



Real Estate Appraiser

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1. The cost approach to value is based on the principle that a buyer will pay no more for a property than the cost to:

- A. Acquire an equivalent substitute site and construct an equally desirable improvement
- B. Purchase the subject property at its current listing price
- C. Reproduce the exact improvement using original materials and methods
- D. Replace all components of the improvement with brand-new materials

2. Which of the following BEST defines highest and best use?

- A. The reasonably probable use of property that is legally permissible, physically possible, financially feasible, and maximally productive
- B. The use that generates the highest gross income regardless of costs
- C. The use that is most common for similarly zoned properties in the area
- D. The use the property owner intends for the property

3. The income approach to value is BEST described as a method that:

- A. Converts anticipated future income into a present value estimate
- B. Compares the subject property to recently sold similar properties
- C. Estimates the cost to reproduce the improvements minus depreciation
- D. Adds the land value to the depreciated cost of all improvements

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4. A property rents for \$1,200 per month and sells for \$144,000. What is the Gross Rent Multiplier (GRM)?

- A. 120
- B. 12
- C. 1,440
- D. 0.0083



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5. Which of the following BEST describes 'market value' in the context of real estate appraisal?

- A. The most probable price a property would bring in a competitive and open market under all conditions requisite to a fair sale
- B. The price a seller must accept under court-ordered liquidation
- C. The insured replacement cost of the improvements on the property
- D. The assessed value set by the local taxing authority

6. Under USPAP, which Standard governs the development of a real property appraisal?

- A. Standard 1
- B. Standard 2
- C. Standard 3
- D. Standard 4

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7. The sales comparison approach is most directly based on which appraisal principle?

- A. Principle of contribution
- B. Principle of anticipation
- C. Principle of substitution
- D. Principle of conformity

8. Under the USPAP Ethics Rule, which of the following is the appraiser's primary obligation?

- A. To protect the public trust by performing assignments ethically and competently
- B. To maximize the client's return on investment
- C. To always agree with the client's opinion of value
- D. To maintain confidentiality above all other duties

9. Which type of property is the cost approach MOST applicable to appraise?

- A. Older residential properties in a declining neighborhood
- B. Income-producing commercial properties with stable rent rolls
- C. Special-purpose properties such as schools, churches, or public buildings
- D. Single-family residences in an active resale market

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10. What is the CORRECT order of the four tests applied in a highest and best use analysis?

- A. Financially feasible, physically possible, legally permissible, maximally productive
- B. Legally permissible, physically possible, financially feasible, maximally productive
- C. Maximally productive, financially feasible, legally permissible, physically possible
- D. Physically possible, maximally productive, legally permissible, financially feasible

11. Which type of property is the income approach MOST applicable to?

- A. Owner-occupied single-family residences
- B. Vacant land held for future development
- C. Apartment buildings and office complexes
- D. Churches and non-profit facilities

12. An investor uses a GRM of 110 to value a rental property. If the monthly rent is \$1,500, what is the indicated value?

- A. \$136,364
- B. \$110,000
- C. \$165,000
- D. \$180,000

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13. For a valid market value estimate, the buyer and seller must be:

- A. Related parties who have negotiated the price privately
- B. Acting under duress to complete the transaction quickly
- C. Typically motivated and acting in their best interests without compulsion
- D. Represented by the same real estate agent

14. Under USPAP, which Standard governs the reporting of a real property appraisal?

- A. Standard 1
- B. Standard 2
- C. Standard 3
- D. Standard 5



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15. When selecting comparable sales for the sales comparison approach, which criterion is generally considered most important?

- A. Proximity to the subject property
- B. Sales price of the comparable
- C. Number of bedrooms in the comparable
- D. Age of the comparable property

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16. Which of the following is expressly prohibited by the USPAP Ethics Rule?

- A. Accepting a fixed-fee assignment
- B. Performing an appraisal outside the appraiser's primary geographic area
- C. Accepting an assignment contingent on the appraiser reporting a predetermined value
- D. Using a trainee to assist with data collection

17. The basic formula for the cost approach is:

- A. Land value + Reproduction cost – Depreciation + Net income
- B. Land value + Depreciated cost of improvements
- C. Reproduction cost – Land value + Depreciation
- D. Market value – Land value + Accrued depreciation

18. Why do appraisers analyze highest and best use 'as if vacant' separately from 'as improved'?

- A. To determine the insurance replacement cost of existing improvements
- B. To satisfy lender requirements for appraisal reports
- C. To identify the ideal use for the land without the constraint of existing improvements
- D. To calculate the depreciation applicable to current improvements

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19. Potential Gross Income (PGI) is BEST defined as:

- A. Actual rent collected from tenants during the year
- B. The total income a property would generate if 100% occupied at market rents
- C. Effective gross income minus operating expenses
- D. Net operating income before debt service



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20. A property has a Net Operating Income (NOI) of \$30,000 and sells for \$375,000. What is the overall capitalization rate?

