

Linda L. Crawford  
with Denise Stolar Johnson  
45th EDITION

# FLORIDA

REAL ESTATE PRINCIPLES, PRACTICES & LAW

Dearborn™  
Real Estate Education

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## Real Estate Principles, Practices & Law

45<sup>th</sup> Edition

Linda L. Crawford with  
Denise Stolar Johnson

**Dearborn**<sup>™</sup>  
Real Estate Education

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SAMPLE

# I N T R O D U C T I O N

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Congratulations! Your decision to pursue a career in real estate in Florida is an exciting one. You probably have many questions about real estate as a career, requirements for becoming licensed, and real estate in general. I have made every attempt to address your questions. The material is concise, yet presented in sufficient detail to facilitate your understanding. The content conforms to the Florida Division of Real Estate's prescribed Florida Real Estate Commission (FREC) Course I Syllabus for the prelicense course for sales associates.

As with any profession, the real estate profession has an abundance of terms unique to the industry. Key terms are presented at the beginning of each unit. Learn what these terms mean, and apply them in your real estate discussions. To aid your learning process, each term presented in a key term section is defined in the corresponding unit. You should master these definitions in preparation for your licensing examination.

There are literally hundreds of real estate terms that you will use and apply in your professional career. However, only a limited number of these terms appear in the key term sections. This is because a priority system has been used to help you plan your preparation. Bolded key terms are top priority terms. Throughout the units, you will also find italicized terms. These are important real estate terms that you should understand and be able to apply in your real estate discussions. However, it is not necessary to be able to “recite” a precise definition for italicized terms.

I have also included learning objectives for each unit. The objectives have been carefully selected to coordinate with the key concepts in the course syllabus. Think of the learning objectives as a “road map” to help guide your journey toward licensure. As you proceed through each unit, be sure to complete the Practice Questions and the Unit Exams at the end of each unit so that you can see how well you have mastered the content presented in the unit.

You will note also that each line of the text is numbered for easy reference. In the left margins, you will find shaded boxes with Florida Statute and Administrative Rule numbers. You should read the actual laws and rules in preparation for the license exam. Web links to important rules and statutes are presented throughout this textbook. During your state exam preparation, referring to the actual real estate license law and FREC rules is important because the state exam law questions often use the wording as it is written in the statute.

Text boxes are featured in your textbook. These boxes contain valuable information. The To Remember boxes contain learning crutches called acronyms to help you recall certain information. Be sure to study these. Other text boxes feature excerpts of Florida statutes and rules for easy reference. The Formula text boxes feature arithmetic formulas that you must be able to apply. You will find all these special features very valuable as you delve into this book.

To be successful, you need to be prepared to devote considerable time to study. There is a large amount of material to master and the end-of-course exam is challenging. This course covers all of the topics that are tested on the state license exam. But alas, there is no magic bullet. You must study and master the material to do well on the end-of-course and state exam. This is the beginning of a new career. A career in real estate requires real estate knowledge, but it also requires being able to be organized, punctual, focused, and to possess good listening skills. All of these characteristics make up the successful real estate student and real estate professional. I am excited for you and wish you the very best as you embark on your new career.

I would be remiss if I did not take a moment to thank the special people who contributed to this book. I am excited to announce that I now have a co-author, Denise Johnson. Denise is a licensed real estate sales associate and real estate instructor for Watson Realty Corporation in Orlando, Florida. She has over 25 years of real estate experience. Denise was Deputy Director of the Division of Real Estate, DBPR from 2011 through September 2018. Her knowledge of real estate law, real estate licensure and enforcement, her organizational skills, and contacts in the real estate industry make her a perfect author for Real Estate Principles, Practices & Law (PP&L). Denise greatly improved the index for this edition and created a new Figure 6.1 that does a great job of summarizing the types of administrative penalties the Florida Real Estate Commission has at its disposal. She also updated this edition's PowerPoint slides and the textbook, Florida Real Estate Exam Manual for Sales Associates and Brokers.

Before developing this edition of your book, I received specific comments and suggestions that I incorporated into this edition to ensure you the very best quality textbook. Special thanks are extended to this edition's textbook reviewers: Karen Climer, owner of Demetree School of Real Estate in Orlando, Florida; Valleri Crabtree, J.D., independent real estate consultant; and Janine R. Spiegelman, PSA, C2EX Endorsed, Broker/Owner, Janinesworld Realty and Instructor, Palm Beach State College/Broward College. I would also like to extend a personal thank you to Paula Stone, Instructor and Student Support, Rowlett Real Estate School. Because of conversations with Paula, this edition of your book includes expansion of the rules regarding money to maintain an escrow account.

