

**RE 310 – Principles of Real Estate**  
*What Limits How You Use Real Estate?*  
Practice Homework Problems – Solutions

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- 1) What is an easement? What is the key difference between an easement in gross and an appurtenant easement?

An easement is the right of one person to use the property of another for a specified purpose and under certain conditions that specify the extent of allowable usage.

- 2) What are externalities? Give an example of a positive spillover effect and of a negative spillover effect as it relates to real estate.

An externality occurs when one person's activity (land use choice) impacts others without impact on the person taking the action.

An example of a positive spillover effect in real estate would be when a property owner substantially improves the maintenance and landscaping of his or her property. In this case, nearby property owners benefit from this action and yet bear none of its costs.

A negative spillover effect might occur if a bar owner decides to let bands play on an outdoor patio late at night. In this case, people in the surrounding residential neighborhood will be forced to hear this music even if they don't want to. Thus, the bar owner is not "internalizing" all of the costs of his or her actions. (Of course, some neighbors may like hearing the band, in which case this would be a positive spillover effect, because they won't have to pay the cover charge to hear the concert.)

- 3) What fundamental governmental power gives municipalities the authority to enact zoning and other land-use regulations?

Police power.

- 4) List the key types of land-use restrictions that are typically contained in zoning codes.

First, zoning codes typically restrict the type of permitted use (e.g., residential, commercial, industrial, etc.).

Second, zoning codes restriction the intensity of use, through setback provisions, maximum size and height limitations, etc.

- 5) Suppose a local government needs to raise \$28 million from general property taxes. If the assessed value of property in that jurisdiction is \$500 million, what will be the required mill levy?

The *tax rate* required would be  $\$28 / \$500 = 5.6\%$ .

The required *mill rate* would be  $0.056 \times 1000 = 56$  mills.

- 6) You are considering purchasing some commercial property, and need to know how much the property taxes will be. If the market value of the property is \$1.2 million, taxes are assessed at 85 mills, and the commercial property assessment rate is 25%, what will be the annual property tax bill for this property?

The *assessed value* of the property is  $0.25 \times \$1,200,000 = \$300,000$ .

The annual property tax bill will be  $\$300,000 \times 85 / 1,000 = \$25,500$ .

- 7) Go to the Sedgwick County Appraiser's web site and look up the property tax assessment for the Epic Center (301 N. Main). What is its appraised value? What is its assessed value? What is the total tax bill (general plus special) that will be due on this property for 1999? What mill rate does this tax bill imply?

The Epic Center's appraised value is \$13,204,400.

The Epic Center's assessed value is \$3,301,100.

The total tax bill due for 1999 is \$327,247.13.

The implied mill rate is  $\$327,247.13 / \$3,301,100 \times 1,000 = 99.13$  mills.