

EXCERPTS FROM FINISHED QUESTIONS

Gary Segatti is an attorney and a real estate broker who has written 800 questions with explanations of the answers. The questions are on an interactive CD. You can study a specific area, study the questions randomly or do a timed test just like the real one. This is ideal for any one preparing to take the real estate sales or broker's examination.

PROPERTY MANAGEMENT

1. The primary objectives of a property manager are:
 - A. Generate the highest possible net income over the economic life of the property
 - B. Generate the highest possible gross income over the economic life of the property
 - C. Increase the value of the property through modern management techniques
 - D. A & C
2. The type of manager most likely to be licensed as a real estate broker is the:
 - A. Property manager
 - B. Building manager
 - C. Resident manager
 - D. Any of the above

LANDLORD TENANT

3. In a landlord/tenant relationship, the landlord is said to hold a:
 - A. Reversion
 - B. Demise
 - C. Leasehold
 - D. Exclusive right to sell
4. The type of tenancy that has a beginning and ending date is the:
 - A. Estate for years
 - B. Estate from year to year
 - C. Estate at will
 - D. Life estate
5. If the tenant were to die during the lease period, which type of leasehold would pass to the tenant's estate?
 - A. Estate for years
 - B. Tenancy from year to year
 - C. Tenancy at will
 - D. Tenancy at sufferance
 - E. A & B
6. If the landlord and the tenant do not specify the rental period, the manner in which the rent is paid creates this type of occupancy:
 - A. Tenancy for years
 - B. Estate from year to year
 - C. Tenancy at will
 - D. Tenancy in common
7. When the rent payment is a fixed amount for the term of the lease, the lease is called:
 - A. Gross lease
 - B. Net lease
 - C. Percentage lease
 - D. Triple net lease

8. A percentage lease is most commonly used in:
 - A. Office buildings
 - B. Manufacturing
 - C. Shopping centers
 - D. Warehousing
9. If the landlord fails to repair a broken furnace in the middle of January and the property is located in Chicago, it may be considered:
 - A. Actual eviction
 - B. Constructive eviction
 - C. Partial eviction
 - D. Retaliatory eviction

LANDLORD TENANT MICHIGAN SPECIFIC

10. The security deposit law is designed to protect which party?
 - A. The landlord
 - B. The tenant
 - C. The bailiff
 - D. The property manager

CONDOMINIUMS, CO-OPERATIVES AND TIME SHARES

11. Which legal form of ownership involves the separation of property into individual ownership elements, common ownership elements and limited ownership elements?
 - A. Co-operative
 - B. Time share
 - C. Home owners association
 - D. Condominium
12. Which form of ownership involves a proprietary lease?
 - A. Condominium
 - B. Co-operative
 - C. Time share
 - D. Home owners association

I took the real estate course and it was hard! I was concerned that I would have trouble remembering everything. Then, I studied Gary Segatti's 800 Real Estate Questions. If I marked one wrong, a message popped up showing me the correct answer and a detailed explanation, so I was "over prepared" when it came to taking the state exam. Well, I took the exam, passed on the first try, and my license is on the wall! I recommend using Gary Segatti's CD as a study guide.

—Sue Downey, Sales Agent, Budget Realty, LLC

ABOUT THE CD

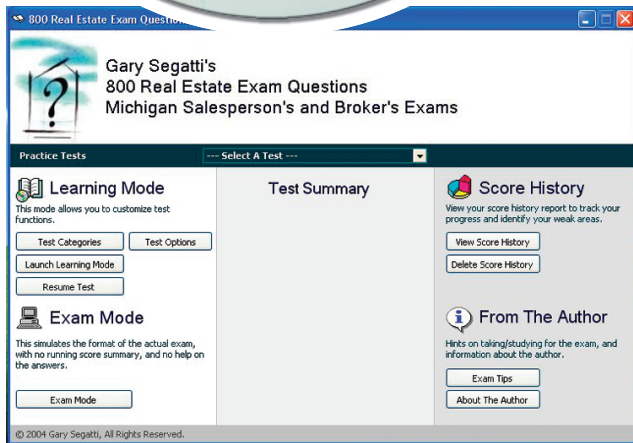
This CD has 800 questions similar in style and content to the actual real estate sales and brokers examination. You can use this book to test your knowledge and as a study or memory guide. With each question is an explanation of why the answer is correct or not. The explanations provide an understanding of the terms needed to pass the real estate exam using examples that can be related to.

