

**Real Estate Exam
Review Notes**

- ⊙ **Territory of U.S. - Treaty of Guadalupe Hidalgo - 1848**

- ⊙ 1. California became a possession of the U.S.
- ⊙ 2. John Sutter discovered gold.
- ⊙ 3. Gold rush brought thousands to California.

- ⊙ **A. Ownership is a Bundle of Rights**

- ⊙ 1. Possession
- ⊙ 2. Enjoyment
- ⊙ 3. Control
- ⊙ 4. Disposition

- ⊙ **B. Real Property**

- ⊙ **REAL PROPERTY** is the right or interest that a person has in the land or anything attached to the land
- ⊙ **Land** - (above and below the surface) including **littoral** and **riparian rights**, minerals, oil and gas rights, and airspace (such as condominiums).
- ⊙ Appropriation of Water
- ⊙ Percolating Water
- ⊙ Allocation and Appropriation of Water
- ⊙ Potable Water
- ⊙ Surface Water Rights
- ⊙ Anything **permanently attached or affixed** to the land (“Improvements”), such as buildings, fences, walls...

- ⊙ **B. Real Property (cont.)**

- ⊙ 3. Anything **incidental** or **appurtenant** to the land (shares of stock in water company, easements).
- ⊙ 4. That which is **immovable by law** (attached by roots—vegetation, landscaping).

- ⊙ **C. Personal Property**

- ⊙ **PERSONAL PROPERTY** is any property that is movable and cannot be properly classified under the definition of real property
- ⊙ 1. Anything not defined as real property.
- ⊙ 2. **Emblements** - growing crops cultivated annually (fruits and nuts).
- ⊙ 3. The ownership of personal property is transferred with a “bill of sale.”
- ⊙ **D. Fixtures** -
- ⊙ Personal property attached to, or incorporated into, the land in such a manner as to become real property
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- ⊙
- ⊙ **E. Trade Fixtures**
- ⊙ Always Personal Property.
- ⊙ Removable – exception to the rule.
- ⊙ Equipment used in the normal course of business which is considered personal property as long as any removal damages can be repaired.
- ⊙ Transferred by “Bill of Sale.”
- ⊙ **Metes and Bounds**
(surveyor's map)
- ⊙ The method of identifying property in relationship to its boundaries, distances and angles from a given starting point.
- ⊙ Complicated description that surveyors use.
- ⊙ **Metes** - a measure of distance between points (feet, yards, rods and chains)
- ⊙ **Bounds** - starting points, ending points and markers in between used to describe boundaries.
- ⊙ a. Natural bounds (rivers, trees, rocks)
- ⊙ b. Man-made bounds (canals, roads, stakes or bench marks)

- ⊙ **B. Sections and Townships
(U.S. Government Survey)**

- ⊙ **Think:** *Rural Land*

- ⊙ identifies land by sections and townships arrived upon by dividing the state into base lines and meridians.

- ⊙ **The three starting points in California are:**

- ⊙ **Humboldt Base Line and Meridian**

- ⊙ **Mt. Diablo Base Line and Meridian**

- ⊙ **San Bernardino Base Line and Meridian**

- ⊙

- ⊙ 1. **Base Lines** - run east west from a given starting point and are marked by six mile increments called Ranges.

- ⊙ 2. **Meridian Lines** - run north-south from a given starting point and are marked by six mile increments called Tiers or Township Lines, the resulting grid of squares divides the state into Townships, each containing 36 square miles (six miles by six miles)

- ⊙ **a. Reading Tier & Section Descriptions**

- ⊙ Each **Township** is divided into 36 sections.

- ⊙ sections are numbered 1 through 36.

- ⊙ number sequence starts in the upper right-hand (**North-East**) corner of the township

- ⊙ sequence proceeds across to the left to 6, down to 7, across to the right to 12, down to 13, etc.

- ⊙ sections can be divided into halves and quarters and each of these can be halved and quartered (and each half and quarter can be halved and quartered, etc.) until the property can be properly described.

- ⊙ Township and Sections

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⊙ **C. Lots, Blocks, and Tracts (Recorded Subdivision) -**

⊙ **Think:** *Urban Legend*

⊙ describes property according to an engineer's map which is approved by the Department of Real Estate and the local city or county and then recorded.

⊙ The subdivision map is also referred to as a **FINAL SUBDIVISION MAP**

⊙ **Tract** - the name assigned to an individual subdivision map (it is now generally a number, but in the past was often a word or phrase).

⊙ **Blocks** - individually numbered sections of a tract separated by roads.

⊙ **Lots** - individually numbered sections of a block.

⊙ **REFERENCE TABLE**

⊙ One **ACRE** is 43,560 square feet, 4840 square yards.

⊙ One **SQUARE ACRE** is 208.71 feet on each side, but this number is generally rounded off to 209 feet.

⊙ One **MILE** is 5,280 feet long.

⊙ One **SQUARE MILE** contains 640 acres.

⊙ One **SECTION** is one mile square, containing 640 acres

⊙ One **TOWNSHIP** (standard) is six miles square (36 square miles).

⊙ One **COMMERCIAL ACRE** is an acre minus any required public dedications.

⊙ One **ROD** is 16.5 feet long (5.5 yards). There are 4 rods, or 66 feet, to one chain, and 320 rods to a mile.

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⊙ **B. Freehold Estate –**
(Real Property)

⊙ Freehold estates are the greatest degree of ownership you can have under the law

⊙ **1. Estates in Fee -**

⊙ Owner holds all rights for unlimited period.

- ⊙ **a. Conditions That Restrict a Fee Estate** (Fee Simple Defeasible):
- ⊙ **Condition Precedent** - an event which must occur before the property can be transferred.
- ⊙ **Condition Subsequent** - an event that happens after a property is transferred, causing the property to revert to the grantor.
- ⊙ **Fee Simple Determinable Estate** - determines the duration of the estate by the deed itself
- ⊙ **2. Life Estate** (Indefinite Period)
- ⊙ interest in real property for the length of a designated person's life.
- ⊙ **Right to physically possess property.**
- ⊙ **Right to all rents and profits.**
- ⊙ **Right to lease, sell, or finance for only the term of the life estate.**
- ⊙ **Must keep property in good repair.**
- ⊙ **Must not damage or destroy property.**
- ⊙ **Must pay all taxes and interest (all annual costs and expenses).**
- ⊙ If grantor holds an **estate in reversion**, the property will return to the grantor.
- ⊙ Upon death of designated person, life tenant loses ownership interest.
- ⊙ Ownership goes to another life tenant (**estate in remainder**).
- ⊙ **C. Less-Than-Freehold Estate** -
- ⊙ The right to use real property for a period of time.
- ⊙ **1. Estate For Years** - lease for any fixed period of time (hours, days, months or years).
- ⊙ **2. Estate From Period-To-Period** - renewable agreement to rent or lease property from period to period (usually month-to-month or week-to-week).
- ⊙ **3. Estate At Will** - rental agreement for an indefinite period of time (either party must give 30 days notice to terminate).

- ⊙ 4. **Estate At Sufferance/Tenancy At Sufferance** - lessee (tenant) will not vacate after the term of the estate has run out.
- ⊙ **A. Transfers -**
- ⊙ Any changeover in the ownership of property.
- ⊙ Acquisition means to acquire, buy, or pull in while "Alienation" means to transfer, sell, or push away.
- ⊙ There are seven basic ways to transfer real property:
- ⊙ Deed
- ⊙ Will
- ⊙ Probate
- ⊙ Intestate succession
- ⊙ Accession
- ⊙ Occupancy
- ⊙ Dedication
- ⊙ **Transfer by Deed**
- ⊙ **Grant Deed** - transfers full title using the word "**grant**," includes the **implied warranties** that:
 - ⊙ owner has not conveyed title to anyone else.
 - ⊙ property is free of encumbrances (other than those disclosed).
 - ⊙ after-acquired rights (any obtained after the sale) are retroactively transferred.
- ⊙ **Grantor** - is the person who grants property or property rights (seller).
- ⊙ **Grantee** – is the person whom the grant is made (buyer).
- ⊙
- ⊙ **Quitclaim Deed -**
- ⊙ **Conveys only the rights that a person may hold.**

- ⊙ Quitclaim deed makes no “covenants” (promises).
- ⊙ Guarantees nothing.
- ⊙ Can convey any rights the grantor may have.
- ⊙ Can clear some **clouds of title** (a claim, encumbrance or condition that impairs the title to real property).
- ⊙ A **QUIET TITLE ACTION** - is a court proceeding to remove a cloud on title to real property
- ⊙ **Subtypes of Deeds**
- ⊙ **Valid Deeds must:**
- ⊙ a. be in writing.
- ⊙ b. properly describe the parties (grantee and grantor).
- ⊙ d. adequately describe the property.
- ⊙ e. contain a granting clause (action clause).
- ⊙ f. be signed by the grantor.
- ⊙ **Delivery -**
- ⊙ Property is not transferred until the deed is delivered with the intent of passing title.
- ⊙ a. **Manual Delivery** - direct transfer from grantor to grantee.
- ⊙ b. **Delivery Through Recording** - putting title in the grantee's name in the county records.
- ⊙ c. **Conditional Delivery** - a specific event must occur before the deed is delivered manually.
- ⊙ **2. Transfer by Will (Testate) -**
- ⊙ A **WILL** is a document, created by a person, stating how that person’s property is to be conveyed after his/her death.
- ⊙ **Witnessed Will** – typed, usually prepared by an attorney, dated, signed by the property owner, declared authentic by at least two witnesses (3 signatures total)

- ⊙ **Holographic Will** - entirely hand-written, dated, signed
- ⊙ **Codicil** - is a change in a will before the maker's death
- ⊙ **Revocable Living Trust** – is a trust that is effective during the life of the owner, rather than upon his or her death. It can eliminate probate and serve the same function as a will and maybe reduce excise taxes (see an attorney).
- ⊙ **3. Transfer by Probate (Superior Court Approval) -**
- ⊙ **Probate** is a Superior Court procedure to determine a will's validity, any creditor's claims, and establish the identities of rightful beneficiaries.
- ⊙ **Executor (male) or Executrix (female)** is named in the will
- ⊙ **Administrator (male) or Administratrix (female)** is appointed by the court
- ⊙ **4. Transfer by Intestate Succession- (No Will)**
- ⊙ A procedure used for transferring the deceased's property to his/her heirs, if there is no will.
- ⊙ **Separate property** is divided:
 - ⊙ a. equally between surviving spouse and one child.
 - ⊙ b. one-third to surviving spouse and two-thirds to be divided equally among two or more than two children.
- ⊙ If there are no heirs the property reverts to the State of California through a legal procedure called **Escheat**.
- ⊙ **5. Transfer by Accession – (Natural Causes)**
- ⊙ **ACCESSION** is the addition to a piece of land through forces of nature (natural growth), addition of fixtures or improvements made to the property in error.
- ⊙ **Accretion** - moving water adding land to a parcel. These deposits are called **alluvium**.
- ⊙ **Avulsion** - real property being lost because land is torn away by the action of moving water.
- ⊙ **Encroachment** -

- ⊙ is when improvements and permanent fixtures are placed on a property that does not legally belong to the person who places them
- ⊙ A fence built over the property line onto a neighbor's lot is a form of encroachment
- ⊙ **b. Adverse Possession** -
- ⊙ Acquiring title to someone else's property through continuous and notorious occupancy under a claim of title.
- ⊙ Open and notorious occupancy
- ⊙ Hostile and adverse
- ⊙ Uninterrupted use for 5 years
- ⊙ Right or color of title
- ⊙ Property taxes
- ⊙ **c. Easement by Prescription**
- ⊙ An easement, or the right to use another's land, which can be obtained through 5 years of continuous use.
- ⊙ unlike "adverse possession," "prescription" is the "use" of a property, NOT the transfer of title.
- ⊙ owner continues to pay all taxes.
- ⊙ **7. Transfer by Dedication** -
- ⊙ Dedication is the gift (appropriation) of land, by its owner, for some public use (usually to a city or county).
- ⊙ Can be voluntary or mandatory.
- ⊙ **A. Title**
- ⊙ **TITLE** is the right to ownership of land and the evidence of that ownership.
- ⊙ There are 6 distinct ways to hold title:
- ⊙ **Severalty (Sole Ownership)** – is the sole and separate ownership of property by one individual (can be married and hold separate property) or a corporation.

⊙ **2. Tenancy in Common –**
(Unity of Possession)

- ⊙ Undivided ownership by two or more persons together.
- ⊙ 1. Tenants may hold unequal interests.
- ⊙ 2. Each has **unity of possession** or the right to occupy the property.
- ⊙ 3. Each may will or transfer their interest separately.
- ⊙ 4. Each shares proportionately in the expenses and profits of the property.
- ⊙ 5. Disputes among owners are settled by a **partition action** where the court orders the sale of the property and divides the assets.

⊙ **3. Joint Tenancy –**
(Right of Survivorship)

- ⊙ Two or more persons have identical interests in the whole property with the same right of possession and the right of survivorship.
 - ⊙ All the owners have four things in common ("**T-TIP**"):ul style="list-style-type: none;"> - ⊙ a. **Title** - all are granted title by the same instrument
 - ⊙ b. **Time** - all obtain title at the same time
 - ⊙ c. **Interest** - all own equal shares
 - ⊙ d. **Possession** - all have equal right to use
- ⊙ A deceased owner's interest is divided among the surviving owners.
 - ⊙ a. It may not be willed.
 - ⊙ b. There is no need for **probate**, transfer is automatic, requiring only a death certificate.
- ⊙ **Corporations cannot enter in joint tenancies.**

⊙ **4. Tenancy in Partnership -**

- ⊙ Two or more persons who are co-owners of a business.
- ⊙ Each partner has an equal right of **possession**.
- ⊙ When a partner dies, his interest passes to his heirs.

- ⊙ **GENERAL PARTNERSHIP** – is where the partners share all profits and losses and share management responsibility.
- ⊙ **LIMITED PARTNERSHIP** – is one consisting of one or more general partners and limited partners. Losses are limited to the amount of each partner's investment.
- ⊙ **5. Community Property -**
- ⊙ All property acquired by a married couple **during** marriage is **COMMUNITY PROPERTY**.
- ⊙ All real estate contracts should be signed by both **husband** and **wife**.
- ⊙ Any property obtained by either husband or wife **prior** to marriage may remain as **SEPARATE PROPERTY**.
- ⊙ The community estate is liable for all debts incurred by either spouse occurring **before or during the marriage**.
- ⊙ **5. Community Property – (cont.)**
- ⊙ Surviving spouse inherits property unless willed to an heir.
- ⊙ Wages earned by either spouse during marriage are considered community property.
- ⊙ Do not advise a buyer on how to hold title...this is legal advice.
- ⊙ **6. Community Property with Right of Survivorship**
- ⊙ Transfers ownership to the spouse at death, with income tax benefits.
- ⊙ Probate not necessary.
- ⊙ Stepped up basis for 100% of the property.
- ⊙ **A. Recording -**
- ⊙ The legal process of making an instrument an official part of the records of a county.
- ⊙ Recording provides **constructive notice** of a transaction. It is assumed to be **public knowledge**, as opposed to **actual notice**, which are facts known only to the individual.
- ⊙ Documents that have to be recorded to be valid:
- ⊙ **Mechanic's Liens**
- ⊙ **Declaration of Homestead**

⊙ **B. Priority of Recording -**

⊙ Protects a buyer against subsequent claims against the property (“**The first in time is the first in right.**”).

