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WILLIAM H. PIVAR

Guide to Passing the Pearson VUE Real Estate Exam

NINTH EDITION

Dearborn[™]
Real Estate Education

SAMPLE

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VUE Real Estate Exam**

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GUIDE TO PASSING THE PEARSON VUE REAL ESTATE EXAM NINTH EDITION

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CONTENTS

Introduction	v	Your Pertinent State Information	85
Acknowledgments	vii	Chapter 3 Quiz	86
The Pearson VUE Examination	ix	Chapter 3 Quiz Answers	93
CHAPTER 1			
Real Property and Ownership	1	CHAPTER 4	
Property	1	Contracts and Agency	97
Fixtures	2	Contracts	97
Methods of Property Descriptions	2	Agency	106
Estates in Real Property	7	Listings	111
Forms of Ownership	9	Purchase Contracts	114
Your Pertinent State Information	18	Offer-to-Purchase Provisions	115
Chapter 1 Quiz	19	Your Pertinent State Information	116
Chapter 1 Quiz Answers	26	Chapter 4 Quiz Answers	117
CHAPTER 2			
Land-Use Controls, Restrictions, and Title Transfer	29	Chapter 4 Quiz Answers	125
Government Controls	29	CHAPTER 5	
Private Controls	32	Environmental Regulations, Disclosures, Risk Management, and Federal Laws	129
Water Rights	34	Environmental Regulations	129
Liens	35	Disclosures	132
Easements	37	Risk Management	133
License	40	Insurance	134
Encroachment	40	Federal Fair Housing	137
Nuisance	41	Antitrust Laws	142
Real Property Tax Liens	41	Truth in Lending Act (Regulation Z)	143
Transfer/Alienation	42	Can-Spam Act of 2003	145
Inheritance	44	Fax Solicitations	145
Deeds	46	Real Estate Settlement Procedures Act	146
Documentary Transfer Tax	50	National Do Not Call Registry	148
Abstract and Title Insurance	50	Equal Credit Opportunity Act	148
Your Pertinent State Information	52	Safe Licensing	149
Chapter 2 Quiz	54	Community Reinvestment Act	149
Chapter 2 Quiz Answers	61	Your Pertinent State Information	149
CHAPTER 3			
Valuation, Appraisal, and Investment Analysis	65	Chapter 5 Quiz	150
Value	65	Chapter 5 Quiz Answers	157
Elements of Value	67	CHAPTER 6	
Appraisal Methods	68	Financing and Settlement	161
Appraisal Process	76	Financing Instruments	161
Appraisers	76	Mortgages	161
Investment Analysis	79	Deed of Trust	162
Income Tax Considerations	79	Land Contracts (Sales Contracts)	163
Investment Property	81	Short Sale	163
Federal Estate Tax (Inheritance Tax)	84	Foreclosure	164
Gift Tax	85	Federal Reserve	166
		Loan Types, Terms, and Provisions	167
		Primary and Secondary Financing	173
		Conventional Loans	173

Government Loans	174
Secondary Mortgage Market Loans	178
Lender Requirements	179
Settlement (Closing)	180
Your Pertinent State Information	184
Chapter 6 Quiz	185
Chapter 6 Quiz Answers	192

CHAPTER 7

Leases, Rents, and Property Management 195

Leases	195
Property Management	205
Owner's Obligations, Duties, and Liabilities	209
Your Pertinent State Information	210
Chapter 7 Quiz	211
Chapter 7 Quiz Answers	218
Chapter 7 Quiz Answers	218

CHAPTER 8

Brokerage Operations and Ethical and Legal Business Practices 221

Trust Accounts	221
Independent Contractor Versus Employee	224
Ethical and Legal Business Practices	229
Your Pertinent State Information	233
Chapter 8 Quiz	235
Chapter 8 Quiz Answers	242

CHAPTER 9

Mathematics of Real Estate 245

Decimals and Percentages	245
Interest	248
Taxes	251
Prorations	251
Area and Volume	252
Finding One Dimension of a Rectangle	254
Amortization	255
Chapter 9 Quiz	257
Chapter 9 Quiz Answers	265

Review Tests 271

Difficulty Level I	272
Difficulty Level I Answers	279
Difficulty Level II	282
Difficulty Level II Answers	289
Difficulty Level III	292
Difficulty Level III Answers	300
Difficulty Level IV	303
Difficulty Level IV Answers	311
Difficulty Level V	314
Difficulty Level V Answers	323

APPENDIX 327

Glossary	329
Index	361

INTRODUCTION

In compiling this study guide for the salesperson and broker examinations administered by Pearson VUE, we have tried to provide the necessary information to candidates before they take the examination. Note, however, that Pearson VUE is not responsible for the content of this book. The structure of this book follows the content outline that was put together by Pearson VUE and has been accepted by various jurisdictions for use in their licensure process. Pearson VUE is a testing service and as such is responsible for the structure of testing programs.

