

□ A borrower has a 25 year fully amortizing fixed rate mortgage loan for \$500,000 w/ annual interest rate of 5% payable monthly and no prepayment penalty. If she wants to pay the loan off after 10 years, what would the payoff amount be?

- Determine PMT($n=10$, $i=5\%$, $PV= -500,000$)
- Paid off before maturity:
 - o Term = 10, $i=5\%$, $PMT= 2922.95$, $PV= -500,000$
 - o = 369,622.41 payoff amount

□

All of the following are clauses that can be found in lease agreements, EXCEPT:

- LTV, DSCR, prepayment options

□

□ When doing a hold vs. sell analysis, all of the following are important factors to consider, EXCEPT:

- Book depreciation of the property in the year after the projected sale
 - o Should consider: future market conditions for leasing and selling, projected IRR and equity multiple from holding the property, risks related to holding the property in order to achieve the projected returns

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□ 4. A borrower obtains a \$360,000 reverse annuity mortgage with monthly payments to be received over 18 years. If the annual interest rate on the mortgage loan is 6%, what monthly payment will be received by borrowers?

- Solve for PMT ($n=18$, $FV = -360,000$, $i= 6\%$) (pg. 105 of text book)
- = \$929 monthly payment received by borrower

□

if two investments are compared over time, and there appears to be no relationship whatsoever between them, what is the likely value of their coefficients of correlation?

- 0

□

□ global property investing is attractive for all of the following reasons, EXCEPT:

- currency, political and other risks in foreign markets must be carefully managed
 - o attractive because: increased diversification is possible w/ low or negative regional correlation, higher returns are potentially available in certain foreign markets, property investment opportunities outside the U.S have been growing

□

□ Which of the following is NOT a component of lease rollover risk?

- Increasing rent levels in the local market
 - o Components of roll over risk: tenant improvements required by the new tenants, commissions paid to leasing agents to find new tenants, reduced revenues from vacancy until new tenants are found

□

□ 8. Which of the following is true of the triple net lease?

- All expenses are paid for by tenant

□

□ A jumbo loan:

- Exceeds the loan limits for conforming loans

□

□ In states where deed of trust is used to finance real estate, there are 3 parties to the financing. Which of the following is NOT one of these three parties?

- Escrow
 - o The three are: Beneficiary, Trustee, Trustor

□

□ Which of the following does NOT represent a potential benefit to a company from selling and leasing back a property?

- Increases the companies taxable income by reducing depreciation deductions
 - o Potential benefits are: provide source of capital, demonstrate market value of company's real estate, increases the operating income by reducing depreciation deduction

□

□ 12. Which of the following is NOT a typical objective of renovating a property?

- **Increase operating expenses**

- o objectives: increase rent, occupancy, prop. Value, decrease operating expenses

□

□ Local zoning and building codes regulate all of the following property development issues EXCEPT:

- **Maximum LTV and minimum DSCR**

- o Do regulate: allowable uses, max Floor area ratio (FAR), height restrictions, minimum lot sizes, parking ratios, building setbacks, mitigation of residents daily living (stores, traffic...)

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□ Which of the following is not a requirement to qualify as a REIT?

- **At least 75% of the assets must be unrelated to real property**

- o Are requirements: 5/50 rule, at least 100 shareholders, 90% of taxable income distributed as dividends

□

□ A \$7,200,000 30 year fully amortizing fixed rate mortgage loan at 4.5% annual interest w/ monthly payments has been seasoned for 7 years. What is the balloon payment due on the contract maturity date?

- **\$0 (b/c fully amortizing)**

- o balloon payment refers to amount due at end of contracted loan

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□ 16. which of the following solutions is LEAST likely to be acceptable to a lender when discussing alternatives to foreclosing on a property?

- **Permanently reducing the interest rate on the loan**

□

□ which of the following is FALSE regarding the debt service coverage ratio (DSCR)?

- It is not a concern for lenders when the LTV ratio is low

□

□ Falling interest rates are likely to affect residual mortgage backed securities (RMBS) more than commercial mortgage backed securities (CMBS) because:

- Residential mortgage borrowers can typically prepay and refinance more easily than commercial mortgage borrowers
 - o Primary risks: default risk and prepayment risk

□

□ which of the following is NOT a CMO security type?