Karen and Valleri submitted a list of suggestions for each unit of the textbook. This is a time-consuming task that I found extremely helpful when focusing on the specific areas for revision. Karen also provided suggestions regarding the text, Florida Real Estate Exam Manual. Janine and Karen reviewed the revisions for this edition and offered valuable suggestions that help to make the rewrites even more student friendly. This was Karen's first opportunity to be a reviewer of PP&L. It is always so exciting to work with a new reviewer because doing so brings fresh ideas on how to present concepts. It was Karen's idea to reorganize the Rules of Thumb presentation regarding Closing Disclosure entries in Unit 14. I hope you will like the new section as much as I do. Karen also provided great suggestions regarding street paving assessments. There are too many contributions to point them all out here, but I am truly grateful for Karen's suggestions and dedication to this edition. My gratitude is also extended to Alex Bosque, Examination Development Supervisor, Bureau of Education and Testing, DBPR, for his guidance to my inquiries regarding the sales associate syllabus and sales associate course content.

This book is coordinated with additional study tools designed to assist you with mastery of the material. Many students choose the *Florida Sales Associate Prelicensing Key Point Review Audio MP3*, which is designed to aid aspiring real estate sales associates in successfully completing the prelicensing course, end-of-course exam, and state licensing exam.

If you are concerned or even panicky about taking the end-of-unit practice quizzes and the practice exam, as well as the state licensing examination, obtain in advance a personal copy of the *Florida Real Estate Exam Manual for Sales Associates and Brokers*. It contains, among other valuable sections, a section titled "Successful Exam-Taking Strategies" and two sample exams, both designed and proven to improve your test-taking ability and scores.

I wish you the very best in your endeavor and would like to hear from you.

Linda L. Crawford  
November 2021



# THE REAL ESTATE BUSINESS

## 1 LEARNING OBJECTIVES

2 *When you have completed this unit, you will be able to accomplish the following.*

- 3 ■ Describe the various activities of real estate brokerage.
- 4 ■ Distinguish among the five major sales specialties.
- 5 ■ Identify the role of property managers and situations that require a CAM license.
- 6 ■ Describe activities that require appraiser services, *USPAP*, state regulation of appraisers, and distinguish among a CMA, a BPO, and an appraisal.
- 7
- 8 ■ Understand the mortgage process and the role of the mortgage loan originator.
- 9 ■ Explain the three phases of development and construction.
- 10 ■ Distinguish among the three categories of residential construction.

## 11 KEY TERMS

absentee owner	community association manager (CAM)	property management
appraisal	comparative market analysis (CMA)	property manager
appraiser	dedication	real estate brokerage
broker's price opinion (BPO)	farm area	REALTOR®
business broker	follow-up	rental agent
business opportunity	multiple listing service (MLS)	subdivision plat map
		target market

## 12 INTRODUCTION

13 The purpose of this unit is to introduce the reader to the real estate business. The unit  
 14 discusses real estate brokerage, development, and construction.



## 1.1 AN INTRODUCTION TO THE REAL ESTATE BUSINESS

---

### Overview of the Real Estate Industry

Real estate is a significant part of the U.S. economy. Jobs in real estate and construction are important contributors to the nation's total employment. Complex real estate transactions demand the services of licensed real estate associates, appraisers, attorneys, bankers, title insurance agents, architects, surveyors, and accountants. Residential real estate is often the greatest source of wealth and savings for individuals. Commercial real estate addresses the need for retail, office, and manufacturing space.

### Real Estate Professionals Possess Expert Information

Real estate brokers provide specialized service for others in return for compensation in the form of a commission, fee, or other valuable consideration. Today, a real estate licensee is paid to handle other people's properties because the licensee is a professional who provides specialized service and expertise. The product that real estate licensees market is expert information. A property handled by a broker normally will be sold more quickly and with less reduction in the desired sale price than if an owner handles the sale without professional assistance. Real estate professionals provide expert information in three areas:

1. *Knowledge of property transfer.* A competent licensed real estate professional must know the economic and legal intricacies associated with transfers of title, property taxes, financing, and local zoning ordinances. Real estate professionals must be intimately familiar with the real estate purchase and sale contract used in their locale.
2. *Knowledge of market conditions.* Property values are affected by changing market conditions. Changes in market conditions are due to changes in income tax laws, building moratoriums, and fluctuations in supply and demand. Changes in market conditions and their effect on valuation must be understood in order to competently assist sellers with listing their property and buyers with purchasing decisions.
3. *Knowledge of how to market real estate and businesses.* To be successful, licensees must know how to market real estate and businesses. The sale presentation that is most effective when working with a physician relocating to a new city may be completely different from the approach used to assist the owner of an expanding gourmet coffee bar in choosing an additional location.

