

MODERN **REAL ESTATE** PRACTICE | STUDY GUIDE

21ST
EDITION



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Martha R. Williams, JD, Contributing Editor

Dearborn
Real Estate Education

Study Guide for Modern Real Estate Practice

21st Edition

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Martha R. Williams, JD, Contributing Editor

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STUDY GUIDE FOR MODERN REAL ESTATE PRACTICE 21ST EDITION

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SAMPLE

INTRODUCTION

Most students find their real estate principles class to be a challenging, rewarding, and traumatic experience, all at the same time. For some, mastering the jargon of the real estate industry can be as demanding as learning a foreign language. Students who have not attended classes or studied for exams for several years may find it difficult to get back into the habit—particularly when there are other demands on their time, and homework becomes another responsibility, among many. Because we are aware of the particular challenges facing today's real estate student, this *Study Guide* was written with your needs in mind.

ABOUT THIS BOOK

This *Study Guide* was developed as a companion to *Modern Real Estate Practice 21st Edition*. It can also be used with these textbooks (a chapter/unit correlation table is located on the inside front cover):

- *Mastering Real Estate Principles*
- *Real Estate Fundamentals*
- *Modern Real Estate Practice* (state-specific)
- *Practice & Law* (state-specific)

The *Study Guide* is designed to reinforce and elaborate on the basic information provided in your main textbook. Specifically, it is designed to help you master these three fundamental goals, which are vital to academic success:

1. **Recognize** important terms and concepts
2. **Evaluate** your understanding of basic real estate issues
3. **Apply** learned principles to real-world practice

These goals form the basis of the *Study Guide* learning objectives, which are to

- **define and explain** fundamental concepts and vocabulary terms of the real estate industry;
- **identify and discuss** the characteristics of various legal and financial relationships; and
- **perform and apply** basic financial and property-related calculations.

While the real estate examination is exclusively a multiple-choice format, this *Study Guide* uses several different learning strategies. These styles of self-testing have proven to be effective in helping students move from memorizing factual information, to retaining the material. By working through the components of each unit, you will reinforce your real estate knowledge, as well as improve your test-taking skills.

ACKNOWLEDGMENTS

We would like to specially acknowledge contributing editor Martha R. Williams for her work on this edition. Martha received her juris doctor from the University of Texas, is an author and educator, and has practiced law in Texas and California. She is author or coauthor of *Fundamentals of Real Estate Appraisal*, *The Art of Real Estate Appraisal*, *How to Use the Uniform Residential Appraisal Report*, *California Mortgage Loan Brokerage*, *California Real Estate Principles*, other textbooks, and numerous electronic courses.

HOW TO USE THIS *STUDY GUIDE*

Each unit consists of three primary sections: unit-specific learning objectives, a number of questions in varying formats, and an answer key.

LEARNING OBJECTIVES

Each unit begins with a series of learning objectives that are identical to the ones found in *Modern Real Estate Practice 21st Edition*. If you are familiar with the material in the learning objectives, then you are ready to move forward in that unit of the *Study Guide*.

QUESTIONS

Each unit includes some or all of these types of questions or problems:

Matching

Each unit lists the key terms found in *Modern Real Estate Practice, 21st Edition*. Test yourself to see how many of the key terms and other important real estate terms you can match to the correct definition. Note that some key terms might not be used.

True or false

You are presented with a series of statements based on material in the main text. It is important to read each statement closely and to clearly understand what you have read. Sometimes, just one word changes the statement from being true to false.

Multiple choice

This section prepares you for the format and structure of the licensing exam. It may help to recognize that each multiple-choice question is actually four true or false statements. The possible answers consist of three false statements and one true statement.

Fill-in-the-blank

This section format re-emphasizes key terms and concepts. Insert the term that best completes the sentence from the list provided. Note that some key terms will not be used.

Math practice

Before starting to work a math problem, carefully read the entire question. Separate the irrelevant facts or numbers from the information needed to perform the calculations. For example, if a question asks you to calculate a broker's commission on a sale, you can disregard information about the asking price or mortgage. You should be able to answer a question based only on the facts given; make sure that you know exactly what you are being asked to do.

Activity

Each activity is different; follow the instructions included with each activity to complete it.

ANSWER KEY

Each unit includes an answer key so that you can immediately check your comprehension of that unit's content. Many entries in the answer key include rationales, which are brief explanations of the answers. Multiple choice and true or false questions have page references to the source material in *Modern Real Estate Practice 21st Edition*.

SAMPLE

UNIT

1

Introduction to the Real Estate Business

LEARNING OBJECTIVES

When you have completed this unit, you will be able to

- › **list** the various careers available in the real estate industry;
- › **describe** the different classifications and characteristics of real property and the types of housing available for purchase or rental;
- › **explain** the factors of supply and demand in the real estate market; and
- › **identify** the major goal of fair housing laws.

