

# Introduction to Appraisal Examination II ~ Final Examination

1. The term *subject property* is used to describe the property being appraised in the:
  - A. Market approach.
  - B. Cost approach.
  - C. Income approach.
  - D. All of the above.
2. The definition of *market value* requires the property to have:
  - A. Exposure to the open market.
  - B. Marketable title.
  - C. Willing buyers and sellers.
  - D. All of the above.
3. Which of the following would make a property a poor comparable?
  - A. An exceptionally low down-payment and interest rate
  - B. A seller who was in a hurry to sell
  - C. A property which was sold at a foreclosure sale
  - D. All of the above
4. A comparable house is 75 square feet larger than the subject property at \$50 a square foot. What approximate adjustment is to be made by the appraiser?
  - A. Add \$50 to the comparable's price
  - B. Subtract \$50 from the comparable's price
  - C. Add \$3,750 to the comparable's price
  - D. Subtract \$3,750 from the comparable's price
5. if the rents fall and the gross rent multipliers increase proportionately at the same time, what will happen to the indicated values?
  - A. The values will fall
  - B. The values will rise
  - C. The values will remain unchanged
  - D. The values will fluctuate up and down
6. Depreciation resulting from the normal wear and tear on the property is-
  - A. External obsolescence.
  - B. Functional obsolescence.
  - C. Physical deterioration.
  - D. None of the above.
7. Which of the following is not an operating expense?
  - A. Vacancy loss
  - B. Maintenance costs
  - C. Attorney fees
  - D. Accounting charges
8. The highest and best use of a property must be:
  - A. The existing use.
  - B. A legal use.
  - C. A use permitted by the lender.
  - D. The planned use.
9. The principle that a dollar should be invested only when it will return more than a dollar's worth of benefit is called the Principle of-
  - A. Conformity.
  - B. Supply and demand.
  - C. Contribution.
  - D. Highest and best use.
10. Effective gross income refers to:
  - A. Scheduled gross income.
  - B. Projected gross Income.
  - C. Projected gross income less vacancy and collection loss.
  - D. Projected gross income less operating expenses.
11. The depreciation resulting from outmoded design is-
  - A. Functional obsolescence.
  - B. Physical deterioration.
  - C. External obsolescence.
  - D. All of the above.
12. The value of a property that has a projected net operating income of \$ 1,000 per year and a rate of 125% is:
  - A. \$8,000.
  - B. **\$10,000.**
  - C. \$12,500.
  - D. \$80,000.

13. The added value from the combination of two or more parcels of land is called:
- A. Subjective value.
  - B. Replacement value.
  - C. Liquidation value.
  - D. Plottage value.
14. In valuing a fire station, the appraiser will rely most heavily on which approach for an indication of value?
- A. Market approach
  - B. Cost approach
  - C. Income approach
  - D. Gross rent multiplier
15. If prices have been rising since the sale date of a comparable, a time adjustment would be:
- A. Subtracted from the comparable.
  - B. Added to the comparable.
  - C. Subtracted from the subject.
  - D. Added to the subject.
16. An apartment building sells for \$600,000 and has a gross rent multiplier of six. How much gross annual rent does the building produce?
- A. \$36,000
  - B. \$100,000
  - C. \$600,000
  - D. \$3,600,000
17. The operating expense ratio is:
- A. Expenses divided by effective gross income.
  - B. Expenses divided by scheduled potential gross income.
  - C. Expenses times effective gross income.
  - D. Expenses times scheduled gross income.
18. The cost approach includes:
- A. A market valuation of the land as if vacant.
  - B. Estimate of the replacement value of the improvements.
  - C. An estimate of the accumulated depreciation.
  - D. All of the above.
19. When appraising a condominium and using comparable from the same building, one would not have to adjust for:
- A- Neighborhood.
  - B. Age of the building.
  - C. Construction quality of the improvements.
  - D. All of the above.
20. In using the sales comparison approach, the appraiser assumes that:
- A. Prices paid for comparable properties reflect their value.
  - B. The indicated market value of the subject property is also the most probable price that may be paid.
  - C. Terms of the sale of a comparable will affect its price.
  - D. All of the above.
21. If some comparables seem more indicative of the value of the subject than others, the appraiser would:
- A. Weight each comparable the same.
  - B. Assign different weights to each comparable.
  - C. Disregard the differences.
  - D. Adjust the sales price of the subject downward.
22. Depreciation resulting from a deteriorating neighborhood is an example of-
- A. Physical deterioration.
  - B. Functional obsolescence.
  - C. External obsolescence.
  - D. Gross depreciation.
23. The projected gross income is:
- A. Current gross income.
  - B. Estimated gross income.
  - C. Last year's income.
  - D. Actual income received.
24. The economic life of a building has come to an end when:
- A. The building ceases to represent its highest and best use.
  - B. The value of the land and building equals the value of the land only.
  - C. The rent produced is valued at less than a similar amount of money invested elsewhere.
  - D. The reserve for depreciation equals the cost of replacing the building.

