

Practice Final

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

- a. \$0
- b. \$275,579
- c. \$750,000
- d. \$369,622 (Personal Calcs, start at A1 and answer at B27)

2. All of the following are clauses that can be found in lease agreements, except:

- a. Parties to the lease, base rent amount, rent increase provisions
- b. Allowable uses, condition of the premises, repair and maintenance
- c. Assignment and subletting, alterations and improvements, renewal
- d. Loan to value ratio, debt service coverage ratio, prepayment option

3. When doing a hold versus sell analysis, all of the following are important factors to consider, except:

- a. Future market conditions for leasing and ultimately selling the property
- b. Projected IRR and equity multiple from holding the property
- c. Risks related to holding the property in order to achieve the projected returns
- d. Book depreciation of the property in the year after the projected sale

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 the borrower?

- a. \$929
- b. \$2729
- c. \$1800
- d. 5996

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

- a. -1
- b. Infinite
- c. 0
- d. +1

6. Global property investing is attractive for all of the following reasons except:

- a. Increased diversification is possible with low or negative regional correlations
- b. Higher returns are potentially available in certain foreign markets
- c. Property investment opportunities outside the US have been growing
- d. Currency, political, and other risks in foreign markets must be carefully managed

7. Which of the following is not a component of lease rollover risk?

- a. Tenant improvements required by the new tenants
- b. Commissions paid to leasing agents to find new tenants
- c. Reduced revenues from vacancy until new tenants are found
- d. Increasing rent levels in the local market

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

- a. All expenses are paid by the tenant
- b. All expenses are paid by the owner
- c. All expenses are paid by the investor
- d. All expenses are paid by the lender

9. A jumbo loan:

- a. Typically has a lower interest rate than a conforming loan
- b. Is another term for a conforming ARM loan
- c. Exceeds the loan limits for conforming loans
- d. Has a lower DSCR requirement than a conforming loan

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

- a. Escrow
- b. Title Insurer
- c. ?
- d. ?

11. Which of the following does not represent a potential benefit to a company from selling and leasing back a property?

- a. Provides a source of capital
- b. Increases the company's taxable income by reducing depreciation deductions
- c. Demonstrates the value of the company's real estate to the marketplace
- d. Increases the company's operating income by reducing depreciation deductions

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

- a. Increased rents

- b. Increased occupancy
- c. Increased operating expenses
- d. Increased property value

13. Local zoning and building codes regulate all of the following property development issues except:

- a. Traffic mitigation and parking ratios
- b. Maximum FAR and allowable uses
- c. Maximum LTV and minimum DSCR
- d. Minimum lot size and height restrictions

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

- a. Not more than 50% of the shares can be owned by five or fewer shareholders
- b. At least 75% of the assets must be unrelated to real property
- c. At least 100 shareholders
- d. At least 90% of taxable income must be distributed to shareholders as dividends

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

- a. \$36,481
- b. \$6,265,892
- c. \$7,200,000
- d. 0

16. Which of the following solutions is *least* likely to be acceptable to a lender when discussing alternatives to foreclosing on a property?

- a. Finding another creditworthy person to assume the mortgage
- b. Extending the amortization period
- c. Permanently reducing the interest rate on the loan
- d. Providing a temporary grace period during which principal and interest are deferred

17. Which of the following is false regarding the debt service coverage ratio?

- a. It is calculated as NOI divided by mortgage payment
- b. It indicates whether the NOI is sufficient to cover the mortgage payments
- c. It is an indication of risk to the lender
- d. It is not a concern for lenders when the LTV ratio is low

18. Falling interest rates are likely to affect residential mortgage backed securities (RMBS) more than commercial mortgage backed securities (CMBS) because:

- a. Prepayment risk is not a significant risk affecting residential mortgages
- b. Residential mortgage borrowers can typically prepay and refinance more easily than commercial mortgage borrowers
- c. Default risk is not a significant risk affecting commercial mortgages
- d. Commercial mortgage borrowers can typically prepay and refinance more easily than residential mortgage borrowers

19. Which of the following is not a CMO security type?

- a. Double helix
- b. AAA tranche
- c. Interest and principal only tranches
- d. Floaters and inverse floaters

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

- a. The tenant will pay a rent amount that is a certain percentage of the local average
- b. The tenant will pay a proportionate amount of net rent for his space relative to the total net rentable area
- c. The landlord will receive a percentage of the tenant's sales or income based on an agreed formula or above some previously agreed break point
- d. The tenant will reimburse the landlord for a percentage of the operating expenses above a certain per square foot amount

21. A person who transfers title to real property is a?

- a. Mortgagor
- b. Grantee
- c. Mortgagee
- d. Grantor

22. When would seller financing of real estate not be used?

- a. The seller wants to use the installment method of reporting the gain from sale
- b. The buyer does not qualify for a conventional mortgage loan
- c. Third party mortgage financing is less expensive and easily available
- d. The seller desire to artificially raise the price of the property by offering a lower than market interest rate on the seller financing

23. You have a choice of two 25-year fully amortizing mortgage loans with monthly payments: (A) with 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?