⊙ **Four exceptions to priorities of recording :**

- ⊙ 1. Government liens and special assessments
- ⊙ 2. Actual notice of another person's prior rights
- ⊙ 3. Mechanic's Liens
- ⊙ 4. Agreements to the contrary

⊙ **C. Acknowledgment:**

- ⊙ Refers to a signed or verbal statement by the named person that he has signed that document of his own free will.
- ⊙ A deed does **NOT** have to be acknowledged to be valid, but **MUST** be acknowledged to be recorded

⊙ **D. Do Not Give Legal Advice**

⊙ A real estate salesperson or broker may **NOT** give legal advice, as the law is a highly complex and specialized profession.

⊙ **“A man who is his own lawyer has a fool for a client.”**

⊙ **Encumbrance-**

- ⊙ is a right or interest in real property other than an ownership or tenancy interest
- ⊙ **BLANKET ENCUMBRANCE** - a lien placed on more than one parcel that has the same owner.

⊙ **Lien -**

- ⊙ is a document using property to secure the payment of the debt or discharge of an obligation.
- ⊙ Liens are either:
- ⊙ voluntary or

- ⊙ involuntary; and
- ⊙ specific or
- ⊙ general
- ⊙ **C. Trust Deed**
- ⊙ A **TRUST DEED** is a written instrument which makes real property collateral for a loan.
- ⊙ A promissory note is evidence of the debt.
- ⊙ Trust deeds and mortgages are personal property.
- ⊙ **E. Mechanic's Lien**
- ⊙ A lien which may be filed against a property by a person who was not paid after furnishing labor or materials for construction work on that property.
- ⊙ It must be recorded to be valid.
- ⊙ They take priority over all other liens.
- ⊙ **Mechanic's Lien (cont.)**
- ⊙ 1. **Preliminary Notice** – is a written notice that must be given before filing a mechanic's lien and within **20 days** of supplying labor or services.
- ⊙ 2. **Determining start time for Mechanics Liens** - Suit may be filed (after preliminary notice) up to **30 days** after completion for suppliers and subcontractors and up to **60 days** for general contractors.
- ⊙ 3. **Notice of Completion** –
- ⊙ Completion is determined by any of the following:
- ⊙ a. Occupation or use by owner after a cessation of labor.
- ⊙ b. Acceptance of work by the owner.
- ⊙ c. Cessation of labor for **60 continuous** days.
- ⊙ d. Cessation of labor for 30 continuous days if owner files a **notice of cessation**.
- ⊙ **Mechanic's Lien (cont.)**
- ⊙ 4. **Filing Time (Limited)** –

- ⊙ § **30** days subcontractor
- ⊙ § **60** days general contractor
- ⊙ § **90** days (all parties, if no notice of completion)
- ⊙ 5. A **Notice of Non-Responsibility**-should be recorded within 10 days of detecting unauthorized labor to protect the owner against an unfair mechanic's lien.
- ⊙ **F. Tax Liens** (Specific or General) -
- ⊙ Any unpaid property taxes including special assessments become a lien on real property.
- ⊙ **H. Judgments**
(Involuntary and General Liens) -
- ⊙ A court decision determining the rights of the parties involved and the amount of compensation.
- ⊙ **Abstract of Judgment** - a recorded judgment creating a lien on all non-exempt property.
- ⊙ **1. Small Claims Court**
- ⊙ a. \$6 filing fee.
- ⊙ b. No legal representation allowed.
- ⊙ c. judgment maximum: \$10,000.
- ⊙ **K. Lis Pendens**
("Lawsuit is Pending")
- ⊙ A **LIS PENDENS** is the recording of a notice with the county recorder's office warning all persons that a certain type of lawsuit is pending concerning a particular property.
- ⊙ **L. Sheriff's Sale**
(Court Order to Sell-Execution) -
- ⊙ A **WRIT OF EXECUTION** is a court order requiring the sale of certain property to satisfy a judgment.
- ⊙ A **SHERIFF'S SALE** is the forced sale of a debtor's property to satisfy a judgment under a writ of execution.

- ⊙ **M. Injunction**
(Court Order to Stop) -
- ⊙ A court order to stop doing something.
- ⊙ **A. Items That Affect Physical Use**
- ⊙ 1. **Easement** - the right to use another person's land for a specific, limited purpose.
- ⊙ **Easements Appurtenant**
(Runs with the Land) -
- ⊙ created for and beneficial to the owner of adjoining or attached lands.
- ⊙ **Dominant Tenement** - the land that obtains the benefits of the easement.
- ⊙ **Servient Tenement** - the land that gives the easement for the benefit of another.
- ⊙ **c. Creation of an Easements:**
- ⊙ **Express Grant** (in writing)
- ⊙ **Implication of Law** (implied easements)
- ⊙ **Long Use** (prescription) - the claimant must:
- ⊙ Open and notorious
- ⊙ Uninterrupted for 5 years
- ⊙ Under a claim of right or color of title, and
- ⊙ Hostile
- ⊙ **3. Encroachments -**
- ⊙ The wrongful, unauthorized placement of improvements or permanent fixtures on someone else's property.
- ⊙ **Homesteading -**
- ⊙ A special provision of the law which allows homeowners to protect their homes from forced sale to satisfy their debts.
- ⊙ **A. Declaration of Homestead protects up to:**
- ⊙ **\$75,000** individuals.

- ⊙ **\$100,000** couples.
- ⊙ **\$175,000** for persons 65 years or older.
- ⊙ Does **not** protect against:
 - ⊙ 1. Foreclosure on a trust deed
 - ⊙ 2. Mechanic's liens
 - ⊙ 3. Liens filed prior to filing
- ⊙ **I. AGENCY** - An Overview
- ⊙ **Agency** – is the authority to act in place of another, a principal, to do a specified act for a stated period of time.
- ⊙ **Agent, Principal, and Third Party**
 - ⊙ 1. **Agent** - One who acts for and with authority from another, called the principal.
 - ⊙ 2. **Principal** - A person who hires or employs an agent to work for him/her.
 - ⊙ 3. **Third Party** - The other person in a contractual negotiation, other than the principal and his/her agent.
- ⊙ **OBSTENSIBLE or IMPLIED AUTHORITY**
- ⊙ **Fiduciary relationship to the principal**
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- ⊙ **There are 6 basic types of listings:**
 - ⊙ Open Listing
 - ⊙ Exclusive Agency Listing
 - ⊙ Exclusive Right to Sell Listing
 - ⊙ Net Listing (rare)
 - ⊙ Option Listing
 - ⊙ Oral Listing (not discussed here)

⊙ **1. Open Listing (Unilateral, Non-Exclusive Contract) -**

- ⊙ Merely an authorization to sell a property.
- ⊙ May be given to any number of brokers.
- ⊙ Owner may find own buyer and pay no commission.
- ⊙ Usually no time limit.
- ⊙ **Few** brokers use this type of listing.

⊙ **2. Exclusive Agency Listing -**

- ⊙ **Only the listing broker is entitled to a commission**
- ⊙ a. Owner may still find buyer and pay no commission.
- ⊙ b. Only one broker eligible to sell property.
- ⊙ c. Definite termination date required by law.

⊙ **3. Exclusive Right To Sell Listing -**

- ⊙ **Only the listing broker has the right to sell.**
- ⊙ a. Preferred by most brokers.
- ⊙ b. Broker or salesperson entitled to a commission if property sold within listing period even if owner finds own buyer.
- ⊙ c. Definite termination date required by law.

⊙ **4. Net Listing**

- ⊙ Commission consists of that amount in excess of a specific predetermined price set by the seller.
- ⊙ Must be used with another listing
- ⊙ Seldom Used

⊙ **5. Option Listing**
(Reserved by Broker)

- ⊙ An **OPTION LISTING** gives the listing broker the right to purchase the property.

- ⊙ A broker with an option listing MUST disclose to prospective buyers that he is acting as a principal, and present all offers to the seller.
- ⊙ **B. Listing Agreement Copies**
- ⊙ Give copy when signed
- ⊙ Couples who are considered “one legal person” receive one copy
- ⊙ **Commission - (cont.)**
- ⊙ A commission can be earned even if the seller backs out.
- ⊙ If there are several brokers or salespeople trying to sell the same property, the agent who is the **procuring cause** of the sale earns the commission.
- ⊙ 1. If more than one broker or salesperson is involved, each gets a percentage which is spelled out in the listing agreement
- ⊙ **Easton vs. Strassburger**
- ⊙ Greatly extended the liabilities of brokers engaged in residential real estate sales.
- ⊙ a. This court case established the need for agents to **visually inspect** the property for “red flags” and disclose the findings to their clients.
- ⊙ **Trust Accounts**
(Other People’s Money)
- ⊙ A broker accepting a money deposit (and instructions) is required to:
- ⊙ a. give it to the principal;
- ⊙ b. place it in a trust account; or
- ⊙ c. give it to the escrow company.
- ⊙ Deposits other than the initial deposit (usually around \$200) to start the account are never the personal property of the broker.
- ⊙ **Commingling** - the mixing together of the funds of a principal and a licensee.
- ⊙ **Conversion** - the unlawful misappropriation and use of a client’s funds by a licensee.
- ⊙ **G. Power of Attorney -**

- ⊙ An acknowledged, written authorization of one person to act for another.
- ⊙ **General Power of Attorney** - allows the person so authorized to perform any act the principal could perform.
- ⊙ **Attorney in Fact** - under a “general” power of attorney, is an agent who may have the power to transact all of a principal’s business.
- ⊙ **Special Power of Attorney**
- ⊙ **I. Misrepresentation of a Material Fact**
- ⊙ **Misrepresentation** - an untrue statement made by a broker to influence the outcome of a sale.
- ⊙ “Puffing” is a statement of opinion (not fact) that exaggerates a property’s benefits.
- ⊙ Three types:
- ⊙ Innocent Misrepresentation
- ⊙ Negligent Misrepresentation
- ⊙ Fraudulent Misrepresentation
- ⊙ **K. Warranty of Authority**
- ⊙ **Express Warranty** - a written listing exists between the seller and broker.
- ⊙ **Implied Warranty** - given to a broker if he or she merely shows the property with the seller's consent.
- ⊙ **Reasons for Termination of Agency Relationship:**
- ⊙ 1. The expiration of the agency (listing) (usually the case).
- ⊙ 2. Destruction of the property.
- ⊙ 3. Death or incapacity of either the broker or seller.
- ⊙ 4. Agreement by both the broker and seller.
- ⊙ 5. Renouncement of listing agreement by the broker (may be subject to damages for breach of contract).
- ⊙ 6. Revocation of listing agreement by the seller (may be liable for the commission).

⊙ 7. Close of Escrow.

⊙ **Contract** -

⊙ is an agreement to do or not do a certain act or service

⊙

⊙ **A. Classification of Contracts:**

⊙ **Valid** - contract is binding and enforceable.

⊙ **Voidable** – can be affirmed or rejected at the option of a party.

⊙ **Void** - no contract exists, therefore no rights are enforceable.

⊙ **Unenforceable** - valid contract that for some reason cannot be enforced in court.

⊙ **B. Life of a Contract** –

⊙ **There are three phases:**

⊙ Negotiation

⊙ Performance

⊙ Completion

⊙

⊙ **II. ELEMENTS OF A CONTRACT**

⊙

⊙

⊙ **A. Capacity** –

⊙ refers to all persons legally permitted to sign a contract. Everyone is capable except:

⊙

⊙ **1. Minors** – anyone under the age of 18 years (except emancipated minors).

⊙

- ⊙ 2. **Incompetents** – person judged to be of unsound mind.
- ⊙
- ⊙ 3. **Convicts** – persons serving terms of imprisonment.
- ⊙ may convey property with the approval of the California Adult Authority.
- ⊙ civil rights are lost during the course of the jail term.
- ⊙ **Contractual Intent** -
- ⊙ exists when the offeror communicates an offer to the offeree with the intention of forming a binding contract.
- ⊙ Contractual intent does **NOT** exist with :
- ⊙ social invitation
- ⊙ advertisement
- ⊙ **Terms** -
- ⊙ must be **definite and certain**
- ⊙ A real estate contract must contain:
- ⊙ price
- ⊙ specific financing terms
- ⊙ an accurate description of the property
- ⊙ **Illusory Contract** -
- ⊙ one in which the terms are not definite and certain, therefore the contract is unenforceable.
- ⊙ **2. Acceptance** –
- ⊙ is the consent to the terms by the offeree.
- ⊙ Silence cannot be interpreted as an acceptance of an offer because an acceptance must be communicated.
- ⊙ Acceptance must be in the manner specified in the offer.

- ⊙ Any **COUNTER OFFER** automatically constitutes rejection of the original offer and the proposal of a new offer.
- ⊙ **3. Termination of an Offer –**
- ⊙ offer terminates upon the occurrence of any of these:
- ⊙ **Lapse of Time** - offer is not accepted within the time period allowed in the offer.
- ⊙ **Communication of Revocation** - offer can be terminated by offeror at any time before offeree has communicated acceptance.
- ⊙ **Failure of Offeree to Fulfill a Condition** - all specified conditions must be completed in the prescribed manner.
- ⊙ **Rejection** - offeree rejects or makes a counter offer.
- ⊙ **Death or Insanity** - of either party or broker voids the offer.
- ⊙ **Illegality of Purpose** - if any condition or purpose of the contract is deemed illegal, the contract is void.
- ⊙ **4. Genuine Consent –**
- ⊙ Both offer and acceptance must be genuine and real.
- ⊙ This does not occur in cases of:
- ⊙ **Fraud** - occurs when a person misrepresents a material fact knowing that it is not true.
- ⊙ **Mutual Mistake** - exists when both parties are mistaken as to the matter of the agreement.
- ⊙ **Duress** - the unlawful detention of a person or his property.
- ⊙ **Menace** - a threat to commit duress.
- ⊙ **Undue Influence** - exists when a person in a position of authority, such as a broker or salesperson, uses that authority to an unfair advantage.
- ⊙ **D. Consideration –**
- ⊙ usually anything of value given by one party to another, such as:
- ⊙ A benefit to a party of the contract or another person.

- ⊙ A loss suffered or agreed to be suffered.
- ⊙ An agreement not to bring a legal suit.
- ⊙ Consideration need **NOT** be money
- ⊙ **E. Proper Writing –**
- ⊙ personal property contracts may be either written or oral, but the **Statute of Frauds** requires that most real estate contracts **be in writing to be enforceable**.
- ⊙ **A. Performance of a Contract –**
- ⊙ the successful completion of a contractual duty, usually resulting in the performer's release from any past or future liability.
- ⊙ **ASSIGNMENT** – the transfer of a person's right in the contract to another party.
- ⊙ **Assignor** – has original contract but transfers rights (but maintains secondary liability) to **Assignee**.
- ⊙ **NOVATION** – is the substitution, by agreement, of a new contract for an old one.
- ⊙ **B. Discharge of A Contract –**
- ⊙ occurs when the contract has been terminated in one of the following ways:
 - ⊙
 - ⊙
- ⊙ **A. The Offer and Acceptance**
- ⊙ The **California Purchase Agreement and Joint Escrow Instructions** is an offer and deposit to purchase a specific property on certain terms and conditions.
- ⊙ Spells out commission to be paid to brokers.
- ⊙ When using preprinted forms, the handwritten parts have control over the printed parts, and all corrections must be initialed by both parties.
- ⊙ **B. The Deposit**
- ⊙ The deposit is collected as consideration from a prospective buyer on behalf of the seller for the purchase agreement contract.

