Chapter 11 Multiple Choice Questions

1. Regulation of the appraisal profession is largely due to
   a. FIRREA.
   b. state initiatives.
   c. local government initiatives.
   d. industry efforts.

2. A _______ is authorized to perform residential appraisals regardless of transaction amount or complexity under Appraisal Foundation guidelines.
   a. licensed appraiser
   b. certified residential appraiser
   c. certified general appraiser
   d. b and c only

3. Which of the following statements about property value is not true?
   a. Price and market value are identical
   b. Market value is the most probable selling price
   c. Market value does not reflect tax shelter benefits
   d. The owner’s specific rights affect market value

4. ______ is the value of a property to a typical investor, and ______ is the value of a property to a particular investor.
   a. Value in use, value in exchange
   b. Investment value, market value
   c. Market value, investment value
   d. Investment value, value in exchange

5. The value of future benefits or future utility is the basis of the principle of
   a. substitution.
   b. determination.
   c. anticipation.
   d. contribution.

6. The value that real estate appraisers generally estimate is market value, which is synonymous with
   a. value in use.
   b. most probable selling price.
   c. reproduction cost.
   d. investment value.
7. Investment value, the value of a property to an individual investor, is synonymous with
   a. market value.
   b. value in use.
   c. value in exchange.
   d. most probable selling price.

8. The principle of substitution is the basis for which approach to valuation?
   a. Comparable sales
   b. Cost
   c. Income
   d. All of the above

9. In analyzing the direction and degree of change in factors affecting market value, the appraiser is using which of the following principles?
   a. Anticipation and change
   b. Substitution and highest and best use
   c. Change and substitution
   d. Contribution and regression

10. The principle of ______ holds that the value of a component part of a property depends on the amount it contributes to the whole.
    a. substitution
    b. change
    c. contribution
    d. highest and best use

11. The first step of the valuation process, definition of the problem, includes which of the following?
    a. Identifying the property and property rights being appraised
    b. Specifying the date of valuation
    c. Determining the purpose of the appraisal
    d. All of the above

12. The last step of the valuation process, report of defined value, includes which of the following?
    a. Identifying the property and property rights being appraised
    b. Specifying the date of valuation
    c. Reconciling approaches
    d. Conveying the value estimate to the client
13. In which of the following scenarios can the value of a real estate improvement be negative?
   a. When the value of the land as improved exceeds the value of the land as though vacant
   b. When the value of the land if vacant exceeds the value of the land as improved
   c. When the highest and best use of the property is its current use
   d. When it is raw land

14. The sales comparison approach is
   a. very dependent upon how the appraiser makes adjustments between the comparables and the subject property.
   b. highly dependent upon determination of the capitalization rate.
   c. strongly based upon the principle of anticipation.
   d. the least reliable method available.

15. Which of the following is not true?
   a. Financial arrangements can affect sales prices.
   b. Considering its cost, a swimming pool may not contribute positively to the value of a property.
   c. The appraisal is most accurate on the day of the closing.
   d. Using traditional appraisal techniques, appraised value is a reconciliation of three preliminary estimates of value.

16. The estimated cost of building an equally functional structure using modern methods and costs is generally referred to as the
   a. reproduction cost.
   b. replacement cost.
   c. substitution cost.
   d. reproduction value.

17. Which of the following statements is true regarding the sales comparison approach?
   a. Adjustments are made to the subject property to reflect differences among the comparable sales chosen for comparison.
   b. Adjustments are made to the sales prices of the comparable properties to make them representative of the subject property’s characteristics.
   c. When the adjustments are complete, the sales price of the subject property gives an indication of the value of the comparables.
   d. The difference between the sales price of the subject and comparables is the value of the land.
18. Which of the following is not true?
   a. The cost approach is most accurate on new construction.
   b. On older buildings, the cost approach deducts tax depreciation.
   c. The Net Operating Income (NOI) does not consider income taxes.
   d. In the income approach, NOI is capitalized to find the value of a property.

19. _______ is the result of a property’s inability to generate income due to factors outside the property.
   a. Economic obsolescence
   b. Functional obsolescence
   c. Physical deterioration
   d. Tax depreciation

20. The stabilized income which a property is expected to generate after allowances for vacancies and bad debt is called the
   a. gross operating income.
   b. net operating income.
   c. gross potential income.
   d. effective gross income.

21. The income approach
   a. cannot be used for residential property.
   b. depends upon a good estimate of economic depreciation.
   c. is based upon the concept of present value.
   d. is always the most accurate of the three approaches.

22. Dividing the price of a comparable property by its gross annual income results in a _______ that can be used to estimate the value of a subject property.
   a. gross income multiplier
   b. cost optimizer
   c. capitalization rate
   d. net income multiplier

23. In the cost approach to value, which factor of depreciation is not used?
   a. Physical deterioration
   b. Tax depreciation
   c. Functional obsolescence
   d. Economic obsolescence
24. Which of the following is considered representative, thus, usable as a comparable sale for a market-value estimate?
   a. A voluntary sale in lieu of foreclosure
   b. A forced tax sale
   c. A sale to a family member
   d. A house sold under normal market conditions

25. Which of the following is **not** a step in the income approach to value?
   a. Estimation of the net operating income
   b. Selection of the capitalization rate
   c. Capitalization of the income
   d. Computation of the accrued depreciation