- Double Helix
 - o unique types of CMOs: AAA Tranche, IOs, PO's, Floaters and Inverse floaters

□

□ 20. In the context of a lease, a percentage rent clause generally provides that:

- The landlord will receive a percentage of the tenant's sales or income based on an agreed formula or above some agreed upon break point

□

□ A person who transfers title to real property is a?

- grantor

□

□ When would seller financing of real estate NOT be used?

- When the seller desired to artificially raise the price of the property by offering a lower than market interest rate on the seller financing
 - o Seller financing used: to have installment method of reporting the gain from sale, when buyers cannot qualify for a conventional loan, in order to sell faster / compete with third party

□

□ you have a choice of two 25 year fully amortizing mortgage loans with monthly payments: (A) w/ a 5% down payment, you can obtain a 6% annual interest rate or (B) with a 15% down payment, you can obtain a 5% annual interest rate. What is the effective annual interest rate on the additional 10% borrowed if you take the first loan?

- Incremental borrowing cost
 - Loan amount (arbitrary), LTV = 0.95 and 0.85, $n = 25 \times 12$
- 13.318%

□

□ 24. sale-leaseback allows owner-user to realize the appreciation of the equity in their properties while retaining the use of the those properties. A disadvantage of the sale-leaseback is that the seller:

- All of these are correct
 - Must pay taxes on the gain of sale
 - Loses future appreciation in the value of the property
 - Must pay rent for the duration of the leaseback

□

□ The appraised value of property represents the:

- Actual opinion of appraiser

□

□ A stand-by loan commitment is:

- An agreement by a lender to be ready to provide permanent financing for a property once construction is completed if certain conditions have been met

□

□ Why might including REITs in a portfolio containing S&P 500 securities produce diversification benefits?

- REIT returns are not highly correlated w/ returns from other stocks

□

□ 28. A residential borrower takes out a 30 yr fully amortizing, conforming, fixed rate mortgage loan for \$540,000 with an annual interest rate of 3.5%. What is the monthly payment of principle and interest?

- $PMT(PV = -540,000, i = 3.5\%, n = 30 \times 12)$

- \$2,424.84

□

□ A loan in which the borrower arranges for a maximum loan amount that will be advanced in stages, like a construction loan, is said to be:

- open-ended

-

□ which of the following describes the function of an expense stop in a lease?

- Expenses above the stop are paid for by the tenant

□

□ A borrower takes a 15 year fully amortizing fixed rate mortgage loan for \$1.8 million with an annual interest rate of 5% and is charged 3 points by the lender. What is the effective annual interest rate on the loan if the loan is payable monthly and is carried to maturity?

- Solve for APR
- Loan principal = 1.8 mil, i= 5%, fee percentage = 3%, term=15
- 5.47%

□

□ 32. The primary risk affecting the value of mortgage backed securities are:

- Default risk and prepayment risk

Which of the following statements is true regarding general partnerships?

- They are NOT preferred for groups of individuals who are seeking to form a business entity to invest in real estate because of the unlimited liability of each partner

An investor purchased a building in 1985 when the building could be depreciated over 19 years. A few years later, a new investor was interested in purchasing the building when the depreciable life according to revised tax laws was 39 years. Assuming both investors were in the same income tax bracket and everything else was equal, what can be said about the taxable income that would be received by the new investor compared to the taxable income that was received by the prior investor?

- The new investor would have a higher taxable income because her depreciation expense would be lower

- o New investor has money amounts spread over longer period of time (39 years) so depreciation expense is less per year, but for a longer amount of time

Which of the following is a “soft cost” of construction?

- The cost of architectural and engineering drawings

□

□ 36. A lender requires a 1.25 DSCR as a minimum. If the NOI of a property is \$460,000, what is the maximum amount of debt service the lender would allow?

- $460,000 / 1.25 =$
- \$368,000

□

□ A main different between net operating income and funds from operation is:

- depreciation

□

□ Location is:

- always an important factor to consider in a potential property investment

□

□ A property that is purchased for \$10 mil produces an annual NOI of \$600,000. Financing is obtained at 60% LTV ratio and a 4.5% annual interest rate payable monthly and fully amortized over 25 years. What is the cash return on invested equity?