- ⊙ **Covenants** - promises between parties to a contract.
- ⊙ **Contingencies, Conditions, or Subject to** - provisions in a deposit receipt by which all parties are released from any obligation in the event that some stated occurrence fails to materialize (usually the availability of financing).
- ⊙ **D. The Counter Offer Form –**
- ⊙ is used instead of completing an entirely new purchase agreement when a counter offer is made.
- ⊙ 1. The offeree becomes the offeror. A contract negotiation may involve several counter offers.
- ⊙ **A. Options –**
- ⊙ An **OPTION** is a right to purchase a property upon specified terms within a specified time, which is granted in exchange for money.
- ⊙ **Optionor** – gives right to the purchase or lease of a property.
- ⊙ **Optionee** – potential buyer who purchases the sole privilege to buy or lease.
- ⊙ **Landlord and Tenant Relationship**
- ⊙ Created when the owner gives the possession and use of his or her property to another for rent or other consideration.
- ⊙ **Landlord** - the owner of the property being rented or leased (also called Lessor).
- ⊙ **Tenant** - the person or persons renting or leasing the property (also called Lessee).
- ⊙
- ⊙ **Lease** - a contract for a set time, typically one year or longer.
- ⊙ **Rental Agreement** - an agreement between a tenant and landlord to possess and use property for renewable periods of time, usually from month-to-month.
- ⊙ **Leasehold –**
- ⊙ An exclusive right to occupy and use a property on a temporary basis.
- ⊙ The owner has **Reversionary Interest**, which means he or she regains possession at the end of the leasehold period.

- ⊙ **A. Types of Leasehold Estates**

- ⊙

- ⊙ **B. Minimum Requirements of a Lease (or Rental Agreement)**

- ⊙ Length or duration of the lease.

- ⊙ Amount of rent.

- ⊙ Names of the parties

- ⊙ Description of the property.

- ⊙ a. Any lease in effect for more than one year from the date of signing must be in writing.

- ⊙ b. The lessor must sign.

- ⊙ c. The lessee need not sign (though it is advisable) if the lease has been delivered and accepted.

- ⊙

- ⊙ **THINK OF L.A.N.D.**

- ⊙ **Length**

- ⊙ **Amount**

- ⊙ **Names**

- ⊙ **Description**

- ⊙ **C. Rights and Obligations of the Parties**

- ⊙

- ⊙ **1. Duration of Lease**

- ⊙ Agricultural lands cannot be leased for more than 51 years.

- ⊙ Property situated in a city or town is limited to 99 years.

- ⊙ Mineral, oil, and gas leases cannot exceed 99 years after work begins.

- ⊙ Minors and incompetents possess property only if a court has approved.
- ⊙ **2. Amount of Rent**
- ⊙ **Rent** - the amount of money that is paid for the use of a property.
- ⊙ **Contract Rent** - the payment designated in a lease contract.
- ⊙ **Economic Rent** - the amount of rent a property might be expected to yield if it were available for lease in the current market.
- ⊙ Rents are prorated in escrow.
- ⊙ **3. Security Deposits**
- ⊙ Must be refundable on residential units.
- ⊙ Maximum deposit legally allowed is first month's rent plus:
- ⊙ 2 months' rent for an unfurnished apartment.
- ⊙ 3 months' rent for a furnished apartment.
- ⊙ Deposits for residential leases in California must be refunded, in full, within 21 days of the tenant vacating the premises, unless there is damage to the property or required cleaning.
- ⊙ **4. Assignment and Subleasing Provisions**
- ⊙ **Assignment** - the transfer of the entire lease from the tenant to another party.
- ⊙ **Sublease** - the transfer of less than the entire lease by the tenant to another party.
- ⊙ **Sandwich Lease** - a leasehold interest in a property which lies between the primary (ownership) interest and the operating (tenancy) interest.
- ⊙ Holder is both a tenant and landlord to the same property.
- ⊙ **5. Liability for Injuries and Repairs**
- ⊙ When the entire property is leased, the landlord is usually not liable.
- ⊙ When the entire property is not leased, the landlord is usually liable for injuries and repairs in the common areas.
- ⊙

- ⊙ **III. TERMINATION OF A LEASE (OR RENTAL AGREEMENT)**

- ⊙ **A. Expiration of the Term -**

- ⊙ Lease ends when stated in the agreement or with 30 days notice.

- ⊙ **B. Lack of Quiet Possession -**

- ⊙ The right of both tenant and landlord to peaceful and uninterrupted use.

- ⊙ **C. Repairs for Habitability -**

- ⊙ The landlord's responsibility to maintain the premises in a livable condition according to the health and safety code.

- ⊙ **Tenant may:**

- ⊙ give notice and fair warning to the landlord and then spend up to one month's rent for habitability repairs (maximum twice in a twelve consecutive month period).

- ⊙ abandon the premises, which terminates the lease or rental agreement.

- ⊙

- ⊙

- ⊙ **D. Eviction or Operation of Law -**

- ⊙ The legal process for removing a tenant in breach of the lease or rental agreement.

- ⊙ **The steps are:**

- ⊙ **Three-Day Notice to Pay Rent or Quit** - an eviction notice which informs the tenant that in three business days he or she must pay (or otherwise resolve the landlord's complaint) or vacate the premises.

- ⊙ Legal holidays or weekend days do not count in the three day process.

- ⊙ Landlords should allow a one day "grace period" to avoid any problems.

- ⊙

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- ⊙ **Unlawful Detainer -**

- ⊙ A court action (requiring a court appearance) which asserts the charges against a tenant. If the tenant does not answer in five days, the next step is a:
- ⊙ **Writ of Possession** - a court order directing the sheriff (or comparable authority) to remove the tenant and his possessions within five days.
- ⊙ **E. Surrender/Abandonment** -
- ⊙ Giving up a lease or other estate and terminating all obligations.
- ⊙ **Notice of Belief of Abandonment** - terminates the lease 15 to 18 days after being served unless the lessee pays the rent or notifies the landlord that the premises have been abandoned.
- ⊙ **F. Breach of Conditions** -
- ⊙ A violation of any of the conditions of a lease.
- ⊙ A breach of any condition may terminate the entire agreement.
- ⊙ Both the lessee and lessor must understand all contractual conditions.
- ⊙ **G. Destruction of the Premises** -
- ⊙ Major damages generally terminate a lease.
- ⊙ **Special Purpose Leases**
- ⊙ Designed to meet specific needs.
- ⊙ **Sale-Leaseback**
- ⊙ **Lease-Purchase Option**
- ⊙ **Ground Lease**
- ⊙ **Graduated Lease**
- ⊙ **Gross Lease**
- ⊙ **Net Lease**
- ⊙ **Percentage Lease**
- ⊙ **A. Consumer Price Index** –

- ⊙ is a government indicator (also called the “cost of living index”) that shows changes in the cost of living from period-to-period.

- ⊙ **ESCALATOR CLAUSE**

- ⊙ **B. License -**

- ⊙ a personal non-ownership right to use personal property for a specific period of time.

- ⊙

- ⊙ **VI. PROPERTY MANAGEMENT**

- ⊙ (REAL ESTATE LICENSE REQUIRED)

- ⊙ **Property Manager -**

- ⊙ A licensed real estate person who is paid to oversee the proper management and operations of rental and commercial property.

- ⊙ Property managers must be familiar with **RENT CONTROL** laws.

- ⊙ **B. Residential Manager -**

- ⊙ Tenants of the property who rent units, handle tenants’ complaints, and maintain the premises.

- ⊙ Buildings of 16 units or more **MUST** have an on-site manager.

- ⊙ **Escrow -**

- ⊙ is created when a separate written agreement instructs a neutral third party to hold funds and only proceed when all the agreed to conditions have been performed.

- ⊙ **Escrow is:**

- ⊙

- ⊙

- ⊙

- ⊙ **B. Escrow Officer -**

- ⊙ Not licensed by the state but an employee of a licensed escrow company.

- ⊙ Escrow officers can also be:

- ⊙ **Corporation**
- ⊙ **Attorney**
- ⊙ **Real Estate Broker**
- ⊙ **Duties of An Escrow Company**
- ⊙
- ⊙ **Escrow sequence of events**
- ⊙ 1. Preliminary title search and report
- ⊙ 2. Lender's demand (amount owed, pay-off statement)
- ⊙ 3. Request of new loan documents
- ⊙ 4. Completion of conditions and depositing of funds
- ⊙ 5. Adjustments and prorations
- ⊙ 6. Transfer of existing fire policies or creation of new ones
- ⊙ 7. Recording deed (closing date) and issuing of title insurance policy
- ⊙ 8. Disbursement of funds
- ⊙ 9. Escrow statement sent to each party
- ⊙ **C. Real Estate Brokers Can Conduct Escrows –**
- ⊙ A broker can handle escrows for a fee only if the broker is acting as a real estate agent or principal in that transaction.
- ⊙ **A. Escrow Rules –**
- ⊙ All time frames for escrow commence from the time the contract becomes binding
- ⊙ The purchase agreement typically has a provision for escrow to acknowledge receipt of this document
- ⊙ Escrow is complete when:
- ⊙ all conditions of the escrow have been met
- ⊙ all conditions of the parties have been met

- ⊙ the parties have received an accounting of the procedure
- ⊙ **B. Who Selects the Escrow Company?**
- ⊙ It is negotiated between buyer and seller.
- ⊙ **C. Escrow Instructions -**
- ⊙ Formal instructions which are drawn from the information contained in the original agreement (signed purchase agreement).
- ⊙ **D. Financing Is An Important Aspect of Escrow-**
- ⊙ **Payoff Demand Statement** – a formal demand statement from the lender that details the amounts owed
- ⊙ **Beneficiary's Statement** – a demand statement by a lender that provides information such as unpaid balance, monthly payment, interest rates, etc.
- ⊙ **F. Closing Date –**
- ⊙ Is the date of recordation
- ⊙ Closing is the process of signing, transfer of documents, and distribution of funds.
- ⊙ **Proration -**
- ⊙ The process of proportionately dividing expenses or income to the precise date that escrow closes, or any other date previously agreed upon.
- ⊙ 30-days is the Basis for Proration
- ⊙ **Property taxes**
- ⊙ **Fire insurance**
- ⊙ **Interest**
- ⊙ **Rents**
- ⊙ **A. Structural Pest Control Certification Report -**
- ⊙ Written by a licensed pest control company and stating the condition and correction cost of any termite, dry rot and fungus damage in accessible areas of a structure.
- ⊙ May be a condition of the escrow.

- ⦿ FHA and VA loan applications require a pest control report.
- ⦿ Local custom usually decides who pays, and financial institutions or agencies will decide which one of the parties pays.
- ⦿ **B. Broker Maintains Pest Control Documents**
- ⦿ The Civil Code requires that the broker shall deliver a copy of the Structural Pest Control Certification Report and Notice of Work Completed to the buyer if such report is a condition of the deposit receipt.
- ⦿ www.pestboard.ca.gov
- ⦿ California Structural Pest Control Board
- ⦿ **California Standard Form Fire Insurance Policy -**
- ⦿ Insures the dwelling against only:
 - ⦿ 1. fire
 - ⦿ 2. lightning
- ⦿ **Extended Coverage Endorsement will cover:**
 - ⦿ 1. windstorm
 - ⦿ 2. explosion
 - ⦿ 3. hail
 - ⦿ 4. aircraft
 - ⦿ 5. smoke
 - ⦿ 6. riot
 - ⦿ 7. vehicles not attributed to a strike or civil commotion
- ⦿ **B. Fire Insurance Proration -**
- ⦿ When purchasing property, a buyer usually obtains a new policy.

- ⊙ Fire insurance is often part of a home owner's insurance policy and is prorated in Escrow.
- ⊙ **C. Coinsurance Clause -**
- ⊙ A clause in a policy that requires the property owner to insure 80% of the value of the dwelling or receive only a percentage of reimbursement for fire loss.
- ⊙ **Title Insurance -**
- ⊙ Insurance designed to protect property owners and financial institutions against losses which result from imperfections in title.
- ⊙ **A. Chain of Title -**
- ⊙ A recorded ownership history of a specific property.
- ⊙ **Title Plant -** the compiled information on the chain of title of a specific property gathered by title insurance companies and stored in computers.
- ⊙ **B. Title Insurance – has 4 functions**
- ⊙
- ⊙ **C. Preliminary Title Report -**
- ⊙ A report showing the condition of title before a sale or loan or transaction.
- ⊙ **A. CLTA**
- ⊙ California Land Title Association Standard Coverage Policy Form.
- ⊙ **CLTA** is the acronym for the state trade association.
- ⊙ Insures against all items of record.
- ⊙ **CLTA also insures against "off-record" risks such as:**
- ⊙ a. forgeries
- ⊙ b. acts of minors and incompetents
- ⊙ c. acts of an agent whose authority has terminated

- ⊙ d. invalid deed delivery
- ⊙ e. unrecorded federal estate tax liens
- ⊙ f. undisclosed rights of husband and wife
- ⊙ g. expenses incurred in defending title
- ⊙ **CLTA does NOT insure against:**
- ⊙ a. easements and liens which are not shown by the public record
- ⊙ b. rights or claims of persons in physical possession of the land
- ⊙ c. unrecorded claims not in public record that could be ascertained by physical inspection or correct survey of the property
- ⊙ d. mining claims, reservations in patents, water rights and government actions such as zoning ordinances
- ⊙ www.clta.org
- ⊙ **California Land Title Association**
- ⊙ **B. American Land Title Association Policy (ALTA)**
- ⊙ Insures against all CLTA risks.
- ⊙ Extended coverage includes many of the exclusions in the CLTA policy.
- ⊙ Generally required by California lenders and by out-of-state lenders unable to make a personal inspection of the property.
- ⊙ **ALTA does NOT insure against:**
- ⊙ a. defects known by the insured at the time the policy was issued but not designated in writing.
- ⊙ b. government regulations concerning occupancy and use such as zoning.
- ⊙ www.alta.org
- ⊙ **American Land Title Association**
- ⊙ **C. ALTA-R Policy -**

- ⊙ Is recommended by title companies for one-to-four unit owner occupied residential dwellings.
- ⊙ **D. Who Pays Title Insurance Fees-**
- ⊙ Customarily paid by:
 - ⊙ the buyer in Northern California.
 - ⊙ the seller in Southern California.
- ⊙ **RESPA -**
- ⊙ States that the precise closing costs of a real estate transaction **MUST** be made known to the borrower one business day before escrow closes.
- ⊙ **Other provisions rule that:**
- ⊙ The lender must provide a good faith estimate of the total closing cost to the borrower at the time of the loan application or within 3 business days.
- ⊙ The lender must provide the borrower with an information booklet at the time of application.
- ⊙ The escrow company must furnish a uniform settlement statement to the borrower.
- ⊙
- ⊙ Escrow and title insurance companies are prohibited from receiving kickbacks.
- ⊙ No seller may require a buyer to purchase title insurance from any particular company as a condition of sale.
- ⊙ **Leverage -**
- ⊙ The practice of purchasing real estate using a small amount of your own money and a larger proportion of borrowed funds.
- ⊙ **Hypothecation**
- ⊙ To **HYPOTHECATE** is to provide title to a property as security for a loan without giving up possession

- ⊙ Interest rates will remain at relatively low levels, enabling more affordable (lower for the area) home loan payments.

- ⊙

- ⊙ **II. THE PROMISSORY NOTE**

- ⊙

- ⊙ A **Promissory note** is the basic instrument used to evidence an obligation or debt.

- ⊙ **Principal** is the dollar amount of the loan.

- ⊙ **Interest** is the rent charged for the use of the money.

- ⊙ **A. Straight Note -**

- ⊙ is a promissory note in which a borrower repays the principal in one lump sum, at maturity, while interest is paid in installments or at maturity.

- ⊙ **B. Installment Note**

- (with a balloon payment) -

- ⊙ Periodic payments of principal and interest with a large payment at the end (maturity date or due date).

- ⊙ **C. Fully Amortized Installment Note -**

- ⊙ Periodic payments of both principal and interest in equal installments until the debt is paid in full.

- ⊙ The most commonly used type of note in California.

- ⊙ **Promotional Note**

- ⊙ **Seasoned Note**

- ⊙

- ⊙ A **NEGOTIABLE INSTRUMENT** is any financial document (promissory note, check, or other) that can be passed easily from one person to another, if it meets certain legal requirements.