This guide was written for salesperson and broker examinations in all of the Pearson VUE exam states. If your class instructor does not cover all the material in this guide, it may be because some material or terminology is not covered in your state examination. Keep in mind, however, that you can never know too much, especially when preparing for a career in which you will aid buyers and sellers in making some of their most important life decisions.

Because the intent of this study guide is to provide helpful information to candidates preparing for the examination, we hope you find this ninth edition to be of value. We wish you success on the examination and in your career.

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SAMPLE

THE PEARSON VUE EXAMINATION

ABOUT THE EXAMINATION

Pearson VUE (www.pearsonvue.com) is the global leader in electronic testing services for academic admissions, certification, and licensure programs. Pearson VUE offers exams through the world's largest network of more than 4,000 test centers in 145 countries, providing testing services for information technology, regulatory and certification boards, and academic, government, and corporate clients. Its innovative technology offers the security and control required by admissions, licensure, and certification programs, while its commitment to service provides customers with an unmatched testing experience. Pearson VUE is a business of Pearson (NYSE: PSO; LSE: PSON), the international media company, whose other businesses include the Financial Times Group, Pearson Education, and the Penguin Group.

The exam is administered under contract with state licensing authorities and is not designed to be a test of language ability, reading, or test-taking skill. Its purpose is to identify candidates who have sufficient skills and knowledge to serve the interests of the public, and to lead those who are lacking in these skills to further study. The material you will be tested on was selected after analyzing numerous responses from real estate salespeople and brokers as to the scope of tasks required by their profession and the knowledge and skills needed to perform these tasks.

Bear in mind that the purpose of a licensing exam is not to disqualify applicants but to protect the public. This is done by requiring real estate salespeople and brokers to have the knowledge necessary to meet their professional obligations.

The Pearson VUE real estate examination is divided into two parts: Part One covers general topics and Part Two covers state laws. All questions are of the four-answer multiple-choice variety. The general portion of the real estate exam is made up of 80 scored items, which are distributed as noted in the following content outlines. Approximately 10% of the scored items on the general examination will involve mathematical computations.

The general examination also contains five pretest items that are not counted toward the score. These items are used to gather statistics on performance and to help assess appropriateness for use on future examinations. Because pretest items look exactly like items that are scored, candidates should answer all the items on the examination.

Your state portion of the examination will consist of 30 to 110 questions (determined by state licensing authority). The state portion will also include pretest questions that will not count for your score. Pretest questions will not appear to be different from other questions and will not be identified as pretest questions.

You will have four hours to take your examination. Most states allow 150 minutes for the general portion and 90 minutes for the state portion, but this can vary by state. The passing score for each state is established by the state real estate agency based on standards of competence that are deemed appropriate for licensure. Questions are based on topics that real estate salespeople or brokers

actually deal with in the course of their work. Questions appear at the end of each chapter, to test your understanding of the material presented.

Key words such as *generally*, *approximately*, *best*, and *most likely* will appear in all caps. While Pearson VUE avoids using negative questions in the general portion of the examination, negative questions might be used in the state-specific portion of your examination, so you should be prepared to see them. The possibility of inclusion of a negative question reinforces the need for careful reading.

The examination may contain case-study questions in which a block of information is given, followed by two or three related questions. However, questions stand alone and are not based on preceding answers. Thus, one wrong answer does not affect the score on another question.

Questions are carefully reviewed to make certain there are no clues to the answer that could aid a candidate who doesn't know the material. Each question is either a clear and straightforward statement that calls for one of four answers, or it is an incomplete statement (stem) to be completed with the correct answer.