- a. 13.3% (Sheet 1, A50)
- b. 5%
- c. 14.5%
- d. 6%

24. Sale lease-backs allow owner users to realize the appreciation of the equity in their properties while retaining the use of those properties. A disadvantage of the sale-leasebacks is that the seller:

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

25. The appraised value of a property represents the:

- a. Actual selling price of the property

- b. Actual replacement cost of the property
- c. Actual opinion of the appraiser
- d. Actual purchase price of the property

26. A standby loan commitment is

- a. A commitment that always requires the standby lender to fund the permanent loan
- b. Another term for a construction loan
- c. A way to increase NOI for projects by reducing debt service obligations
- d. 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

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

- a. REIT return are enhanced when inflation decreases property rent levels
- b. REIT returns are enhanced by dividend payout requirement
- c. REIT returns are not highly correlated with return from other stocks
- d. REIT returns are not subject to federal income taxes if certain rules are met (?)

28. A residential borrower takes out a 30-year fully amortizing, conforming, fixed rate loan for \$540,000 with an annual interest rate of 3½%. What is the monthly payment of principal and interest?

- a. \$1,818
- b. \$1,575
- c. \$19,900
- d. \$2,425 (Sheet 1, L2)

29. 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:

- a. Non recourse
- b. Open-ended
- c. Subordinated
- d. Assumable

30. Which of the following describes the function of an expense stop in a lease

- a. Expenses above the stop are paid for by the owner
- b. Expenses are stopped from increasing
- c. Expenses above the stop are paid for by the tenant
- d. Expenses below the stop are paid for by the tenant

31. A borrower takes out a 15-year fully amortizing fixed rate mortgage loan for \$1.8 million with an annual interest rate of 5% and it's 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?

- a. 4.55%
- b. 5.27%
- c. 5.47% (Sheet 1, B 15)
- d. 5.00%

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

- a. Subordination risk and acceleration risk
- b. Retention risk and inflation risk
- c. Default risk and prepayment risk
- d. Inversion risk and deflation risk

33. Which of the following statements is true regarding general partnerships?

- a. They have pass-through for tax purposes income similar to that of corporations
- b. They protect each of the partners from potential losses associated with the partnership's business activities
- c. 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
- d. They are preferred for groups of individuals who are seeking to form a business entity to invest in real estate because of the decision making ability of each partner

34. 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 law was 39 years. Assuming both investors were in the same income tax bracket and that everything else was equal, what can be said about the taxable income that would be received by the new investor as compared to the taxable income that would be received by the prior investor

- a. The new investor would have a higher taxable income because her depreciation expense would be lower
- b. The new investor would have a higher taxable income because her depreciation expense would be higher
- c. The new investor would have a lower taxable income because her depreciation expense would be lower
- d. Both investors would have to use a 39-year depreciable life given the changes in the tax laws so their taxable income would be the same

35. Which of the following is a "soft cost" of construction

- a. The cost of carpeting and painting in the interior spaces
- b. The cost of steel used in the building's structure
- c. The cost of architectural and engineering drawings
- d. The cost of pouring concrete for the building's foundation

36. A lender required a 1.25 debt service coverage ratio as a minimum. If the net operating income of a property is \$460,000, what is the maximum amount of debt service the lender would allow

- a. \$575,000
- b. \$320,000
- c. \$460,000
- d. \$368,000 ($DSCR = NOI/Total\ Debt\ Service$ \square $NOI/DSCR = TDS$)

37. A main difference between net operating income and funds from operations is:

- a. Number of shares outstanding

- b. Depreciation
- c. Future growth rates
- d. Income taxes

38. Location is:

- a. Less important than it used to be given the popularity of Google maps
- b. Always an important factor to consider in a potential property investment
- c. Why does location matter?
- d. Relevant only if the property is in an undeveloped area

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

- a. 5% (Sheet 2, N12)
- b. 6%
- c. 4.5%
- d. 8.25%

40. A property investor wants to acquire a 50,000 square foot class "A" office building for \$400 per square 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?