25. What type of depreciation is present when a property is next to a toxic waste dump?
- A. Functional
  - B. external
  - C. Physical
  - D. None of the above
26. Which of the following is not characteristic of value?
- A. Utility
  - B. Scarcity
  - C. Transferability
  - D. Cost
27. The sales comparison approach would be best used for:
- A. Pricing newly constructed homes.
  - B. Vacant land valuation.
  - C. Valuing an apartment complex.
  - D. Appraising special purpose properties.
28. The capitalization rate Incorporates:
- A. Return on the land and building and recapture of the investment.
  - B. Return on the land and building and recapture of the land.
  - C. Return on the land and recapture of the land and building.
  - D. Return on the building and recapture of the land.
29. Assume that the preference in a neighborhood is toward modern architectural style. For a home built using a traditional style. the value:
- A. Would not be affected by the preference.
  - B. Would be increased.
  - C. Would be decreased.
  - D. None of the above.
30. Which of the following statements is true about depreciation?
- A. Functional obsolescence is Internal to the property
  - B. External obsolescence is based on the wear and tear of the subject property
  - C. All physical deterioration is incurable
  - D. external obsolescence is curable
31. A broker will use which approach when doing a competitive market analysis?
- A. Sales comparison
  - B. Cost
  - C. Income
  - D. GRM
32. Real estate values are most influenced by:
- A. Cost.
  - B. Size.
  - C. Location.
  - D. Style.
33. The difference between the cost of replacement and current valuation of a residence is:
- A. Accrued depreciation.
  - B. Capitalization rate.
  - C. Assessed valuation.
  - D. None of the above.
34. The value in use is:
- A. The right of one person to use the property of another.
  - B. The right of the government to take the property of private individuals.
  - C. The ability of one product to be exchanged for another.
  - D. The satisfaction obtained by the owner of the property from the use of the real estate.
35. Which of the following are excluded from the appraiser's reconstructed operating statement?
- A. Debt service
  - B. Depreciation
  - C. Personal expenses of the owner
  - D. All of the above
36. The capitalization rate Is the relationship between:
- A. The market value and net operating income.
  - B. The actual cost and present value.
  - C. The depreciation and expense ratio.
  - D. The owner's equity and sales price.