Also included are tips on taking any multiple-choice examination.

Many people have failed the exam by just one or two points. Sometimes repeatedly! This is not because a lack of knowledge, but a reading problem. Very often a student will miss the double negative thrown in by the examiners. This is the only study aid that trains the student to properly and carefully read a question before answering.

The CD is designed as a study aid for passing the real estate sales or brokers examination. You can study a particular area of real estate, including:

1. Agency and Business Entities
2. Financing
3. Listing Property
4. Mathematics of Real Estate
5. Michigan State Laws and Rules
6. Professional Responsibility
7. Property Management
8. Selling Property
9. Settlement and Transfer of Ownership
10. You can take a sample salesperson or broker exam under simulated test conditions.



ABOUT THE AUTHOR

Gary Segatti has been an active real estate investor since 1976. He is an attorney, a real estate broker and the author of two books on real estate. Mr. Segatti has taught real estate courses and contract law since 1984.

From Mr. Segatti:

After teaching many students, I have learned that passing the real estate sales or broker's exam requires learning concepts that are unfamiliar rather than difficult to understand. These questions are a culmination of my experience as an attorney, an investor and an educator. I wrote as if I were talking directly to the reader. The questions and explanations are designed to give the reader an understandable explanation that can be remembered.

If you read something in this book that is not accurate, please contact me directly at: GarySegatti@yahoo.com.



To order "800 Real Estate Exam Questions" on CD, call Gary Segatti at 248-808-2711 or E-mail GarySegatti@yahoo.com

800 Real Estate Exam Questions



LEGAL DESCRIPTIONS

13. A legal description of real property:
- A. Does not aid an untrained person in finding the land
 - B. Must be contained in the deed
 - C. Enables a surveyor to locate the exact boundaries of the property
 - D. All of the above
14. A street address:
- I. Helps us get mail and pizza delivered to our home
 - II. Does not help identify the property's boundaries, so it is not considered a formal method to describe property
 - III. Is enough to create a binding contract to sell real estate. The legal description is needed to close, but it need not be included in the purchase agreement
- A. I
 - B. I and II
 - C. II and III
 - D. All of the above
15. How many acres are in a lot described as
E 1/2 of NW 1/4 of SE 1/4
- A. 640
 - B. 320
 - C. 160
 - D. 40
 - E. 20

I was quite impressed with the detail and nuances in the questions in your book. Well conceived and well executed! Now, if I just make time to do all the questions, I'd learn a lot! It's quite well done, Congratulations!

—Bruce M. Gorosh, Petersen, Lefkofsky & Gorosh, P.C.

REAL ESTATE FEATURES, CONCEPTS AND CHARACTERISTICS

16. Ownership:
- I. Is tangible
 - II. Is intangible
 - III. May be divided into different rights owned by different people.
 - IV. Is not divisible.
- A. I and III
 - B. II and IV
 - C. I and IV
 - D. II and III

CONTRACTS

17. A contract is:
- I. An exchange of promises that courts will enforce
 - II. An offer made by one party that was accepted by another
- A. I
 - B. II
 - C. I and II
 - D. Neither

18. To form a contract, there must be an offer and an acceptance. This is called:
- A. Mutual assent
 - B. Consideration
 - C. Legal capacity
 - D. Present contractual intent
 - E. None of the above
19. The parole evidence rule:
- I. Will prevent the courts from enforcing a contract that is not in writing
 - II. Will not allow oral evidence to explain the written contract
 - III. Will allow oral evidence to explain, but not contradict a written contract
 - IV. Does not relate to matters involving fraud, mistake and ambiguities
- A. I
 - B. II
 - C. I and II
 - D. III and IV

APPRAISING

20. Which is the least curable form of obsolescence:
- A. Economic obsolescence
 - B. Functional obsolescence
 - C. Physical deterioration
 - D. Super adequacy
21. What two methods of appraising property are the most similar:
- I. Gross rent multiplier method
 - II. Cost approach method
 - III. Income approach to value method
 - IV. Market approach method
- A. I and II
 - B. II and III
 - C. II and IV
 - D. III and IV
 - E. I and III

