

RockStep CAPITAL

Passive Investing

Essential Vocabulary Glossary



Passive Investing 101: Vocabulary Glossary

TERM

DEFINITION

506(b) offering

A type of private securities offering under SEC Regulation D that allows issuers to raise capital from an unlimited number of accredited investors and up to 35 non-accredited investors, provided no general solicitation or advertising is used.

506(c) offering

A type of private securities offering under SEC Regulation D that allows issuers to publicly advertise the investment but limits participation to verified accredited investors only.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Accredited investor

An individual or entity that meets specific financial criteria set by regulators, allowing them to invest in private securities offerings not available to the general public.

Acquisition fee

A one-time charge paid to a sponsor or manager for sourcing, evaluating, and closing a real estate or investment transaction.

Passive Investing 101: Vocabulary Glossary

Active investing

A strategy where investors or fund managers actively buy and sell assets to outperform market benchmarks through research, timing, and analysis.

Asset management fee

An ongoing charge paid to a manager for overseeing the performance, operations, and strategy of an investment or real estate asset.

Asset manager

A professional responsible for maximizing the value and performance of real estate or investment portfolios through strategic planning, financial oversight, and operational management.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Buy-and-hold strategy

Involves acquiring real estate with the intention of retaining it long-term to generate ongoing rental income and benefit from property appreciation.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Capital stack

The layered structure of financing sources used in an investment including senior debt, mezzanine debt, preferred equity, and common equity.

Carried interest

The share of profits earned by a fund manager or sponsor in a private investment, typically as a performance incentive, after investors receive their preferred return.

Closed-end pooled fund

An investment vehicle that raises a fixed amount of capital through a one-time offering and does not allow investors to redeem shares until the fund's predetermined end or liquidation event.

Common equity

The residual ownership interest in an investment, entitling holders to profits after all debts and preferred returns are paid, often with voting rights and higher risk.

Compound interest

Interest calculated on both the initial principal and the accumulated interest from previous periods, resulting in exponential growth over time.

Core investment

A low-risk real estate strategy focused on acquiring high-quality, well-located, fully leased properties that generate stable, predictable income.

Passive Investing 101: Vocabulary Glossary

Cumulative pref

Ensures that any unpaid preferred returns from prior periods accrue and must be paid to investors before profit sharing with the sponsor begins.

A B C **D** E F G H I J K L M N O P Q R S T U V W X Y Z

Depreciation

The degree of variation in the price of an asset over time, indicating the level of risk or uncertainty associated with its value.

Disposition fee

A fee paid to a sponsor or manager for managing the sale or liquidation of an investment property, typically calculated as a percentage of the sale price.

Due diligence

The comprehensive investigation and analysis conducted before acquiring a property or investment to verify its financial, legal, physical, and operational condition.

A B C D **E** F G H I J K L M N O P Q R S T U V W X Y Z

Exit strategy

A planned approach for an investor or business owner to sell or dispose of an investment or asset to realize a return or limit losses.

Passive Investing 101: Vocabulary Glossary

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Financial responsibility

The ability to manage money wisely by meeting obligations, making informed decisions, and planning for future needs and risks.

Fix-and-flip strategy

Involves purchasing undervalued properties, renovating them to improve value, and reselling them quickly for a profit.

Fixed interest

A set rate of return paid to an investor at regular intervals over the life of a debt instrument, regardless of market fluctuations.

Franchise taxes

State-imposed fees that businesses must pay for the privilege of operating within that state, regardless of income or profit levels.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

General partner (GP)

The entity or individual in an investment partnership responsible for sourcing deals, making decisions, and overseeing operations, while bearing fiduciary responsibility and sharing in the profits.

Passive Investing 101: Vocabulary Glossary

Ground-up development

The process of constructing a new project from vacant land, involving all phases from planning and permitting to design, construction, and leasing.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Hands-off investing

A passive investment approach where the investor delegates decision-making and management responsibilities to professionals, requiring minimal day-to-day involvement.

High-risk investor

Someone who is willing to accept significant volatility and potential losses in pursuit of higher returns and aggressive growth opportunities

Holding period

The duration of time an investor owns an asset, measured from the date of purchase to the date of sale or disposition.