37. An appraisal is not needed to determine:  
 A. Market value.  
 B. Replacement value.  
 C. Book value.  
 D. Insurable value.
38. The time necessary to recover an investment in a building is called:  
 A. Residual period.  
 B. Reversion period.  
 C. Recapture period.  
 D. Recovery period.
39. Which of the following would be most desired in doing an appraisal for insurance purposes?  
 A. Market data  
 B. Capitalization  
 C. Replacement cost  
 D. Comparison
40. In doing a formal appraisal on an apartment complex the appraiser would need:  
 A- Potential income figures.  
 B. Vacancy information.  
 C. Depreciation calculations.  
 D. All of the above.
41. The highest and best use of a property is:  
 A. The use that will bring the best price.  
 B. Whatever the present use is.  
 C. The use that can change in time.  
 D. The use that produces the greatest net return to the owners.
42. The concept that a person will not pay more for a property than for a comparable property of equal desirability is:  
 A. Contribution.  
 B. Competition.  
 C. Substitution.  
 D. Regression.
43. Which physical characteristic has been shown to typically have the greatest effect on the value of a house?  
 A. Style  
 B. Age  
 C. size  
 D. Type
44. Which of the following are useful analysis ratios?  
 A. IRR (Internal Rate of Return)  
 B. DCR (Debt Coverage Ratio)  
 C. OER (Operating expense Ratio)  
 D. All of the above
45. In reviewing the advisability of including tennis courts in an apartment complex, the developer must consider:  
 A. Competition.  
 B. Contribution.  
 C. Substitution.  
 D. All of the above.
46. How many acres in a quarter section?  
 A. 20  
 B. 40  
 C. 80  
 D. 160
47. In general, the income approach measures:  
 A. The price paid by the seller.  
 B. The present value of the future benefits.  
 C. The assessed value for tax purposes.  
 D. The price offered by a potential buyer.
48. Which of the following types of depreciation is usually incurable?  
 A. External  
 B. Physical  
 C. Functional  
 D. All of the above
49. The most subjective type of value is:  
 A- Market value.  
 B. Value in use.  
 C. Assessed value.  
 D. Exchange value.
50. All of the following are true of the capitalization rate except:  
 A. The rate increases as the risks increase.  
 B. An increase in rate will decrease the value.  
 C. Net income divided by the rate equals the value.  
 D. An increase in net income will decrease the value.

51. True market value is determined by:
- Appraisers.
  - Sellers only.
  - Buyers only.
  - Sellers and buyers interaction.
52. Which of the following best considers the amenity value of a residential property?
- Cost approach
  - Sales comparison approach
  - Income approach
  - Gross rent multiplier approach
53. The market for commercial property is:
- Regionalized In nature
  - Highly organized
  - Not demand dependent
  - Not reflective of disposable income of investors
54. What type of market situation has a large number of properties for sale and a few buyers?
- Buyers
  - Sellers
  - Capital
  - Monopoly
55. The real estate market is inefficient due to its:
- Fixity of location.
  - Large economic value.
  - Unknowledgeable participants.
  - All of the above.
56. Industrial attraction to a particular urban area is a result of-
- Availability of skilled labor.
  - Proximity to markets.
  - Favorable tax treatment.
  - All of the above.
57. The capitalization rate is found by-
- Dividing the gross income by the value.
  - Multiplying the remaining economic life by the value.
  - Dividing the net operating income by the value.
  - Multiplying the effective age by the NOI.
58. At what point does the physical life of the improvements end?
- When the rate of return on the rent is less than on other investments
  - When the improvements cease to be at their highest and best use
  - When the value of the land and improvements is equal to the value of the land only
  - None of the above
59. The depreciation figure used in the cost method takes Into account:
- The loss in value due to any cause found in the improvements to the property.
  - Recapture of the land and the buildings and the return on the land.
  - Return on the land and buildings and recapture of the buildings.
  - Recapture of the land and buildings and return on the buildings.
60. In order to estimate the value using the income approach, you might use which of the following techniques?
- Land residual
  - Property residual
  - Building residual
  - All of the above
61. The demand for a property is not effective if it is not combined with:
- Scarcity.
  - Utility.
  - Purchasing power.
  - Ingress and egress.
62. If the estimate of value is greater than the sum of the cost of the individual parts making up the property, then the appraiser is expressing the concept of:
- Progression.
  - Depreciation.
  - Plottage.
  - Capitalization.

