

Student name: _____

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

fences.

walkways.

sewer systems.

streets.

The term real estate is used in three fundamental ways. When real estate is defined as the land and its improvements, it is being viewed as purely a(n):

tangible asset.

intangible asset.

parallel asset.

personal asset.

The term real estate is used in three fundamental ways. When real estate is defined as a bundle of rights associated with ownership and the use of the site and improvements, it is being viewed as purely a(n):

tangible asset.

intangible asset.

parallel asset.

personal asset.

All of the following are examples of an improvement *on* the land EXCEPT:

fences.

building.

walls.

streets.

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

fence

building

water and sewer systems

personal property

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

walkways.

the building and parking lot.

sewer system.

streets.

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

land

building

mortgage

fence

Which of the following would be considered a tangible asset?

land

lease agreement

mortgage

listed REIT

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

“raw” land.

building site.

developed land.

property infrastructure.

If we desire to classify land by its use, land that consists of residential, industrial, commercial, and institutional land uses would be classified as:

rural land.

federal land.

urban land.

undeveloped land.

According to the Department of Agriculture, which of the following land types constitutes the lowest percentage of land use in the United States?

crop land

federal land and water areas

forest land

urban land

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

user market

capital market

government

property market

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

user market.

capital market.

government sector.

property market.

Based on your understanding of the supply and demand dynamics of user/space markets, an increase in demand for leasable space would, all else equal, cause which of the following effects?

decrease equilibrium rental rates and decrease property value

decrease equilibrium rental rates and increase property value

increase equilibrium rental rates and decrease property value

increase equilibrium rental rates and increase property value

Based on your understanding of the supply and demand dynamics of user/space markets, the new construction of units would, all else equal, cause which of the following effects?

decrease equilibrium rental rates and decrease property value

decrease equilibrium rental rates and increase property value

increase equilibrium rental rates and decrease property value

increase equilibrium rental rates and increase property value

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

amortization.

discounted cash flow analysis.

direct capitalization.

proforma.

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

real property.

home mortgage.

equity REIT.

mortgage-backed security.

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

real property.

real estate operating company.

equity REIT.

commercial mortgage-backed security (CMBS).

An example of a real estate asset that trades in the public equity market is a(n):

real property.

home mortgage.

equity REIT.

commercial mortgage-backed security (CMBS).

An example of a real estate asset that trades in the private debt market is a(n):

real property.

commercial mortgage.

equity REIT.

mortgage REIT.

Participants in the capital markets can be divided into four main categories: private equity, public equity, private debt, and public debt. A limited liability corporation's ownership of real property occurs in the:

Private equity market

Public equity market

Private debt market

Public debt market

Participants in the capital markets can be divided into four main categories: private equity, public equity, private debt, and public debt. Bank lending as a source of financing for the acquisition of real property occurs in the:

Private equity market

Public equity market

Private debt market

Public debt market

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

local government

state government

national government

foreign government

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

the current level of rental rates for each submarket and property.

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

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

the cost of financing the purchase of a property.

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

homogeneous.

heterogeneous.

substitutes.

complements.

The investment grade property market is typically targeted by all the following groups of investors EXCEPT:

pension funds.

individual investors.

listed equity REITs.

All of these are correct.

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

property tax policy.

income tax policy.

building Codes.

real estate licensing requirements.

The required rate of return that an individual or company expects from a real estate investment is determined in the:

user market.

capital market for both debt and equity.

government sector.

local market.

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

localized markets.

highly segmented markets.

privately negotiated contracts.

low transaction costs.

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

structural attributes

financing attributes

location attributes

land attributes

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

the collection of rent and selling or refinancing the asset.

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

the receipt of property taxes.

the case of a borrower default on required mortgage payments.

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

appreciation rate.

capitalization rate.

discount rate.

internal rate of return.

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

local government

state government

national government

foreign government

A primary determinant of the feasibility of new construction is the relationship between the current level of market value and the cost of new construction. We would expect the supply of properties to:

increase if current market values are greater than the cost of construction.

decrease if current market values are greater than the cost of construction.

increase if current market values equal the cost of construction.

decrease if current market values equal the cost of construction.

Commercial real estate assets are markedly different from assets in other financial markets due to their heterogeneity, immobility, localized nature, illiquidity, and market segmentation. Based on your understanding of these characteristics, which of the following statements best describes what is meant by highly segmented markets?

Properties are difficult to physically move from one location to the next.

Demographic characteristics are what ultimately determine a property's best use.

Properties can be grouped based on classifications such as property type, location, investor type or price.

Properties can be transacted in both public and private markets.

Commercial real estate assets are unique when compared to other goods due to their heterogeneity, immobility, localized nature, illiquidity, and market segmentation. Based on your understanding of these characteristics, which of the following statements best describes what is meant by immobile markets?

Properties are difficult to physically move from one location to the next.

Demographic characteristics are what ultimately determine a property's best use.

Properties can be grouped based on classifications such as property type, location, investor type or price.

Properties can be transacted in both public and private markets.

Using the I/RV formula, if a property's expected annual net operating income is \$89,100 and its current market value is \$1,060,000, the property's implied capitalization rate is:

4.2%.

8.4%.

11.9%.

33.6%.

Answer Key

Test name: Ch1_Real Estate Principles: A Value Approach_7e

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