- $ROE = NOI - \text{annual debt service (PMT} \times 12) / \text{Down payment}$
 - o $600,000 - 400,199.40 / 4,000,000 =$
- 0.04995 ~ 5%

□

□ 40. A property investor wants to acquire a 50,000 square foot class “A” office building for \$400 per sq. foot. A lender will fund a purchase money mortgage with a maximum LTV of 70%. What is the minimum amount of equity needed to close the acquisition

- sq. foot of building * cost psf = $50,000 * 400 = 20,000,000$
- $20,000,000 * 0.7 = 14,000,000$
- $20,000,000 - 14,000,000 =$
- **\$6,000,000**

□

A borrower takes a 10 year interest only mortgage loan for \$600,000 w/ monthly payments. In the first two years the loan has a “teaser” rate of 1%, after which the rate resets each year with 2% annual and 5% lifetime rate caps. On the first reset date, the fully indexed rate is 6%. What would be the monthly payment in the third loan year?

- $\$600,000 * (3\%/12) =$
- $PMT (PV = -600,000, i = 3\%, n=10, FV=600,000) =$
- **\$1,500**

□

□ which of the following is true regarding cap rates?

- **Falling interest rates tend to lower cap rates**

□

□ All of the following are reasons that construction lenders typically require real estate developers to borrow on a recourse basis when taking out a construction loan EXCEPT:

- **Construction loans are readily available from many lenders with few conditions or restrictions**
 - o Require recourse basis b/c: Development projects are riskier, if the project is delayed or over budget the construction lender may want to pursue the developer personally to repay loan, take-out lenders may not be required to fund upon construction if the project isn't completed successfully

□

****44.**

□

□ Which of the following statements regarding equity in a property is true?

- **The amount of equity an investor has in a property may change over time if the property values changes or if the loan balance is amortized**

□

□ **A property is sold for \$7,200,000 with total selling costs at 5% of the sales price. The mortgage balance at the time of sale is \$3,600,000. The property was purchased 5 years ago for \$5,400,000. Annual depreciation deductions of \$120,000 have been taken each year for tax purposes. If the combined federal and state tax rates on capital gains is 30%, what is the after-tax cash flow from the sale of the property?

-

□

□ Which of the following is NOT a benefit of refinancing with a larger loan?

- Financial risk is increased

□

48. A deposit placed in an account earning 6% interest annually will approx.. double in value in how many years?

- Rule of 72: $72/6 =$
- 12

□

□ Which of the following is NOT a major participant in the secondary mortgage market?

- Ellie Mae
 - o The main ones are: Ginnie Mae, Fannie Mae, Freddie Mac

A commercial property appraisal usually contains 3 valuation methodologies. Which of the following is NOT one of them?

- Ratio of Values
 - o 3 methods: replacement cost, capitalization of income, comparable sales

□

□ A mortgage is a legal document that:

- uses real estate as collateral to secure the repayment of a loan

□

□ 52. Land parcels in a new development are selling for \$100,000 each and the developer projects total revenue from land sales to be \$30 mil. The projects lender requires that the \$15 mil land loan be completely paid off by the time 75% of parcels have been sold. What would be the lender's release price for each parcel?

- $30 \text{ mil} * 0.75 = 22.5 \text{ mil}$
- $15 \text{ mil} / 22.5 \text{ mil} = 0.66667 = \% \text{ of revenue to lender}$
- $100,000 * 0.66667 =$
- **\$66,667**

□

□ A residential borrower takes out a 30 year fully amortizing conforming, fixed rate mortgage loan for \$540,000 with an annual interest rate of 3.5%. What portion of the first month's payment would be principal?

- Solve PMT ($PV = -540,000$, $i = 3.5\%$, $n = 30$) = 2,425
- $540,000 * (3.5\% / 12) = 1,575$ (interest)
- $2,425 - 1,575 =$
- **\$850**

□

□ A future value of a single deposit of \$10,000 will be largest if interest is compounded:

- **daily**

□

□ The due diligence process:

- **The imperfect process to determine whether the potential returns from an investment are sufficient given the potential risks**

□

□ 56. One would see the greatest amount of diversification from two investments that are:

- **negatively correlated**

□

□ A borrower takes out a \$2,700,000 30year fully amortizing 1year LIBOR based ARM loan with a 2.5% margin and monthly payments. The loan has a teaser rate of 1% for the first year, after which the rate resets annually with 2% annual and 5% lifetime interest rate increase caps. One the first reset date, 1year LIBOR is 1.5%. What would be the monthly payment in the second loan year?