Each question has one right answer that will be clear to those candidates prepared for the examination. Wrong answers are often distracters that either tend to confuse or seem plausible to someone who does not fully understand what is sought. These wrong answers are likely to come from any of the following:

- Common misconceptions
- Common errors (a math answer resulting from a common computation error is likely to agree with one of the distracters)
- A carefully worded but incorrect statement that will appear plausible to an uninformed candidate
- Statements that, although true, are not really relevant to the question

The exam takes a positive approach to achieve fair measurement of a candidate's knowledge and skills. Therefore, do not fear your examination but treat it as an opportunity to demonstrate the knowledge and skills you have acquired to serve others as a real estate salesperson or broker.

Your state licensing agency will provide you with a copy of the *Real Estate Candidate Handbook*, which sets forth the content outline for both the general and state portions of the examination. You can access and print out your state real estate candidate handbook on the internet. Google the name of your state and real estate candidate handbook. It is recommended that you use state manuals to study for the state section of your examination. These manuals contain specific state laws and may be available from your state licensing agency. Any required prelicensing educational requirements can be obtained from your state department of real estate.

The following sections present the general content outline for the general portion of your Pearson VUE salesperson and brokers examinations. This book is arranged to follow these outlines as closely as possible.

GENERAL EXAM CONTENT OUTLINE FOR SALESPERSONS (EFFECTIVE APRIL 1, 2014)

I. Real Property Characteristics, Definitions, Ownership, Restrictions, and Transfer (12)

- A. Definitions, descriptions, and ways to hold title
 - 1. Elements of real and personal property
 - 2. Property description and area calculations
 - 3. Estates in real property
 - 4. Forms of ownership, rights, interests, and obligations
- B. Land-use controls and restrictions
 - 1. Government controls
 - 2. Private controls—nonmonetary
 - 3. Private controls—mortgage (deed of trust) and liens
- C. Transfer/alienation of title to real property
 - 1. Voluntary
 - 2. Involuntary
 - 3. Protections
 - 4. Partition/severance (voluntary or involuntary)
 - 5. Deeds and warranties: validity, types, and covenants
 - 6. Title and title insurance

II. Property Valuation (7)

- A. Principles, types, and estimates of property value
 - 1. Valuation definition, purpose, and process
 - 2. Characteristics
 - 3. Valuation principles
 - 4. Approaches to value
 - 5. Depreciation/obsolescence
 - 6. Appraisals and fair market value
 - 7. Math calculations
 - 8. Influences on property value
 - 9. Comparative market analysis (CMA)
- B. Investment analysis
 - 1. Application of principles
 - 2. Math calculations

III. Contracts and Relationships With Buyers and Sellers (14)

- A. Contract elements
 - 1. Validity
 - 2. Void/voidable
 - 3. Enforceable/unenforceable (statute of frauds)
 - 4. Executory/executed
- B. Listing contracts
 - 1. General purpose/definition of listing
 - 2. Types
 - 3. Required elements
 - 4. Establishing listing price
 - 5. Responsibilities
 - 6. Compensation arrangement

- C. Buyer representation agreements
 - 1. General purpose
 - 2. Types
 - 3. Required elements
 - 4. Responsibilities
 - 5. Compensation arrangement
 - D. Sales contracts
 - 1. Terminology
 - 2. Procedures
 - 3. Standard parts
 - 4. Contingencies and misc. provisions
 - 5. Contractual rights and obligations
 - 6. Disputes and dispute resolution terms
 - 7. Delivery and acceptance
 - E. Option contracts
 - F. Agency relationships and responsibilities
 - 1. Types of relationships—definitions
 - 2. Relationship powers and obligations
- IV. Property Conditions and Disclosures (9)**
- A. Federal environmental regulations
 - 1. Lead-based paint
 - 2. CERCLA
 - 3. Asbestos
 - 4. Wetlands and floodplains
 - B. Environmental issues
 - 1. Mold
 - 2. Radon
 - 3. Protected species
 - 4. Other
 - C. Material and other property disclosure
- V. Risk Management (6)**
- A. Types of insurance
 - 1. General liability
 - 2. Errors and omissions
 - 3. Hazard and flood
 - 4. Other insurance
 - B. Recordkeeping
 - 1. Contracts
 - 2. Accounting
 - 3. Other important documents
 - C. Privacy, security, and confidentiality
 - 1. Security measures and controls
 - 2. Systems and programs
 - 3. Electronic communication and social media
 - 4. Personal safety
 - D. Scope of expertise