26. In the income approach, _______ income is capitalized to obtain an estimate of value.
   a. net investment
   b. gross investment
   c. net operating
   d. gross operating

27. Which approach would probably be most accurate in the valuation of a shopping center?
   a. Cost approach
   b. Gross income multiplier
   c. Income approach
   d. Sales comparison approach

28. Which approach would probably be most accurate in the valuation of a church?
   a. Cost approach
   b. Gross income multiplier
   c. Income approach
   d. Sales comparison approach

29. Which valuation approach would be most accurate in the valuation of a school, museum or library?
   a. Cost approach
   b. Gross income multiplier
   c. Income approach
   d. Sales comparison approach
30. Which appraisal approach would be most accurate in the valuation of a ten-year-old single family dwelling?
   a. Cost approach
   b. Sales comparison approach
   c. Income approach
   d. Substitution

31. Which of the approaches of appraisal would be more accurate of a rented, single family home?
   a. Cost approach
   b. Sales comparison approach
   c. Income approach
   d. Market approach

Use the following information for the next two questions:

Reproduction Cost: $115,000
Replacement Cost: $100,000
Accrued Tax Depreciation: $ 60,000
Accrued Economic Depreciation: $ 45,000
Value of the Land (unimproved): $ 12,000

32. If the above information describes a small general-use industrial building, what is the value by the cost approach?
   a. $82,000
   b. $52,000
   c. $32,000
   d. $67,000

33. If the above information describes a unique property of historical significance, what is the value by the cost approach?
   a. $82,000
   b. $67,000
   c. $32,000
   d. $52,000

Use the following information for the next four questions:
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<table>
<thead>
<tr>
<th>Property</th>
<th>NOI</th>
<th>EGI</th>
<th>Selling Price</th>
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<tbody>
<tr>
<td>Property 1</td>
<td>82,000</td>
<td>122,000</td>
<td>1,250,600</td>
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<tr>
<td>Property 2</td>
<td>75,000</td>
<td>111,500</td>
<td>1,146,300</td>
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<td>Property 3</td>
<td>94,000</td>
<td>140,000</td>
<td>1,433,600</td>
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<tr>
<td>Subject</td>
<td>60,000</td>
<td>108,000</td>
<td>?</td>
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</tbody>
</table>

34. What is the capitalization rate?
   - a. 0.047
   - b. 0.115
   - c. 0.066
   - d. 0.097

35. What is the gross income multiplier?
   - a. 6.54
   - b. 10.25
   - c. 8.70
   - d. 15.15

36. What is the net income multiplier?
   - a. 0.066
   - b. 15.25
   - c. 10.25
   - d. 0.0976

37. What is the value of the subject property by the direct capitalization technique?
   - a. $522,000
   - b. $417,100
   - c. $618,600
   - d. $909,100

38. What is the value of the subject property by the gross income multiplier method?
   - a. $909,000
   - b. $1,107,000
   - c. $939,130
   - d. $1,250,000

Use the following information for the next four questions:
Number of Units: 150
Vacancy Rate: 5%
Bad Debt Allowance: 2%
Per Unit Annual Rent: $4,000
Operating Expenses: $98,000
Financing Costs: $85,000
Annual Depreciation: $15,000

39. What is the potential gross income?
   a. $460,000
   b. $570,000
   c. $558,000
   d. $600,000

40. What is the effective gross income?
   a. $460,000
   b. $570,000
   c. $558,000
   d. $600,000

41. What is the net operating income?
   a. $460,000
   b. $570,000
   c. $558,000
   d. $600,000

42. If the cap rate is 9.5%, what is the estimated value of the property?
   a. $4,842,100
   b. $6,000,000
   c. $5,873,700
   d. $6,315,800

43. The sales price of a comparable sale with a below market rate assumable loan must be adjusted _______ to make it comparable to a subject property which does not have an assumable loan.
   a. upward
   b. downward
   c. not at all
44. The sales price of a comparable sale must be adjusted _______ to account for the lack of a fireplace, when the subject property has a built-in fireplace.
   a. upward 
   b. downward 
   c. not at all 

45. Elements of comparison in the sales comparison approach include all the following except 
   a. financing. 
   b. market conditions. 
   c. gross income multiplier. 
   d. neighborhood characteristics. 

A small office building has the following characteristics:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Net Operating Income</td>
<td>$65,000</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>$33,000</td>
</tr>
<tr>
<td>Annual Mortgage Interest</td>
<td>$18,000</td>
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<tr>
<td>Vacancy and Bad Debt Losses</td>
<td>$5,000</td>
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</tbody>
</table>

46. What is the potential gross income?
   a. $98,000
   b. $111,000
   c. $103,000
   d. $121,000

An apartment complex has the following characteristics:

- 6 three-bedroom units $600 monthly rent
- 12 two-bedroom units  $475 monthly rent
- 18 one-bedroom units  $400 monthly rent
- 6 efficiencies       $300 monthly rent

47. Given an expected vacancy rate of 12%, what is the potential gross income (annual) for this property?
   a. $109,800
   b. $219,600
   c. $152,700
   d. $282,400
48. Which of the following should **not** be accounted for in calculating the net operating income?
   a. Cost of goods sold
   b. Vacancies
   c. Property taxes
   d. Property maintenance

49. Which of the following should **not** be accounted for in calculating the net operating income?
   a. Property management fees
   b. Vacancies
   c. Mortgage interest paid
   d. Property maintenance