### Practice Questions

1. The product that a real estate sales associate must market is \_\_\_\_\_.
2. List the three areas of expertise that real estate licensees bring to the transaction.
  1. Knowledge of \_\_\_\_\_
  2. Knowledge of \_\_\_\_\_
  3. Knowledge of \_\_\_\_\_

## 1.2 REAL ESTATE BROKERAGE

**Real estate brokerage** is the business of bringing together buyers and sellers, owners and renters, and of completing real estate transactions. There are many components of real estate brokerage, including sales and leasing, property management, appraising, financing, and counseling.

A real estate brokerage company legally can be involved with all types of property and provide all types of real estate services. However, this is usually not practical—as the saying goes, “a jack of all trades, a master of none.” Companies and licensed real estate professionals usually specialize in the type of services provided, as well as the type of real estate handled, insuring that the company’s associates have a competitive advantage in their chosen area of expertise.

### Sales and Leasing

Sales and leasing involves real estate license–related activities performed under the authority of a real estate broker. The broker acts as an agent or an intermediary between two or more people in the negotiation of the sale, purchase, or rental of real estate. Sales associates work for a broker, providing services to prospective buyers and sellers.

Understanding sale and lease transactions requires expert knowledge that the average layperson does not possess. Therefore, buyers and sellers and renters and landlords find it more efficient to acquire real estate information through a licensed professional.

### Sales Specialties

Real estate sales associates involved in sales and leasing often specialize in one of five major sales specialties:

1. *Residential.* Residential sales associates need to know the best access routes and locations of schools, shopping facilities, and recreation facilities. They must be able to explain property taxes, homestead exemptions, restrictive covenants, and approximate utility costs in the area. One of the more important aspects of residential sales is knowing how to help prospective buyers obtain financing. Most real estate licensees specialize in the sale and purchase of owner-occupied residential property.
2. *Commercial.* Real estate professionals who specialize in commercial sales need expertise regarding income-producing properties, investment analysis, and the various techniques for increasing after-tax cash flow. Improved residential property of more than four units, retail stores, office buildings, and shopping centers are examples of income-producing commercial properties.
3. *Industrial.* Real estate licensees who provide real estate expertise of industrial real estate must have technical knowledge of the needs of different industries, such as transportation requirements, industrial construction methods, and local land-use restrictions affecting industrial properties. Many industrial brokers are developing and marketing industrial subdivisions.

- 1 4. *Agricultural*. Professionals who specialize in the sale of farms and agricultural  
2 land must be familiar with the operation of farms and the economic problems  
3 associated with the various types of farming. Real estate licensees who special-  
4 ize in agricultural real estate are knowledgeable about farm operations and the  
5 federal programs affecting farm operations.
- 6 5. *Businesses*. Real estate licensees who engage in the sale, purchase, or lease of  
7 businesses are called **business brokers**. A **business opportunity** involves the  
8 sale or lease of an existing business, including the sale of tangible and intangible  
9 assets. In most states, if real property is an asset of the business, a real estate bro-  
10 ker's license is required to sell the business. There is a presumption in Florida law  
11 that businesses will have some sort of real property involved, either land with  
12 physical improvements (such as a building) or a long-term lease. For this reason,  
13 in Florida, an active current real estate license is required to sell or lease business  
14 opportunities.

### 15 **Target Marketing**

16 Real estate professionals have found that advertising money is more efficiently spent  
17 and produces better outcomes if efforts are focused on a **target market**. Target marketing  
18 involves expertise in locating prospects. For example, a real estate professional who spe-  
19 cializes in finding homes for relocated physicians will develop contacts with the personnel  
20 in various local hospitals who work as liaisons with new hospital staff.

21 Effective real estate marketing starts with a strong database of potential custom-  
22 ers. Real estate professionals use the database of leads to send targeted advertising. For  
23 example, a real estate licensee who specializes in residential leasing might target students  
24 moving to a college town. Understanding the demographic, financial, and lifestyle char-  
25 acteristics of a target market helps real estate professionals choose personalized messaging  
26 and appropriate advertising media.

27 Many brokers and sales associates prefer to select one specific portion of a city and  
28 become an expert in that particular portion, called a **farm area**. This method of target  
29 marketing is called *farming*. Licensees get to know almost every lot, house, and business  
30 in their farm areas. Farming involves maintaining data on each property, including when  
31 it was built, the sale history, typical marketing time, assessed value, the amount of prop-  
32 erty taxes, and so forth. Real estate professionals meet the people in the area and make it  
33 known that they specialize in that section of town. The farm area soon begins to produce  
34 a harvest in the form of listings and sales. Licensees create a reputation for expertise  
35 through hard work. When residents in the farm area move or decide to sell, they call on  
36 the area expert who knows what price their property will bring in the current market.

37 Sales associates often contact buyers and sellers within a reasonable time after the title  
38 closing. One of the best ways to ensure satisfied buyers and sellers is through **follow-up**.  
39 Follow-up is what a sales associate does for buyers and sellers after the sale. The follow-up  
40 is important to all aspects of real estate sales because it results in a good reputation, future  
41 referrals, and word-of-mouth advertising.