VI. Federal Laws Governing Real Estate Activities (9)

- A. Antidiscrimination/fair housing acts
 - 1. Protected classes
 - 2. Advertising
 - 3. Enforcement/penalties
- B. Americans with Disabilities Act (ADA)
- C. Restraint of Trade (Sherman Act, etc.)
- D. Lending (Regulation Z, etc.)
- E. Privacy (Privacy Act, etc.)
- F. Marketing
 - 1. Real Estate Settlement Procedures Act (RESPA)
 - 2. Do not call
- G. Other regulations that apply

VII. Financing the Transaction and Settlement (8)

- A. Financing components
 - 1. Financing instruments
 - 2. Financing sources (primary and secondary mortgage markets, seller financing)
 - 3. Types of loans
 - 4. Financing clauses, terminology, and cost of money (calculation)
 - 5. Lending issues
- B. Lender requirements and obligations
 - 1. Private mortgage insurance (PMI)
 - 2. FHA requirements
 - 3. VA requirements
 - 4. Escrow/impound account
 - 5. Credit report
 - 6. Assumption requirements
 - 7. Appraisal requirements
 - 8. Hazard and flood insurance
 - 9. Federal financing and credit regulation
- C. Settlement/closing
 - 1. Procedures and forms
 - 2. Closing costs and calculations
 - 3. Documents, title, and recording

VIII. Leases, Rents, and Property Management (5)

- A. Types and elements of leases
 - 1. Leasehold estates
 - 2. Types of leases
 - 3. Lease clauses and provisions
- B. Lessor and lessee rights, responsibilities, liabilities, and recourse
 - 1. Owned and leased inclusions
 - 2. Reversionary rights of owners
 - 3. Unit-related disclosures
 - 4. Effect of sale/transfer/foreclosure
 - 5. Evictions
 - 6. Tenant improvements
 - 7. Termination of a lease
 - 8. Breach
 - 9. Security deposit guidelines and procedures

- C. Property management contracts and obligations of parties
 - 1. Contracts and contractual relationships
 - 2. Manager's obligations, duties, and liabilities
 - 3. Owner's obligations, duties, and liabilities
 - 4. Management/owner math calculations

IX. Brokerage Operations (6)

- A. Trust accounts
 - 1. Earnest money
 - 2. Commingling
 - 3. Conversion of funds
- B. Advertising
- C. Forms of business ownership
 - 1. Corporation
 - 2. Partnership (general and limited)
 - 3. Limited liability company
 - 4. Sole proprietorship
- D. Independent contractors vs. employee

X. Ethical and Legal Business Practices (4)

- A. Misrepresentation issues
- B. Implied duty of good faith
- C. Due diligence
- D. Unauthorized practice of law

**GENERAL EXAM CONTENT OUTLINE FOR
BROKERS (EFFECTIVE APRIL 1, 2014)**

I. Real Property Characteristics, Definitions, Ownership, Restrictions, and Transfer (9)

- A. Definitions, descriptions, and ways to hold title
 - 1. Elements of real and personal property
 - 2. Property description and area calculations
 - 3. Estates in real property
 - 4. Forms of ownership, rights, interests, and obligations
- B. Land-use controls and restrictions
 - 1. Government controls
 - 2. Private controls—covenants and restrictions
 - 3. Private controls—mortgage (deed of trust) and liens
- C. Transfer/alienation of title to real property
 - 1. Voluntary
 - 2. Involuntary
 - 3. Protections
 - 4. Partition/severance (voluntary or involuntary)
 - 5. Deeds and warranties: validity, types, and covenants
 - 6. Title and title insurance

II. Property Valuation and Appraisal (9)

- A. Market analysis/broker price opinion
 - 1. Definition and purpose
 - 2. Process
 - 3. Requirements

- B. Appraisal
 1. Definition and purpose
 2. Process
 3. Requirements
 4. Three approaches to value
- C. Investment analysis
 1. Application of principles
 2. Math calculations
 3. Commercial-investment property types