KEY TERMS

associate licensee
broker
fair housing

market
real estate licensee
sales associate

salesperson
supply and demand

MATCHING

Write the letter of the matching term on the appropriate line.

- | | |
|---|--|
| <ul style="list-style-type: none">A. home inspectionB. salesperson (sales associate)C. appraisalD. marketE. brokerageF. immobilityG. fair housingH. uniquenessI. condominiumJ. property management | <ul style="list-style-type: none">1. ____ When goods are bought and sold and a price for the goods is established there is this2. ____ Even if two parcels appear identical, they are never exactly alike because of this quality3. ____ Person who performs real estate activities while employed by, or associated with, a licensed real estate broker4. ____ An owner of this type of housing owns an individual unit and also shares ownership of common facilities5. ____ Maintaining and administering another's property for a fee6. ____ Process of using established methods and good judgment to form an opinion of the value of a property7. ____ The bringing together of parties interested in making a real estate transaction8. ____ The property of real estate that refers to the fact that property cannot be relocated elsewhere9. ____ Report based on visual survey of property structure, systems, and site conditions10. ____ The provision of a dwelling place for purchase or rental without discrimination based on an individual's race, color, national origin, religion, sex, familial status, or disability |
|---|--|

TRUE OR FALSE

Circle the correct answer.

1. The six classes of real estate mentioned in the course are residential, commercial, rental, agricultural, mixed-use, and special purpose.
A. True
B. False
2. The real estate market is generally slow to adjust to the changing forces of supply and demand.
A. True
B. False
3. The supply of labor and the cost of construction generally have a direct effect on the demand for real estate in a market.
A. True
B. False
4. Real estate professionals generally tend to specialize in one activity or class of real estate.
A. True
B. False
5. Warehouses, factories, and power plants are examples of commercial property.
A. True
B. False
6. The amount invested in a property is the owner's debt.
A. True
B. False
7. In general, the most widely recognized real estate activity is brokerage.
A. True
B. False
8. Finding funds to put together real estate transactions is called appraising.
A. True
B. False
9. Market trends in supply and demand can be overturned by a natural disaster, such as a hurricane or earthquake.
A. True
B. False
10. Demand for real estate usually drops when jobs are scarce.
A. True
B. False

MULTIPLE CHOICE

Circle the correct answer.

1. Office buildings and retail space are examples of
 - A. commercial real estate.
 - B. special-use real estate.
 - C. residential property.
 - D. industrial property.
2. A married couple filing a joint tax return can exclude up to \$500,000 of profit on the sale of their principal residence from
 - A. estate tax.
 - B. liquidity.
 - C. capital gains tax.
 - D. depreciation.
3. All of these factors will tend to affect demand for real estate *EXCEPT*
 - A. construction and material costs.
 - B. employment levels.
 - C. wage rates.
 - D. demographics.
4. When the population of a town suddenly increases, which of these is *MOST likely* to occur?
 - A. Rental rates will fall due to increased competition
 - B. Demand for housing will decrease
 - C. New housing starts will decrease
 - D. Real estate prices will increase
5. Property management, appraisal, financing, and development are all
 - A. specializations directly linked to state and federal government financial policies.
 - B. separate professions within the real estate industry.
 - C. real estate brokerage professions.
 - D. demographic factors that affect demand for real property in a commercial market.
6. The idea that no two parcels of land are exactly alike is called
 - A. immobility.
 - B. subdivision.
 - C. uniqueness.
 - D. location.
7. The factors that can affect the demand for real estate include
 - A. demographics.
 - B. labor force.
 - C. construction costs.
 - D. government controls.
8. A property owner who does not want to deal with the everyday tasks of managing a rental property can hire
 - A. a property manager.
 - B. an appraiser.
 - C. a transactional broker.
 - D. a property attorney.
9. When the supply of a certain commodity decreases while demand remains the same, the price of that commodity will tend to
 - A. remain the same.
 - B. increase.
 - C. decrease slightly.
 - D. decrease significantly.
10. A factor that affects the supply of real estate but is not usually under government control is
 - A. the Federal Reserve Board's discount rate.
 - B. a shortage of skilled labor or building materials.
 - C. land-use controls, such as zoning.
 - D. federal environmental regulations.

FILL-IN-THE-BLANK

Select the word or words that best complete these statements:

- A. appraiser
- B. broker
- C. continuing education
- D. demographic
- E. go down
- F. go up
- G. industrial
- H. licensing
- I. remain the same
- J. residential
- K. salesperson (sales associate)
- L. subdivision
- M. tax deduction
- N. valuation

1. ____ A person who conducts activities on behalf of a broker is called a(n) ____.
2. ____ Appraisers must have detailed knowledge of the methods of property ____.
3. ____ Real estate professionals keep their skills and knowledge current by obtaining ____.
4. ____ A single-family home is a type of ____ property.
5. ____ If the supply of single-family homes goes up and a major local employer lays off a large number of workers, the price of real estate tends to ____.
6. ____ The splitting of a single piece of property into smaller parcels is called ____.
7. ____ *Niche marketing* refers to the targeted marketing of specific ____ populations.
8. ____ A ____ for mortgage interest payments is a benefit of home ownership.
9. ____ A community implements land-use restrictions so that less vacant land is available for residential development. At the same time, demand for housing increases due to higher population. Prices for real estate will tend to ____.
10. ____ A ____ is a person or company licensed to represent others in the purchase, sale, exchange, or lease of real property.