- ⊙ **Promissory Notes, Checks, Others -**

- ⊙ Negotiable instruments must be:

- ⊙ an unconditional promise

- ⊙ in writing

- ⊙ made by one person to another

- ⊙ signed by the maker

- ⊙ payable on demand

- ⊙ for a set amount of money.

- ⊙ **B. Holder in Due Course -**

- ⊙ One who has taken a negotiable instrument from another, in good faith, without knowledge of defect.

- ⊙ **A. Acceleration Clause -**

- ⊙ Upon occurrence of a specific event, the lender has the right to demand immediate payment of the entire note.

- ⊙ **B. Alienation Clause**

- (Due on Sale) -

- ⊙ The entire loan becomes due and payable when the property is sold, assigned, transferred, or otherwise alienated.

- ⊙ **C. Assumption -**

- ⊙ Buying a property that is already encumbered and accepting responsibility, with the lender's consent, for the full payment of the loan.

- ⊙ Taking title **SUBJECT TO -**

- ⊙ Buying a property and taking over payment of existing loans on behalf of the seller who is still responsible to the lender because the loan is still officially in his or her name.

- ⊙ **D. Subordination Clause -**

- ⊙ Allows for a future change in the priority of financial liens on a property.

⊙ **E. Prepayment Penalties -**

⊙ Charges to the borrower for paying off a loan before the due date.

⊙ **F. Impound Accounts (Reserves) -**

⊙ Moneys collected in advance from borrowers to assure the payment of recurring costs, such as property taxes and fire insurance.

⊙ **G. Assignment of Rents -**

⊙ Allows a lender, upon default of the borrower, to take possession of the property, collect rents, and pay expenses.

⊙ **A. Interest -**

⊙ The lender's charge for borrowing money.

⊙ **NOMINAL INTEREST RATE** – is the rate stated in the note.

⊙ **EFFECTIVE INTEREST RATE** – is the rate the borrower is actually paying (including interests, points, and loan fees).

⊙ **$I = P \times R \times T$**

⊙ **Interest = Principal x Rate x Time**

⊙ **B. Fixed Interest Rates -**

⊙ Payments are the same each month for the life of the loan.

⊙ **C. Amortization Payments -**

⊙ The repaying of a loan (principal and interest), in regular payments, over the term of the loan.

⊙

⊙

⊙ **Negative Amortization -**

⊙ The interest rate charges are higher than the monthly payment.

⊙ **D. Adjustable Rate Mortgage (ARM) -**

- ⊙ A loan in which the interest rate fluctuates periodically, based on a specific index, which makes the payment amount also change.

- ⊙ **E. Some Special Purpose
Types of Loans**

- ⊙ **Graduated Payment Mortgage** - A fixed rate loan where payments early on are low, but increase later to a higher level.

- ⊙ **Biweekly Mortgage (26 Payments)** - A fixed interest rate loan for which the payments are made every two weeks, but each payment is one-half the amount of a regular monthly payment.

- ⊙

- ⊙ **15-Year Fixed and Adjustable Rate Loans** - Loans gaining in popularity because, for a slight increase in the monthly payment, the loan can be paid off in only 15 years.

- ⊙ **Reverse Mortgage Loans (Seniors Who Need Income)** - loans in which the lender pays the borrower a fixed monthly payment based on the value of the property. The loan is not repaid until the last owner dies or the property is sold, at which time it is paid back through probate.

- ⊙ **A. Discount Points -**

- ⊙ A origination fee of 1% of the amount borrowed, charged by the lender.

- ⊙ Points paid are usually adjustments to the interest rate.

- ⊙ **B. Loan Fees -**

- ⊙ The fee charged by the lender in order to apply for a loan.

- ⊙ **C. Usury -**

- ⊙ Charging more than the legally allowed percentage of interest.

- ⊙ The constitutional rate in California is 10%, or 5% above the Federal Reserve Bank of San Francisco, whichever is higher.

- ⊙ Most public sources of real estate funds are exempted from usury limits, including agreements arranged through brokers and salespeople.

- ⊙ www.frbsf.org

- ⊙ Federal Reserve Bank of San Francisco
- ⊙ **VII. SECURITY DEVICES**
- ⊙
- ⊙ **A. Mortgage -**
- ⊙ A financial instrument, in the form of a lien, that secures a property for payment of a promissory note (rare in California)
- ⊙ **Parties to a mortgage:**
- ⊙ **Mortgagor** - party who is borrowing.
- ⊙ **Mortgagee** - lender and holds title to the property.
- ⊙ **1. Power of Sale Clause -**
- ⊙ Allows mortgagee to sell property without a court proceeding if mortgagor is in default.
- ⊙ **B. Trust Deeds -**
- ⊙ A security device that makes real property collateral for a promissory note.
- ⊙ **Parties to a trust deed:**
- ⊙ a. **Trustor** - the party who is borrowing the money.
- ⊙ a. holds equitable title to the property.
- ⊙ b. is entitled to ownership, use and possession.
- ⊙ b. **Beneficiary** - the lender.
- ⊙ c. **Trustee** - the third party who must sell the property for the beneficiary if the trustor defaults.
- ⊙ 1. generally a title insurance company.
- ⊙ 2. holds legal title only ("bare naked title") until trust deed is paid in full).
- ⊙ **3. Deed of Reconveyance (Proof of Payment in Full) -**
- ⊙ Provides proof that a promissory note and the accompanying trust deed have been paid in full.

⊙ **A. Default on a Trust Deed -**

⊙ A borrower's failure to make payments and properly repay the loan.

⊙ **Grace Period -**

⊙ A set number of days in which a lender will allow payments to be late without any penalty.

⊙ **Notice of Default -**

⊙ Trustee files this legal notice and has it recorded and published to inform the trustor (borrower) and other interested parties that a default or foreclosure action has started.

⊙ **B. Trustor's Right of Reinstatement -**

⊙ The 3 month period during which the trustor may reinstate the loan by paying

⊙ 1. All past-due:

⊙ Payments

⊙ Penalties

⊙ Taxes

⊙ Interest.

⊙ 2. Any other costs to the beneficiary.

⊙ 3. All costs and fees owed the trustee.

⊙ **2. Notice of Sale -**

⊙ Recorded notice stating the time, place, property, and type of sale.

⊙ Recorded by trustee if loan is not reinstated.

⊙ Must be published in a newspaper of general circulation at least once a week, for 21 days.

⊙ Must be posted on the property and in a public place.

⊙ **3. Trustee's Sale -**

⊙ Public sale of foreclosed property by the trustee

- ⊙ All bids must be in cash or cashier's check.
- ⊙ Beneficiary may bid up to the amount of debt without cash.
- ⊙ Highest bidder is issued a trustee's deed.
- ⊙ New owner gets immediate possession (no redemption).
- ⊙ Any money in excess of the debt is awarded to the trustor.
- ⊙
- ⊙ **4. JUDICIAL COURT FORECLOSURE FOR A TRUST DEED** –In a rare case, a beneficiary in California may want to foreclose by court action instead of a trustee's sale.
- ⊙ **5. DEED IN LIEU OF FORECLOSURE** – a deed given by an owner (borrower) to a lender to prevent the lender from bringing foreclosure proceedings.
- ⊙ **6. SHORT SALE (2007-2010)** – when a lender will accept less than the amount owed on a debt if the property is sold.
- ⊙ **C. Liens Not Eliminated by Foreclosure Sale -**
- ⊙ Most junior liens are eliminated by a foreclosure sale.
- ⊙ The following liens are not necessarily eliminated:
- ⊙ Federal tax liens
- ⊙ State, county, and city taxes or assessments
- ⊙ Mechanic's liens for work begun before the trust deed was recorded.
- ⊙ **D. Purchase Money Trust Deed or Mortgage -**
- ⊙ A trust deed or mortgage obtained during the purchase of a home (1-to-4 units, owner-occupied).
- ⊙ It is called a purchase money instrument only when it is obtained at the time of purchase, not on a refinanced loan.
- ⊙ **Deficiency Judgment -**
- ⊙ Given when the security pledge for a loan does not satisfy the debt upon its default.

⊙ **A. Junior Liens -**

⊙ Any loan on real property obtained after the first trust deed.

⊙ Usually a private party.

⊙ **B. Homeowner Equity Loans -**

⊙ Loans based on the homeowner's increase in equity caused by inflation, rising property values, and the reduction, by payments, of the existing loan balance.

⊙ **C. Holder of A Second Trust Deed (Lender) -**

⊙ Sometimes when purchasing a property, additional funds will be required beyond the cash down payment and the first trust deed.

⊙ As a result, the seller may loan the buyer more money through the use of a second trust deed.

⊙ **D. Request for Notice -**

⊙ When recorded, the trustee is required to notify all persons who request notice if a "notice of default" is recorded on a particular property.

⊙ Any person who has an interest in a particular trust deed, usually a second or third trust deed holder, should want to be informed if the buyer is not paying on the first deed of trust.

⊙ **E. Wrap-Around—All inclusive trust deeds (AITD) -**

⊙ A second trust deed with a face value of both the new amount it secures and the balance due under the first trust deed.

⊙

⊙ An instrument of finance where the seller retains legal ownership of the property until the buyer has made the last payment.

⊙ Not that common in California.

⊙ **Also called:**

⊙ Contract of Sale

⊙ Agreement of Sale

- ⊙ Conditional Sales Contract
- ⊙ Installment Sales Contract
- ⊙ **Parties to a land contract are:**
- ⊙ **Seller**
- ⊙ Also known as **Vendor**.
- ⊙ Holds legal title to the property until all terms and payments are fulfilled (paid in full).
- ⊙ **Buyer**
- ⊙ Also known as **Vendee**.
- ⊙ Holds equitable title to the property (the right to use and possess).
- ⊙ **A. Truth in Lending Act -**
- ⊙ The Truth in Lending Act, known as Regulation Z, was enacted to protect the consumer by requiring that the lender (creditor) tell the borrower how much he or she is paying for credit.
- ⊙ Regulation Z also states that the lender (creditor) must express all related financing costs as a percentage, known as the annual percentage rate (APR).
- ⊙ **Regulation Z requires a creditor to make the following important financial disclosures:**
- ⊙ Annual Percentage Rate (APR)
- ⊙ Finance charges
- ⊙ Amount financed
- ⊙ Total number of payments
- ⊙ Total sales price (credit sales)
- ⊙ The two most important items, according to Regulation Z, are the APR and the amount financed.
- ⊙ **1. Annual Percentage Rate (APR)-**

- ⦿ The measure or “cost of credit” expressed as a yearly rate. It is a percentage rate, not an interest rate.
- ⦿ The APR includes all “finance charges,” including assumption charges, but it does not include:
 - ⦿ cost of a credit report
 - ⦿ appraisal fees, which are exempt.
- ⦿ **2. Advertising Terms May Require Additional Disclosures -**
- ⦿ Anyone placing an advertisement for consumer credit must comply with the advertising requirements of the Truth in Lending Act.
- ⦿ Disclosures must be made “clearly and conspicuously.”
- ⦿
- ⦿ If an advertisement contains any one of the following terms, then the ad must disclose other credit terms:
 - ⦿ The amount or percentage of any down payment.
 - ⦿ The number of payments or period of repayment.
 - ⦿ The amount of any payment.
 - ⦿ The amount of any finance charge.
- ⦿ **B. Right to Cancel**
(Federal Notice of Right to Cancel) -
- ⦿ Loans subsequent (future loans) have a 3-day right of rescission by the borrower.
- ⦿ **C. Equal Credit Opportunity Act -**
- ⦿ A federal law prohibiting those who lend money from discriminating against borrowers based on their race, sex, color, religion, national origin, age, or marital status.
- ⦿ **This law limits the lender’s access to personal information regarding:**
 - ⦿ marriage and divorce,
 - ⦿ receipt of alimony and child support, and

- ⊙ birth control and child bearing.
- ⊙ **D. Soldiers and Sailors Civil Relief Act -**
- ⊙ A law passed by Congress to protect persons serving in the military, and their dependents, from loss of real property through foreclosure.
- ⊙
- ⊙ The economy shifts with every new election as taxing and spending policies change.
- ⊙ **INFLATION** – is the result of too much money chasing too few goods.
- ⊙ **DEFLATION** – is when prices of real estate, goods, and services go down.
- ⊙ **A. Federal Reserve Banking System (“Fed”) -**
- ⊙ Our national central banking authority.
- ⊙ Controls interest rates by controlling the availability of money to banks, and indirectly to other financial institutions.
- ⊙ Governed by the Federal Reserve Board:
- ⊙ Seven-member committee.
- ⊙ Appointed by the president.
- ⊙ **B. Gross Domestic Product (GDP)-**
- ⊙ The total value of all goods and services produced by an economy during a specific period of time.
- ⊙ **C. Changing Interest Rates -**
- ⊙ The economy goes in cycles.
- ⊙ Interest rates go up and down.
- ⊙ When interest rates go down, people will buy more homes.
- ⊙ **REFINANCING** – is the process of obtaining a new loan to pay off the old loan.
- ⊙
- ⊙ Borrowing the money to buy a home is generally the largest financial obligation a person will assume in his or her lifetime.

- ⊙ Salesperson must advise caution and careful consideration before a promissory note is signed
- ⊙ **A. Loan To Value (L-T-V) -**
- ⊙ The percentage of sales price or appraised value that the lender will loan the borrower in order to purchase the property.
- ⊙ **B. Estimate of Settlement Costs (RESPA)**
- ⊙ Before loan application is completed, lenders must provide a good faith estimate of the actual settlement costs to the borrower.
- ⊙ It must include:
 - ⊙ rate of interest.
 - ⊙ points to be charged.
 - ⊙ any additional loan fees and charges.
 - ⊙ escrow, title, and other allowable costs.
 - ⊙
- ⊙ The most widely used credit bureau scores are developed by Fair, Isaac and Company. These are known as FICO Scores.
- ⊙ **E. Equity –**
- ⊙ Your net worth. It is the amount left after subtracting all that you owe from what you own.
- ⊙ Lenders want to see your equity on paper.
- ⊙ **F. Liquidity –**
- ⊙ The ability of a borrower to convert assets into cash so that debt obligation can be paid when due.
- ⊙ **G. Opportunity Cost (Cost of Non-Liquidity) –**
- ⊙ The lost profit one could have made by the alternative investment action not taken.

- ⊙ **Three areas of demand for borrowing money are:**

- ⊙ Construction funds to build.

- ⊙ To finance a purchase.

- ⊙ For refinancing.

- ⊙

- ⊙ **IV. INSTITUTIONAL LENDERS**

- ⊙

- ⊙ **INSTITUTIONAL LENDERS** – are very large corporations which lend their depositors' funds to finance real estate transactions.

- ⊙ **A. Federal Deposit Insurance Corporation (FDIC) -**

- ⊙ A government corporation that, for a fee, insures each account of a depositor (savings banks and banks) up to \$250,000.

- ⊙ www.fdic.gov

- ⊙ Federal Deposit Insurance Corp.

- ⊙ **B. Federal Savings Banks -**

- ⊙ Provide more real estate loans than any other financial institution.

- ⊙ Either federally or state licensed.

- ⊙ Can loan 80% of value of property to be purchased.

- ⊙ Can loan 90 or 95% if loans are protected by Private Mortgage Insurance (PMI).

- ⊙ **C. Banks -**

- ⊙ General purpose lenders.

- ⊙ National banks must be members of the Federal Reserve System.

- ⊙ State banks may be members of “the Fed” by choice.