## Practice Questions

3. List the five major sales specialties.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

4. Real estate sales associates often specialize in a particular geographic area or property type called a \_\_\_\_\_.

5. \_\_\_\_\_ involves developing a database of prospects to direct a specific message.

## 1.3 PROPERTY MANAGEMENT

**Property management** is a professional service conducted by a person or company hired to maintain and manage property on behalf of property owners. The scope of the work the property manager performs is detailed in the management agreement. Property management typically involves, leasing, managing, marketing, and maintenance of property. A **property manager** is the property owner's local representative. The property manager is responsible for maintaining the property and managing the expenses. The property manager's primary charge is to protect the owner's investment and to maximize the owner's return on the investment. Property management is much more involved than being a rental agent. **Rental agents** typically find a tenant for property and collect a fee. Rental agents (or leasing agents) act as intermediaries between a potential tenant and the property owner seeking to acquire a tenant. Property managers continue to manage the property once a tenant is secured.

Many investors desiring to participate in the growth of income-producing property are absentee owners. An **absentee owner** is a property owner who does not reside on the property and who often relies on a professional property manager to manage the investment. The field of property management has experienced rapid growth and specialization, primarily because of the increase in absentee ownership. As agents of absentee owners, property managers are typically responsible for rent collection, improving tenant relations, and advertising and merchandising the space. Investors usually hire qualified property managers because the investors have neither the time nor the desire to become involved in the complexities of property management.

### Compensation and Licensure Requirements

Property managers are compensated in a number of ways. Some work for a guaranteed base amount plus a small percentage of effective gross income (total income collected after taking vacancies into account). A property manager who is paid by commission or on a transactional basis must be licensed as an active real estate broker. A broker's license is not required if the property manager is paid a salary. The compensation arrangement is detailed in the management agreement. Sales associates work under the direction of their broker; licensed sales associates cannot work independently as property managers.

468, Part  
VIII, F.S.

61-20,  
F.A.C.

61E14,  
F.A.C.

## 1 Community Association Manager (CAM)

Community association management is applicable to mobile home parks, planned unit developments, homeowners associations, cooperatives, time-shares, condominiums, and other residential units. A **community association manager (CAM)** must hold a CAM license when the community association consists of more than 10 units or has an annual budget in excess of \$100,000. A CAM license is not required to manage apartment buildings, commercial property, or single-family dwellings.

### Practice Questions

6. An \_\_\_\_\_ is a property owner who does not reside on the property and who often relies on a professional property manager to manage the investment.
7. \_\_\_\_\_ typically find a tenant for property and collect a fee; however, \_\_\_\_\_ continue to manage the property once a tenant is secured.
8. A property manager's charge is to protect the owner's \_\_\_\_\_ and \_\_\_\_\_ the owner's \_\_\_\_\_.
9. The scope of work a property manager performs is detailed in the \_\_\_\_\_.

## 8 1.4 APPRAISING

475.611(1)  
(a), F.S.

An **appraisal** is the process of developing and communicating an estimate of a property's value. Appraisals are needed for many types of real estate activities. Lenders most often require the property to be appraised before approving a mortgage loan. Local city and county governments hire appraisers to assist with tax assessments. Appraisers are hired to determine value when property is taken by eminent domain. Insurance companies employ appraisers to assist with insurance adjusting. Individual investors have learned the value of obtaining an appraisal before investing.

475.611,  
F.S.

The Florida Real Estate Appraisal Board (FREAB) regulates state-certified and licensed appraisers. Only a state-certified or licensed **appraiser** can prepare an appraisal that involves a federally related transaction (federally related transactions are explained in detail in Unit 16).

### WEBLINK



The *USPAP* is available at [www.appraisalfoundation.org](http://www.appraisalfoundation.org). Select "USPAP (Standards)."

Appraisers charge a fee based on the time and difficulty of the appraisal assignment. Appraisers are not paid a commission to reduce the possibility of a conflict of interest. The ethics rule of the *Uniform Standards of Professional Appraisal Practice (USPAP)* states that it is unethical for an appraiser to accept compensation that is contingent on the value of the property.

### 26 Valuation and Real Estate Licensees

Real estate brokers and sales associates may appraise real property for compensation (certain exceptions exist). However, they may not represent themselves as state-certified or licensed appraisers unless they also hold those licenses and certifications (see Figure 1.1).

FIGURE 1.1 ■ Valuation Chart

Type of Valuation Product	Conform to USPAP	Certified or Licensed Appraiser Required
Appraisal assignment to originate a federally related loan	Yes	Yes
Appraisal assignment that does not involve a federally related transaction	Yes	No
Broker's price opinion (BPO)	No	No
Comparative market analysis (CMA)	No	No

475.25(1)(t),  
F.S.

