

ANSWER KEY: DIAGNOSTIC TEST

1. (3) Depreciation is used in the cost approach to value. (60)
2. (1) FIRREA became effective in 1989. (59)
3. (2) Replacement cost of building
 $\$160,000$
 Depreciation of 30%
 $\times \underline{30}$
 Depreciation
 $\$48,000$

 $\$160,000$ Replacement Cost
 $-$ Depreciation of $\$48,000 =$
 $\$112,000$
 Added land value $=$
 $\underline{\$40,000}$
 Value $=$
 $\$152,000$

(61)
4. (2) Appraisers do not average to determine market value. Appraisers work from comparable transactions to arrive at an estimate of market value for the subject property. (60)
5. (3) $\text{Income} \div \text{Rate} = \text{Value}$
 $\$20,000 \div .09 = \$222,222$ (63)
6. (2) The principle of highest and best use deals with the most profitable use. Contribution refers to cost and benefits of a particular improvement. Conformity is a factor in the stability of property values; zoning is an example of conformity. (60)
7. (4) A limited supply combined with a great demand will result in a higher price for lots. (60)
8. (1) The cost approach is most applicable to the appraisal of a special-purpose building. (61)
9. (3) Decreasing lot size is locational obsolescence. Termite damage and negligent care are physical deterioration. Poor architectural design represents functional obsolescence. (61)
10. (4) Economic obsolescence is a loss in value due to factors outside the property. Functional obsolescence is a loss in value due to a deficiency in the floor plan or design of a building. (61)
11. (1) Land is not depreciated; it is assumed that the land value will be recovered at the end of the economic life of the building. (61)
12. (2) Time, location, physical characteristics, and terms of sale are factors considered in the market or sales comparison approach. (62)
13. (3) $\$5,000$ per quarter $\times 4 = \$20,000$ annual net income
 $\$20,000 \div .08$ capitalization rate $=$
 $\$250,000$ value (63)
14. (3) $\$7,200$ gross $\div 12 = \$600 \times 110 =$
 $\$66,000$ value (63)
15. (4) The GRM is used as a substitute for the income approach in appraising a single-family home. (63)
16. (3) $\$5,000$ monthly rental income $\times 12$ months $= \$60,000$ annual gross income
 Selling price of $\$600,000 \div$ Gross annual rental income $= \$600,000 \div \$60,000 = 10$ (63)
17. (4) The gross income would be reflected in the first step of the operating statement. Annual net income is the bottom line in the operating statement and serves as the basis for capitalization of the income stream. (63)
18. (1) Annual potential gross income is based on 100% of economic or market rent plus other income such as income from vending machines. Effective gross income is annual potential gross income minus vacancy and rent loss. Operating expenses include fixed expenses such as real estate taxes and variable expenses such as management expenses. The vacancy rate is used to calculate effective gross income. (63)

19. (3) External or economic obsolescence is a loss in value from factors external to the property. (61)
20. (1) Conditions under which the property was sold would be used in the market/data approach. Cost would be used in the cost approach; annual gross income would be used in the income approach. (61-62)
21. (2) Functional obsolescence is a loss in the value due to deficiency in the floor plan or design of a building. The obsolescence would be curable if it were economically feasible to update the plumbing fixtures. Economic or external obsolescence is assumed to be incurable only because it is caused by factors outside the property. (61)
22. (3) The capitalization approach was discussed above. (63)
23. (2) This is an example of external obsolescence, which would generally be incurable, depending on the cost to cure. (61)
24. (4) Congress delegated the regulatory responsibility to the Appraisal Foundation. (59)
25. (2) There are numerous examples in cities like Chicago and New York where neighborhoods have gone through the entire process, resulting in higher than ever property values. (63)
26. (3) The gross rent multiplier is used as a substitute for the income approach in the appraisal of a single-family home. (63)
27. (2) $\$600,000 \times .80 = \$480,000$ value of building
 $\$480,000 \div 60 \text{ years} = \$8,000$ annual depreciation charge
 $\$8,000 \times 6 \text{ years} = \$48,000$ current total depreciation. (61)
28. (2) $\$208,000$ annual effective gross income
 $- \$74,000$ expenses = $\$134,000$;
 $\$134,000 \div \$1,576,470 = .085 = 8.5$ (63)
29. (1) C.B.S.—Comparable Better Subtract
 $\$160,000$ price of comparable - $\$5,000$ adjustment for one bedroom = $\$155,000$ adjusted sales price of comparable (61-62)
30. (2) S.B.A.—Subject Better Add. The subject property is better than the comparable; thus you add the value of the air conditioning to the sale price of the comparable. (61-62)
31. (3) Amenities are neighborhood facilities and services that enhance a home's value but are always outside of the property. Swimming pools, 3-car garages, decks, etc. that are on the property are called features. (64)
32. (3) An amenity is always outside the confines of the property, but it adds value because of its proximity. (64)
33. (2) Arm's length transactions describe those that mirror the definition of market value. Less than arm's length transactions do not reflect market value and, therefore, are not included in the appraiser's analysis. (60)
34. (3) $200 \text{ sq. ft.} \times \30 sq. ft. in contributory value = $\$6,000$. Then take the sold price of $\$250,000$ and subtract the square footage amount of $\$6,000$ to arrive at the adjusted value of $\$244,000$. In other words, if everything else was the same between the two properties, the subject property would most likely sell for $\$244,000$. (61-62)
35. (4) An appraiser's comparison cannot be dependent upon the reporting of a predetermined opinion of value. (64)
36. (4) It is unethical for an appraiser to have an arrangement for compensation that is contingent upon a subsequent event. (64)
37. (4) The HVCC requires that borrowers receive a copy of their appraisal reports no less than three days prior to the closing unless they waive the requirement. (64)

TEST SCORE

VALUATION AND MARKET ANALYSIS			
Rating	Range	Your Score	
Good = 80% to 100%	30-38	Total Number	38
Fair = 70% to 79%	27-29	Total Wrong	-
Needs improvement = Lower than 70%	26 or less	Total Right	

Passing Requirement: 27 or Better

ANSWER KEY: MATCHING QUIZ

1. R	6. E	11. A	16. P
2. D	7. I	12. Q	17. F
3. C	8. O	13. G	18. N
4. B	9. K	14. S	19. T
5. L	10. J	15. H	20. M