- ⊙ **Banks will loan:**

- ⊙ a. First trust deed loans - for owners

- ⊙ b. Construction loans (or interim loans) - for builders
- ⊙ c. Take-out loans (repayment of interim loan)
- ⊙ d. Home improvement loans - for owners
- ⊙ **D. Life Insurance Companies -**
- ⊙ Conservative lenders specializing in large loans to commercial projects
- ⊙ Restricted to lending 75% of property value unless insured by the FHA or VA.
- ⊙
- ⊙
- ⊙
- ⊙ **NONINSTITUTIONAL LENDERS** – are individuals or organizations that lend on a private or individual basis.
- ⊙ **CONVENTION LOANS** are loans not insured or guaranteed by the United States government.
- ⊙ **A. Private Individuals -**
- ⊙ usually second trust deeds taken back by the seller.
- ⊙ when the current money is tight, it often means that a seller will have to take back a second trust deed as part of the equity in his/her home.
- ⊙ **B. Credit Unions -**
- ⊙ Co-operative associations organized to promote thrift among members and provide them with a source of credit.
- ⊙ Playing an ever-increasing role in real estate finance.
- ⊙ Most are incorporated and gather funds by selling shares to members.
- ⊙ Loan rates are generally equal to or below current market rate.
- ⊙ www.ncua.gov
- ⊙ National Credit Union Administration
- ⊙ **C. Real Estate Investment Trusts (REIT) -**

- ⊙ Companies that sell securities specializing in real estate ventures.
- ⊙ **Equity Trust** - an investment in real estate itself or in several real estate projects.
- ⊙ **Mortgage Trust** - an investment in mortgages and other loans or obligations.
- ⊙ **D. Pension Plans** -
- ⊙ Are an investment organization that obtains funds from people before they retire and invests this money for their clients' retirements.
- ⊙ **E. Mortgage Bankers (Companies)** -
- ⊙ Usually lend their own money or roll it over so they can originate, finance, and close first trust deeds or mortgages secured by real estate.
- ⊙ They then sell the loans to institutional investors and service the loans through a contractual relationship with the investors.
- ⊙ **F. Private Mortgage Insurance (PMI)** -
- ⊙ A guarantee to lenders that the upper portion of a conventional loan will be repaid if a borrower defaults and a deficiency occurs at the foreclosure sale.
- ⊙
- ⊙ **VI. GOVERNMENT-BACKED LOANS**
- ⊙ **A. FHA Insured Loans**
- ⊙ 1. **FHA Title I: Home Improvement Loans** –the FHA can make home improvement loans to a maximum of \$25,000. The funds can be used only for home improvement purposes.
- ⊙ 2. **FHA Title II: Home Purchase or Build Loans** – Section 203b program: Insures home loans (1-to-4 units) for anyone who is financially qualified. An FHA loan is based on the selling price when it is lower than the appraisal.
- ⊙ **B. Department of Veterans Affairs (VA)** –
- ⊙ Guarantees loans from institutional lenders.
- ⊙ A VA loan is not a loan, but rather a guarantee to an approved institutional lender.
- ⊙ **a. Eligibility** -
- ⊙ 90 days or of active military service (181 days during certain peacetime periods).

- ⊙ a. Persons still in the military.
- ⊙ b. Persons honorably discharged.
- ⊙ c. American citizens who served in the armed forces of our allies during WWII.
- ⊙ d. Spouses of eligible personnel who died without using their benefits.
- ⊙ e. Persons receiving other than honorable discharges at the discretion of the VA.
- ⊙ **2. Certificate of Reasonable Value-**
- ⊙ CRV is an appraisal of the property to be purchased by the veteran.
- ⊙ The amount of the down payment required for a VA loan is determined by the CRV.
- ⊙ **3. VA Loan Provisions:**
- ⊙ a. No limit to loans (generally California lenders will only loan up to \$240,000).
- ⊙ b. Usually a 30-year term.
- ⊙ c. No down payment needed unless the purchase price exceeds the CRV appraisal or for some reason the lender requires one.
- ⊙ www.va.org
- ⊙ Department of Veterans Affairs
- ⊙ **C. California Department of Veterans Affairs (Cal-Vet) -**
- ⊙ Makes direct loans to veterans in the form of Conditional Sales Contracts repaid in installments.
- ⊙ **Eligibility -**
- ⊙ No residency requirement—all veterans eligible. Honorably discharged after at least 90 days active service in the following military actions:
- ⊙ World War II — December 7, 1941 to December 31, 1946
- ⊙ Korean Conflict — June 27, 1950 to January 31, 1955
- ⊙ Vietnam Era — August 5, 1964 to May 7, 1975
- ⊙ Persian Gulf War — August 2, 1990 to date yet to be determined

- ⊙ **Also eligible is a California veteran who:**
- ⊙ Participated in a campaign or expedition for which a medal was awarded by the government of the United States.
- ⊙ Was discharged with less than 90 days' active duty because of service connected disability incurred during his or her qualifying service period.
- ⊙ **D. California Housing Finance Agency**
- ⊙ This is a state agency that sells bonds so that it can provide funds for low-income family housing on project or individual home basis.
- ⊙ **A. Private and Quasi-Governmental Corporations**
- ⊙ At one time, there were 3 federal corporations that used cash to buy and sell trust deeds between financial institutions.
- ⊙ These corporations are now either private or quasi-governmental.
- ⊙ **B. Secondary Mortgage (Trust Deed) Market -**
- ⊙ Provides an opportunity for financial institutions to buy from, and sell first mortgages (trust deeds) to, other financial institutions.
- ⊙ **Federal National Mortgage Association (FNMA) or "Fannie Mae"**
- ⊙ a. Private corporation
- ⊙ b. Sells securities to raise funds
- ⊙ c. Buys and sells conventional, FHA and VA loans
- ⊙ **2. Government National Mortgage Association (GNMA) or "Ginnie Mae"**
- ⊙ a. Government corporation.
- ⊙ b. Sells secondary mortgages to the public.
- ⊙ c. Provides the federal government with cash.
- ⊙ d. Sells federally insured shares on the stock exchange.
- ⊙ **3. Federal Home Loan Mortgage Corporation (FHLMC) or "Freddie Mac"**

- ⊙ a. Government corporation.
- ⊙ b. Supervised by the Federal Home Loan Bank Board.
- ⊙ c. Buys home loan mortgages from savings banks to maintain their supply of money for loans to the public.
- ⊙ d. Financed by the sale of stock.
- ⊙ **A. Mortgage Loan Disclosure Statement -**
- ⊙ A form which clearly states all the details and commission charges of a particular loan.
- ⊙ Keep on file for 3 years
- ⊙ Mortgage loan brokers must provide this to the borrower before the note and instrument are signed.
- ⊙ Mortgage Loan Brokers need no special license other than their real estate license.
- ⊙
- ⊙ An **APPRAISAL** is an opinion as to the monetary value of a particular property at a given date.
- ⊙ **Market Price** (Selling Price) –
- ⊙ The total price, including down payment and financing, that a property actually brought when sold.
- ⊙ **Market Value** –
- ⊙ The price that a willing buyer will pay and a willing seller accept, both being fully informed and with the sale property exposed for a reasonable period.
- ⊙ **Four Essential Elements of Value**
- ⊙ 1. **Demand** — the desire, need, and ability to purchase
- ⊙ 2. **Utility** — usefulness; ability to instill a desire for possession
- ⊙ 3. **Scarcity** — in short supply, usually more expensive
- ⊙ 4. **Transferability** — can change ownership, as with a deed.

⊙ **THINK**

⊙ **D.U.S.T**

⊙ **A. Definition of the Appraisal Problem -**

⊙ The first step in the appraisal process must include a definition of what questions are to be answered during the appraisal.

⊙ Precise location of the property.

⊙ Extent of ownership (fee simple or partial) to be appraised.

⊙ Date and purpose of the appraisal (usually to establish market value).

⊙ Any limiting conditions (facts unknown to the appraiser).

⊙ Fee for appraiser's services.

⊙ **Purpose of an Appraisal**

(to establish):

⊙ **1. Market Value**

⊙ **2. Insurance Value**

⊙ **3. Loan Value**

⊙ **4. Tax Assessment Value**

⊙ **5. Rental Value**

⊙ **6. Value for certain Internal Revenue Service Purposes**

⊙ **7. Settlements**

⊙ **8. Salvage Value**

⊙ **9. Other**

⊙

⊙

⊙ **2. Highest and Best Use -**

- ⊙ That use for the property which will produce the maximum amount of profit or net return.

- ⊙ **B. Gathering Data**

- ⊙ **1. General Data** - Collecting all the background information which would help determine if one property is worth more than another.

- ⊙ a. **Region** (State is Divided into Regions)

- ⊙ b. **City** (or County)

- ⊙ c. **Neighborhood** - A limited area where the homes are physically similar and where the occupants have a certain degree of social and economic background in common.

- ⊙ **2. Specific Data** (Property Itself) -

- ⊙ **Location**

- ⊙ **Lot**

- ⊙ **Improvements**

- ⊙ **There are 6 types of sites, or lots.**

- ⊙ Cul-De-Sac Lot

- ⊙ Corner Lot

- ⊙ Key Lot

- ⊙ T-Intersection Lot

- ⊙ Interior Lot

- ⊙ Flag Lot

- ⊙ **Physical Aspects of a Lot** -

- ⊙ The major physical aspects of the actual site are:

- ⊙ **1. Size and Shape of Lot**

- ⊙ Depth Table

- ⊙ Front Footage

- ⦿ Plottage (Assemblage)
- ⦿ **3. Slope, Drainage, and Soil -**
- ⦿ The slope of a lot will lower its value if it will be costly to improve.
- ⦿ A lot that is higher or lower in relation to the street level may be costly to improve because of possible slope and drainage problems.
- ⦿ Erosion may also be a part of slope or drainage problems.
- ⦿ **4. View, Exposure to Sun, and Weather (Orientation) -**
- ⦿ The south and west sides of streets are preferred by merchants.
- ⦿ The northeast corner is the least desirable.
- ⦿ Most people appreciate a good view from their homes.
- ⦿ The house should block yard from winds.
- ⦿ The backyard should receive the best exposure from the sun throughout the day.
- ⦿ **Amenities -**
- ⦿ Those improvements or views that increase the desirability or enjoyment rather than the necessities of the residents.
- ⦿ **A. House Structure Illustrated -**
- ⦿ This section identifies different roof types on a house.
- ⦿
- ⦿
- ⦿ **B. Home Warranty Plans -**
- ⦿ An insurance plan that provides financial protection against defects in any major home construction.
- ⦿ New homes automatically carry a one-year contractor warranty against labor or material defects.
- ⦿
- ⦿ **IV. BASIC APPRAISAL PRINCIPLES**

⊙ **A. Principle of Supply and Demand-**

- ⊙ As the supply of land decreases, the value of land increases, because more people are competing for the desirable land.

⊙ **B. Principle of Change -**

- ⊙ Real property is constantly changing in the three stages of the real property life cycle:

- ⊙ 1. Development (Integration)

- ⊙ 2. Maturity (Equilibrium)

- ⊙ 3. Decline (Disintegration)

⊙ **C. Principle of Conformity -**

- ⊙ Maximum value is obtained when a reasonable degree of building similarity is maintained in a neighborhood.

- ⊙ Similar homes keep a neighborhood viable.

- ⊙ Identical homes (“cookie cutters”), however, are less desirable.

⊙ **D. Principle of Contribution -**

- ⊙ The value of a particular component is measured in terms of its contribution to the value of the whole property.

⊙ **E. Principle of Substitution -**

- ⊙ A buyer will not pay more for a particular property if it costs less to buy a similar property of equal utility and desirability.

⊙ **F. Principle of Regression -**

- ⊙ The value of the best property in a neighborhood will be adversely affected by the value of other properties.

⊙ **G. Principle of Progression -**

- ⊙ The value of a lesser residence is increased by its location in a neighborhood of better homes.

- ⊙

- ⊙ The appraiser uses three appraisal methods and then correlates this data to arrive at a final valuation for a property.

- ⊙

- ⊙ **I. COMPARATIVE APPROACH (MARKET DATA METHOD)**

- ⊙

- ⊙ Takes current selling prices of properties similar to the appraised property and adjusts those prices for any differences.

- ⊙ **A. How to Adjust a Comparable Sale (Comps)**

- ⊙ Subtract the value of any improvements found in the comparable houses but not in the house to be appraised.

- ⊙ Add the value of any improvements found in the appraisal house but not found in the comparable houses.

- ⊙ Adjust also for differences in location, lot size, building size, condition of the property, time differences between the sales.

- ⊙

- ⊙ Compare with cost of similar unsold properties which have been on the market for a long time they are probably overpriced.

- ⊙ Compare with comparable properties from many different sources

- ⊙ **B. Advantages of The Market Data Method**

- ⊙ It is easy to learn and, with a little experience, easy to apply.

- ⊙ Required information is usually readily available since there are generally many recent comparable sales.

- ⊙ This is the most effective appraisal approach for home and condominium sales.

- ⊙ **C. Disadvantages of The Market Data Method**

- ⊙ This method requires many recent comparable sales of similar properties.

- ⊙ This method is least reliable when there are rapid economic changes.

- ⊙ The market data method is less valid with certain income properties because a separate analysis of the income is required.
- ⊙
- ⊙ **II. COST APPROACH (REPLACEMENT COST METHOD)**
- ⊙
- ⊙ **THE COST APPROACH** is the process of appraising a property by calculating the cost of the land and buildings as if they were new today, and then subtracting the accrued depreciation in order to arrive at the current value.
- ⊙ **Costs are Both Direct and Indirect**
- ⊙ **Direct Costs** - expenditures for labor and materials used in the construction of the improvement(s). A contractor's overhead and profit are generally treated as direct costs.
- ⊙ **Indirect Costs** - expenditures other than material and labor costs. Examples are administrative costs, professional fees, financing costs, insurance, and taxes.
- ⊙ **B. Steps in the Cost Approach**
- ⊙
- ⊙ **1. Appraise the Land Separately -**
- ⊙ Estimate the value of the vacant land using the market comparison approach.
- ⊙ **2. Estimate Replacement Cost**
- ⊙ **Replacement Cost** - the cost of building a similar new structure today using modern construction methods. The most current information is available from construction cost engineers.
- ⊙ **Three Replacement Methods**
- ⊙ Comparative-Unit Method
- ⊙ Unit-In-Place Method
- ⊙ Quantity Survey Method

- ⊙ The simplest way to determine replacement cost is to determine the Square Footage, which is obtained by measuring the outside of the structure.

- ⊙ **3. Estimate and Deduct Depreciation**

- ⊙ **Depreciation** - reduction in the value of property due to any cause.

- ⊙ **Three types:**

- ⊙ Physical Deterioration (Curable or Incurable)
- ⊙ Functional Obsolescence (Curable or Incurable)
- ⊙ Economic Obsolescence (Incurable)

- ⊙ **4. Value of the Property -**

- ⊙ Add the depreciated value of any improvements to the value of the land. This figure is the market value of a property using the cost approach.

- ⊙ **C. Advantages of The Cost Approach** - can be used for:

- ⊙ New buildings.
- ⊙ Unique structures.
- ⊙ Public buildings.
- ⊙ Cost equals value when improvements are new and of the highest and best use.

- ⊙ **D. Disadvantages of The Cost Approach**

- ⊙ There must be an accurate value of the site (land).
- ⊙ Since determining depreciation is more difficult as buildings age, the reliability of the depreciation estimate may be questioned.
- ⊙ This approach may be difficult to apply to condos or planned unit developments because the land, improvements, and marketing costs are not always easy to determine just for appraising one unit.

- ⊙

- ⊙ **III. CAPITALIZATION APPROACH**

- ⊙ (INCOME APPROACH)

- ⊙ **A. Steps in the Income Approach**

- ⊙

- ⊙ **1. Calculate the Annual Effective Gross Income**

- ⊙ Figure out how much gross rental income is currently being generated if the property is fully rented.