- A. 12.5%
- B. 8.0%
- C. 10.0%
- D. 6.5%

21. Which of the following value types would be used when estimating the amount a property could be sold for in a very short time period, typically below market value?

- A. Market value
- B. Liquidation value
- C. Investment value
- D. Going-concern value

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22. USPAP identifies how many types of written appraisal reports for real property?

- A. One
- B. Three
- C. Two
- D. Four

23. If a comparable sale is superior to the subject property in a given feature, the appraiser should make which type of adjustment to the comparable's sale price?

- A. A positive adjustment to the comparable
- B. A negative adjustment to the comparable
- C. No adjustment is needed
- D. A positive adjustment to the subject

24. When an appraiser lacks competency for a specific assignment, USPAP requires the appraiser to:

- A. Decline the assignment immediately without exception
- B. Disclose the lack of knowledge or experience to the client before accepting the assignment
- C. Complete the assignment and disclose the deficiency only in the certification
- D. Transfer the assignment to a more experienced appraiser without client notification



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25. In the cost approach, why is land always valued as if vacant and available for its highest and best use?

- A. Because land never depreciates and its cost always equals its value
- B. Because the income approach cannot estimate land value separately
- C. Because zoning always determines the highest and best use of land
- D. Because land value must reflect its potential without the existing improvement so that depreciation can be applied only to the building

26. The HBU 'as improved' analysis is PRIMARILY used to determine:

- A. What the land would be worth if cleared of all structures
- B. The replacement cost new of the existing improvements
- C. Whether zoning should be changed on the property
- D. Whether existing improvements should be retained, modified, or demolished

27. A 10-unit apartment building has market rents of \$1,200 per unit per month. What is the annual Potential Gross Income?

- A. \$120,000
- B. \$132,000
- C. \$108,000
- D. \$144,000

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28. An appraiser determines the market cap rate is 9.5% and the subject property's NOI is \$47,500. What is the indicated value by direct capitalization?

- A. \$475,000
- B. \$451,250
- C. \$425,000
- D. \$500,000



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29. The four elements that must be present for value to exist are demand, utility, scarcity, and:

- A. Location
- B. Condition
- C. Appreciation
- D. Transferability

30. An Appraisal Report under current USPAP may be used by:

- A. Any party, because sufficient detail is disclosed for understanding
- B. Only the client, because it is restricted to one party
- C. Only licensed appraisers who review it
- D. No party until the client countersigns it



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Answer Key & Explanations

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1. A — Acquire an equivalent substitute site and construct an equally desirable improvement

The cost approach rests on the substitution principle: a rational buyer will pay no more than the cost to acquire a comparable site and build an equally desirable improvement. This sets an upper limit on value.

2. A — The reasonably probable use of property that is legally permissible, physically possible, financially feasible, and maximally productive

Highest and best use is the reasonably probable use that meets all four criteria: legally permissible, physically possible, financially feasible, and maximally productive. All four criteria must be satisfied.

3. A — Converts anticipated future income into a present value estimate

The income approach capitalizes or discounts future income streams into a present value, making it most applicable to income-producing properties.

4. A — 120

$GRM = \text{Sale Price} \div \text{Monthly Rent} = \$144,000 \div \$1,200 = 120$. The GRM expresses how many months of rent equal the purchase price.

5. A — The most probable price a property would bring in a competitive and open market under all conditions requisite to a fair sale

Market value is defined as the most probable price a property would bring in a competitive, open market with informed buyers and sellers, neither under compulsion. Liquidation value, insured value, and assessed value are distinct value concepts.

6. A — Standard 1

USPAP Standard 1 addresses the development of a real property appraisal, while Standard 2 addresses the reporting of those results. Standards 3 and 4 cover review and mass appraisal, respectively.

7. C — Principle of substitution

The sales comparison approach rests on the principle of substitution, which holds that a prudent buyer will pay no more for a property than the cost to acquire an equally desirable substitute. Comparable sales represent those substitute properties.

8. A — To protect the public trust by performing assignments ethically and competently

The Ethics Rule's purpose statement says that the appraiser's conduct must protect the overall public trust. Competency and ethical behavior are the foundation, not advocacy for a client's position.