Hotels and hospitality

Commercial properties that provide lodging, dining, and related services to travelers and guests, including hotels, resorts, and extended-stay facilities.

Passive Investing 101: Vocabulary Glossary

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Industrial properties

Commercial facilities used for manufacturing, warehousing, distribution, or research and development activities.

Investment timeline

The planned duration over which an investor expects to hold an asset, from acquisition to exit, based on financial goals and strategy

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Legal advisors

Professionals who provide guidance on legal matters, help ensure compliance with laws and regulations, and protect clients' interests in transactions or disputes.

Lender

An individual or institution that provides funds to a borrower with the expectation of repayment, typically with interest, under agreed-upon terms.

Liability protection

A legal safeguard that shields an individual's assets from business debts and legal claims, commonly provided through LLCs or corporations.

Limited liability

Legal protection that restricts an investor's personal financial responsibility to the amount they invested, shielding personal assets from business debts and obligations.

Limited liability company (LLC)

A business structure that combines the liability protection of a corporation with the tax flexibility and operational simplicity of a partnership.

Limited partner (LP)

An investor who contributes capital and shares in the profits but does not participate in day-to-day management and has liability limited to their investment amount.

Long-term lease

A rental agreement that extends for a year or more, providing stability and predictable income for landlords and long-term occupancy for tenants.

Low-risk investor

Someone who prioritizes capital preservation and stable returns, typically favoring investments with minimal volatility and lower potential for loss.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Manager-managed LLC

A limited liability company where designated managers, who may or may not be members, handle the daily operations and decision-making, while other members act as passive investors.

Manufactured housing community

A residential development where individuals lease land sites to place factory-built homes, often offering shared amenities and lower-cost housing options.

Market analysis

The evaluation of economic, demographic, and real estate data to assess current conditions and trends.

Market trends

The general directions in which market conditions are moving over time, influencing investment strategies and decisions.

Market value

The estimated price at which an asset would sell in a competitive open market, based on current conditions and comparable transactions.

Member-managed LLC

A limited liability company in which all members (owners) actively participate in the daily operations and decision-making of the business.

Mixed-use development

A real estate project that combines two or more uses within a single integrated property or site.

Moderate-risk investor

An investor who seeks a balance between growth and security, willing to accept some volatility and potential losses in exchange for moderate returns over time.

Multifamily properties

Residential buildings designed to house multiple separate households, such as apartment complexes, duplexes, or townhome communities.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Net worth

The total value of an individual's or entity's assets minus all liabilities, representing overall financial position.

Non-accredited investor

An individual or entity that does not meet the financial thresholds set by regulators, limiting their access to certain high-risk or private investment opportunities.

Non-cumulative pref

Does not carry forward any unpaid returns from previous periods, meaning investors forfeit missed returns if not earned in a given period.

Notes (debt investments)

Legal instruments that represent a loan made by an investor to a borrower, outlining repayment terms, interest rates, and maturity dates.

A B C D E F G H I J K L M N **O** P Q R S T U V W X Y Z

Open-end pooled fund

An investment vehicle that continuously issues and redeems shares, allowing investors to enter or exit the fund at its net asset value.

Opportunistic (distressed) investment

A high-risk, high-reward strategy focused on acquiring underperforming assets with potential for value creation through redevelopment, repositioning, or financial restructuring.

Operator

Individual or firm responsible for managing the day-to-day operations, leasing, maintenance, and overall performance of a property.

Ownership benefits

The advantages gained from holding a stake in an asset, such as income, appreciation, control, tax advantages, or profit participation.

A B C D E F G H I J K L M N O **P** Q R S T U V W X Y Z

Pass-through taxation

A tax structure where business income is not taxed at the entity level but instead flows through to the owners' personal tax returns, avoiding double taxation.

Passive investing

A strategy that aims to match market performance by tracking a benchmark index, involving minimal buying and selling activity.

Performance-based profit

The share of investment gains allocated to managers or sponsors as compensation, contingent on achieving predefined return thresholds or benchmarks.