III. Contracts and Relationships With Buyers and Sellers (17)

- A. Contract elements
 1. Authority
 2. Validity
 3. Void/voidable
 4. Enforceable/unenforceable (statute of frauds)
 5. Unilateral/bilateral
 6. Executory/executed
- B. Contracts with buyers and sellers
 1. General purpose/definition of listing
 2. Types
 3. Required elements
 4. Establishing listing price
 5. Responsibilities
- C. Commission agreements
 1. Negotiation of commission
 2. Who may collect?
 3. Other compensation arrangements
 4. Math: licensee compensation/commission
- D. Sales contracts
 1. Terminology
 2. Procedures
 3. Standard parts
 4. Contingencies and miscellaneous provisions
 5. Contractual rights and obligations
 6. Disputes and dispute resolution terms
- E. Distressed property sales
- F. Licensee relationships and responsibilities
 1. Types of relationships—definitions
 2. Relationship powers and obligations

IV. Property Valuation and Appraisal (9)

- A. Market analysis/broker price opinion
 1. Definition and purpose
 2. Process
 3. Requirements
- B. Appraisal
 1. Definition and purpose
 2. Process
 3. Requirements
 4. Three approaches to value

- C. Investment analysis
 - 1. Application of principles
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 - 1. Negotiation of commission
 - 2. Who may collect
 - 3. Other compensation arrangements
 - 4. Math: licensee compensation/commission
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 - 1. Terminology
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 - 3. Standard parts
 - 4. Contingencies and misc. provisions
 - 5. Contractual rights and obligations
 - 6. Disputes and dispute resolution terms
- E. Distressed property sales
- F. Licensee relationships and responsibilities
 - 1. Types of relationships—definitions
 - 2. Relationship powers and obligations

VI. Property Conditions and Disclosures (8)

- A. Federal environmental regulations
 - 1. Lead-based paint
 - 2. CERCLA
 - 3. Asbestos
 - 4. Wetlands and floodplains
- B. Environmental issues
 - 1. Mold
 - 2. Radon
 - 3. Protected species
 - 4. Other
- C. Material and other property disclosures
- D. Liability considerations

VII. Federal Laws Governing Real Estate Activities (7)

- A. Antidiscrimination/fair housing acts
 - 1. Protected classes
 - 2. Advertising
 - 3. Enforcement/penalties
- B. Americans with Disabilities Act (ADA)
- C. Restraint of Trade (Sherman Act, etc.)
- D. Lending (Regulation Z, etc.)
- E. Privacy (Privacy Act, etc.)
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VIII. Financing the Transaction and Settlement (9)

- A. Financing components
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 - 2. Financing sources (primary and secondary mortgage markets, seller financing)
 - 3. Types of loans
 - 4. Financing clauses, terminology, and cost of money (calculation)
 - 5. Lending issues
- B. Lender requirements and obligations
 - 1. Private mortgage insurance (PMI)
 - 2. FHA requirements
 - 3. VA requirements
 - 4. Escrow/impound account
 - 5. Credit report
 - 6. Assumption requirements
 - 7. Appraisal requirements
 - 8. Hazard and flood insurance
 - 9. Federal financing and credit regulation
- C. Settlement/closing
 - 1. Procedures and forms
 - 2. Closing costs and calculations
 - 3. Documents, title, and recording

IX. Leases, Rents, and Property Management (7)

- A. Types and elements of leases
 - 1. Leasehold estates
 - 2. Types of leases
 - 3. Lease clauses and provisions
- B. Lessor and lessee rights, responsibilities, liabilities, and recourse
 - 1. Owned and leased inclusions
 - 2. Reversionary rights of owners
 - 3. Rental-related discriminatory laws
 - 4. Unit-related disclosures
 - 5. Effect of sale/transfer/foreclosure
 - 6. Evictions
 - 7. Tenant improvements
 - 8. Termination of a lease
 - 9. Breach

- C. Property management contracts and obligations of parties
 1. Contracts and contractual relationships
 2. Manager's obligations, duties, and liabilities
 3. Owner's obligations, duties, and liabilities
 4. Management/owner math calculations

X. Brokerage Operations (14)

- A. Broker management of funds
 1. Earnest money
 2. Commingling
 3. Conversion of funds
- B. Supervision and management
 1. Broker-salesperson relationship
 2. Office operations
 3. Training
 4. Recordkeeping
 5. Activities requiring a license
- C. Advertising
- D. Ethical and legal business practices
 1. Misrepresentation
 2. Implied duty of good faith
 3. Due diligence
 4. Unauthorized practice of law
 5. Marketing practices
- E. Forms of business ownership
- F. Independent contractors vs. employee
- G. Regulatory compliance

HOW TO STUDY

Any career decision requires preparation, and preparing for a career in real estate takes time and dedication. Although your motivation to spend the time necessary must come from within, a few simple suggestions can make the hours you spend more productive.

