit for owners of rental housing that has rents affordable to families with incomes under 60 percent of median income. Owners invest equity in the property in return for tax credits reducing their tax liability.

**Main Street Iowa (MSI):** The mission of the Main Street Iowa Program is to improve the social and economic well-being of Iowa's communities by assisting selected communities to capitalize on the unique identity, assets and character of their historic commercial district. Main Street is economic development within the context of historic preservation.

**Mixed-use:** More than one type of use in a building or set of buildings. This can mean some combination of residential, commercial, industrial, office, institutional or other land uses.

**Mothballing:** To close up a building temporarily (1-10 years) to protect it from the weather and vandalism; generally considered when a productive use for a historic building and/or funds for rehabilitation cannot be found. Mothballing requires initial stabilization of the exterior (see "Stabilization"), some security protection, some form of interior ventilation, secure/modify utilities and mechanical systems, and continued limited monitoring.

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**National Main Street Center:** The National Main Street Center has been working with communities across the nation since 1980 to revitalize their historic or traditional commercial areas.

**Net Lease:** Lease in which all or some of the operating expenses are paid directly by the tenant. In a *Triple Net Lease* all operating expenses are the responsibility of the tenant, including property taxes, insurance, interior maintenance and other miscellaneous expenses. (However, management fees and exterior maintenance are usually the responsibility of the lessor in a triple net lease.)

**New Market Tax Credits:** Created in 2000, the New Markets Tax Credit Program permits taxpayers to claim a credit against Federal income taxes for Qualified Equity Investments (QEIs) made to acquire stock or a capital interest in designated Community Development Entities (CDEs). The CDE in turn will make loans and capital investments in businesses in underserved areas. By making an investment in a CDE, the investor can receive a tax credit worth 39 percent (30 percent net present value) of the initial investment, distributed over 7 years, along with any anticipated return on their investment in the CDE.

**New Urbanism:** A set of development principles to create more human-scaled places intended to increase accessibility and decrease reliance on the automobile as the primary mode of travel.

**Obsolescence:** Lessening of value due to being out of date as a result of changes in design and use in an element of depreciation. Physical obsolescence is a condition of deferred maintenance; functional obsolescence is a condition of obsolete design or use; and, economic obsolescence is the state of property that cannot generate enough income to offset operating expenses.

**Operating Expenses:** All costs incurred in keeping a property in usable and rentable condition. Typical expenses include maintenance, insurance, taxes and management.

**Origination Fee:** A charge by the lender for providing the loan.

**Pattern Books:** Identify, codify and scales the various building styles and then illustrates key components such as the shape of windows and doors, roof pitches, eave details and types of porches that are appropriate for that style. The purpose of Pattern Books is to encourage quality development that is aesthetically pleasing and enhances the architectural quality unique to an area, and to assist homeowners, builders, and communities as they repair, rebuild and expand their houses and neighborhoods.

**Permanent Loan:** A long-term loan, usually with a term between 10 and 40 years, the proceeds of which are used to repay a construction loan.

**Place-based:** A project rooted in the local architecture, landscape, people, traditions and stories unique to that locality.

**Place-making:** Local efforts involving city government, the business community, residents and other stakeholders to identify and revitalize underutilized public spaces. The process upgrades existing public spaces through small-scale, short-term projects such as traffic calming, pedestrian improvements and street furniture.

**Point:** A charge of one percent of the loan amount. Points are a one-time charge assessed by the lender at closing to increase the interest yield on a mortgage loan.

**Predevelopment Financing:** Funding to cover the up-front costs of a project – architectural, engineering, legal and environmental services – that are incurred before the construction funds are available to the developer.

**Pre-leasing:** Leases solicited prior to the beginning of construction in order to obtain a construction loan commitment. Pre-leasing is required by a lender on commercial projects to ensure adequate cash flow to repay the debt.

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**Prepayment:** Payment of all or part of a debt prior to its maturity.

**Preservation:** According to the Secretary of the Interior's Standards for the Treatment of Historic Properties (1995) there are four distinct, but interrelated, approaches to the treatment of historic properties. "Preservation" focuses on the maintenance and repair of existing historic materials and retention of a property's form as it has evolved over time. ("Protection" and "Stabilization" have now been consolidated under this treatment.)

**Preservation Iowa (PI):** Formerly Iowa Historic Preservation Alliance (IHPA), Preservation Iowa builds partnerships that enhance our economic and cultural future through the preservation of Iowa's historic resources. IHPA is the coordinating entity for the Main Street Development program.

**Prime Rate:** The lowest rate charged by banks or commercial lenders on short-term loans to their best qualified customers.

**Principal:** The amount borrowed in a loan, excluding interest and other charges.

**Property Survey:** A survey to determine the boundaries of your property. The cost will depend on the complexity of the survey.