61J2-

24.001(3)(t),  
F.A.C.

1 Florida law requires appraisers and real estate brokers and sales associates to abide by  
2 the *USPAP* when conducting appraisals of real property. The *USPAP* is a set of guidelines  
3 (standards of practice) to follow when providing appraisal services. A real estate licensee  
4 who fails to abide by the *USPAP* when conducting appraisal services may be subject to  
5 disciplinary proceedings and sanctions.

### 6 Comparative Market Analysis and Broker's Price Opinion

7 Sellers often ask real estate brokers and sales associates what buyers are likely to pay  
8 for their properties. Real estate licensees may help potential sellers determine an asking  
9 price by preparing a **comparative market analysis (CMA)**. Also, sales associates and  
10 brokers prepare CMAs for buyers to help them make informed decisions when offering to  
11 purchase real property. CMAs are developed by collecting information concerning real  
12 estate activity in the area, including recent sales of similar properties, properties currently  
13 offered for sale, and recently expired listings. A CMA is a marketing tool and may not be  
14 referred to or represented as an appraisal; therefore, CMAs do not have to conform to the  
15 *USPAP* standards. Licensees may charge a fee or otherwise be compensated for preparing a  
16 CMA, either as a part of or in addition to the normal sale commission. If a sales associate  
17 or broker associate charges for a CMA, the compensation must be paid to the employing  
18 broker and not directly to the sales associate or broker associate who prepared the CMA.  
19 However, licensees typically prepare CMAs for sellers for free as a courtesy to the sellers  
20 and to solicit new business.

21 A **broker's price opinion (BPO)** is a written opinion of the value of real property.  
22 Florida real estate licensees are allowed to prepare and charge for BPOs, provided the BPO  
23 is not called an appraisal. Price opinions are often requested by relocation companies and  
24 lenders involved in short sales of distressed properties (a *short sale* produces less money  
25 than what is owed the lender; the lender releases its mortgage so that the property can be  
26 sold free and clear to the new purchaser). A licensed or certified appraiser must conduct  
27 an appraisal when the valuation assignment involves originating a federally related mort-  
28 gage loan.

475.25(1)(t),  
F.S.

29 Sales associates may perform BPOs only at the direction and under the control and  
30 management of the associate's employing broker. If a sales associate or broker associate  
31 performs a BPO, the compensation must be paid to the broker and not directly to the sales  
32 associate or broker associate who prepared the BPO. The broker directly compensates the  
33 associate. The *USPAP* standards of practice do not apply to brokers, broker associates, and  
34 sales associates who, in the ordinary course of business, prepare BPOs.

### Practice Questions

10. A state-certified or licensed appraiser must conduct an appraisal when the valuation assignment involves originating a \_\_\_\_\_ mortgage loan.
11. If a sales associate performs a BPO, the compensation must be paid to the \_\_\_\_\_ and not \_\_\_\_\_ to the sales associate who prepared the BPO.
12. \_\_\_\_\_ is a set of guidelines to follow when providing appraisal services.

## 1.5 FINANCING

Financing is the business of providing the funds that make real estate transactions possible. Sources of financing include commercial banks, savings associations, credit unions, and mortgage brokerage companies. Financing can be regarded as the lifeblood of real estate sales. Knowledge of how to arrange financing and how to solve financing problems is essential to success in real estate. The licensee who can prequalify a prospective buyer and demonstrate how a prospective buyer can afford to buy has a tremendous advantage over the individual who only can show houses.

Anyone who takes residential mortgage loan applications or offers to negotiate the terms of residential mortgage loan applications for compensation must be licensed as a *mortgage loan originator (MLO)*. A real estate licensee may not operate as a mortgage loan originator unless the real estate licensee also holds a mortgage loan originator license. Real estate licensees may not accept referral fees from lenders without also being licensed as mortgage loan originators (see Unit 13).

## COUNSELING

Counseling is the real estate service of analyzing existing or potential projects and providing advice to individuals and firms regarding the purchase and use of real estate investments. The services of counselors are in demand by developers, investors, corporations, and large-scale buyers and sellers.

### Practice Questions

13. Anyone who takes residential mortgage loan applications or offers to negotiate the terms of residential mortgage loan applications for compensation must be licensed as a \_\_\_\_\_.
14. Real estate licensees may not accept \_\_\_\_\_ from lenders without also being licensed as mortgage loan originators.

## 1.6 DEVELOPMENT AND CONSTRUCTION

Real estate development involves dividing larger parcels of land into lots and constructing roads and other offsite improvements. There are three general phases of development and construction:

1. *Land acquisition.* Developers and builders acquire raw land and then prepare the site for construction. They must carefully study zoning and land-use plans to determine what type of development is permissible. During this phase, the developer seeks approval for the proposed project from the local municipality. The

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F.S.

