

**RE 310 – Principles of Real Estate**  
Sample Exam Questions – Appraisal

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- \_\_\_\_\_ 1. What is true about the market value of a property as it is defined for appraisal purposes?
- A. The market value always equals the construction cost of the improvement plus the value of the land.
  - B. Market value is always equal to the sale price of a property.
  - C. Market value is the price you could expect to sell the property under “normal” conditions.
  - D. Both A and C
  - E. None of the above
- \_\_\_\_\_ 2. Appraisers may be asked to estimate all of the following EXCEPT:
- A. Depreciable value
  - B. Insurable value
  - C. Investment value
  - D. Market value
  - E. Rental value
- \_\_\_\_\_ 3. 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. highest and best use
  - D. contribution
  - E. anticipation
- \_\_\_\_\_ 4. The principle of contribution states that
- A. Value is created by the expectation that certain events will occur.
  - B. The value of a parcel of land is limited by the cost of acquiring an equally desirable alternative.
  - C. The value of a component part of a property depends on the value it adds to the property as a whole.
  - D. No physical or economic condition remains constant.
  - E. None of the above

- \_\_\_\_\_ 5. The principle of anticipation states that
- A. Value is created by the expectation that certain events will occur.
  - B. The value of a parcel of land is limited by the cost of acquiring an equally desirable alternative.
  - C. The value of a component part of a property depends on the value it adds to the property as a whole.
  - D. No physical or economic condition remains constant.
  - E. None of the above
- \_\_\_\_\_ 6. The principle of substitution states that
- A. Value is created by the expectation that certain events will occur.
  - B. The value of a parcel of land is limited by the cost of acquiring an equally desirable alternative.
  - C. The value of a component part of a property depends on the value it adds to the property as a whole.
  - D. No physical or economic condition remains constant.
  - E. None of the above
- \_\_\_\_\_ 7. The principle of change states that
- A. Value is created by the expectation that certain events will occur.
  - B. The value of a parcel of land is limited by the cost of acquiring an equally desirable alternative.
  - C. The value of a component part of a property depends on the value it adds to the property as a whole.
  - D. No physical or economic condition remains constant.
  - E. None of the above
- \_\_\_\_\_ 8. Which approach to value is based on the principle that a property's value must be close to that of similar properties that have recently sold?
- A. Appraisal approach
  - B. Cost approach
  - C. Income capitalization approach
  - D. Sales comparison approach
  - E. None of the above
- \_\_\_\_\_ 9. Which approach to value is based on the principle that a property's value must be close to its construction cost less accrued depreciation?
- A. Appraisal approach
  - B. Cost approach
  - C. Income capitalization approach
  - D. Sales comparison approach
  - E. None of the above

- \_\_\_\_\_ 10. Which approach to value is based on the principle that an income property's value must be related to the cash flows that the property can generate?
- A. Appraisal approach
  - B. Cost approach
  - C. Income capitalization approach
  - D. Sales comparison approach
  - E. None of the above
- \_\_\_\_\_ 11. The highest-and-best use of a property is
- A. Always its current use
  - B. The legal use that results in the greatest long-term economic return to the owner
  - C. Rarely its current use
  - D. Of no importance for appraisals
  - E. None of the above
- \_\_\_\_\_ 12. Multiple regression analysis is
- A. A logical extension of the sales comparison approach.
  - B. Rarely used to appraise residential property.
  - C. Useful because of its limited data requirements.
  - D. Not accepted by the major secondary mortgage market agencies, Fannie Mae and Freddie Mac.
  - E. None of the above
- \_\_\_\_\_ 13. In conducting the sales comparison approach is it important to remember
- A. You begin with the sale price of the comparable and adjust this figure to make the comparable more like the subject property.
  - B. You begin with the sale price of the subject and adjust this figure to make the subject more like the comparable property.
  - C. To choose comparable properties in a similar location that sold within a reasonable time frame.
  - D. Both A and C
  - E. Both B and C
- \_\_\_\_\_ 14. 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
  - E. None of the above

- \_\_\_\_\_ 15. 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
  - E. None of the above
- \_\_\_\_\_ 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
  - E. None of the above
- \_\_\_\_\_ 17. \_\_\_\_\_ measures the reduction in a property's value due to factors outside the property.
- A. Economic obsolescence
  - B. Functional obsolescence
  - C. Physical deterioration
  - D. Accrued depreciation
  - E. None of the above
- \_\_\_\_\_ 18. If a comparable property has a larger lot than the subject, what must be done to account for this difference?
- A. The sale price of the comparable must be adjusted upward
  - B. The sale price of the comparable must be adjusted downward
  - C. The market value of the subject must be adjusted upward
  - D. The market value of the subject must be adjusted downward
  - E. None of the above
- \_\_\_\_\_ 19. \_\_\_\_\_ occurs when a property's design is not up to modern standards.
- A. Economic obsolescence
  - B. Functional obsolescence
  - C. Physical deterioration
  - D. Accrued depreciation
  - E. None of the above