TITLE

22. What is a summation of the history of ownership for a parcel of land called?
- A. Abstract of title
 - B. Certificate of title
 - C. Chain of title
 - D. Defect in title

TAXATION

23. Which term or terms is/are used with section 1031 of the Internal Revenue Code?
- A. Relinquished property
 - B. Replacement property
 - C. Qualified intermediary
 - D. All of the above

EXCERPT ANSWERS

1. D A property manager is aware that the property might be pledged as collateral for a loan or sold at sometime in the future. The manager is to keep the property in good condition and maintain the property value so the highest net operating income is realized. Net income is more important to the owner than gross income because it equals gross income minus expenses.
2. A A property manager is a person who manages one or more properties for one or more owners. It is the real estate broker who is most likely to carry out this function. A building manager will manage one building for one owner, and a resident manager will reside in the building being managed. Any of the three could be a real estate broker. The question asks for which of the three is most likely to be a broker.
3. A A leasehold is one of the bundle of rights associated with ownership. It is the right of possession. A tenant receives possession from the landlord, so the tenant has the leasehold, not the landlord. At the end of the lease, the tenant's right of possession ends and the right of possession reverts back to the landlord. A demise describes the landlord's transfer of possession to the tenant.
4. A The primary feature of an estate for years is that it has a definite beginning and ending date. The name is misleading because the time period can be shorter than one year. A tenancy that started on Monday and ended on Friday of the same week is an estate for years. An estate from year to year is also called periodic tenancy. Its distinguishing feature is that the period automatically renews. Either the landlord or the tenant may cancel the lease by providing one period's notice. The landlord may raise the rent by giving one period's notice. A tenancy at will is one that ends the moment either the landlord or tenant wills it to end. A tenancy at sufferance occurs when a tenant who was originally in lawful possession of the property, overstays the welcome. It occurs most commonly when a tenant stays in possession of the real estate after the expiration of an estate for years.
5. E A tenancy at will or at sufferance ends with the tenant's death. In a tenancy from period to period, the tenant's death would be treated as notice of the tenant terminating the lease. The estate of the deceased is obligated for one period's rent. In a tenancy for years, the estate of the deceased would be obligated to pay rent until the lease term ended or the landlord re-rented the property.
6. B If the landlord and the tenant do not agree to a rental period, the law will look at their conduct to find the most reasonable inference of their agreement. How often the rent is paid is a major factor in a court ruling that the landlord and tenant have a periodic tenancy and that the rental period was the time between each rental payment.
7. A To remember the difference between a gross lease and a net lease, think of the difference between gross income and net income. In a gross lease, the landlord receives rent and must pay all of the expenses associated with the property, including taxes, insurance and snow removal. After paying the expenses, what is left is the net income. In a net lease, the tenant pays all of the expenses, so the rent received by the landlord is net rent. A percentage lease is often used in a shopping mall. It requires the tenant to pay a certain percentage of the tenant's gross sales as rent.
8. C A percentage lease includes a fixed amount of rent, plus a percentage of gross sales. A percentage lease is often used in a shopping mall. It requires the tenant to pay a certain percentage of gross sales as rent. It may have a recapture clause. That means the landlord may retake possession from the tenant if the sales are below a stated amount.
9. B A constructive eviction occurs when the tenant, in possession of property, is unable to enjoy that possession due to the poor condition of the property. An actual eviction could occur legally, through court process, or illegally. In either case of actual eviction, the tenant is actually removed from the property. A partial eviction means the tenant is ousted from part of the property and remains in possession of part. A retaliatory eviction occurs when a landlord attempts to remove a tenant from the property because the tenant complained about the condition of the property or attempted to enforce the terms of the lease. To clarify, if a tenant asks the health department to force the landlord to repair the property, the courts will not allow the landlord to evict the tenant in retaliation.
10. B It is often true that getting a judgment against a person is easier than collecting on the judgment. With a security deposit, the landlord is given the money at the beginning of the lease so the landlord can collect if a court finds that the landlord is entitled to the money. The money on deposit with the landlord remains the tenant's until the parties agree or a court finds the landlord entitled to the money. All of the rules are designed to protect the tenant from the landlord. The landlord cannot take the tenant's money without the tenant's agreement or a court order. A person may think that giving a landlord money to hold just in case the tenant breaches the lease is protection for the landlord. It is, however it is limited protection in that the law caps the total the landlord can take as a security deposit. If the tenant damages the property or owes rent in excess of the security deposit, the landlord may still collect by using the traditional legal theories of collecting. i.e.: Breach of contract or vandalism.
11. D The statement is the definition of a condominium. A co-operative involves a corporation acquiring ownership to real estate. Owning stock in the corporation enables the stockholder to move into the property, but rent must be paid to the corporation. If the property increases in equity, the stock will go up in value. A time-share involves dividing the ownership of the property into 52 one-week intervals and selling each week individually. The time periods may vary and time-shares are poor investments. A homeowners association is a non-profit corporation formed to manage the affairs of its members. In a condominium, the association would collect a monthly association fee and handle the maintenance, repairs and insurance of the common and limited common elements of the association.
12. B A co-operative involves a corporation acquiring ownership to real estate. A person will then buy the stock of the corporation and move into the property and pay rent to the corporation. If the property increases in equity, the stock will go up in value. The lease between the corporation and the tenant is called a proprietary lease because the tenant is a stockholder of the landlord corporation.
13. D We locate property by using the address. The address can change; however, a legal description will not. With a legal description, a surveyor can find the exact physical location of the property. With a legal description, stakes can be used to establish boundary lines, observe buildings, and trees or other objects. A deed must contain a legal description to be recorded, but it is not needed to transfer title. To transfer title, the property conveyed need only be identified.
14. D A legal description in the purchase agreement is not required to create a binding legal contract. The property must be identified and the street address is sufficient. The legal description will be needed after forming the contract to obtain the survey, the title report and for the deed to be recorded.
15. E The rectangular survey system for describing property starts with a grid of lines 6 miles apart creating townships. The north-south lines are called meridian lines and the east-west lines are called base lines. Each square formed has 6 miles per side and has 36 square miles in it. Each square mile is called a section and contains 640 acres. A section is divided in 1/2 or in 1/4 as many times as is