1. Study daily, if possible. You will retain much more information if you study over many days than if you try to cram everything into a few marathon sessions. Set aside particular blocks of time for study; early mornings are preferable because you are more likely to be at your mental peak for the day. Try to avoid study periods after heavy meals or in too warm a study area because a nap might take precedence over concentration.

2. Find a quiet place. While some people have no problem studying in the midst of chaos, most students do best with as few distractions as possible. Such students should use the quietest room in their home for study purposes. Studying near televisions, next to the phone, or even outdoors can be extremely difficult.

3. Break up your study time. With pressures of work and family, most people don't have large blocks of time to study. Therefore, be opportunistic by taking advantage of short available time periods, even as short as ten minutes. Actually, it is easier to concentrate over a short period than over a long period. If you do have large blocks of time available for studying, break up your study time into

blocks no longer than 45 minutes and take a break by doing some other activity for 10 to 15 minutes. A short walk is an excellent way to refresh yourself and aid concentration.

4. Use good study techniques.

Scan. Before you study each section, spend no more than five minutes scanning the material. A general understanding of what you will study helps your retention. Look for unfamiliar terms in your scanning process. Check the definitions in the text material or glossary.

Read and paraphrase. After reading each paragraph, stop, close your eyes, and ask yourself what you've read. By putting the material into your own words mentally (or verbally if your study area permits it), your likelihood of retaining the information increases dramatically. By forcing yourself to paraphrase the material, you avoid the likelihood of giving too light a treatment to any one area.

Reread and paraphrase. A second reading should involve paraphrasing more than one paragraph (for example, whole topic areas).

5. Take the test. After the second reading, take the quiz at the end of the chapter as if it were an actual examination. If possible, schedule a single block of time for this purpose.

When taking the examinations in this book, use the examination techniques described later in this chapter. Mastering proper exam techniques can mean the extra points that make the difference between passing and failing.

Don't write on the examinations in this book. Use a separate answer sheet. If you mark the examination answers in the book, you will not gain the maximum benefit from a review. You will see the answer and not analyze each question and the answer choices.

On your answer sheet, you should place a "c" next to those answers you are certain of and a "?" next to those you are not certain of. By doing so, checking the answers is more likely to be a learning experience than just a simple evaluation.

6. Check your results. After taking each test, check your answers. Don't limit your evaluation to those questions you answered incorrectly. Understanding *why* an answer is correct is more important than the fact that it is correct. Pay particular attention to wrong answers that you were certain of. For all wrong answers, ask yourself why you were drawn to that answer and how you will relate to the same material in the future. You don't want that same wrong answer to seem correct in the future.

7. Study before class. If you are using this book in a license preparation class, complete your study of a subject before it is covered in class. Immediately before class, spend another few minutes quickly scanning the material so it is fresh in your mind.

By coming to class already understanding the topic, you get the greatest possible benefit from your instructor. That is, instead of trying to learn basic facts in class, you can use classroom time as it is meant to be used—asking questions,

clarifying difficult points, and learning about changes, as well as material specific to your state.

8. Mark your book. Highlighting key areas in the text will help you recall and review particularly important points. Too much special emphasis, though, defeats the purpose of making a few points stand out.

Notes on your instructor's comments are best written in the margins. This way, you have one integrated text to study.

9. Know the vocabulary. Create flashcards for each word you have trouble with. Whenever you have a few minutes free during the day, review your cards. When you feel you have mastered a term, discard that card.

10. Review all material. While preparing for the Pearson VUE examination, it is a good practice to review on a weekly basis the material you have covered up to that point. This will result in greater review time for material you learned first. This way, you will compensate for the effect of time loss on your memory process. In preparing for your examination, don't limit your review to the material you feel you are weak in or topics you think the exam will emphasize. For a comprehensive review, a good starting point is the review examination section at the end of this book, followed by the text material. Your review should include several readings of the glossary at the end of this book, which will be of great help in tying all the material together. You will find some terms in the glossary that have not been covered in text material. While these terms are less likely to be covered on the general portion of your examination, a familiarity with them is strongly recommended.