63. Two adjacent properties were built 15 years ago. They are of the same size, style, and floorplan. One is valued \$15,000 less than the other. The cause for the difference might be:  
 A- External obsolescence.  
 B. Physical deterioration.  
 C. Functional obsolescence.  
 D. Regression.
64. Which of the following would bring about neighborhood change?  
 A. Technology  
 B. Age of occupants  
 C. Rent versus owners  
 D. All of the above
65. The growth of a community is affected by:  
 A. Tax burden.  
 B. Labor base.  
 C. Transportation.  
 D. All of the above.
66. A business's decision to locate in a community is influenced by-  
 A. Energy cost.  
 B. Climate.  
 C. Taxes.  
 D All of the above.
67. The economic base of a community is influenced by:  
 A. Industrial employment.  
 B. Specialty employment.  
 C. Trade employment.  
 D. All of the above.
68. Under the concentric circle theory of city growth, the center circle is the:  
 A. Working zone.  
 B. Central business district.  
 C. Commuter zone.  
 D. High income residential area.
69. Which city growth theory is based upon transportation facilities and accessibility?  
 A. Suburban growth  
 B. Ring growth  
 C. Axial growth  
 D. Central growth
70. Which of the following will affect the direction a city will grow?  
 A. Natural hazards  
 B. Tax differences  
 C. Political subdivisions  
 D. All of the above
71. A city may grow by:  
 A- Building higher buildings, vertically.  
 B. Filling in open spaces between settled areas  
 C. Extending the boundaries of existing settled areas  
 D. All of the above
72. It is good appraisal practice to report the neighborhoods by:  
 A. Describing them narratively.  
 B. Showing them on a community map.  
 C. Neither A Nor B.  
 D. Both A and B.
73. In valuing real estate the appraiser considers:  
 A. The description of the property.  
 B. The rights being appraised.  
 C. The date of the valuation.  
 D. All of the above.
74. Which of the following will create value in a lot?  
 A. The size and shape of the lot  
 B. The location of the lot  
 C. The topography  
 D. All of the above
75. **An Owner Occupant investor would be Most concerned about which economic concept?**  
 A. Conformity  
 B. Utility  
 C. Anticipation  
 D. Scarcity
76. The market process is a result of.  
 A. The mutually beneficial nature of the exchange.  
 B. The dollar size of the investment.  
 C. The relative scarcity of the good.  
 D. The overall utility of the good.

77. The basic force that drives markets is:
- Conformity.
  - Competition.
  - Scarcity.
  - Utility.
78. All of the following are indicators of real estate market trends except:
- Increases in building permit applications.
  - Number of days a home is on the market.
  - Tax rates for residential property.
  - Vacancy rates in apartments.
79. If the demand for apartments exceeds the supply, then the landlords will:
- Keep rent the same.
  - Raise rents when the leases permit.
  - Decrease rent.
  - None of the above.
80. In developing a capitalization rate, the safe rate used might be the rate for:
- Treasury bills.
  - AA rated bonds.
  - Speculative stock rates.
  - Consumer price index.
81. The appraiser will not consider which of the following when estimating the market value of a property?
- After tax cash flows
  - Net operating income
  - Accrued depreciation
  - Dates of comparable sales
82. The market value of a property may differ from which other type of value in appraising a property?
- Insurable value
  - Book value
  - Investment value
  - All of the above
83. If the price of a property increases, what else usually happens in the market place?
- The supply will tend to increase
  - The demand will tend to decrease
  - Both A and B
  - Neither A nor B
84. The market for residential properties is:
- Highly organized.
  - Disorganized.
  - Nationally uniform in pricing.
  - Uninfluenced by international events.
85. The investment analysis and appraisal of properties are similar in that they both consider:
- Net operating income.
  - Before tax cash flows.
  - Debt service.
  - Income tax owed.
- Use this information to answer Questions 86-100.**
- A fourplex has 5,000 square feet of building area. The cost per square foot to replace the building today is \$47. The building is 25 years old with an effective age of 8 years and an economic life of 50 years. The lot is 260 ft. by 100 ft. and valued at \$1.00 per square foot. The property rents for \$650 per month per unit. The vacancy runs 5% and the operating expense ratio is 30%. The appraiser will use a .10 capitalization rate. The debt service is \$8,500 per year.
86. The amount of depreciation used for each year of effective age is:
- 16%.
  - 12.5%.
  - 4%.
  - 2%.
87. The market value of the lot is:
- \$2,600.
  - \$ 1,000.
  - \$26,000.
  - \$100,000.
88. The dollar amount of accrued depreciation is:
- \$41,760.
  - \$37,600.
  - \$29,375.
  - \$117,500.

