***Real Estate Principles: A Value Approach, 5e* (Ling)**

**Chapter 1 The Nature of Real Estate and Real Estate Markets**

1) When viewed as a tangible asset, real estate can be defined as the land and its permanent improvements. Improvements *on* the land include

A) fences.

B) walkways.

C) sewer systems.

D) streets.

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-01 Provide three alternative definitions for the term real estate.

Accessibility: Keyboard Navigation

2) All of the following are examples of an improvement *on* the land *except*

A) fences.

B) building.

C) walls.

D) streets.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-01 Provide three alternative definitions for the term real estate.

Accessibility: Keyboard Navigation

3) Real estate is defined as land and its permanent improvements. Which of the following is an example of an improvement *to* the land?

A) fence

B) building

C) sewer system

D) personal property

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-01 Provide three alternative definitions for the term real estate.

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4) Real estate consists of the physical structures and infrastructure that accompany the land. All of the following are examples of an improvement *to* the land *except*

A) walkways.

B) building.

C) sewer system.

D) streets.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-01 Provide three alternative definitions for the term real estate.

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5) Real estate is property, which can be either a tangible or an intangible asset. Which of the following would be considered an intangible asset?

A) land

B) building

C) mortgage

D) fence

Answer: C

Difficulty: 1 Easy

Learning Objective: 01-01 Provide three alternative definitions for the term real estate.

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6) Which of the following would be considered a tangible asset?

A) land

B) lease agreement

C) mortgage

D) listed REIT

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-01 Provide three alternative definitions for the term real estate.

Accessibility: Keyboard Navigation

7) If we desire to classify land by its use, land that does not include any improvements *to* the land would be categorized as

A) "raw" or undeveloped land.

B) building site.

C) developed land.

D) property infrastructure.

Answer: A

Difficulty: 1 Easy

Learning Objective: 01-02 Discuss the distribution of U.S. land among the various uses to which it is put (e.g. developed land, federal land, forest land).

Accessibility: Keyboard Navigation

8) The size of a single-family residential lot is typically

A) less than one acre.

B) between one and two acres.

C) between two and three acres.

D) greater than three acres.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-02 Discuss the distribution of U.S. land among the various uses to which it is put (e.g. developed land, federal land, forest land).

Accessibility: Keyboard Navigation

9) As of 2015, the single largest asset category in the net worth portfolios of households is

A) government and corporate bonds.

B) stocks and mutual fund shares.

C) consumer durable goods.

D) housing.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role real estate plays in the portfolios of U.S. households.

Accessibility: Keyboard Navigation

10) Real estate values derive from the interaction of three different sectors in the economy. Which of the following sectors serves to allocate financial resources among households and firms requiring funds?

A) user market

B) capital market

C) government

D) property market

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

11) The demand for real estate derives from the need that market participants (e.g., owner occupants, tenants, renters) have for shelter and convenient access to other locations. This competition for physical location and space occurs in the

A) user market.

B) capital market.

C) government sector.

D) property market.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

12) The expected stream of rental income is capitalized into value by converting expected future cash flows into present value through a process called

A) amortization.

B) discounting.

C) compounding.

D) accounting.

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

13) Capital markets can be divided into four main categories: private equity, public equity, private debt, and public debt. An example of a real estate asset that trades in the private equity market is

A) real property.

B) home mortgages.

C) equity REITs.

D) mortgage backed securities.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

14) An example of a real estate asset that trades in the public debt market is

A) real property.

B) real estate operating companies.

C) equity REITs.

D) commercial mortgage backed securities (CMBS).

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

15) Primarily through land use controls and property tax policy, which of the following branches of government has the largest influence on real estate values?

A) local government

B) state government

C) national government

D) foreign government

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

16) Competition for the currently available supply of locations and space, coupled with the existing supply of leasable space, determines the

A) current level of rental rates for each submarket and property.

B) riskiness of the expected cash flows of an income-producing property.

C) timing of the expected cash flows of an income-producing property.

D) cost of financing the purchase of a property.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

17) Each property has unique features, whether it is its age, the building design of its structures, or its location. As such, real estate markets consist of assets that are considered

A) homogeneous.

B) heterogeneous.

C) substitutes.

D) complements.

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss the primary ways that real estate markets are different from the markets for assets that trade in well-developed public markets.

Accessibility: Keyboard Navigation

18) Consistently the investment target of pension funds, publicly traded real estate companies, and real estate funds, large commercial properties valued well over $10 million are often referred to as

A) segmented property.

B) investment-grade property.

C) speculative-grade property.

D) immobile property.

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss the primary ways that real estate markets are different from the markets for assets that trade in well-developed public markets.