EXCERPT ANSWERS

required to locate the parcel of land. This question takes a section and divides it as E 1/2 of NW 1/4 of SE 1/4, so the section was divided as follows:

$$\begin{aligned} 640/4 &= 160/4 = 40/2 = 20 \quad \text{or} \\ 1/2 \times 1/4 \times 1/4 &= 1/32 \quad 640/32 = 20 \end{aligned}$$

16. D Tangible objects take up space and can be photographed. Ownership is intangible. It is society's recognition of the rights a person has in property. Ownership of real estate is transferred by a deed; the grantee will not lose the ownership transferred if the deed is lost. With ownership are various rights to use the property. Rights in a property can be allocated to different parties. An owner of real estate may give possession of the surface to a tenant and the right to mine minerals underneath the surface to someone else. Airspace could be given to a cellular phone company for a tower. Each person gets his or her rights from the owner who had it via the ownership.

17. A A contract is made of the following elements: an offer, an acceptance, consideration, the parties having legal capacity, the subject matter of the contract is legal. A contract will not be created merely because one party accepted an offer. All of the elements are required.

18. E An offer and acceptance is nothing more than an offer made by one person that is accepted by another. Mutual assent refers to the idea that two people understand what they agreed to. Two people may agree to something, yet have a different understanding of the agreement. For a contract to exist, the parties' agreement must be mutual. That is: both parties understand what was agreed upon. Consideration is what one person provides in exchange for what will be received. The giving up of an object or privilege is consideration. It could also be refraining from doing what one has a right to do or it could be transferring an item of value to another person. The statement, "I will give you my car" does not have consideration. It is a promise to make a gift and cannot create a contract. The statement, "If you give me one dollar, or if you do not eat meat for one month, then I will give you my car" has the consideration required to form a contract. Legal capacity refers to a person NOT being a minor or adjudicated incompetent. Without legal capacity, a person cannot enter into a contract or the contract is voidable at the option of the person lacking the contractual capacity. Present contractual intent means present, as in "I intend a contract now". Two people cannot agree that next week they will meet and not leave until a contract is formed. A contract is either formed or it is not.

