

Solutions to Questions - Chapter 1
Real Estate Investment: Basic Legal Concepts

Question 1-1

What is the difference between real property and personal property?

Real property refers to the ownership rights associated with realty. Realty refers to land and all things permanently attached. Personal property refers to ownership rights associated with personalty. Personalty are all things, tangible and intangible, that are movable. This includes all things that are not realty.

Question 1-2

What is meant by an estate? Why are estates important in real estate finance?

Estate is used to denote a possessory or potentially possessory interest in real estate. However, not all interests in real property are estates. Ownership can be quite different from possession and a variety of legal factors affect the ownership rights associated with real estate. The economic benefits expected by lenders, investors, and other parties in real estate transactions are affected by these legal factors.

Question 1-3

How can a leased fee estate have a value that could be transferred to another party?

The original fee owner can give up some property rights to a lessee. The value of the leased fee estate will depend on the amount of lease payments expected during the term of the lease plus the value of the property when the lease terminates and the original owner receives the reversionary interest.

Question 1-4

What is an abstract of title?

An abstract of title is a historical summary of the publicly recorded documents that affect title.

Question 1-5

Name the three general methods of title assurance and briefly describe each. Which would you recommend to a friend purchasing a home? Why?

General Warranty Deed - the grantor warrants that the title he/she conveys to the property is free and clear of all encumbrances, other than those that are specifically listed in the deed.

Special Warranty Deed - makes the same warranties as a general warranty deed except that it limits their application to defects and encumbrances which occurred only while the grantor held title to the property.

Quitclaim Deed - offers the grantee the least protection in that it simply conveys to the grantee whatever rights, interests, and title that the grantor may have in the property. No warranties are made about the nature of these rights and interests or of the quality of the grantor's title to the property.

Would recommend the General Warranty Deed, because it offers the most comprehensive warranties about the quality of the title.

Question 1-6

Would it be legal for you to give a quitclaim deed for the Statue of Liberty to your friend?

Yes, the quitclaim deed simply says that the grantor "quits" whatever claim he has in the property (which may well be none) in favor of the grantee.