89. The present value of the building is:  
 A- \$261,000.  
 B. \$235,000.  
 C. \$197,400.  
 D. \$26,000.
90. The amount of depreciation attributed to the land is:  
 A. \$4,169.  
 B. \$3,250.  
 C. \$2,600.  
 D. None of the above.
91. The replacement cost of the building today is:  
 A. \$261,000.  
 B. \$235,000.  
 C. \$197,400.  
 D. \$164,800.
92. The value of the property under the cost approach is-  
 A. \$261,000.  
 B. \$235,000.  
 C. \$223,400.  
 D. \$197,400.
93. The recapture rate portion of the Overall Rate is:  
 A. 2%.  
 B. 4%.  
 C. 8%.  
 D.  $1\frac{00}{6}$ .
94. The potential gross income is-  
 A. \$31,200.  
 B. \$29,640.  
 C. \$20,748.  
 D. \$7,800.
95. The vacancy and collection loss is:  
 A. \$1,560.  
 B. \$1,482.  
 C. \$1,038.  
 D. None of the above.
96. The operating expenses are:  
 A- \$17,392.  
 B. \$10,452.  
 C. \$9,360.  
 D. \$8,892.
97. The effective gross income is:  
 A- \$31,200.  
 B. \$29,640.  
 C. \$20,748.  
 D. \$17,392.
98. The net operating income is\*  
 A. \$29,640.  
 B. \$20,748.  
 C. \$12,248.  
 D. \$7,248.
99. If the appraiser used the land residual technique, the income attributed to the land will be capitalized at:  
 A. 2%.  
 B. 4%.  
 C. 8%.  
 D. 10%.
- Q 100 The indicated value of the property using the income approach is:  
 A. \$312,000.  
 B. \$296,400.  
 C. \$207,480.  
 D. \$173,920.

## ANSWERS

The answer to each question is indicated by the letter A, B, C or D. The explanation of the answer is directly below the answer.

1. D  
The subject property is the property being appraised regardless of the approach used.
2. D  
The definition used in The Uniform Standards of Appraisal Practice requires all three elements.
3. D  
The financial terms are not the usual terms on the market thus affecting value. The seller who sells without proper exposure to the market also will not realize full value. A foreclosure sale is a unique sale and the seller was not free from compulsion.
4. D,  
Adjustments are made to the known sales price of the comparable. Since the subject property is smaller, the approximate adjustment is negative.  $75 \text{ Sq. Ft.} \times \$50 = \$3,750$
5. C  
 $V = GRM \times GR$ . A proportionate increase and decrease in both factors will cause no increase or decrease in value.
6. C  
Physical deterioration results from use of the property.
7. A  
Vacancy loss is an adjustment to potential gross income to obtain effective gross income. It is not a function of operations.
8. B  
The highest and best use is that which is legally permitted, physically possible and most profitable. It does not have to be the existing use or a planned use or permitted by a lender.
9. C  
Each portion of a property should contribute to the property's income and create a return.
10. C  
Effective gross income is the income actually received after adjusting scheduled gross income for vacancy and collection losses.
11. A  
Functional obsolescence occurs when something does not perform its Intended use or purpose.
12. A  
 $\$1,000 / .125 = \$8,000$
13. D  
Plottage value only occurs when two or more properties are assembled and their combined value is greater than the Individual
14. B  
There is very little market and no income produced so the cost approach would be used.
15. B  
Since prices should be higher for the sub-comparable because of the lapse of time, the price of the comparable would be adjusted upward.
16. B  
 $V/GRM = GR$   
 $\$600,000/6 = \$100,000$
17. A  
The expense ratio is calculated by dividing the expenses by the effective gross income.
- D  
These are the basic steps in the cost approach.
19. D  
These factors would all be negated or the same for each unit in the building
20. D  
These are all assumptions made by the appraiser to support the market data used in the report and definition of market value being a probable selling price.
21. B  
In reconciling the data for the sales comparison approach, the comparables most similar to the subject would receive the greater weight.
22. C  
External obsolescence is depreciation occurring from factors away from the subject property.
23. B  
This is income projected from either contract rents or market rent estimates.