Retake the examination in each section as well as the review examinations. These practice examinations are especially beneficial. Of course, the same level of study must be applied to information unique to your state. The five review tests in the back of the book have been weighted to reflect the emphasis given to the areas covered by the general portion of the Pearson VUE examination. The five examinations are weighted in an ascending order of difficulty starting with the Level I examination. After you take each examination, make certain that you understand why your correct answers were correct, as well as why incorrect answers were incorrect, before going on to the next level.

11. Don't become discouraged. Because of the sheer volume of new material, some students use their confusion as an excuse to drop out. Realize that confusion is normal for the first few weeks (sometimes months) of study; as you progress, things will come together slowly. Students often are well into the review process before they realize they are no longer confused. Whenever you feel you will never get it, think of everyone you know in real estate. The reason they succeeded is not because they are smarter than you but because they refused to quit.

ONLINE PRACTICE TEST

Pearson Vue offers an 80-question online practice test on general real estate subjects. The test costs \$19.95 and is available at www.pearsonvue.com/practicetests/realestate.

MENTAL PREPARATION

Know the location of the examination center where you will take your examination and where you will park. Allow time for unexpected traffic delays. If you rush to the examination site with worries about being on time for your appointment, you will likely be in an agitated frame of mind. This can have a negative effect on your examination performance.

It is natural to be nervous before an examination. Even though you understand the material, nervousness can detract from your test-taking ability; remaining calm isn't easy. Even the candidate who appears relaxed has a few butterflies. You can help yourself by avoiding pre-exam socializing with other candidates. Nervousness breeds nervousness, and talking with a group of tense people is not the way to relax.

Some students encounter a difficult question early in the exam and become frustrated, which can have a negative effect on the remainder of their performance. You must keep in mind that one question, no matter how difficult, will not by itself be the difference between success and failure. Everyone taking the examination will have similar problems with a number of questions. If this were not the case, it wouldn't be much of a test.

PERTINENT STATE INFORMATION

At the end of each chapter, we have presented a number of questions under the heading "Your Pertinent State Information." These questions allow you to consider state-specific information that may be covered on the state portion of your licensing examination.

You may want to mark the margins of this book with notes on material for your specific state, because not every question is applicable in every state. If you are using this book in a classroom setting, your instructor will likely point out state-specific material of importance, as well as point out which material you may disregard.

LICENSING REQUIREMENTS

Your state statutes set forth the requirements for licensing as a real estate salesperson or broker. They might include minimum education and age requirements (18), fingerprinting, and taking and passing a real estate examination.

In addition to state requirements, the federal Personal Responsibility and Work Opportunity Act requires that license applicants provide proof of their legal right to be in the United States. The act denies public benefits, which includes professional licensing, to illegal immigrants. The act applies to both original licensing and license renewals.

SITTING FOR THE EXAMINATION

Make a reservation to take your examination by following the instructions in your state candidate handbook.

For individuals with documented disabilities, Pearson VUE provides accommodations, such as a separate testing room, extra testing time and/or a reader or recorder for individuals with mobility or visual impairments who cannot read or write on their own. Special accommodations should be solicited at the time of examination request.

Candidates must check into the test center 30 minutes before their examination, sign a Candidate Rules Agreement, and be photographed. The rules agreement deals with strict confidentiality.

It is important to check your state candidate handbook as to required material to bring to your examination. Candidates who do not present the required items will be denied admission to the examination, be considered absent, and forfeit the entire examination fee. The required items may include

- the confirmation number given when you made your examination request;
- certificates showing completion of state-mandated education and experience requirements (for brokers);
- two forms of identification (including a government-issued identification showing your photograph and signature);
- a surety bond, if required (for broker candidates; see your state candidate guide); and
- a license fee (candidates passing their examination will be required to pay their license fee; credit cards, personal checks or money orders payable to Pearson VUE may be used).