- ⊙ Adjust this figure upward if more rent could be charged and downward if rent is too high and causing a lot of vacancies.

- ⊙ **2. Complete an Operating Expense Statement**

- ⊙ **The basic expense categories are:**

- ⊙ Property taxes

- ⊙ Insurance and licenses

- ⊙ Manager fees

- ⊙ Utilities

- ⊙ Maintenance, repairs, and services (gardener, pool man, etc.)

- ⊙ Replacement Reserves - the cost of replacing an item in the future

- ⊙

- ⊙ **3. Deduct Related Operating Expenses (Step 2) from Gross Income (Step 1 to get Net Income)**

- ⊙ **4. Divide Net Income by the Appropriate Capitalization Rate**

- ⊙ **5. Result of Dividing Net Income by the Appropriate Capitalization Rate**

- ⊙ **B. Gross Rent Multiplier (GRM) -**

- ⊙ **A multiplication “rule of thumb” for converting rental value into market value.**

- ⊙ Neighborhoods have determinable multipliers (rules of thumb).

- ⊙ Select the proper multiplier.

- ⊙ Find out the gross rents of the appraisal property.

- ⊙ Multiply the rent times the multiplier.
- ⊙ The result is an approximate value of the property.
- ⊙ Not an accurate appraisal by any means.
- ⊙ **C. Advantages of the Income Approach**
- ⊙ The advantage of the income approach method is that no other method focuses solely on determining the present value of the future income stream from the subject property.
- ⊙ Emphasis is on the income generated by the real property. This is of primary importance to investment buyers. = VALUE OF PROPERTY
- ⊙ **D. Disadvantages of The Income Approach**
- ⊙ Sometimes difficult to determine capitalization rate.
- ⊙ May also be difficult to estimate vacancy rate, economic rent, operation expenses, and reserve requirements.
- ⊙
- ⊙ **CORRELATION** is the process of selecting the most appropriate appraisal method for a particular type of property and giving it the most consideration in pinpointing final value.
- ⊙
- ⊙ The documentation of the appraiser's findings.
- ⊙ **A. Appraisal License and Certification**
- ⊙ Trainee Appraiser
- ⊙ Residential Appraiser
- ⊙ Certified Residential Appraiser
- ⊙ Certified General Appraiser
- ⊙ **A. Police Power -**
- ⊙ The power to make rulings to control the “use and taking of private property” for the protection of the public’s health, safety, and welfare.

- ⊙

- ⊙ **II. THE BASIC**

- ⊙ **SUBDIVISION LAWS**

- ⊙ **Subdivision -**

- ⊙ A parcel of land divided into five or more parcels with the intent to sell, lease, or finance them now or in the future. It can also be some form of common or mutual ownership rights in one parcel.

- ⊙ **A. Subdivision Map Act -**

- ⊙ Primary objective is to provide an outline of the methods for subdivision map filing procedure at the city or county level.

- ⊙ **This Act has two major objectives:**

- ⊙ Permit local governments to enact subdivision ordinances, making the subdivision engineer's map conform to the community's master plan in such areas as:

- ⊙ a. lot design.

- ⊙ b. street patterns.

- ⊙ c. drainage and sewers.

- ⊙ Ensure that parts of the subdivision area will be dedicated to the city or county for public purposes by the subdivider including:

- ⊙ a. streets and alleys.

- ⊙ b. other public areas

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- ⊙ **B. Subdivided Lands Law -**

- ⊙ Basic objective is to protect the purchasers of property in new subdivisions from fraud, misrepresentation or deceit in the marketing of subdivided lots, parcels, condominiums or other undivided property interest in the state of California.

- ⊙ Prohibits the sale of any subdivided unit of property unless the Real Estate Commissioner has issued a public report on the subdivision.

- ⊙ **Public Report -**

- ⊙ A formal disclosure report of the important facts about a subdivision. It is not a recommendation pro or con, it simply states the facts.

- ⊙ **There May Be Two Public Reports**

- ⊙ **Preliminary Public Report (Pink)** - a tentative public report that must be given to each prospective purchaser.

- ⊙ **Final Public Report (White)** - “Real Estate Commissioner's Final Subdivision Public Report” - the official report, and the buyer must receive a copy.

- ⊙ **A. Public Report Receipts -**

- ⊙ Buyer must sign a receipt stating that he or she has read the report when he or she receives copies of either the pink or white public report.
- ⊙ Owner, agent, or subdivider must keep the receipt on file for three years, during which time it is subject to inspection.

- ⊙ **B. Material Changes -**

- ⊙ Those made after the final report that must be reported to the commissioner include:
- ⊙ physical changes to the lots or streets.
- ⊙ any condition that might affect value.
- ⊙ the sale of five or more parcels.
- ⊙ the sale to a single purchaser of two or more units in a community apartment, condo, stock cooperative project or planned unit development

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- ⊙ **IV. SUBDIVISION**

- ⊙ **DEFINED BY LAW**

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- ⊙ **A. Land Projects -**

- ⊙ Is a subdivision of 50 or more lots in a rural area with less than 1,500 registered voters within two miles (not that common).
- ⊙ Any contract to buy or lease property in a land project can be rescinded without cause through written notice delivered before midnight on the fourteenth day after the contract is signed.
- ⊙ **B. Out of State Buyers -**
- ⊙ Under the Federal Interstate Land Sales Full Disclosure Act, such sales are subject to special registration and control.
- ⊙ A contract for the purchase or lease of a lot of this kind is voidable at the option of the buyer if the contract is made without prior inspection of the site.
- ⊙ The buyer has seven days after receiving the public report to rescind the contract.
- ⊙
- ⊙ **A COMMON INTEREST DEVELOPMENT** is a project where there are common areas used by all—excepting separate interests for the use of individual living units and managed by a nonprofit association.
- ⊙ **A. Planned Development (PD) -**
- ⊙ A subdivision where lots are owned separately, but certain areas are owned in common by all owners.
- ⊙ Common Area - that part of a lot or unit in a subdivision that is shared equally by all owners (undivided interest). An undivided interest is the right of any owner to use any part of the project.
- ⊙ **B. Community Apartment Projects -**
- ⊙ Two or more apartments, defined as a subdivision, where the operation, maintenance and control is usually exercised by a governing board elected by the owners of the fractional interests.
- ⊙ 1. Each buyer holds title as a tenant-in-common with all the other owners (no separate deed).
- ⊙ 2. Each has the right to occupy one specific unit.
- ⊙ 3. There is one property tax bill for the entire project.

⊙ **C. Condominium -**

- ⊙ Ownership of land and buildings in common with the other owners plus the individual ownership of specific airspaces.
- ⊙ 1. Common areas managed by an elected board.
- ⊙ 2. Fee simple ownership of individual unit including a separate deed and property tax bill for each owner.
- ⊙ 3. **Timesharing** - a form of ownership where each investor holds a share in a specific unit or home and possesses the right to occupy that home for a specified period each year.

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⊙ **D. Stock Cooperative -**

- ⊙ A corporation which is formed to own the land and improved real property (no separate deed or tax bill).
- ⊙ 1. Buyer owns a share in the corporation.
- ⊙ 2. Given the right to possess a specific unit.
- ⊙ 3. Right to occupy can only be transferred with the share of stock.

⊙

- ⊙ Guidelines for subdividers in advertising and promotions have been developed by the Department of Real Estate.
- ⊙ The pamphlet contains filing procedures, requirements and prohibitions on advertising.
- ⊙ Since misleading advertising is watched very carefully, it is now a requirement that the public report must be given to each advertising media selected by the subdivider.

⊙ **Environmental Impact Report (EIR) -**

- ⊙ A study of how a subdivision will effect the ecology of its surroundings.
- ⊙ Often required before local authorities will approve the subdivision map.
- ⊙ Coastal Commission - established by Proposition 20, it sets standards for construction to preserve the California coast.

⊙ **A. Lead-Based Paint Disclosure -**

- ⊙ The seller or lessor must provide the buyer or lessee with a lead hazard information pamphlet (including disclosure form) and disclose the known presence of any lead-based paint.
- ⊙ The agent, on behalf of the seller or lessor, must ensure compliance with the requirements of the law. The purchaser has a 10-day opportunity to inspect before becoming obligated under the contract.

⊙ **B. Geological Hazard Zones -**

- ⊙ Any person buying within one of the designated geological hazards (such as earthquake faults) must be informed by either the seller or real estate agent.

⊙ **Alquist-Priolo Special Studies Zones Act -**

- ⊙ The purpose is to assist governmental jurisdictions in the exercise of their responsibility to prohibit the development of structures for human occupancy on top of active earthquake faults as defined by the state geological survey maps.

⊙ **Planning Commission**

- ⊙ Its primary responsibility is to prepare and adopt comprehensive, long-term general plans for the physical development of its area.
- ⊙ It makes predictions to guarantee that today's residential, commercial, and industrial areas will not collide in the future.

⊙ **A. Master Plan -**

- ⊙ A comprehensive guide through which zoning establishes an ideal plan for the city's development in the future.

⊙ **Zoning laws are used to:**

- ⊙ Regulate the use of property by prescribing what uses that land can be put to, and by establishing uniformity throughout the community.

- ⊙ Operate under police power of local government.

- ⊙ Designed to protect the health, safety, comfort and general welfare of the community.

⊙ **Zoning sets standards for the:**

- ⊙ 1. Location and type of buildings.
- ⊙ 2. Height and number of stories.
- ⊙ 3. Overall size of structures.
- ⊙ 4. Percentage of lot occupied by structures.
- ⊙ 5. Setback required from front, back and sides.
- ⊙ **Symbols vary greatly, but some common ones include:**
- ⊙ **A** - for agriculture
- ⊙ **C** - for commercial
- ⊙ **M** - for manufacturing
- ⊙ **P** - for parking lots and parks
- ⊙ **R1** - for single-family dwelling
- ⊙ **R2** - for two-dwelling units
- ⊙ **R3** - for multiple-unit dwellings (apartments, condos, etc.)
- ⊙ **R4-R5** - for larger multiple-unit dwellings
- ⊙ **A. Zoning Regulation -**
- ⊙ **Changes in zoning regulations only occur after:**
- ⊙ Giving public notice of any proposal.
- ⊙ Calling a public hearing where interested people may voice their opinions.
- ⊙ Adoption or rejection of a zoning regulation by a commission vote.
- ⊙ **Spot Zoning -**
- ⊙ **A small area which is zoned differently than the surrounding area.**
- ⊙ 1. Service stations
- ⊙ 2. Convenience stores

⊙ **B. Nonconforming Use -**

- ⊙ A property that is not used according to the current zoning, but which existed legally before zoning changes were enacted.
- ⊙ An apartment with one parking space per unit where zoning changes require two parking spaces per unit is allowed to continue use under the old zoning if the structure is already built and the property is established.
- ⊙ There is a new trend toward insisting on conformity after a reasonable period of time.

⊙ **C. Variance -**

- ⊙ An exception to the existing zoning regulations in cases of special need or circumstances which might create serious hardship for property owners.

⊙ **D. Conditional Use Permit -**

- ⊙ An exception to the current zoning regulations for the public welfare or benefit, not based on hardship as is a variance.

⊙ **Housing, Building, and Health Laws**

- ⊙ Often enforced on the local level, but minimum standards are enacted by the state.

⊙ **A. State Housing Law -**

- ⊙ Sets minimum construction and occupancy requirements.

⊙ **B. Local Building Codes -**

- ⊙ The basic minimum construction standards enforced by local inspectors.

- ⊙ **Building Permit** - an approved building application that includes plans, specifications, and a plot plan.

⊙ **C. Government Financing Requirements**

- ⊙ Minimum Property Requirements (MPRs) - rather restrictive standards required by government loan programs (FHA, VA and Cal-Vet) before loan approval.

⊙ **D. Factory-Built Housing Law -**

- ⊙ This state law applies to prefabricated homes with inspections in the factory and on-site.

- ⊙ 1. **Manufactured Housing** - must be built to California Department of Housing standards but with axles and wheels for mobility.
- ⊙ New manufactured homes are sold only by licensed manufactured home dealers.
- ⊙ After they are registered for more than one year, they can be sold by real estate agents.
- ⊙ Real estate salespeople can also sell, lease, or finance manufactured homes as soon as they have been transformed into real property (wheels removed, placed on a foundation and having a building permit).
- ⊙ **E. Contractor's State License Law -**
- ⊙ **Protects the public against incompetent building contractors.**
- ⊙ Construction may only be performed by persons licensed by the state (except for construction done on one's own residence).
- ⊙ Applicants for general contractor and subcontractors must meet experience requirements and pass a written exam.
- ⊙ **F. Health and Sanitation Laws -**
- ⊙ State and local laws requiring local inspection and controls on builders and businesses.
- ⊙
- ⊙ **EMINENT DOMAIN** is the right of the government to take private property from a landowner for the "public good."
- ⊙ **A. Eminent Domain Process-**
- ⊙ Property is condemned.
- ⊙ Landowner is compensated.
- ⊙ Receives fair market value and/or
- ⊙ **Severance Damages** - the amount the remaining land loses in value when only part of a parcel is taken by the government.
- ⊙ **Inverse Condemnation** - an action whereby the property owner files suit to force the government to take all of the property, not just a part.

⊙ **B. Redevelopment -**

- ⊙ A governmental agency (Redevelopment Agency) purchases land in an area of blight, clears it as needed, and constructs new buildings, parks, etc.

⊙ **C. Mutual Water Company -**

- ⊙ Is organized by water users in a given district to supply ample water at a reasonable rate.
- ⊙ Members own a share of stock.
- ⊙ Stock and water rights are appurtenant to the land.

⊙ **A. Unruh Civil Rights Act -**

- ⊙ No discrimination allowed in businesses based upon sex, race, color, religion, ancestry, national origin, disability, or medical condition in California.

⊙ **B. Rumford Act**

(Fair Employment and Housing Act) -

- ⊙ Deals specifically with rentals, sales, agency, financing and provides penalties for violations.

⊙ **C. Holden Act**

(Housing Financial Discrimination Act) -

- ⊙ Forbids lenders from Redlining - denying loans or varying the terms based upon property location.

⊙ **D. Federal Laws**

(Federal Civil Rights Act of 1968)

- ⊙ Outlaws discrimination based upon race - **THERE ARE NO EXCEPTIONS.**
- ⊙ If asked to discriminate based upon race, the salesperson must refuse the listing.
- ⊙ Real estate boards and multiple listing services may not limit participation based upon race.

⊙ **The Fair Housing Poster
must be displayed at:**

- ⊙ Brokerage offices

- ⊙ Subdivision model homes
- ⊙ Financial institutions
- ⊙ Mortgage lenders
- ⊙ **1. Federal Civil Rights Act Expanded in 1988 -**
- ⊙ Allows U.S. government itself to take court action against discrimination in home sales or apartment rentals.
- ⊙ Extends protection to handicapped home buyers or tenants.
- ⊙ Real Estate Commissioner and “NAR” also enforce Anti-Discrimination
- ⊙
- ⊙ Taxes determined according to the value of the property (**Ad Valorem Tax**) and are paid annually or semi-annually.
- ⊙ **Ad Valorem** mean taxed “according to value.”
- ⊙ **County Assessor -**
- ⊙ The county officer who is responsible for determining the assessed valuation of land, improvements. and personal property used as a residence or in business.
- ⊙ All real property is assessed except:
- ⊙ a. that which is owned by the government.
- ⊙ All tangible personal property which is used in business is also assessed.
- ⊙ a. Other personal property (intangible) is not assessed or taxed.
- ⊙ **County Tax Collector -**
- ⊙ **County officer who collects the property taxes.**
- ⊙ 1. Does not assess property or levy taxes.
- ⊙ 2. Requires a tax sale if taxes are not paid.
- ⊙ **A. Proposition 13 -**
- ⊙ Limits the amount of property taxes to a maximum of 1% of the March 1, 1975 market value.