24. B  
Since the improvements are no longer productive, the economic stream of benefits is over.
25. B  
This is not on the subject site, therefore it is external obsolescence.
26. D  
Cost is a historical number reflecting what was paid to produce a property in the past.
27. B  
New houses may not have sold yet therefore there is no market. Apartments may be better appraised by the income approach. Special purpose properties have no market and may have no incomes so they are best valued by the cost approach.
28. A  
The capitalization rate includes a return on the money invested in the land and improvements plus the recapture of the investment.
29. C  
It violates the conformity principle which will decrease its value.
30. A  
This is related to the property's inability to provide maximum services or benefits.
31. A  
The competitive market analysis (CMA) is a result of the study of what is going on in the market around the subject property used for setting listing prices.
32. C  
Location is the single most important factor in real estate value.
33. A  
Reproduction cost minus accrued depreciation equals the present value of the property, therefore the difference between reproduction cost and present value is accrued depreciation.
34. D  
This is a derived value by the user based on the benefits received.
35. D  
The reconstructed operating statement used by appraisers in the income approach excludes the owner's personal expenses such as income taxes, debt service and depreciation.
36. A  
Capitalization rate = NOI/Value
37. C  
Book value is an accounting calculation not a real estate valuation. It is based upon historic cost and tax depreciation not real estate depreciation.
38. C  
The estimated economic life over which an investment is returned.
39. C  
The insurance industry is concerned with the cost to replace Improvements if a loss or damage is suffered.
40. D  
Income and vacancy figures for the income approach and depreciation for the cost approach.
41. D  
This is the legally permissible, physically possible and economically feasible use that produces the highest return.
42. C  
Substitution assumes the buyer will see where in the market the most benefits for the dollars spent can be obtained.
43. C  
Studies show that the size of a house typically most effects its value as compared to other physical characteristics.
44. D  
IRR analyzes return on investment. DCR measures NOI's ability to pay mortgage. OER measures operating expenses.
45. D  
The developer would consider how the market will react to either the absence or presence of the tennis courts relative to rents paid or choice of other projects.

46. D  
Section = 640 acres  
**640/4160** acres in quarter sections
47. B  
The anticipated income stream is valued relative to the risk of obtaining the income.
48. A  
Often physical and functional can be cured.
49. B  
Value-in-use is applied to the owner. A new owner may not have the same use therefore a different value.
50. D  
An increase in net income will increase value if the rate remains constant.
51. D  
The interaction of a willing seller and willing buyer make the market.
52. B  
Amenity value Is often not reflected by the income and gross rent multiplier approach because it is not reflected in the rents. It is difficult to reflect in the cost approach.
53. A  
Commercial markets are more regional than residential because of the way investors shop and buy.
54. A  
The buyers have greater choice and the include all three and their impact on operations, prices paid will reflect the paying off of the real estate values and profit.  
seller.
55. D  
All of these factors limit the real estate market.
56. D  
Industry will seek each of these items for cost efficiency and higher profits.
57. C  
Rate = NOI/Value
58. D  
The Physical life ends when there are no longer acceptable benefits to be derived from the improvements and the improvements are razed.
59. A  
Depreciation in appraisal is the loss in value due to any cause. This is applied against only the improvements.
60. D  
All can be used to develop a cap rate.
61. C  
Effective demand is the desire for the property coupled with the buyer's ability to obtain it.
62. C  
Plottage results when combining the individual parts of a property. Their contribution creates a property of higher value than the cost of the individual parts.
63. B  
If one has not been maintained it will have lower value. Since they are in the same neighborhood and in the same style and floorplan, functional differences should have little effect on value.
64. D  
Technology changes, age and percent of ownership will impact neighborhood values.
65. D  
These are limiting factors looked at by the appraiser in the general and specific data collection and analysis.
66. D  
The relocation analysis for a business would
67. D  
The general data section will address the types and levels of the town, its economic base and potential influence on value.
68. B  
The general data section should show the location of each of the districts and the types of properties located in each one.
69. C  
Cities will expand along axial lines of transportation based on accessibility to areas of living, shopping, work and recreation.
70. D  
Development will take place around lower tax rates and avoidance of natural hazards. Politics can influence zoning, growth and value.