- 1 developer incurs costs for engineering plans, attorney fees, surveys, and applica-  
2 tion fees.
- 3 2. *Subdividing and development.* *Subdividing* is the process of converting parcels of  
4 land into smaller units or lots. *Development* is the process of improving raw land  
5 so that it can be put to productive use.
- 6 3. *Recording the subdivision plat map.* Before work can begin, most local govern-  
7 ments require that developers submit a **subdivision plat map** of a new develop-  
8 ment for review by the applicable government planning board (commission).  
9 A subdivision plat map is an engineer's plan for land use superimposed on a  
10 map of the land to be developed (see Figure 10.8 on page 240). The subdivision  
11 plat map indicates the proposed size and location of individual building lots,  
12 streets, and public utilities, including water and sewer lines, and other clarifying  
13 information.

14 The developer is responsible for improving the raw land with paved streets, curbs,  
15 storm drains, and so forth. Typically, the streets, curbs, and other public area improvements  
16 are dedicated to the local city or county. **Dedication** is the gift of land by an owner, in this  
17 case a developer, to a government body for a public use. A valid dedication of land from  
18 the owner to the municipality requires both an offer to dedicate (donate) the land and an  
19 acceptance by the municipality. To accomplish this, the developer typically indicates on  
20 the plat map that the streets, sidewalks, park areas, and other improvements that will not  
21 be sold to private individuals will be dedicated to the local municipality. Plat approval  
22 and recording of the plat into the public records serves as an acceptance of the dedicated  
23 streets and public areas and obligates the local government to maintain them once they  
24 are installed. County subdivision ordinances, in effect, have combined subdividing the  
25 land into individual lots with the development phase to provide greater protection to the  
26 public.

### Practice Questions

15. List the three general phases of development and construction.
1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_
16. \_\_\_\_\_ is a gift of land by an owner to a local government to be used for a public use.

## 1.7 RESIDENTIAL CONSTRUCTION

28 There are three general categories of residential construction:

- 29 1. *Speculative (spec) homes.* Building “on speculation” involves purchasing one or  
30 more lots and constructing a home (or homes) without a buyer in advance of  
31 construction (no presale).
- 32 2. *Custom homes.* A custom builder constructs homes under contract with a buyer,  
33 often using building plans provided by architects or buyers.
- 34 3. *Tract homes.* Tract building involves construction of model homes in a new sub-  
35 division so that buyers can see the builder's product and choose a floor plan. The  
36 buyer then has a home built on a lot in the subdivision.



## 1 THE ROLE OF GOVERNMENT

---

2 The real estate business is regulated or influenced by the federal, state, and local  
3 governments:

- 4 ■ *Local government* impacts the real estate business through property taxation and  
5 regulatory activities such as occupational licensing, business tax receipts, build-  
6 ing permits, building moratoriums, zoning, and building codes.
- 7 ■ *State government* owns and manages a large amount of land and identifies coastal  
8 regions and other areas that are protected from development. State documentary  
9 and intangible taxes are required when ownership to real property is transferred  
10 or pledged as collateral for a mortgage.
- 11 ■ The *federal government* impacts the real estate business through its fiscal and  
12 monetary policies. Various agencies influencing the real estate field include the  
13 Department of Housing and Urban Development (HUD), the Federal Housing  
14 Administration (FHA), the Department of Veterans Affairs (VA), the Envi-  
15 ronmental Protection Agency (EPA), and the Internal Revenue Service (IRS).  
16 Subsequent units will cover in greater detail the role of the various units of gov-  
17 ernment in the real estate business.

### 18 1.8 PROFESSIONAL ORGANIZATIONS

---

19 There is a variety of professional organizations in existence. Membership in profes-  
20 sional trade organizations is voluntary. The largest trade organization in the world is the  
21 National Association of REALTORS® (NAR). NAR promotes ethics and education in  
22 the real estate industry.

23 NAR created the REALTOR® Code of Ethics and Standards of Practice. The Code  
24 emphasizes fair dealings in three major areas: (1) with clients, (2) with other real estate  
25 brokers, and (3) with the general public. NAR's fundamental strength is the local associa-  
26 tion of REALTORS®.

#### 27 Real Estate Licensees vs. REALTORS®

28 Real estate licensees are individuals who are licensed by the Florida Department of  
29 Business and Professional Regulation (DBPR). A REALTOR® is a real estate licensee  
30 who is a member of NAR. The Florida Realtors® and NAR are privately run professional  
31 organizations. The DBPR does not set the rules, fees, or membership requirements of  
32 NAR. Therefore, the terms REALTOR® and real estate licensee are not synonymous.  
33 Not all real estate licensees are REALTORS®. REALTORS® must subscribe to the REAL-  
34 TORS® Code of Ethics.