- ⊙ There is a cumulative increase of 2% in market value for each year since 1975.
- ⊙ Property improvements made after March 1, 1975 are added to value in the year they are made.
- ⊙ If property is newly constructed or sold, the tax is 1% of the sales price or market value, whichever is higher, plus the 2% cumulative increase each succeeding year.
- ⊙ **B. Real Property Tax Base Is Transferable (Props 60 & 90) -**
- ⊙ Under the following conditions, homeowners may be permitted to transfer their current Proposition 13 tax base with them when they move:
 - ⊙ 1. Homeowners over the age of 55.
 - ⊙ 2. Replacement home of equal or lesser value.
 - ⊙ 3. Purchased within two years of original sale.
 - ⊙ 4. New home is in the same county, or another participating county.
- ⊙ **C. Property Taxes Become a Specific Lien**
- ⊙ 1. Property taxes due upon real property are, in effect, liens against that specific property.
- ⊙ 2. Business personal property taxes (trade fixtures) also become liens against that specific real property on the same tax bill.
- ⊙ **D. Property Tax Time Table**
- ⊙ T H I N K –
- ⊙ “No Darn Fooling Around”
- ⊙ **E. Property Tax Proration Problem**
- ⊙ **F. Homeowner's Property Tax Exemption -**
- ⊙ A deduction on the property tax bill of the first \$7,000 of assessed valuation of an owner-occupied property.
 - ⊙ 1. All personal property is exempt from property taxes.
 - ⊙ 2. Property must be owner's principal residence on March 1.

- ⊙ 3. Homeowner must file for this between January 1 and April 15 to get the full exemption.
- ⊙ **G. Homeowner's and Renter's Property Tax Rebate -**
- ⊙ A percentage of household income on the first \$8,500 of assessed valuation is returned to the taxpayer.
- ⊙ 1. Any resident 62 or older with a household income of less than \$12,000.
- ⊙ 2. Persons under 62 who are totally disabled.
- ⊙ 3. Must own and occupy the home.
- ⊙ 4. A similar program provides rebates to renters.
- ⊙ **H. Disabled and Senior Citizen's Property Tax Postponement -**
- ⊙ 62 years or older with less than \$24,000 in income
- ⊙ Program offers option of having all or part of the taxes paid by the state.
- ⊙ A lien is placed on the property for the amount the state has to pay.
- ⊙ This lien is payable when the taxpayer moves or dies.
- ⊙ The state gains title to the home if the person dies.
- ⊙ **I. Veteran's Exemption -**
- ⊙ Entitled to an annual \$4,000 property tax exemption against the assessed value of one property (principal residence or additional property)
- ⊙ 1. For California residents who served in the military during a time of war.
- ⊙ 2. Also available to:
 - ⊙ a. widow of veteran.
 - ⊙ b. widowed mother of deceased veteran.
 - ⊙ c. pensioned father or mother of deceased veteran.
- ⊙ 3. Limited to property assessed at under \$5,000 (\$10,000 if married).
 - ⊙ a. for disabled veterans who qualify, the assessment limit can be raised up to \$100,000.

⊙ **J. Tax Exempt Property**

- ⊙ All federal, state, county, or city government property. The federal government owns 45% of California land.
- ⊙ Religious, charitable, medical, or educational property (nonprofit).
- ⊙ 50% of all growing crops, young orchard trees, immature timber, and young grape vines.

⊙ **K. Property Tax Appeals -**

- ⊙ A claim that property has been unfairly assessed.
- ⊙ Contact the County Board of Equalization (the property tax appeals board).
- ⊙ They will consider the case and reduce, increase, or set a new assessment.
- ⊙ Property tax appeals should be made between July 2 and August 26.

⊙ **L. Delinquent Tax Sale**

(Book Sale)

- ⊙ Tax collector publishes a list of delinquent properties (Notice of Intent To Sell) by June 8.
- ⊙ Owner then has a five-year redemption period.
- ⊙ a. Property may be redeemed by anyone upon payment of:
 - ⊙ 1. taxes
 - ⊙ 2. interest
 - ⊙ 3. costs and
 - ⊙ 4. redemption penalties
- ⊙ b. Buyer obtains a Certificate of Redemption.

⊙ **M. Second Sale**

(After 5 Years)

- ⊙ If owner does not redeem within five years, property will be deeded over to the state.
- ⊙ Former owner may now redeem property only if the state has not sold the property at auction.

⊙ **N. Sale to the Public -**

- ⊙ Delinquent property is sold by the county tax collector.
- ⊙ Property is sold to other taxing agencies or to the highest bidder for cash.
- ⊙ Purchaser receives a tax deed.
- ⊙
- ⊙ **A SPECIAL ASSESSMENT TAX** is levied by the city or county supervisors, or by the voters themselves, requiring the cost of specific local improvements, such as streets, sewers, irrigation or drainage, to be assessed to the properties which benefit from them.
- ⊙ **Street Improvement Act of 1911 -**
- ⊙ Developers can use the Act to construct and improve streets and for sewers construction, however they cannot use the Act to purchase land for subdividing.
- ⊙ **B. Mello-Roos Community Facilities Act -**
- ⊙ Municipal bonds issued to fund streets, sewers, and other infrastructure needs before a housing development is built.
- ⊙
- ⊙ A tax that is applied to the consideration paid or money borrowed when transferring property, except for any remaining loans or liens on the property.
- ⊙ Rate is 55 cents for each \$500 of consideration and borrowed funds or any fraction thereof that exceeds \$100.
- ⊙ Charged to the seller as part of escrow.
- ⊙ In most cities the county collects the tax and gives half to the city.
- ⊙ **Example:** If a house were sold for \$230,000 and a buyer assumed the old loan of \$30,000 the documentary transfer tax would be \$220 (only \$200,000 is “new money” and taxable)
- ⊙ $\underline{\$200,000} \times \$0.55 = \$220$
- ⊙ \$500
- ⊙ **A. Federal Gift Taxes -**

- ⊙ Charged on gifts exceeding \$11,000 annual exemption per donee.
- ⊙ **Donor** - the person or persons giving the property as a gift.
- ⊙ **Donee** - the person or persons receiving the gift of property.
- ⊙
- ⊙ There are **No** California State Inheritance and Gift Taxes.
- ⊙
- ⊙ **FEDERAL AND STATE INCOME TAXES** are taxes charged on personal income by the state and federal government.
- ⊙ **A. Deduction of Interest -**
- ⊙ One of the major tax advantages of owning real estate.
- ⊙ When buying these homes you may finance up to \$1 million (\$1,000,000) with all the interest paid out during the year fully tax deductible.
- ⊙ An additional deduction is available on the interest from home equity loans, taken for any purpose, even buying a second home, of up to \$100,000 in principal.
- ⊙ **B. Deduction of Property Taxes -**
- ⊙ Property taxes on your 1st and 2nd homes are deductible from your income taxes.
- ⊙ **C. Deduction of Prepayment Penalties -**
- ⊙ If you pay off or drastically reduce your home loan balance, there may be a prepayment penalty.
- ⊙ These are tax deductible.
- ⊙ **D. Sale of Your Residence -**
- ⊙ If a person sells a residence at a profit but buys a more expensive residence within two years, (before or after) no income tax is owed on the gain at that time.
- ⊙ No capital gains tax on first \$250,000 (\$500,000 if married) of profit from the sale of a home.
- ⊙ a. Must buy another residence to avoid taxes.

- ⊙ b. Can only be used once every two years.
- ⊙ **Investors can annually deduct:**
- ⊙ 1. Mortgage Interest on Loans (no maximum)
- ⊙ 2. Property Taxes
- ⊙ 3. Prepayment Penalties
- ⊙ 4. Operating Expenses
- ⊙ 5. Depreciation of Improvements
- ⊙ **A. Depreciation of Business Property -**
- ⊙ Annual tax deduction based on wear, tear, and obsolescence on investment property.
- ⊙ Does not apply to personal residence.
- ⊙ Depreciation is deducted only from the cost of the building and improvements.
- ⊙ Taxes will probably have to be paid on this deduction when the property is sold.
- ⊙ **B. Advantages of “Sale-Leaseback”**
- ⊙ **To seller:**
- ⊙ All lease payments can be deducted from income taxes and owner receives cash for the building.
- ⊙ **To buyer:**
- ⊙ The purchase price can be used as the new basis for depreciation and establishes a new depreciation schedule.
- ⊙ **A. Capital Assets -**
- ⊙ Includes your personal residence (including your second home) and any other real estate because they are long-term investments.
- ⊙ **Capital Gains** - taxed at a lower rate than is ordinary income.
- ⊙ **Capital Losses** - can be deducted from capital gains.
- ⊙ **B. Federal Income Tax Rates**

- ⊙ **Progressive Taxes** - taxes where the rates (percentage paid) increase as the amount to be taxed increases.
- ⊙ **Marginal Tax Rate** - the rate that the next dollar earned puts you into.
- ⊙ **Regressive Taxes** - use the same rate no matter how much is spent or earned. Sale tax is an example of a regressive tax.
- ⊙ **A. Installment Sale of Real Estate -**
- ⊙ Extend the sale payments on a property over more than one calendar year.
- ⊙ Gains do not all fall in one tax year.
- ⊙ This could keep the person's tax rate lower.
- ⊙ **B. Exchanges Tax Deferred -**
- ⊙ An exchange is transfer of real estate where one property is traded for another.
- ⊙ If it is an even trade, no capital gains tax will be charged.
- ⊙ Any Boot (consideration given by one party in addition to the traded property) is entirely taxable if it constitutes a gain.
- ⊙ Exchanges are complicated and require careful accounting and legal guidance.
- ⊙ **A. Federal Tax Collection Requirements -**
- ⊙ Persons buying property from foreign investors are required to set aside 10% of the purchase price as a withholding for the Internal Revenue Service.
- ⊙ Withholding is kept to insure that the foreign investor will pay taxes on the capital gain.
- ⊙ Both the buyer and broker share liability.
- ⊙ Residential property purchased for under \$300,000 is exempt.
- ⊙ **Business License Taxes (City Income Taxes) -**
- ⊙ A tax against real estate brokerage firms based upon their gross receipts.
- ⊙ A nominal amount that usually starts at about \$100.
- ⊙ Other city taxes may also include employee payroll taxes.

- ⊙ **DRE -**

- ⊙ The state regulatory agency for real estate in California.

- ⊙ Purpose is to protect the public by:

- ⊙ 1. enacting and enforcing laws relating to real estate.

- ⊙ 2. establishing requirements for salesperson's and broker's licenses.

- ⊙ **A. Real Estate Commissioner -**

- ⊙ Chief executive of the Department of Real Estate appointed by the governor.

- ⊙ 1. Chairperson of the real estate commission.

- ⊙ 2. Derives authority from the state legislature based upon the state's police power to enact laws beneficial to the general welfare of the public.

- ⊙ 3. Decides the business policy of the department.

- ⊙ 4. Recommends changes in policy.

- ⊙ 5. Regulates the sale of subdivisions.

- ⊙ 6. Decides if applicants for real estate licenses have met all the experience and education requirements.

- ⊙ 7. Investigates complaints against licensees.

- ⊙ 8. Investigates complaints against those performing acts without a required license.

- ⊙ **A License is:**

- ⊙ Required of anyone actively involved in a real estate transaction, at the service of another and in expectation of receiving a commission. (Broker or Salesperson)

- ⊙ **A. Who Must Have a License -**

- ⊙ **A person is required to have a license if he or she:**

- ⊙ 1. sells or offers to sell, buys or offers to buy, and solicits buyers or sellers.

- ⊙ 2. solicits or obtains listings.

- ⊙ 3. negotiates the purchase, sale, or exchange of real property or business opportunities.

- ⊙ 4. leases or rents, collects rents, or negotiates the sale, purchase, or exchange of leases.
- ⊙ 5. assists in the purchase of leases on lands owned by the state or federal government.
- ⊙ 6. negotiates loans, collects payments, or performs services for borrowers or lenders.
- ⊙
- ⊙ Any person found to be involved in such actions without a license may be guilty of breaking the Real Estate Law, under which stiff penalties can be imposed.
- ⊙ B. When a License is **Not** Required -
- ⊙ The following people, because of the nature of their work, are exempt from the licensing regulations:
- ⊙ 1. Employees of lending institutions.
- ⊙ 2. Lenders making federally insured or guaranteed loans.
- ⊙ 3. Certain agricultural associations.
- ⊙ 4. Licensed personal property brokers.
- ⊙ 5. Cemetery authorities.
- ⊙ 6. Collectors of loans made on real property.
- ⊙ 7. Certain clerical help.
- ⊙ A person who is not a real estate salesperson or broker
- ⊙ May solicit for the sale of real property (according to Section 10133 of the Real Estate Law) as long as he or she is:
- ⊙ 1. the owner.
- ⊙ 2. holding power of attorney for the owner.
- ⊙ 3. an attorney at law acting on behalf of the owner.
- ⊙ 4. a receiver or court appointee.
- ⊙ 5. a trustee, selling under a deed of trust.
- ⊙ C. Obtaining the
4 Year Salesperson's License -

- ⊙ Is available to any applicant who can meet the requirements.
- ⊙ Candidates must:
 - ⊙ a. be 18 years of age to apply for a license, although there is no age restriction for taking the exam.
 - ⊙ b. provide Proof of Legal Presence in the United States.
 - ⊙ c. be honest and truthful.
 - ⊙
 - ⊙
- ⊙ **1. DRE and Electronic Exams -**
- ⊙ The DRE offers an electronic testing system at some DRE facilities
- ⊙ **2. Four-Year Salesperson's License** (Regular, Renewable License) -
- ⊙ To obtain a regular four-year salesperson's license, the applicant must:
 - ⊙ a. complete a college level **Real Estate Principles** course, a **Real Estate Practice** course, and **one other** approved college level (broker-required) course.
 - ⊙ b. pass the DRE salesperson's exam.
 - ⊙ c. pay the necessary fees.
- ⊙ **3. Salesperson's Examination -**
- ⊙ To pass, an applicant must achieve a score of at least 70% in the three-hour, fifteen minute salesperson's exam, which has 150 multiple choice questions.
 - ⊙ a. A non-refundable fee is required to take the test.
 - ⊙ b. The use of a silent, battery-operated, pocket-sized electronic calculator that is non-programmable and does not have a printout capability is permitted.
- ⊙ **D. Obtaining the Broker's License -**
- ⊙ Required of any individual who wants to operate a real estate office.
- ⊙ **These are the five required broker courses:**
- ⊙ Real Estate Practice

- ⊙ Legal Aspects of Real Estate
- ⊙ Real Estate Finance
- ⊙ Real Estate Appraisal
- ⊙ Real Estate Economics (or Accounting)
- ⊙ **Plus three courses from the following:**
- ⊙ Real Estate Principles
- ⊙ Business Law
- ⊙ Property Management
- ⊙ Escrows
- ⊙ Real Estate Office Administration
- ⊙ Mortgage Loan Brokering and Lending
- ⊙ Advanced Legal Aspects of Real Estate
- ⊙ Advanced Real Estate Finance
- ⊙ Advanced Real Estate Appraisal
- ⊙ Computer Applications in Real Estate
- ⊙ Common Interest Development
- ⊙ **E. Renewal of License**
(Broker and Salesperson)
- ⊙ Every 4 years.
- ⊙ The license renewal fee for a salesperson is \$245 if filed on time and \$367 if filed late.
- ⊙ A broker's renewal costs \$300 if on time and \$450 if late.
- ⊙ **F. Continuing Education (CE) Requirement**
- ⊙ 45 clock hours of Commissioner-approved courses are required during the four year period preceding license renewal.
- ⊙ 12 hours of Ethics, Agency, Trust Fund Handling, and Fair Housing

- ⊙ Or 1 six hour course that covers the above mandatory subjects
- ⊙ 1 three hour course in Risk Management
- ⊙ 18 clock hours of consumer protection courses and the remaining clock hours to complete 45 hours of continuing education may be related to either Consumer Service or Consumer Protection
- ⊙
- ⊙ You must have a real estate license to sell businesses to others.
- ⊙ **Business** - an establishment whose main purpose is the buying and reselling of goods, or the performance of services with the intention of making a profit.
- ⊙ **A. Business Opportunity Sale** -
- ⊙ The sale or lease of a business, including the goodwill of an existing business.
- ⊙ **B. Business Opportunity Listing** - should include:
- ⊙ all information necessary for a real property sale.
- ⊙ name of business and owner.
- ⊙ nature and location of business.
- ⊙ price and terms of sale.
- ⊙ encumbrances and items which are to be assumed by the buyer.
- ⊙ if there is a lease, terms should be stated.
- ⊙ **C. Bulk Sales** - Transfer of business inventory
- ⊙ **BULK TRANSFER** - any sale of a substantial part of the:
- ⊙ Inventory - items purchased for resale.
- ⊙ Other supplies and equipment associated with the business.
- ⊙ **D. California Sales Taxes**
- ⊙ Sales Taxes are imposed on the sale of tangible personal property by retailers.
- ⊙ Brokers and salespersons who are involved in the sale of businesses need to be familiar with sales taxes.