- $PMT (PV = -2,700,000, i = 1\%, n = 30) = 8,684.27$
- Loan balance EOY 1 ($PV = -2,700,000, i = 1\%, \text{term} = 1, \text{pmt} = 8,684.27$) = 2,622,434
- $PMT (PV = -2,622,434, i = 3\%, \text{term} = 29) =$
- **\$11,292**

□

□ A conforming loan:

- **meets the underwriting criteria for loans that Fannie Mae and Freddie Mac can buy**

□

□ Lender's prefer a higher DSCR for all the following reasons EXCEPT:

- **Less NOI is available to cover debt service payments**
 - o Prefer higher DSCR: reduces risk of a borrower default, more NOI is available to cover debt service payments

□

□ 60. A market value of a loan is:

- **The present value of the expected future loan payments**

□

□ Which of the following would NOT typically result in an increase in housing demand?

- **Higher interest rates**
 - o Increases in demand come from: population growth, higher household income, employment growth

□

□ A real estate syndication that raises capital before identifying any of the properties it will eventually own is known as a:

- blind pool

□

□ Annual expenses for a 120,000 square foot office are \$6.50 psf. The lease specifies an expense stop of \$5.00 psf. What is the total annual expense load paid by tenant in connect to this space?

- $120,000 * (6.50 - 5) =$
- \$180,000

□

□ 64. The net operating income from a property can be increases by:

- increasing rental income
 - o or by decreases expenses (remember: NOI = rental and prop. income - operating expenses)

□

65.

□

□ Which of the following is FALSE regarding an option contract to purchase a land parcel?

- If the developer decides not to purchase the property, the landowner will usually refund any money previously paid for the option
 - o Option agreement: gives developer right to purchase, preliminary investigation, pays option price to landowner
 - If purchase □ option price applied towards purchase
 - If not □ developer owes nothing, landowner may keep option price

Real estate is often considered an inflation hedge because real estate returns are:

- Positive correlated with inflation

□

□ 68. A "C" corporation is generally not a good vehicle to use for property investing because:

- A "C" corporation is not a "pass through" entity for tax purposes

□

□

**69.

□

□ A historical summary of the publicly recorded documents that affect the ownership of a property is known as a:

- abstract of title

□

□ ** Property in a certain market is expected to appreciate at a rate of 5% per year. If an investor borrows interest only at an LTV of 75% and properties NOI exactly covers the mortgage payments, what would be the expected annual appreciation rate on invested equity?

- 20%

□

□ 72. one of the primary advantages of a limited liability company over limited partnership is:

- an LCC does NOT need to have any members with an unlimited liability

□

□ More real estate investments trusts are:

- equity REITs

□

□ The return calculated assuming a property is held for an additional year is the:

- marginal rate of return (MRR)

□

□ a _____ is not a legal form of organization, rather it is an agreement between at least two parties to pursue a specific business or investment objective:

- Joint venture

□

□ 76.

□

the most common method of distributing fund provided by construction loan is a:

- series of payments throughout construction to reimburse the developer for costs incurred since the previous construction draw

□

□ A property that produces an annual NOI of \$125,000 was purchased for \$2,500,000. Debt service for the first year was \$105,000 of which \$93,000 was interest and remainder was principle. Annual depreciation for tax purposes is \$25,000. What is taxable income?

- Taxable income = $125,000 - 25,000 - 93,000 =$
- \$7,000

□

□ Which of the following is FALSE concerning a mechanic's lien?

- Valid even after the bill for labor or material has been fully paid

□

□ 80. A property produces an after tax IRR of 11%. If the investor has a marginal tax rate of 45%, what is the before tax equivalent yield?

- $.11 / 1 - .45 =$
- 20%

□

□ A loan in which the lender receives a percentage of the net operating income from the property is known as:

- participating loan

□

□ Which of the following is true concerning a property's cap rate?