- a. \$20,000,000
- b. \$6,000,000 (Sheet 1, H72)
- c. \$2,000,000
- d. \$14,000,000

41. A borrower takes out a 10-year **interest-only** mortgage loan for \$600,000 with 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 year loan?

- a. \$3,000 (Sheet 1, B119)
- b. Because of the interest rate caps, the monthly payment would not change
- c. \$2,500 (Sheet 1, B119)
- d. \$1,500

42. Which of the following is true regarding cap rates?

- a. Falling interest rates tend to lower cap rates
- b. Falling demand tends to lower cap rates
- c. Rising interest rates tend to lower cap rates
- d. Rising supply tends to lower cap rates

43. 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:

- a. Construction loans are readily available for many lenders with few conditions or restrictions
- b. Development projects are much riskier than stabilized income-producing properties
- c. If the development project is substantially delayed or over budget, the construction lender may need to pursue the developer personally to repay the construction loan

- d. Take-out lenders may not be required to fund upon construction completion if the project is not completed successfully

44. ???

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

- a. The amount of equity an investor has in a property may change over time if the property value changes or if the loan balance is amortized
- b. The outstanding loan balance does not affect the amount of equity an investor has in a property
- c. The amount of equity an investor has in a property depends on the value of the equity the investor has in his or her other investments
- d. The amount of equity an investor has in a property does not change over time as the loan balance is amortized

46. A property is sold for \$7,200,000 with total selling costs at 5% of sales price. The mortgage balance at the time of sale is \$3,600,000. The property was purchased five 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?

- a. \$2,808,000
- b. \$2,628,000 (Sheet 3, B14-31)
- c. \$2,520,000
- d. \$2,700,000

47. Which of the following is not a benefit of refinancing with a larger loan?

- a. Because the property is not sold, the investor retains any future price appreciation
- b. No taxes have to be paid on the additional loan proceeds
- c. The investor can reduce the interest rate if rates have fallen
- d. Financial risk is increased

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

- a. 8
- b. 9
- c. 10
- d. 12

49. Which of the following is not a major participant in the secondary mortgage market?

- a. Ginnie mae
- b. Frannie mae
- c. Freddie mac
- d. Ellie mae

50. A commercial property appraisal usually contains three valuation methodologies. Which of the following is not one of them?

- a. Ratio of values

- b. Replacement cost
- c. Capitalization of income
- d. Comparables

51. A mortgage is a legal document that:

- a. Describes a possessory interest in real estate
- b. Evidences a promise to pay a loan under specific terms
- c. Uses real estate as the collateral to secure the repayment of a loan
- d. Transfers ownership of a property to a trustee

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 million. The projects lender requires that the \$15 million loan to be paid off by the time that 75% of the parcels have been sold. What would be the lender's release price for each parcel?

- a. \$50,000
- b. \$66,667 (Sheet 1, E85)
- c. \$100,000
- d. \$75,000

53. A residential borrower takes out a 30-year fully amortizing, conforming, fixed rate mortgage loan for \$540,000 with an annual interest rate of 3½%. What portion of the first month's payment would be principle?

- a. \$850
- b. \$2,425
- c. \$1,818
- d. \$1,575

54. The future value of a single deposit of \$10,000 will be the largest if the interest rate is compounded:

- a. Daily
- b. Monthly
- c. Annually
- d. Quarterly

55. The due diligence process:

- a. Uncovers all of the potential risks of an investment
- b. Is necessary only when an investment poses a high degree of risk
- c. Is an imperfect process to determine whether the potential returns from an investment are sufficient given the potential risks
- d. Underwrites a project's future cash flows with a higher degree of certainty

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

- a. Not correlated
- b. Negatively correlated
- c. Positively correlated
- d. Perfectly correlated

57. A borrower takes out a \$2,700,000 30-year fully amortizing 1-year LIBOR based ARM loan with 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 caps. On the first reset date, 1-year LIBOR is 1.5%. What would be the monthly payment in the second loan year?

- a. \$12,744
- b. \$11,292 (Chalmer's, F5)
- c. \$11,383
- d. \$8,684

58. A conforming loan:

- a. Exceeds the loan limits for the loans that Fannie Mae and Freddie Mac can buy
- b. Meets the underwriting criteria for loans that Fannie Mae and Freddie Mac can buy
- c. Is another term for a fixed rate residential mortgage loan
- d. Cannot be purchased by Fannie Mae or Freddie Mac

59. Lenders prefer a higher DSCR for all of the following reasons except:

- a. A higher DSCR reduces the risk of a borrower's default
- b. No more NOI is available to cover debt service payments
- c. Less NOI is available to cover debt service payments
- d. A lower DSCR increases the risk of a borrower default

