

## DIAGNOSTIC TEST

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- The characteristics required for a property to have value include all of the following *EXCEPT*
  - effective demand.
  - scarcity.
  - depreciation.
  - transferability.
- Which of the following laws require that appraisals performed as part of a federally related transaction must comply with federal standards and be performed by a state-certified or state-licensed appraiser?
  - Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA)
  - Regulation Z
  - RESPA
  - Statute of Frauds
- You own land worth \$40,000 and your building has a replacement cost of \$160,000. What would be the value if the appraiser used a depreciation rate of 30 percent?
  - \$148,000
  - \$152,000
  - \$188,000
  - None of the above
- Which of the following does *NOT* apply to the definition of market value?
  - Both buyer and seller must be well informed.
  - Market value is the average price that a property will bring.
  - Both buyer and seller must act without undue pressure.
  - Payment must be made in cash or its equivalent.
- The annual net income for an office building is \$20,000. If an owner realized a 9 percent return on her investment, the value of the building would be
  - \$1,800.
  - \$22,222.
  - \$222,222.
  - \$285,714.
- You look at four similar houses for sale in the same area and choose the house with the lowest asking price. You probably are basing your decision on the principle of
  - highest and best use.
  - substitution.
  - contribution.
  - conformity.
- A builder developed a subdivision in which the demand for homes was great. He sold the last lot in his subdivision for a much higher price than that for which he had sold the first lot in the area. This example illustrates the principle of
  - highest and best use.
  - substitution.
  - conformity.
  - supply and demand.
- In appraising a special-purpose building such as a post office, the most reliable approach to an indication of its value would generally be the
  - cost approach.
  - market/data approach.
  - income approach.
  - sales comparison approach.
- Which of the following is an example of locational obsolescence?
  - Termite damage
  - Negligent care of property
  - A zoning ordinance allowing a decrease in the minimum lot size
  - Poor architectural design
- Economic obsolescence does *NOT* result from
  - adverse zoning changes.
  - a city's leading industries moving out.
  - an inharmonious land use in a neighborhood.
  - outdated kitchens.

11. Depreciation generally applies to
  1. the building only.
  2. the land only.
  3. both the land and the building.
  4. the net income of the building.
12. A principal factor for which adjustments must be made in using the market/data approach is
  1. depreciation.
  2. the date of sale.
  3. the amount of real estate taxes.
  4. the cost of replacement.
13. An appraiser is estimating the value of a building that has a net income of \$5,000 per quarter and a capitalization rate of 8 percent. What is the value of this property?
  1. \$25,000
  2. \$62,500
  3. \$250,000
  4. \$312,500
14. An appraiser is using the gross-rent-multiplier (GRM) method to estimate the market value of a single-family home. The home has an annual gross income of \$7,200, with quarterly expenses of \$900. The recognized GRM for the neighborhood is 110. The appraiser's estimate of value is likely to be
  1. \$22,000.
  2. \$33,000.
  3. \$66,000.
  4. None of the above
15. The GRM is used in the
  1. market/data approach.
  2. income approach for office buildings.
  3. cost approach.
  4. income approach for single-family homes.
16. An office building recently sold for \$600,000, with a monthly rental income of \$5,000. The GIM for the property was
  1. 120.
  2. 100.
  3. 10.
  4. None of the above
17. In determining the value of a 20-unit apartment building, the appraiser has established the gross income from rents. After deducting the loss for vacancies and collection losses from this gross income, the appraiser would have established the
  1. net income.
  2. spendable income.
  3. gross income.
  4. effective gross income.
18. What is the first step an appraiser would take to arrive at an estimated value using the income approach?
  1. Determine annual potential gross income.
  2. Determine operating expenses.
  3. Determine effective gross income.
  4. Determine the vacancy rate.
19. An airport routing was changed, with the result that airplanes flew over a residential area. The subsequent loss in value caused by the airplane noise would be *BEST* described as
  1. physical depreciation.
  2. functional obsolescence.
  3. external or economic obsolescence.
  4. eminent domain.
20. Which of the following factors would be considered in the market/data or sales comparison approach to value?
  1. Conditions under which property was sold
  2. Annual gross income
  3. Replacement cost
  4. Original cost
21. Outmoded plumbing fixtures are an example of
  1. curable physical deterioration.
  2. curable functional obsolescence.
  3. incurable physical deterioration.
  4. curable external obsolescence.