19. D The statute of frauds requires certain contracts to be in writing to be enforceable by the courts. If the requirements for the statute of frauds have been met, and there is enough of a written contract for the courts to enforce, the parole evidence rule will be used. The parole evidence rule allows testimony and other evidence to be reviewed to fill in missing terms or explain paragraphs in a written contract capable of two or more meanings. In the case of fraud, a person would be able to explain to the court the circumstances leading up to the contract being signed.

20. A Economic obsolescence is the least curable due to the cost to remove it. It involves the situation of the community surrounding the subject property having deteriorated and the cost to cure will involve many different properties. The subject property may be in excellent condition but its market value is reduced because the surrounding area has deteriorated. Functional obsolescence occurs when a property lacks features expected by people currently buying real estate. Examples could be an older home that is well maintained but lacking closets or a five-bedroom home with a one car garage. Physical deterioration involves the wear and tear of the subject property. If it hasn't been painted in 15 years, the unpainted wood may need replacement. Super adequacy involves an improvement to real estate the cost of which cannot be recouped from the sale of the real estate. For example: installing expensive marble tile in a little two-bedroom house on a crawl space will not increase the value. It would be super adequate.

21. E The gross rent multiplier method of appraising property is an oversimplification of the income approach. Both methods look at the income generated by the property to set a sale price. The gross rent multiplier simply requires the gross rent to be multiplied by some number to determine value. On the test you may be asked for a yearly gross rent multiplier and given monthly rent. Make sure you convert months to years or vice versa depending upon the question. The income approach to an appraisal subtracts all of the expenses associated with the property from the rent collected. The price is then based upon the amount of income that the property will produce and what the rate of return is for alternative investments.

For example: the net income of a property at \$ 10,000 per year does not equal \$200,000 deposited into a bank account at five percent. There is more work and risk with the rental property. Due to the extra work and risk, the income is considered against a higher rate of return.

The market and cost approach might provide estimates of value that are close or very far apart. In some areas, a property may sell for a fraction of what it would cost to rebuild; yet in other areas the cost to rebuild may be close to market value. The difference in price is due to the fact that the market approach evaluates criteria outside of the subject property and the cost approach only considers the subject property.

22. A Chain of title refers to the idea that land in the United States was transferred to a private party in a government patent and then through a series of transfers, to the present owner of the property. A break in the chain of title indicates that the present owner's interest in the property cannot be traced back to a government patent. That would be a defect in the owners' title. An abstract is a summary of all the documents that transferred any ownership interest in a property. An experienced person may examine the abstract and give an opinion that the owner owns the property and can therefore sell or pledge the property as collateral. But if the opinion is wrong, there is no insurance. An experts' opinion is rarely, if ever, used today. The security of title insurance is sought by almost all purchasers of real estate.

A Torrens certificate is not used in Michigan, but there might be one question on the test about it. It is a certificate of title showing ownership to land similar to a certificate of title for a car.

23. D If a person sells an investment property at a profit, the government would tax the profit. So if the person intended to buy a second investment property, not all of the profit would be available. Section 1031 of the Internal Revenue Code allows a taxpayer to trade the old property for a different property without incurring a taxable event.

Example: Suppose you purchased a property for \$100,000 that was now worth \$200,000. If you sold it to raise funds to buy a \$300,000 property, you would not be able to use all of the \$100,000 gain. You would be taxed on the profit realized from the sale. As an alternative, you could locate a buyer for your property. At the closing, you would give your seller the deed to your relinquished property plus \$100,000 and the seller would give you the deed to your replacement property. Your buyer would then purchase your relinquished property from your seller.

The term qualified intermediary is used when a trade of property does not occur at the same time. You can transfer your relinquished property to a qualified intermediary. The qualified intermediary will then sell your relinquished property. You then have 45 days to identify a property that you would like the qualified intermediary to purchase and transfer to you. The sale must be completed within 180 days.