60. The market value of a loan is:

- a. The present value of the expected future loan payments
- b. The loan balance multiplied by the stated interest rate
- c. The future value of the remaining loan payments
- d. The loan balance multiplied by the current market interest rate

61. Which of the following would not typically result in an increase in housing demand?

- a. Population growth
- b. Higher household income
- c. Higher interest rates
- d. Employment growth

62. A real estate syndication that raises capital before identifying any of the properties it will eventually own is known as a(n):

- a. Safe harbor
- b. Accredited investor
- c. Blind pool
- d. Caveat emptor

63. Annual expenses for a 120,000 square foot office space are \$6.50 per square foot. The lease specifies an expense stop of \$5 per square foot. What is the total annual expense load paid by the tenant in connection with this space?

- a. \$600,000
- b. \$0
- c. \$180,000 (Sheet 2, G1, fill H column and the rest will populate)

d. \$780,000

64. The net operating income of a property can be increased by:

- a. Reducing tenant demand
- b. Increasing expenses
- c. Reducing occupancy
- d. Increasing rental income

65. ???

66. Which of the following is *false* regarding an option contract to purchase a land parcel?

- a. An option contract allows the developer to perform a preliminary market study and feasibility analysis before having to acquire the property
- b. If the developer decides not to purchase the property, the developer will not be obligated to pay the full purchase price
- c. If the developer decides not to purchase the property, the landowner will usually refund any money previously paid for the option

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

- a. Positively correlated with inflation
- b. Not correlated with inflation
- c. Inversely correlated with inflation
- d. Negatively correlated with inflation

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

- a. A "C" corporation generally limits liability to the amount of shareholder investments
- b. A "C" corporation can have an unlimited number of investors
- c. A "C" corporation can access substantial capital on the stock markets
- d. A "C" corporation is not a "pass through" entity for tax purposes

69. ???

70. A historical summary of the publicly recorded documents that affect the ownership of a property is known as a(n):

- a. Mechanics lien
- b. Abstract of title
- c. Life estate
- d. Trust deed

71. 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 the property's NOI exactly covers the mortgage payments, what would be the expected annual appreciation rate on invested equity?

- a. 20%
- b. 5%
- c. 25%
- d. 6.7%

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

- a. An LLC does not need to have any members with unlimited liability
- b. An LP is a pass-through entity whereas an LLC is not a pass-through entity
- c. An LP does not need to have any partners with unlimited liability
- d. An LLC is a pass-through entity whereas an LP is not a pass through entity

73. Most real estate investment trusts are:

- a. Mortgage REITs
- b. Specialty REITs
- c. Equity REITs
- d. Hybrid REITs

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

- a. Marginal rate of return
- b. Before-tax cash flow from operations
- c. After-tax cash flow from sale
- d. Reinvestment rate

75. ???

76. 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:

- a. Limited liability company
- b. Limited partnership
- c. Corporation
- d. Joint venture

77. The most common method of distributing funds provided by a construction loan is a:

- a. Series of payments throughout construction to reimburse the developer for costs incurred since the previous construction draw
- b. Series of payments throughout construction to advance the developer for anticipated construction costs in the upcoming period
- c. Single lump sum at the closing of the loan
- d. Single lump sum at the end of the construction to reimburse the developer for the project's total costs

78. 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 the remainder was principal. Annual depreciation for tax purposes is \$25,000. What is the taxable income?

- a. \$20,000
- b. \$7,000 (TI = NOI – DEP. – INT)
- c. -\$5,000
- d. \$43,000

79. Which of the following is false concerning a mechanic's lien?

- a. Valid even after the bill for labor and materials have been fully paid

- b. Gives constructive notice of the lien if properly recorded in the public records
- c. Gives contractors and materials suppliers the right to attach a lien on real estate
- d. Can lead to a judicial sale of the property if the mechanic's bills are unpaid

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

- a. 24.4%
- b. 20.0%
- c. 4.95%
- d. 6.05%

81. A loan in which the lender receives a percentage of the net operating income from a property is known as a(n):

- a. Participating loan
- b. Convertible loan
- c. Construction loan
- d. Accrual loan

82. Which of the following is true concerning a property's capitalization rate?

- a. It expresses the relationship between the net operating income and the property value at a specific point in time
- b. It is the rate of return that investors expect to earn on their invested equity
- c. It explicitly considers project future income
- d. It is equivalent to an IRR

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

- a. 7.5%
- b. 5.5%
- c. 0.0% ($\$1,800,000 \times 1\% = 18,000 / 10 \text{ (loan period)} = \$1,800 \div \$1,800,000 = .1\%$ closest to zero)
- d. 18.0%