Accessibility: Keyboard Navigation

19) The investment-grade property market is typically targeted by all of the following groups of investors *except*

A) pension funds.

B) individual investors.

C) listed equity REITs.

D) real estate private equity funds.

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-05 Discuss the primary ways that real estate markets are different from the markets for assets that trade in well-developed public markets.

Accessibility: Keyboard Navigation

20) The national government can have a significant impact on the value of real estate through

A) property tax policy.

B) income tax policy.

C) building codes.

D) real estate licensing requirements.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

21) By the fourth quarter of 2015, U.S. households had accumulated $12.5 trillion in housing equity, which represents about 14 percent of their net worth. What proportion of U.S. households own their home?

A) one-third

B) one-half

C) two-thirds

D) three-fourths

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-04 Describe the role real estate plays in the portfolios of U.S. households.

Accessibility: Keyboard Navigation

22) The required rate of return that an individual demands on a real estate investment is determined in the

A) user market.

B) capital market.

C) government.

D) local market.

Answer: B

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

23) Investors in real estate can choose to hold properties directly in the private market or indirectly through publicly traded real estate securities. The market for buying, selling, and leasing real estate can be characterized by all of the following *except*

A) localized markets.

B) highly segmented markets.

C) privately negotiated contracts.

D) low transaction costs.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss the primary ways that real estate markets are different from the markets for assets that trade in well-developed public markets.

Accessibility: Keyboard Navigation

24) Especially in terms of retail properties, which of the following attributes is considered the most likely to result in drastic value differences between otherwise similar properties?

A) structural attributes

B) financing attributes

C) location attributes

D) land attributes

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss the primary ways that real estate markets are different from the markets for assets that trade in well-developed public markets.

Accessibility: Keyboard Navigation

25) Capital markets can be divided into two broad categories: equity interests and debt interests. Equity investors in real estate expect to earn a return on their investment through the

A) collection of rent and price appreciation.

B) collection of interest on the borrowed funds used to purchase the property.

C) receipt of property taxes.

D) case of a borrower default on required mortgage payments.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

26) Considered a fundamental pricing metric in commercial real estate markets, the ratio of a property's annual net income to its market value is more commonly referred to as a(n)

A) appreciation rate.

B) capitalization rate.

C) discount rate.

D) internal rate of return.

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

27) Helping to constrain entry into real estate–related occupations, which of the following branches of government is directly involved in establishing rules and regulations for the licensing of professionals in the field of real estate?

A) local government

B) state government

C) national government

D) foreign government

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

Accessibility: Keyboard Navigation

28) A primary determinant of the feasibility of new construction is the relationship between the current level of property prices and the cost of new construction. We would expect the supply of properties to

A) increase if current property values are greater than the cost of construction.

B) decrease if current property values are greater than the cost of construction.

C) increase if current property values equal the cost of construction.

D) decrease if current property values equal the cost of construction.

Answer: A

Difficulty: 2 Medium

Learning Objective: 01-02 Discuss the distribution of U.S. land among the various uses to which it is put (e.g. developed land, federal land, forest land).

Accessibility: Keyboard Navigation

29) Equity investors can choose to participate indirectly in real estate markets by purchasing shares in publicly traded real estate companies. In doing so, investors benefit from all of the following *except*

A) low transaction costs.

B) risk sharing among investors.

C) highly segmented markets.

D) high information efficiency.

Answer: C

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss the primary ways that real estate markets are different from the markets for assets that trade in well-developed public markets.

Accessibility: Keyboard Navigation

30) Real estate markets tend to be highly segmented due to the heterogeneous nature of the products. Which of the following examples depicts this issue of market segmentation?

A) A couple searching for a single-family detached unit is willing to consider other residential property types such as an attached townhouse unit or condominium.

B) A couple searching for a single-family detached unit has limited their search to homes in a single elementary school district.

C) A couple searching for a single-family detached unit has set a timeline for their search of six months, at which point they will renew their current apartment lease.

D) A couple searching for a single-family detached unit has limited their search to be in a specific price range between $350,000 and $400,000.

Answer: D

Difficulty: 2 Medium

Learning Objective: 01-05 Discuss the primary ways that real estate markets are different from the markets for assets that trade in well-developed public markets.

Accessibility: Keyboard Navigation

31) If a property's expected annual net income is $89,100 and its current market value is $1,060,000, the property's capitalization rate is

A) 4.2%.

B) 8.4%.

C) 11.9%.

D) 33.6%.

Answer: B

Difficulty: 1 Easy

Learning Objective: 01-03 Discuss the value and importance of U.S. real estate compared with the values of other asset classes such as stocks and bonds.

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