22. In the income approach to appraisal, if the net income was \$42,000 and the capitalization rate was 12 percent, to find the value of the property the appraiser would
1. multiply the income by the capitalization rate.
  2. multiply the capitalization rate by the net income.
  3. divide the net income by the capitalization rate.
  4. divide the capitalization rate by the net income.
23. *D* lived in a house with a well. The groundwater entering the homeowner's well became contaminated and lessened the value of *D*'s home. The loss in value is an example of
1. physical deterioration.
  2. external obsolescence.
  3. functional obsolescence.
  4. regression.
24. The appraiser profession is regulated at the national level by
1. Congress.
  2. the FDIC.
  3. the national real estate commission.
  4. the Appraisal Foundation.
25. Which of the following reflects the stages through which a neighborhood passes?
1. Growth, decline, stability, and revitalization
  2. Growth, stability, decline, and revitalization
  3. Decline, growth, stability, and revitalization
  4. Decline, growth, revitalization, and stability
26. Gross rent multipliers are generally used in appraising
1. forms.
  2. shopping centers.
  3. single-family homes.
  4. hotels.
27. You purchased an apartment building for \$600,000 nearly 6 years ago. The building accounted for 80 percent of the purchase price. If the building's economic life is estimated to be 60 years, what is the current total depreciation of the property?
1. \$36,000
  2. \$48,000
  3. \$60,000
  4. \$72,000
28. *R* purchased an office building with an annual effective gross income of \$208,000 and expenses of \$74,000. What capitalization rate was used by *R* to arrive at a value of \$1,576,470?
1. 7.5 percent
  2. 8.5 percent
  3. 9.5 percent
  4. 10.5 percent
29. *M* was appraising a three-bedroom house. *M* had a comparable with four bedrooms that sold for \$160,000. *M* makes an adjustment of \$5,000 to the comparable for the difference in the number of bedrooms. The adjusted sales price of the comparable will be
1. \$155,000.
  2. \$165,000.
  3. \$170,000.
  4. None of the above
30. If the house you are appraising has central air conditioning valued at \$2,500 and your comparable does not, you will adjust the sales price of the comparable by
1. - \$2,500.
  2. + \$2,500.
  3. - \$1,250.
  4. None of the above
31. A home's value is increased because of its proximity to schools, parks, and transportation lines. These neighborhood sites are referred to as
1. features.
  2. benefits.
  3. amenities.
  4. attachments.

32. A bike trail that enhances the value of a neighboring home is called
1. a feature.
  2. a benefit.
  3. an amenity.
  4. None of the above
33. What phrase describes a neighboring property that was sold to a relative for 75% of its market value?
1. Arm's length
  2. Less than arm's length
  3. Comparable property
  4. Reconciliation property
34. A comparable property sold for \$250,000, and it has 200 more square feet than a subject property. If square footage contributes \$30 per square foot, what is the adjusted value of the comparable?
1. \$250,000
  2. \$260,000
  3. \$244,000
  4. \$256,000
35. An appraiser is told by a lender that if he can appraise a house for \$250,000, he will be given the assignment. The appraiser should
1. accept the assignment if he thinks he can appraise the house for \$250,000.
  2. accept the assignment, but tell the lender that he will do his best to come close to \$250,000.
  3. accept the assignment, but tell one of his employees to do the appraisal for \$250,000.
  4. not accept the assignment because it violates his professional ethics.
36. An appraiser tells a lender that she will reduce her appraisal fee if the lender's loan fails to close. The appraiser's offer of a reduced fee would be
1. acceptable because the lender might lose money on the transaction.
  2. acceptable provided that the reduction in fee was not excessive.
  3. acceptable because the appraiser is fully disclosing the reduced fee prior to accepting the assignment.
  4. unethical.
37. Which of the following statements does *NOT* correctly describe the Home Valuation Code of Conduct (HVCC)?
1. The HVCC became effective in May 2009.
  2. The HVCC shields appraisers from undue influence.
  3. The HVCC ensures that borrowers have sufficient notice of appraisal content.
  4. The HVCC requires that borrowers receive a copy of their appraisal reports no less than five days prior to the closing unless they waive the requirement.
38. The Market Conditions Addendum requires that the appraiser
1. use over-priced properties as comparables.
  2. provide conclusions regarding why a market is experiencing declining property values over one year.
  3. provide conclusions regarding why a market is experiencing an over-supply of properties over nine months.
  4. provide conclusions regarding why a market is experiencing marketing times over six months

## MATCHING QUIZ

The column on the right contains brief memory links to important terms in Chapter 5.  
Write the letter of the matching term on the appropriate line.

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|----------------------------|---|
| A. CMA                     | 1. _____ Combining all three appraisal approaches to determine an indicated value   |
| B. Scarcity                | 2. _____ Results from building in excess of the value of the neighborhood   |
| C. Substitution            | 3. _____ What principle appraiser uses to determine maximum value by comparing equally desirable substitutes                      |
| D. Diminishing returns     | 4. _____ Essential to creating value  |
| E. Assemblage              | 5. _____ The process when net income is divided by an investor's desired percent of return  |
| F. Plottage                | 6. _____ The act of combining contiguous property to increase the value of the combined property                                  |
| G. Progression             | 7. _____ A cracked foundation wall  |
| H. Land                    | 8. _____ Value is enhanced by a home's proximity to a beautifully shaded park   |
| I. Physical deterioration  | 9. _____ Diminished value due to airplane landing routes over a neighborhood  |
| J. Functional obsolescence | 10. _____ A three-bedroom two-story home with only one bath   |
| K. External obsolescence   | 11. _____ Reporting tool to help agents determine a price range for a property  |
| L. Capitalization          | 12. _____ The universal appraisal report  |
| M. GRM                     | 13. _____ Phenomenon that happens when buying the least expensive home in the most expensive neighborhood                         |
| N. GIM                     | 14. _____ Sales not influenced by unusual circumstances used to determine the market value of a property                          |
| O. Amenities               | 15. _____ In the cost approach this is added back after subtracting depreciation from replacement cost new                        |
| P. Comparables             | 16. _____ A name for sold homes used in a CMA   |
| Q. URAR                    | 17. _____ The theory that greater utilization or efficiency of contiguous property increases value                                |
| R. Reconciliation          | 18. _____ Sold price divided by annual income   |
| S. Arm's length or most    | 19. _____ Dollar value of any housing component measured probable sales price by its worth using "paired sales" in an open market |
| T. Contribution            | 20. _____ Sold price divided by monthly rents   |