- ⊙
- ⊙ **California Real Estate Law** - That portion of the Business and Professional Code which refers to licensing.
- ⊙ **Commissioner's Regulations** - Rules which form part of the California Administrative Code established and enforced by the Commissioner of Real Estate.
- ⊙ **Enforcement of Real Estate Laws**
- ⊙ **Commissioner is responsible for enforcement of the provisions of the Real Estate Law.**
- ⊙ May investigate the actions of any person engaged in the real estate business or acting in the capacity of a licensee within the state.
- ⊙ Can revoke, restrict, or suspend a license.
- ⊙ Can deny a license to an applicant if the applicant does not meet the full requirement of the law.
- ⊙ **B. Hearings For License Violations**
- ⊙ All hearings conducted in accordance with certain legal regulations.
- ⊙ Hearing officer makes decision based on his findings.
- ⊙ Commissioner may accept or reject the proposed decision or reduce the penalty
- ⊙ Respondent can appeal to the courts.
- ⊙ **C. Licenses: Revoke, Restrict, Suspend**
- ⊙ **Revoke** – take away the license.
Restrict – to limit the use of the license.
Suspend – to take away the license for a period of time.
- ⊙ **Child Support Obligations (150-Day license)**
The DRE will not issue or renew a full-term license if the applicant is on a list of persons who have not complied with a court order to provide child support payments.
- ⊙ **Common violations include:**
- ⊙ **A. Section 10176** - Real Estate Licensee Acting as a licensee

- ⊙ **B. Section 10177** - Real Estate Licensee Not Necessarily Acting as a licensee.
- ⊙ **C. Regulations of the Commissioner**
- ⊙ The Regulations of the Real Estate Commissioner have the force and effect of the law itself.
- ⊙ The California Department of Real Estate produces a factual law book entitled *Real Estate Law* (Real Estate Law and Regulations of the Real Estate Commissioner), which can be obtained from their office.
- ⊙ **Real Estate General Fund**
- ⊙ All money collected from license fees and exams goes into the Real Estate General Fund.
- ⊙ 80% used for operating expenses of the Department of Real Estate.
- ⊙ 20% set aside as follows:
- ⊙ 8% - Education and Research Fund
- ⊙ 12% - Recovery Fund
- ⊙ **Real Estate Recovery Fund**
- ⊙ Established for the payment of damages and arbitration awards to people who have suffered financial loss due to the wrongful act of a licensee in a real estate transaction.
- ⊙ Total liability in one transaction - \$50,000.
- ⊙ Total series of judgments against any individual licensee limited to \$250,000.
- ⊙ **Land Area -**
- ⊙ Is the surface space between lot lines.
- ⊙ Dimensions are normally given in square feet.
- ⊙ **A. Area of a Rectangular Lot -**
- ⊙ A four-sided parcel whose opposite sides are equal in length and right angles are formed by the intersection of the sides.
- ⊙ The most common type of lot.
- ⊙ 1. Area of a rectangular lot is determined by multiplying the length by the width.

⊙ **A = L x W**

⊙ **AREA = LENGTH X WIDTH**

⊙ **B. Area of a Triangular Lot –**

A three-sided parcel.

⊙ **1. Base of a Triangular Lot** - The side that is represented as being horizontal.

⊙ **2. Height of a Triangular Lot** - is the perpendicular distance from the base to the highest point.

⊙ **3.** The area of a triangular parcel is determined by multiplying the base by the height then dividing by two.

⊙ **Formula :**

⊙ **A = B x H**

⊙ **2**

⊙ **AREA = BASE X HEIGHT**

⊙ **2**

⊙ **Examples -**

⊙

⊙

⊙

⊙ **C. Area of an Irregular Lot -**

⊙ **Irregular Lot** - a parcel that does not consist of a single known shape.

⊙ **1. The area of an irregular lot**

⊙ Is determined by breaking the lot up into the various rectangles and triangles which comprise it and totaling their areas.

⊙ **Example:**

⊙ **Answer :** The irregular lot is broken up into a square, a rectangle, and a triangle. The area of the parcel is the total of the areas of each of these.

- ⊙
- ⊙
- ⊙ **Conversion: Square Feet to Square Yards**
- ⊙ **D. Volume of a Structure**
- ⊙ **Structural Volume** - the square or cubic measure of the space within a structure.
- ⊙ **Square Measure** -determined through the use of the same techniques that apply to finding the square footage of a lot.
- ⊙ **Cubic Measure** - area volume or total air space.
- ⊙ **Cubic Volume** - is determined by multiplying the interior length by the width and the height.
- ⊙ **Example -**
- ⊙ **$V = L \times W \times H$**
- ⊙ **VOLUME = LENGTH x WIDTH x HEIGHT**
- ⊙ **3 Factor's in Percentage Problems**
- ⊙ The majority of math problems that you will encounter in real estate involve the use of percents.
- ⊙ There are 3 factors in any percentage problem:
- ⊙ **PAID/PRINCIPAL (P)** - the amount invested
- ⊙ **PERCENTAGE/RATE (%)** - the percentage
- ⊙ **MADE (M)** - the amount earned
- ⊙ **Three rules for finding the missing factor:**
- ⊙ 1. To find the amount **PAID (P)**, divide **MADE (M)** by the **RATE (%)**
- ⊙ 2. To find the amount **MADE (M)**, multiply **PAID (P)** by **RATE (%)**
- ⊙ 3. To find the **RATE (%)**, divide **MADE (M)** by **PAID (P)**.
- ⊙ **A. Other Factor Terms:**

⊙ **MADE**

⊙ Return

⊙ Profit

⊙ Commission

⊙ Net Income

⊙ Interest

⊙ **PAID**

⊙ Investment

⊙ Cost

⊙ Price

⊙ Value

⊙ Principal

⊙ **B. Huber's Pyramid -**

⊙ **B. Huber's Pyramid -**

⊙ To find **M**, cover **M** and multiply **P** x %

⊙ To find **P**, cover **P** and divide **M** by %

⊙ To find %, cover % and divide **M** by **P**

⊙ **Example 1:**

⊙ What is the sales price (PRINCIPAL) if the commission amount (MADE) is \$27,000 and the commission percentage (RATE) is 6% ?

⊙ PRINCIPAL = RESULT DIVIDED BY RATE

⊙ ? = \$27,000 ÷ .06

⊙ $P = \frac{M}{\%}$

⊙ %

⊙ $\$450,000 = \underline{\$27,000}$

⊙ $.06$

⊙ **Example 2:**

⊙ 2. What is the commission percentage (RATE) if the sales price (PRINCIPAL) is \$450,000 and the commission amount (MADE) is \$27,000 ?

⊙ $\text{RATE} = \text{RESULT DIVIDED BY PRINCIPAL}$

⊙ $? = \$27,000 \div \$450,000$

⊙ $\% = \underline{\$27,000}$

⊙ $\$450,000$

⊙ $.06 = 27,000 \div 450,000$

⊙ **Example 3:**

⊙ 3. What is the commission amount (MADE) if the sales price (PRINCIPAL) is \$450,000 and the commission percentage (RATE) is 6% ?

⊙ $\text{RESULT} = \text{PRINCIPAL} \times \text{RATE}$

⊙ $? = \$450,000 \times .06$

⊙ $\$27,000 = \$450,000 \times .06$

⊙ **Converting Decimal to %
and % to Decimal**

⊙ To convert a decimal number into a percentage, you simply move the decimal point two spaces to the right, add zeros if needed.

⊙ To reverse the process, move the decimal point two spaces to the left, and drop the percent sign.

⊙ **C. Determining
Commissions and Selling Price**

⊙ **Commission Rate** - a percentage of the selling price of a property which an agent is paid for completing the sale

⊙ **Commission** – is the dollar amount received by a real estate agent for completing a sale.

⊙

⊙ **Splitting Commissions:**

⊙ Most often, your brokerage will not be entitled to the full commission.

⊙ **D. Profit and Loss**

⊙ Key terms when working profit and loss problems:

⊙ **SELLING PRICE** - the dollar value after the profit or loss has been added or subtracted from the original cost.

⊙ **COST** - the dollar value before the profit or loss has been added or subtracted. Cost is often stated as purchase price or original price.

⊙ **1 + % PROFIT** -

⊙ In a profit problem, the percent used in the formula will always be greater than 100%;

⊙ In other words, the original cost (100%) plus the percent of profit.

⊙ If you sold your property for 40% more than you paid for it, your selling price (100% + 40% = 140%) would be the cost x 140 % (1.40).

⊙ To find the amount of profit (+40%), you would subtract the cost from the selling price.

⊙ **1 - % LOSS** -

⊙ For a loss problem, the percent used will always be less than 100%;

⊙ In other words, the original cost (100%) minus the percent of loss.

⊙ If you sold your property for 25% less than what you paid for it, your selling price (100% - 25% = 75%) would be the cost x 75% (.75).

⊙ To find the amount of loss (-25%), you would subtract the selling price from the cost.

⊙ **E. Principal and Interest Calculations**

⊙ **Interest** - a fee paid for the use of other people's money, stated in dollars and cents.

⊙ Use a 30-day month in calculating interest payments; 1 year = 360 days.

⊙ **MADE (Interest) = PRINCIPAL x RATE (x TIME)**

⊙ **I = P x R (x T)**

⊙ **Here is a sample exercise for you to try:**

⊙ What would be the interest due on a loan of \$10,000, borrowed at 9%, for a period of 2 years?

⊙ **MADE = P x % (x T)**

⊙ **MADE = PRINCIPAL x RATE (x TIME)**

⊙ **MADE = \$10,000 x 9% x 2 YEARS**

⊙ **MADE = 10,000 x .09 x 2**

⊙ **MADE = 900 x 2**

⊙ **MADE = \$1,800**

⊙ **ANSWER: The interest would be \$1,800.**

⊙ **F. Discount Points ("Points") -**

⊙ Are charges made by a lender to increase the yield on a loan.

⊙ One point equals 1% of the loan.

⊙ **Example -**

⊙ Mr. and Mrs. Majors are purchasing a house for \$155,000. They will put \$30,000 down and borrow the rest, which will include a 4 point charge by the savings bank. How much will the points cost them?

⊙ **Solution:** First we must determine the amount being borrowed:

⊙ $\$155,000 - \$30,000 = \$125,000$

⊙ Next compute the discount rate:

⊙ 1 point = 1% of loan amount = $.01 \times \$125,000 = \$1,250$

⊙ Finally, calculate the amount of discount:

⊙ 4 points = $4 \times \$1,250 = \$5,000$

⊙ **Answer:** The Majors will pay \$5,000 for the discount points from the borrowed \$125,000

⊙ **Proration -**

⊙ The process of proportionately dividing expenses or income to the precise date that escrow closes, or any other date previously agreed upon.

⊙ The items that are normally prorated include:

⊙ Mortgage interest

⊙ Taxes

⊙ Fire Insurance premiums

⊙ Rent

⊙ Assessments

⊙ On an escrow statement, a **CREDIT** is something that is received and a **DEBIT** is something that is owed.

⊙ **A. Rents (Income) -**

⊙ All escrow companies use a 30-day base month to determine proration of rents.

⊙ **Example:**

⊙ If the escrow closes on the 20th day of a 30 day month, how would you divide a prepaid rent of \$1,500 between the seller and the buyer?

⊙ **ANSWER:** The seller's share would be 20/30 of the whole, because he holds ownership through the 20th day. The share for the other 10 days(10/30) would go to the buyer.

⊙ **SELLER'S SHARE**

BUYER'S SHARE

⊙ **20 x 1,500 = \$1,000**

10 x 1,500 = \$500

⊙ **30**

30

⊙ So, the seller would receive \$1,000 of the rent money, while the buyer would be prorated \$500.

⊙ **B. Property Taxes (Expenses) -**

⊙ Property taxes are prorated either from July 1 (beginning of the fiscal year) or January 1 (middle of the fiscal year).

⊙ **Try this problem:**

⊙ The second installment of property tax on a home is \$500. The seller has paid this tax which covers a 6 month period ending July 1. If he sells this property and escrow closes on April 1, how much of the \$500 is his share in the expense? How much would the buyer have to reimburse?

⊙ ANSWER: The seller's share would be 3/6 of the tax bill (Jan-Mar), while the buyer would also be responsible for 3/6 (Apr-Jun). This is because both the seller and the buyer owned the property for 3 months during the 6 month period.

⊙ **SELLER'S SHARE**

BUYER'S SHARE

⊙ $\underline{3} \times 500 = \250

$\underline{3} \times 500 = \250

⊙ **6**

6

⊙ Each would be responsible for \$250 of the tax, the buyer having to reimburse the seller, who already paid the entire tax bill.

⊙ **Depreciation**

⊙ For income taxes, depreciation is a diminishing (loss) in the value of buildings and other improvements.

⊙ All new depreciation schedules for normal income tax purposes involving real property must be straight-line.

⊙ **A. Straight-Line Depreciation -**

⊙ A method of computing depreciation on assets other than land for income tax purposes in which the difference between the original cost and salvage value is deducted in installments evenly over the life of the asset.

⊙ When doing depreciation problems, it is important to remember that land does **NOT** depreciate.

⊙ Annual Depreciation (A) = Value (Cost) of Improvement (V)

⊙ Economic Life (E)

⊙ $A = \underline{V}$

⊙ **E**

⊙ **Problem:**

⊙ Land \$400,000

⊙ Building (Commercial) \$945,000

⊙ Total Purchase Price \$1,345,000

⊙ Depreciation = Building Cost

⊙ Years

⊙ Depreciation = \$945,000

⊙ 31.5 Years

⊙ Depreciation = \$30,000 Each Year

⊙ **Problem:**

⊙ **The NW ¼ of the SW ¼ of Section 7 is valued at \$800 per acre. The N ½ of the NE ¼ of Section 4 is valued at \$500 per acre. What is the difference in value between the two parcels?**

⊙ **Solution:**

⊙ **1 section = 640 acres**

⊙ **¼ section = 160 acres**

⊙ **¼ of ¼ section = 40 acres 40 acres x \$800 per acre = \$32,000**

⊙ **½ of ¼ section = 80 acres 80 acres x \$500 per acre = \$40,000**

⊙ **\$40,000 - \$32,000 = \$8,000**

⊙ **Answer: \$8,000 is the difference in value between the two parcels**