Personal liability protection

A legal safeguard that prevents an individual's personal assets from being used to satisfy business debts or legal claims, commonly provided through entities like LLCs or corporations.

Preferred equity

A class of ownership in a real estate investment that offers priority returns and distributions before common equity holders, typically without voting rights.

Preferred return

The minimum annual return that must be paid to investors before a sponsor or general partner can receive a share of the investment profits.

Private lending

The practice of individuals or non-institutional entities providing loans directly to borrowers, often secured by real estate and offering flexible terms and higher yields than traditional financing.

Private REITs

Trusts that are not publicly traded, offered to accredited investors through private placements, and feature limited liquidity and high minimum requirements.

Projected returns

Estimated profits or income expected from an investment over a specific period, based on assumptions about performance, market conditions, and financial modeling.

Property management

A recurring charge paid to a property manager for handling the day-to-day operations, maintenance, leasing, and tenant relations of a real estate asset.

Public REITs

Investment trusts listed on stock exchanges and available to individual investors, offering liquidity, dividend income, and exposure to diversified real estate portfolios.

A B C D E F G H I J K L M N O P Q **R** S T U V W X Y Z

Redemption window

A specified period during which investors in a fund or investment vehicle are allowed to withdraw or redeem their capital, subject to any applicable terms or restrictions.

Regulation D

A set of SEC rules that allows companies to raise capital through private securities offerings without registering with the SEC, typically limited to accredited investors.

**Regulatory
framework**

A system of rules, laws, and guidelines established by governing bodies to oversee and control specific industries or activities, ensuring compliance, fairness, and protection for participants.

Rental income

The money earned by a property owner from leasing space to tenants, typically on a monthly basis, in exchange for the right to use the property.

Retail properties

Commercial spaces used for selling goods and services directly to consumers, including shopping centers, strip malls, and standalone stores.

Return potential

The expected profitability or financial gain that an investment may generate over time, based on its risk profile, market conditions, and performance assumptions.

A B C D E F G H I J K L M N O P Q R **S** T U V W X Y Z

**Self-
certification**

The process by which an individual declares they meet certain criteria without requiring third-party verification.

Self-storage properties

Facilities that offer individual, rentable storage units for personal or business use, typically on a month-to-month basis.

Short-term lease

A rental agreement with a relatively brief duration, typically less than a year, offering flexibility for both landlords and tenants.

Simple interest

The fixed amount of interest earned or paid on a principal sum over time, calculated without compounding.

Single-family properties

Standalone residential homes designed to house one family, typically with private entrances, yards, and no shared walls with neighboring units.

Sponsor

The individual or firm that leads an investment project, responsible for sourcing deals, securing financing, and managing the asset on behalf of investors.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

Tax advantages

Financial benefits provided by tax laws—such as deductions, deferrals, or exemptions—that reduce an individual’s or entity’s taxable income or liability.

Tax burden

The total amount of taxes an individual or entity is required to pay to government authorities, typically based on income, property, or transactions.

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

U.S. Securities and Exchange Commission (SEC)

A federal agency responsible for enforcing securities laws, regulating the securities industry, and protecting investors by ensuring fair and transparent markets.

Underwriting

The process of evaluating the financial, operational, and market aspects of a real estate investment to assess its risks, returns, and overall viability.

Upside

The potential increase in value or returns of an investment beyond its current or expected performance.

A B C D E F G H I J K L M N O P Q R S T U **V** W X Y Z

Value-add investment

A strategy that targets properties with improvement potential, such as physical upgrades or operational efficiencies, to increase income and property value over time.

Variable returns

Investment earnings that fluctuate over time based on market performance, asset behavior, or economic conditions, rather than being fixed or guaranteed.

Venture capital

A set rate of return paid to an investor at regular intervals over the life of a debt instrument, regardless of market fluctuations.

Volatility

State-imposed fees that businesses must pay for the privilege of operating within that state, regardless of income or profit levels.

A B C D E F G H I J K L M N O P Q R S T U V **W** X Y Z

Waterfall structure

A framework used in investment distributions that outlines the order and priority in which profits are shared among participants, typically favoring investors first before sponsors receive performance-based compensation.