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

- a. 7.5%
- b. 5.5% (Sheet 2, H21)
- c. 0.0%
- d. 18.0%

85. Which of the following might impact the density of housing in a land development project?

- a. The price paid for the land by the developer
- b. The local market's demand preferences regarding density
- c. All of these are correct
- d. The local zoning code regarding maximum density

86. Which of the following is false regarding interest-only loans?

- a. They have greater amortization than conventional loans
- b. They have balloon payments
- c. They result in more cash flow to the borrower
- d. They allow for a higher debt service coverage ratio

87. What legal document transfers title from one person to another?

- a. Easement
- b. Promissory note
- c. Mortgage
- d. Deed

88. If one of the terms of an ARM is "interest is capped at 2%/6%," what does that mean?

- a. The borrower can choose the rate cap she wants by circling the appropriate choice
- b. The interest rate has a 2% annual cap and a 6% lifetime cap on interest rate increases
- c. The interest rate has a 2% lifetime cap and a 6% lifetime floor on rate increases
- d. The interest rate has a 2% lifetime cap and a 6% annual cap on rate increases

89. Which of the following would be used in the cost approach to value?

- a. Estimate the net operating income of the property
- b. Determine the market value of comparable properties that have recently sold
- c. Subtract accrued depreciation from the assessed property value
- d. Add the depreciated replacement cost of the building to the current land value

90. A senior mortgage holder brings a foreclosure suit which includes all junior lenders in the suit. If the senior mortgage holder purchased the property for its mortgage balance at the foreclosure sale, what happens to the claims of the junior mortgage holders?

- a. The liens of the junior claimants and the amounts due to them are unaffected
- b. The liens of the junior claimants are unaffected, but the amount owed to them are extinguished
- c. The liens of the junior claimants are extinguished, but the amounts owed to them are unaffected
- d. The liens of the junior claimants and the amounts owed to them are extinguished

91. The primary difference between equity REITs and mortgage REITs is:

- a. Equity REITs must be unleveraged
- b. Equity REITs primarily own properties whereas mortgage REITs primarily own mortgage loans on properties
- c. Mortgage REITs must be private whereas equity REITs can be public
- d. Equity REITs typically pay higher dividends whereas equity REITs can be public

92. The jumbo in a real estate investment include:

- a. Liquidity risk, capital markets risk, legislative risk
- b. Business risk, financial risk, management risk
- c. All of these are correct
- d. Interest rate risk, environmental risk, market rise

93. Which of the following is not one of the primary benefits of investing in income property?

- a. Cash flow
- b. **Property taxes**
- c. Property appreciation
- d. Tax depreciation

94. 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 capitalization rate of 5% applied to the eleventh year NOI?

- a. **\$6,719,582 (Sheet 1, E105)**
- b. \$5,000,000
- c. \$8,333,333
- d. \$6,921,169 □

95. After owning and managing a shopping center for many years, the property substantially increases in value and the owner wants to realize some or all of the increased equity while paying little or not current taxes. The owner might:

- a. Refinance the property with a larger loan at a lower interest rate, if available
- b. Sell the property under an installment sale
- c. **All of these are correct (Ask about refinancing!)**
- d. 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 a 6% annual interest rate. If after ten years the property appreciated by 60%, what would be the amount of the owner's equity at the time?

- a. \$2,400,000
- b. **\$6,000,000 (Sheet 1, H98)**
- c. 3,600,000
- d. 7,200,000

97. 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 distributions previously received, then split 40-60 between Mr. Gustavson and Mr. Aposhian. If the net cash proceeds from sale are \$1 million, 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?

- a. **\$480,000 (Sheet 1, L72; answer in L91)**
- b. \$760,000
- c. \$240,000
- d. \$320,000

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

- a. Before-tax net present value of the property
- b. Capital gain or loss
- c. Depreciation deductions for the property
- d. **After-tax net present value of the property**

99. Which of the following factors is not part of the definition of market value?

- a. Price is not affected by special or creative financing
- b. Price is not affected by undue pressure to buy or sell
- c. The property has been for sale on the open market for at least one year
- d. Buyer and seller are typically motivated

100. One of the most popular amortizing mortgages is the constant payment mortgage (CPM). Which of the following characterizes the components of the CPM monthly payments over the life of the loan?

Answers below are ordered as follows: interest, amortization, payment

- a. Constant, increasing, increasing
- b. Decreasing, constant, decreasing
- c. Decreasing, increasing, constant
- d. Increasing, decreasing, constant