**Public Improvements:** Streets, roads, bridges, sidewalks, curbs and alleys.

**Rate of Return:** Measure of the profitability of a project, usually calculated on an annual basis. Determined by dividing the income earned by the amount of owners' investment (equity) in the project.

**Reconstruction:** According to the Secretary of the Interior's Standards for the Treatment of Historic Properties (1995) there are four distinct, but interrelated, approaches to the treatment of historic properties. "Reconstruction" re-creates vanished or non-surviving portions of a property for interpretive purposes as was done in Williamsburg, Virginia.

**Rehabilitation:** (or "rehab") "Rehabilitation" has several vernacular meanings (e.g. upgrading a dilapidated or substandard building, or restoring a building to good condition) and a preservation-oriented definition. For the latter, the Secretary of the Interior defines rehab as "the process of returning a property to a state of utility through repair or alteration which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its historic, architectural and cultural values." (US Department of the Interior 2000). It acknowledges the need to alter or add to a historic property to meet continuing or changing uses while retaining the property's historic character.

**Rehab Levels:** There are three general levels of rehab - "minor rehab," "moderate rehab," and "substantial rehab." "Minor rehab" refers to repairs (activities short of replacements that maintain the home) and improvements (activities that enhance the residential structure) of a minor nature. "Moderate rehab" involves more extensive improvements such as new wiring, and heating and cooling systems as well as new cabinets, fixtures and finishes. "Substantial rehab" entails removal of most/all interior walls and mechanical equipment, and installation of a new space plan.

**Restoration:** According to the Secretary of the Interior's Standards for the Treatment of Historic Properties (1995) there are four distinct, but interrelated, approaches to the treatment of historic properties. "Restoration" depicts a property at a particular period of time in its history while removing evidence of other periods.

**Secretary of the Interior's Standards for the Treatment of Historic Properties:** Standards developed by the National Park Service to ensure that preservation projects receiving Federal grant money or tax benefits are reviewed in a consistent manner nationwide. The Standards set forth the criteria to ensure that the historic character of a building is preserved in the process of rehabilitation. The Standards are also used by federal agencies and state programs, and have been adopted by many local historic district commissions nationwide (including Philadelphia's).

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**Smart Growth:** Growing a community in a way that protects farmland and open space, revitalizes neighborhoods, keeps housing affordable and provides more transportation choices.

**Soft Costs:** Expenses, in addition to hard costs, incurred in developing a real estate project (architectural, survey, legal fees, etc.).

**Sources and Uses of Funds:** A schedule submitted as part of a financing application that identifies the different sources of funding for the construction of the project and provides a line-item identification of how those funds will be used in the construction process.

**Stabilization (property, neighborhood):** To structurally stabilize a building based on a professional assessment. Stabilization typically includes securing the foundation; exterior walls and other structural systems; roofs, chimneys and gutters; exterior porches and steps; exterminating pests such as termites and rodents; and protecting the exterior from moisture penetration. “Stabilization” is generally thought of as a step down from “mothballing” a building.

**Tax Abatement:** Reduction in all or a portion of new taxes attributable to improvements made.

**Tax Increment Financing (TIF):** Public financing method in which bonds issued for community improvement projects are repaid with the increases in real estate and sales taxes realized after the redevelopment.

**Tri-Party Agreement:** An agreement signed by the developer, the construction lender and the permanent lender outlining the roles and responsibilities of each party.

**Underwriting Process:** Process used to analyze the credit-worthiness of a loan application and to determine the terms and conditions of a loan.

**Underwriting Standards:** Guidelines by which a loan is analyzed to ensure that it meets credit standards and that the terms and conditions of a loan are appropriate to its risk and maturity.

**Urban Renewal:** Renovation of a section of a city -- demolishing slums, rehabilitating housing, upgrading the commercial areas – in an effort to provide more and better services and amenities to residents and workers.

**Useful Economic Life:** The period of time over which a commercial property can be depreciated for federal income-tax purposes.

**Variance:** An exception to a zoning ordinance granted to meet certain specified needs.

**Warranty:** A written or implied promise that the material and workmanship of a product is defect-free or will meet a specified level of performance over a specified period of time. Written warranties on new homes are either backed by insurance companies or by the builders themselves.

**Workforce Housing:** Intended to address the housing needs of family households earning 50% to 150% of median household income in a given SMSA (Standard Metropolitan Statistical Area), and provides the opportunity to own affordable single-family homes located in or near employment centers. The housing is intended to appeal to workers essential to the community, i.e. police officers, firemen, teachers, nurses and medical technicians, office workers, etc.

**Zoning:** Procedure that classifies real property for a number of different uses – residential, commercial, industrial, etc. – in accordance with a land use plan. Ordinances regarding the location, height, and use for any given piece of property are enforced by a governing body or locality.