#### 35 Multiple Listing Service (MLS)

36 An important service created by NAR is the **multiple listing service (MLS)**. The  
37 MLS is a database that allows real estate brokers representing sellers under a listing con-  
38 tract to share information about properties with real estate brokers who may represent  
39 potential buyers. The MLS compiles the listings of all member brokers, making the prop-  
40 erty information available to all brokers and their associates.

41 Buyers working with licensees who are members of their local MLS have access to  
42 information about all listed properties, regardless of which brokerage actually has the  
43 property listed.

1 To participate in an MLS, brokers agree to cooperate with each other in a sharing of  
 2 the commission between the listing broker and the selling broker. The terms for division  
 3 of commission can vary from broker to broker. Depending on the population of an area, a  
 4 broker may be a member of more than one MLS. The MLS is not a copyrighted trademark  
 5 of NAR. Anyone can create an MLS.

### Practice Questions

17. List the three general categories of residential construction.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

18. Purchasing one or more residential lots and constructing homes on the lots without first finding a \_\_\_\_\_ for the new construction is called building on \_\_\_\_\_.

## 1.9 SUMMARY OF IMPORTANT POINTS

- 7 ■ Real estate brokers provide specialized service for others in return for compensation in the form of a commission, fee, or other valuable consideration.
- 8
- 9 ■ Real estate professionals provide expert knowledge of property transfer, market conditions, and how to market real estate and businesses.
- 10
- 11 ■ The five major sales specialties are (1) residential, (2) commercial, (3) industrial, (4) agricultural, and (5) businesses.
- 12
- 13 ■ *Farm area* refers to a selected and limited geographic area to which a sales associate devotes special attention and study. Target marketing involves expertise in locating prospects.
- 14
- 15
- 16 ■ Business opportunity brokerage involves the sale or lease of an existing business. A real estate license is required to sell and lease business opportunities for others.
- 17
- 18
- 19 ■ Property management is a professional service conducted by a person or company hired to maintain and manage property on behalf of property owners. Absentee owners are property owners who do not reside on the property and who often rely on a professional property manager to manage the investment.
- 20
- 21
- 22
- 23 ■ Federal and state laws require appraisals that involve a federally related transaction to be prepared by a state-certified or licensed appraiser.
- 24
- 25 ■ When preparing appraisals, Florida law requires appraisers and real estate licensees to abide by the *Uniform Standards of Professional Appraisal Practice (USPAP)*. The *USPAP* is a set of guidelines (standards of practice) to follow when conducting appraisal services. Real estate licensees may not represent themselves as state-certified, registered, or licensed appraisers unless they also hold those licenses.
- 26
- 27
- 28
- 29
- 30
- 31 ■ A *comparative market analysis (CMA)* is a marketing tool that is prepared for a potential buyer or seller based on recent sales of similar properties, properties currently on the market, and recent expired listings. A CMA may not be referred to or represented as an appraisal.
- 32
- 33
- 34

- 1 ■ A broker's price opinion (BPO) is a broker's written opinion of the value of real  
2 property. A broker may charge a separate fee for a BPO, provided it is not used  
3 in connection with originating a federally related loan and it is not labeled as an  
4 appraisal.
- 5 ■ A mortgage loan originator (MLO) must be licensed to receive compensation for  
6 taking a residential mortgage application or negotiating the terms of a residential  
7 mortgage loan. A real estate licensee may not accept a referral fee from a lender  
8 unless the real estate licensee is also licensed as a mortgage loan originator.
- 9 ■ Dedication is the gift of land by an owner to a government body for public use.  
10 The developer installs the improvements and the local municipality agrees to  
11 maintain the improvements as part of the subdivision plat approval process.
- 12 ■ The three categories of residential construction are (1) speculative (spec) homes,  
13 (2) custom homes, and (3) tract homes.
- 14 ■ A REALTOR® is a real estate licensee who is a member of the National Associa-  
15 tion of REALTORS® (NAR).