71. D  
The theory of highest and best use of the land will influence growth in each of these areas.
72. D  
It is good appraisal practice to clearly describe what the appraiser considers the neighborhood to be in the appraisal report.
73. D  
The appraiser considers each of the items in the initial steps of the appraisal process.
74. D  
The size and shape will determine the utility. The location affects competition and topography impacts costs of development.
75. D  
The use (or utility) would be paramount importance to an owner occupant
76. A  
The market value is the value in exchange between the parties.
77. B  
The market system is driven by competition for properties, amenities and incomes.
78. C  
Tax rates are a function of the cost of government operations.
79. B  
Rents are temporarily frozen by a lease. The theory of supply and demand would allow rent to increase as long as demand exceeds supply when leases expire.
80. A  
Treasury bills are looked up as the basis for the safe rate.
81. A  
After tax cash flows are a function of investment analysis not usually a market value appraisal.
82. D  
Each type of value is independent from the other types.
83. C  
Supply will increase on the short run and demand will decrease since fewer people can afford the real estate.
84. B  
The residential market is disorganized due to lack of a central exchange. Multiple listing systems attempt to correct this problem.
85. A  
The basis for each analysis requires the calculations of net operating Income.
86. D  
Annual rate of depreciation =  $100/\text{economic life}$   
or =  $100/50 = 2\%$
87. C  
Sq. ft. of lot =  $260' \times 100' = 26,000 \text{ Sq. ft.}$   
Value =  $\$1.00 \times 26,000 \text{ Sq. ft.} = \$26,000$
88. B  
Bldg. cost per sq. ft  $\times 5,000 \text{ Sq. Ft} = \$235,000$   
Depreciation rate  $8\text{ Yrs.} \times 2\% = 160/6$   
Total depreciation  $\$235,000 \times 16\% = \$37,600$
89. C  
Building cost  $\$235,000$  less depreciation  $\$37,600 = \text{value } \$197,400$
90. D  
Land does not depreciate.
81. B  
Replacement cost  $\$47 \text{ per Sq. Ft.} \times 5,000 \text{ Sq. Ft.} = \$235,000$
92. C  
Site value  $\$26,000 (\$1.00 \times 26,000 \text{ Sq. Ft.}) +$   
Bldg. value  $\$197,400 (\$235,000 \text{ cost} - \$37,600 \text{ depreciation}) = \text{Property value } \$223,400.$
93. A  
Recapture rate is  $100/50 \text{ Yrs.} = 2\% \text{ per yr.}$
94. A  
Potential gross income =  $\$650 \text{ rent per month} \times 12 \text{ months} \times 4 \text{ units}$   
 $(\$650 \times 12 \times 4 = \$31,200).$
95. A  
Vacancy and collection loss potential gross income minus vacancy rate  
 $(\$31,200 \times 0.05 = \$1,560).$
96. D  
The operating expenses are 30% of the effective gross income  $(\$29,640 \times 0.30 = \$8,892).$
97. B  
The effective gross income is the potential gross income minus the vacancy and collection loss  $(\$31,200 - 1,560 = \$29,640).$
98. B  
The NOI equals the EGI minus expenses  $(\$29,640 - \$8,892 = \$20,748).$
99. C  
Capitalization Rate  $\frac{0.10}{0.02} = 0.08$   
Depreciation  $100\% / 50 \text{ Yrs.} = 0.02$   
Rate for land  $\bullet 08$
100. C  
Property value equals NOI / Capitalization rate  $(\$20,748 \div 0.08 = \$207,480)$