9. C — Special-purpose properties such as schools, churches, or public buildings

The cost approach is most reliable for special-purpose or unique properties (schools, churches, government buildings) because there are few comparable sales or rental data from which to develop the sales comparison or income approaches.



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10. B — Legally permissible, physically possible, financially feasible, maximally productive

The four tests are applied in sequence: legally permissible first (to eliminate illegal uses), then physically possible, financially feasible, and finally maximally productive among feasible uses.

11. C — Apartment buildings and office complexes

The income approach is most applicable to income-producing properties like apartment buildings and offices because their value is driven by the income they generate.

12. C — \$165,000

Value = GRM × Monthly Rent = 110 × \$1,500 = \$165,000. The GRM is multiplied by the actual monthly rent to derive an indicated value.

13. C — Typically motivated and acting in their best interests without compulsion

Market value presupposes arm's-length conditions where both parties are typically motivated, knowledgeable, and acting without undue pressure. Transactions between related parties or under duress do not meet this standard.

14. B — Standard 2

Standard 2 of USPAP sets forth requirements for communicating a real property appraisal in a report. Standard 1 covers development, not reporting.

15. A — Proximity to the subject property

Location is generally the most important criterion when selecting comparables because real estate value is heavily influenced by neighborhood characteristics. Comparables nearest to the subject are most likely to reflect the same market influences.

16. C — Accepting an assignment contingent on the appraiser reporting a predetermined value

The Ethics Rule's Management section explicitly prohibits accepting an assignment, or compensation for an assignment, that is contingent on a predetermined conclusion. Fixed fees and trainee assistance are permitted.

17. B — Land value + Depreciated cost of improvements

The cost approach value indicator equals land value (as if vacant) plus the depreciated cost of improvements. Depreciated cost equals cost new minus accrued depreciation.

18. C — To identify the ideal use for the land without the constraint of existing improvements

Analyzing HBU as if vacant isolates the land value by identifying what use would ideally be placed on the site, independent of any existing improvements that may or may not contribute to value.

19. B — The total income a property would generate if 100% occupied at market rents

PGI represents maximum possible income at full occupancy using market rents, before any vacancy or collection loss deductions.

20. B — 8.0%

Cap Rate = NOI ÷ Value = \$30,000 ÷ \$375,000 = 0.08 = 8.0%. This is the basic income capitalization relationship: $V = I \div R$.

21. B — Liquidation value

Liquidation value represents a price achievable under forced or time-constrained sale conditions, generally below market value. Market value assumes reasonable exposure time; investment value reflects a specific



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investor's criteria; going-concern value includes intangible business assets.

22. C — Two

As of the 2020-2021 USPAP edition, there are two types of written appraisal reports: Appraisal Report and Restricted Appraisal Report. The prior three-tier system (Self-Contained, Summary, Restricted Use) was replaced.

23. B — A negative adjustment to the comparable

When a comparable is superior to the subject, its sale price must be adjusted downward (negative adjustment) to reflect what it would have sold for had it been equal to the subject. The rule is: if the comparable is better, adjust down; if worse, adjust up.

24. B — Disclose the lack of knowledge or experience to the client before accepting the assignment

The Competency Rule requires disclosure of any lack of knowledge or experience to the client prior to accepting the assignment, and then requires the appraiser to take steps to attain competency or associate with someone who has it.

25. D — Because land value must reflect its potential without the existing improvement so that depreciation can be applied only to the building

Land is valued separately as though vacant so that all accrued depreciation can be properly identified and deducted from the improvement cost. Combining land and building would make it impossible to isolate building depreciation.

26. D — Whether existing improvements should be retained, modified, or demolished

The HBU as improved analysis helps the appraiser decide if the current improvements should be retained as-is, renovated, or demolished and replaced, which directly impacts the valuation approach used.

27. D — \$144,000

$\text{PGI} = 10 \text{ units} \times \$1,200/\text{month} \times 12 \text{ months} = \$144,000 \text{ per year.}$

28. D — \$500,000

$\text{Value} = \text{NOI} \div \text{Cap Rate} = \$47,500 \div 0.095 = \$500,000.$ Direct capitalization converts a single-year NOI into a value estimate using the formula $V = I \div R.$

29. D — Transferability

DUST—Demand, Utility, Scarcity, and Transferability—are the four essential elements of value. All four must be present for a property to have market value. Location and condition affect value but are not among the four elements.

30. A — Any party, because sufficient detail is disclosed for understanding

An Appraisal Report must contain sufficient information for the intended user(s) to understand it; it is not restricted to a single party. A Restricted Appraisal Report is the type limited to named client use.



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