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Use the following information for the next two questions:

Reproduction cost: \$345,000  
Replacement cost: \$300,000  
Accrued depreciation: \$155,000  
Annual net operating income: \$27,000  
Value of the land (unimproved): \$65,000

- \_\_\_\_\_ 20. If the above information describes a small general-use industrial building, what is the value by the cost approach?
- A. \$365,000
  - B. \$282,000
  - C. \$210,000
  - D. \$255,000
  - E. None of the above
- \_\_\_\_\_ 21. If the above information describes a unique property of historical significance, what is the value by the cost approach?
- A. \$365,000
  - B. \$282,000
  - C. \$210,000
  - D. \$255,000
  - E. None of the above
- \_\_\_\_\_ 22. The gross rent multiplier for rental houses in a particular part of town is 80. If a house in this neighborhood generates gross rents of \$900 per month, what would be its indicated value using the income approach?
- A. \$90,000
  - B. \$80,000
  - C. \$72,000
  - D. \$88,889
  - E. None of the above
- \_\_\_\_\_ 23. A subject property has 1,500 square feet, 3 bedrooms, and 2 baths. The proposed sale price is \$115,000. A comparable property recently sold for \$120,000. It has 1,700 square feet, 3 bedrooms and 1.5 baths. If each square foot of space is worth \$35 and each ½ bath is worth \$1,000, what is the indicated value of the subject property using the sales comparison approach?
- A. \$112,000
  - B. \$115,000
  - C. \$123,000
  - D. \$120,000
  - E. None of the above

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- \_\_\_\_\_ 24. True or False: Replacement cost is the most appropriate cost estimation method to use for historic and other unique properties.
- \_\_\_\_\_ 25. True or False: The highest and best use of a property is always its current use.
- \_\_\_\_\_ 26. True or False: Appraisers try to avoid using net income capitalization to estimate the market value of properties because it does not take into account the expenses required to operate the property.
- \_\_\_\_\_ 27. A subject property has 2,500 square feet, 4 bedrooms, and 2.5 baths. The proposed sale price is \$250,000. A comparable property recently sold for \$265,000. It has 2,700 square feet, 5 bedrooms and 2 baths. If each square foot of space is worth \$35, each bedroom is worth \$5,000, and each ½ bath is worth \$1,000, what is the indicated value of the subject property using the sales comparison approach?
- A. \$110,000
  - B. \$261,000
  - C. \$276,000
  - D. \$254,000
  - E. None of the above
- \_\_\_\_\_ 28. In conducting the sales comparison approach is it important to remember
- A. you begin with the sale price of the comparable and adjust this figure to make the comparable more like the subject property.
  - B. you begin with the sale price of the subject and adjust this figure to make the subject more like the comparable property.
  - C. to properly subtract off accrued depreciation.
  - D. Both A and C
  - E. Both B and C
- \_\_\_\_\_ 29. Which of the following transactions requires an appraisal by a state-licensed or state-certified appraiser?
- A. Sale of a commercial property with a mortgage from a national bank
  - B. A residential mortgage loan that will be sold on the secondary market
  - C. Sale of a duplex where the seller provides the financing for the buyer
  - D. A gift of property to your children
  - E. Both A and B
- \_\_\_\_\_ 30. The estimated cost of reconstructing a building in exact detail using identical materials is referred to as the \_\_\_\_\_ of the building.
- A. Substitution cost
  - B. Replacement cost
  - C. Appraisal cost
  - D. Reproduction cost
  - E. None of the above

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- \_\_\_\_\_ 31. A retail strip center is available for sale at a purchase price of \$250,000. It is expected to generate \$30,000 per year in net operating income. What is the cap rate at which you would be purchasing this property?
- A. 10.00%
  - B. 12.00%
  - C. 8.33%
  - D. 9.50%
  - E. None of the above
- \_\_\_\_\_ 32. True or False: Reproduction cost is the most appropriate cost estimation method to use for historic and other unique properties.
- \_\_\_\_\_ 33. The gross income multiplier for warehouse properties in a particular part of town is 9. If a warehouse in this area generates \$250,000 in gross rents per year, what would be its indicated value using the income approach?
- A. \$27.78 million
  - B. \$2.25 million
  - C. \$25.00 million
  - D. \$9.00 million
  - E. \$27.00 million
- \_\_\_\_\_ 34. A warehouse property is expected to generate net operating income of \$250,000 per year. If similar buildings are currently selling at an 11 percent cap rate, what would you estimate to be the market value of this building?
- A. \$2.27 million
  - B. \$22,700
  - C. \$2.75 million
  - D. \$27,500
  - E. None of the above