# UNIT 1 EXAM

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1. Which statement is TRUE regarding the use of the term REALTOR®?
  - a. All real estate licensees are REALTORS®.
  - b. All REALTORS® are members of the National Association of REALTORS® (NAR).
  - c. The terms real estate licensee and REALTOR® may be used interchangeably.
  - d. The Florida DBPR authorizes the use of the term REALTOR®.
2. The term *follow-up* refers to
  - a. returning calls in a timely manner.
  - b. completing instructions given by one's broker.
  - c. following through on listing calls made to for sale by owners.
  - d. what a sales associate does for buyers and sellers after the sale.
3. Even though certain exceptions apply, an active real estate licensee is legally entitled to appraise real property for compensation concerning a nonfederally related transaction
  - a. as long as she does not represent herself as a state-certified or licensed appraiser and complies with the *USPAP*.
  - b. only if the appraisal is called a comparative market analysis.
  - c. provided the compensation is based on a commission agreed on before the appraisal work is done.
  - d. provided a licensed or certified appraiser signs the appraisal report.
4. The field of property management has experienced growth and specialization primarily because of
  - a. the deregulation of the real estate industry.
  - b. the increase in the number of licensees specializing in property management.
  - c. the increase in the number of absentee owners.
  - d. higher construction costs that have caused an increase in the number of renters.
5. Real estate licensees must comply with the *Uniform Standards of Professional Appraisal Practice (USPAP)* when conducting which value estimates?
  - a. Appraisals
  - b. Broker price opinions
  - c. Comparative market analyses
  - d. Real estate licensees are exempt from the provisions of *USPAP*
6. Appraisers are paid a fee because
  - a. to accept compensation based on the appraised value is a conflict of interest.
  - b. custom dictates the method of compensation.
  - c. the fee would be too high if it were based on a percentage of property value.
  - d. only brokers and sales associates are paid commissions for their services.
7. The five major sales specialties do NOT include
  - a. agricultural.
  - b. special use.
  - c. commercial.
  - d. businesses.
8. The real estate activity that is devoted to leasing, managing, marketing, and overall maintenance of property for others is called
  - a. commercial sales.
  - b. property management.
  - c. counseling.
  - d. rental agents.
9. Which type of construction involves building to a buyer's specifications?
  - a. Tract homes
  - b. Spec homes
  - c. Custom homes
  - d. Model homes

10. The term *dedication* as it applies to development and construction refers to
  - a. a gift of land by the owner to the local government for a public use.
  - b. the builder's careful attention to construction details.
  - c. recording a subdivision plat map in the public records.
  - d. preparing raw land for site improvements.
11. What type of license is required to sell or lease business opportunities for another person?
  - a. Business broker license
  - b. Business opportunity broker license
  - c. Real estate license
  - d. None required, unless a building is being sold with the business
12. Selecting a limited geographical area in which a real estate professional develops special expertise is
  - a. dedicating land.
  - b. subdividing.
  - c. farming.
  - d. follow-up.
13. Managing which type of property of more than 10 units requires a CAM license?
  - a. Apartment building
  - b. Commercial property
  - c. Business complex
  - d. Condominium complex
14. Effective advertising involving developing a database of prospects to direct a specific message is called
  - a. institutional advertising.
  - b. computer efficiency.
  - c. target marketing.
  - d. merchandizing.
15. A broker charges a prospective seller \$50 for a comparative market analysis (CMA). Which statement applies?
  - a. Brokers are not permitted to charge for CMAs.
  - b. This is permissible, provided the broker does not represent the CMA as an appraisal.
  - c. The broker must be a state-certified or licensed appraiser to do this.
  - d. The CMA must be signed by a state-certified or licensed appraiser.

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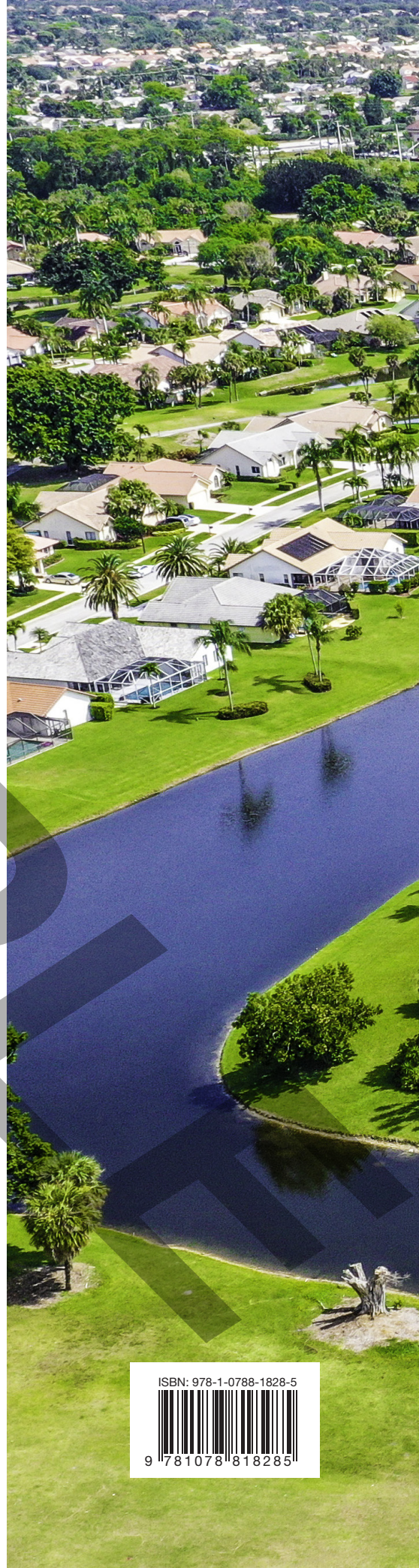
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