- It expresses the relationship between the NOI and property value at a specific point in time

□

A small office building is purchased with a \$1,800,000 balloon mortgage that is due at the end of 10 years. Payments are based on 30 year amortization period. If one point is charged, how much of that point can be deducted annually for tax purposes?

- $1,800,000 \times 0.01 = 18,000$ (total fee charged)
- $18,000 / 10$ (b/c of loan term) =
- \$1,800

□

84. a property is sold for \$5,000,000 with a 65% purchase money mortgage at 5.5% annual interest rate fully amortized over 30 years. If the property net operating income is \$275,00 what is the acquisition cap rate?

- Cap rate, NOI, tax income tab □
- 5.5%

□

which of the following might impact the density of housing in a land development project?

- All of these are correct
 - o Price paid for the land by developer, local market's demand preferences, local zoning code regarding max

□

which of the following is FALSE regarding interest only loans?

- They have greater amortization than conventional loans

what legal document transfers titles from one person to another?

- Deed

□

88. if one of the terms of an ARM is “interest is capped at 2%/6%” what does that mean?

- Interest rate has a 2% annual cap, and 6% lifetime cap on rate increases

which of the following would be used in the cost approach to value?

- Add the depreciated replacement cost of the building to the current land value

** A senior mortgage holder brings a foreclosure suit which includes all junior lenders in that suit. If the senior mortgage holder purchases the property for it's mortgage balance at the foreclosure sale, what happens to the claims of the junior mortgage holders? (pg. 34/35)

- The liens of the junior claimants and the amounts owed to them are extinguished
 - o ** “if senior mortgage holder or third party purchases at foreclosure sale (after having including junior mortgagors in suit), then all junior liens are of no further force or effect”

What is the primary different between equity REIT and mortgage REIT?

- Equity REITs primarily own properties whereas mortgage REITs primarily own mortgage loans on properties

92. The potential risks in a real estate investment include:

- all of these are correct
 - o liquidity, capital market, legislative, business, financial, management, interest rate, environment, market . . risks

which of the following is NOT one of the primary benefits of investing in income property?

- Property taxes
 - o Primary benefits: cash flow, property appreciation, tax depreciation

□ A property produces a first year NOI of \$250,000 that is expected to increase 3% annually. If the property is sold at the end of year 10, what is the expected sale price based on a terminal cap rate of 5% applied to the 11th year NOI?

- Sale price = NOI (year 11) / terminal cap rate =
 - o NOI year 11 = $(250,000) * ((1.03)^{10})$
- \$6,719,582

□

□ after owning and managing a shopping center for many years, the property substantially increases in value and owner wants to realize some or all of the increased equity while paying little or no current taxes. The owner might:

- all of these are correct
 - o refinance the property w/ larger loan at lower interest rate,
 - sell the property under an installment sale, trade the property for a larger property in a section 1031 exchange

□

□ **96. A property was purchased for \$6,000,000 at a cap rate of 6% with a 60% LTV interest only loan at 6% annual interest rate. If after 10 years the property appreciated by 60%, what would the amount of the owners equity be at that time?

- \$6,000,000

□

□ A partnership agreement provides that upon sale the net cash proceeds are to be distributed first to Mr. Gustavson in an amount equal to his original investment less any cash distribution previously received, then split 40-60 between Mr. Gustavson and Mr. Aposhian. If the net cash proceeds from sale are \$1 mil, how much would Mr. Aposhian receive upon sale if Mr. Gustavson's original investment was \$300,000 and he previously received \$100,000 in cash distributions?

- $1 \text{ mil} - (300,000 - 100,000) = 800,000$
- $800,000 * 0.6 =$
- \$480,000 for Mr. Aposhian

□

□ The net sale proceeds minus the adjusted tax basis determines which of the following?

- Depreciation deductions for the property

□

□ which of the following factors is NOT a part of the definition of market value?

- The property has been for sale on the open market for at least one year
 - o Factors a part of def. of market value: price is not affected by special or creative financing, or by undue pressure to buy or sell, buyer and seller are typically motivated

□

□ 100. One of the most popular amortizing mortgage is the CPM. Which of the following characterizes the components of CPM monthly payment over the life of the loan? Answers below are ordered as: Interest Amortization Payment

- Decreasing, Increasing, Constant

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