UNIT 1 ANSWERS

MATCHING

1. D
2. H
3. B
4. I
5. J
6. C
7. E
8. F
9. A
10. G

TRUE OR FALSE

1. B The answer is false. The six classes of real estate mentioned in the text are residential, commercial, mixed-use, industrial, agricultural, and special-purpose. Rental is not a class of real estate. (4)
2. A The answer is true. Because of real estate's uniqueness and immobility, the market generally adjusts slowly to the forces of supply and demand; development and construction are lengthy processes. (8)
3. B The answer is false. Supply of labor and the cost of construction generally have a direct effect on the *supply* of real estate in a market. (10)
4. A The answer is true. The real estate industry is complex, much more than brokers bringing together buyers and sellers, landlords and tenants. Other specialties include appraisal, property management, financing, education, and home inspection. (4)
5. B The answer is false. Warehouses, factories, and power plants are examples of *industrial* property. (4)

6. B The answer is false. The amount invested in a property is the owner's *equity*. (11)
7. A The answer is true. Although many people think that real estate is comprised of only brokers and their sales associates, many other specialties exist, including financing, appraising, education, and property management. (2)
8. B The answer is false. Finding funds involves *financing*; forming an opinion of the value of property is *appraising*. (3)
9. A The answer is true. Even when supply and demand can be forecast with some accuracy, natural disasters, such as hurricanes and earthquakes, can disrupt market trends; the market also can be affected by sudden changes in financial markets or business relocations. (9)
10. A The answer is true. When job opportunities are scarce or wage levels are low, demand for real estate usually drops; in fact, the market may be drastically affected by a single major employer moving in or shutting down. (10)

MULTIPLE CHOICE

1. A The answer is commercial real estate. Office buildings and retail space are examples of commercial real estate. Special use properties include churches and dormitories; industrial properties include warehouses and factories. (4)
2. C The answer is capital gains tax. A married couple filing a joint tax return can exclude up to \$500,000 of profit from capital gains tax. An individual who files as single is entitled to exclude up to \$250,000 from capital gains tax. (11)
3. A The answer is construction and material costs. These affect the supply of real estate. Employment levels, wage rates, and demographics affect demand. (10)
4. D The answer is real estate prices will increase. With a sudden influx of residents, rental rates will increase, demand for housing will increase, and more new homes will be started to satisfy demand. (10)

5. **B** The answer is separate professions within the real estate industry. Property management, appraisal, financing, and development are not linked to the government; they are all linked to real estate business. (2–3)
6. **C** The answer is uniqueness. No matter how identical they may appear, no two parcels of real estate are ever exactly alike; each occupies its own unique geographic location. (8)
7. **A** The answer is demographics. Demographics affect the *demand* for real estate. The labor force, construction costs, and government controls affect the supply of real estate. (10)
8. **A** The answer is a property manager. A property manager handles the day-to-day tasks of managing property for an owner. An appraiser forms an opinion or property value, a home inspector examines the property and reports problems, and the developer improves the property. (2)
9. **B** The answer is increase. When consumers continue to demand a product for which there is limited supply, the price generally increases. (8)
10. **B** The answer is a shortage of skilled labor or building materials. A shortage of skilled labor will affect the supply of real estate, and this labor shortage is not generally associated with governmental policies. (9)

FILL-IN-THE-BLANK

1. **K**
2. **N**
3. **C**
4. **J**
5. **E**
6. **L**
7. **D**
8. **M**
9. **F**
10. **B**

MODERN REAL ESTATE PRACTICE | STUDY GUIDE



Review and recall the key concepts and terms presented in *Modern Real Estate Practice, 21st Edition*. With hundreds of questions and activities, this *Study Guide* will thoroughly prepare you to pass your license course and exam.

FEATURES:

- **Updated** questions, answers, and rationales reflect current real estate policy and law so you can test your knowledge of key concepts covered in the license course and on the exam.
- **Answer rationales** refer to the page in *Modern Real Estate Practice, 21st Edition*, where the topic is covered.
- **Learning objectives** at the beginning of each unit let you check your comprehension of each unit before you begin your *Study Guide* review.
- **Dedicated Website Gives Students More!**

Visit www.modernrealestatepractice.com to find additional study tools and support for the 21st edition of this classic real estate text.

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