While not required, candidates may bring a battery-powered, handheld calculator. The calculator must be silent, nonprinting, and without a stored memory. Make certain your calculator has fresh batteries. Don't use a solar calculator because the light may be insufficient for sustained use. On the day before your examination, test your calculator with simple addition, subtraction, multiplication, and division problems. A malfunctioning calculator is not grounds for challenging exam results or getting an extension of the time limit. Even a perfect calculator is useless if you can't operate it correctly. If you borrow one or buy a new one for the exam, be certain you understand fully how that model functions.

No dictionaries, books, papers (including scratch paper), or other personal items will be permitted at your examination station. The test administrator will provide material to take notes.

Candidates will be given the opportunity to take a tutorial on the computer on which the examination will be administered. Tutorial time does not reduce examination time. While the examination administrators are not familiar with the examination content, they will answer questions on procedure and use of the computer. Candidates may begin their examination when they are familiar with the computer.

The computer shows each question and records your answers. These are user-friendly programs, even for those who do not have computer or typing experience. This system allows for a paperless examination, eliminates any possibility of grading error, increases exam security, and lets each applicant take a different but equivalent examination. You can move forward or backward through the exam, mark questions for review, and change answers. However, once you start the state-specific portion of your examination, you cannot go back to the general portion of your examination.

The computer system you will be using allows your examination to be scored immediately after completion. You will leave the examination center with a pass or fail score.

Pay attention to any instructions. Cheating will result in your immediate dismissal from the examination room and notification to the state licensing agency. Attempting to copy questions or remove exam material (including your notes) constitutes cheating.

Your examination begins when you put the first question on your monitor and ends automatically after four hours.

Read

Read each question carefully to be sure you understand what is asked. Don't mentally change the wording or assume the question means something other than what it says. If a question makes an assumption, accept it as true; students often read more into a question than is asked. Each question stem should be read carefully and the answer should apply to that specific question. A correct statement that answers the wrong question is still a wrong answer.

While not intended to be tricky, questions on the state-specific portion of your examination could be at a higher level of reading difficulty.

Answer

Read the entire question and every answer before giving your computer answer. If you are not certain of the answer, eliminate what you believe to be the wrong answers and take a guess from the others. An informed candidate should be able to eliminate at least one answer, possibly two; an uninformed candidate will find all four answers plausible. When you have two answers that appear to be right, you should look at the answers in a reverse light. Look for something wrong with one of the answers. The thing that makes it wrong could be in the stem or in the answer.

Words should be interpreted using their common meaning, unless a word has a special meaning in regard to real estate, in which case the real estate meaning should be used. You may find questions that go beyond what you have studied. These questions are intended to test your judgment using what you have learned. They are not intended to be tricky.

Just as in real-life situations, questions may present facts or figures that are not necessary to answer the questions. If careful reading of a question indicates that information given is not relevant to the answer, ignore it.

Because your computer will show whether you have left any question unanswered, it is suggested that you commit yourself to at least two passes through the test. On the first pass do the easy questions—that is, material you are familiar with where the correct answer is obvious to you. When you are finished with the first pass, you will feel good about yourself and be ready for the second pass.

There are two types of questions for which you should leave the question for the second pass. They are

1. questions you absolutely don't know the answers to, and
2. math questions that are likely to be time-consuming—even if you are great at math.

Ideally, when you have completed your first pass, you will feel that you have answered the majority of the questions correctly and you need to answer only a few more right to be on your way to a real estate license. Best of all, you have a lot of time to finish.

Go to the summary page on your computer. Press “Review Unanswered” and the questions left unanswered will come up one after the other. Now finish the examination.

Math Questions

Approximately 10% of your examination questions will require some degree of mathematical calculation.

Before you work out a mathematics question, make a mental estimate of the answer. If your computed answer differs significantly, there's a good chance you made an error in computation. Just because your computed answer agrees exactly with an answer choice does not mean it is correct. Wrong answers are the result of common mistakes, such as reversing dividend and divisor; failing to carry the mathematics to the final step; failing to convert inches to feet, square feet to square yards, cubic feet to cubic yards, and the like; and misplacing a decimal point.

Your computer will show the time remaining, but time shouldn't be a problem unless you really get hung up on a math question. If this is the case, leave it until you have answered the rest of the questions.

After you have completed and reviewed the general portion, go on to the state portion of your examination.

Use Your Time

Remember, you have two and one-half hours to complete the 85 questions on the general portion of the examination. Your examination computer will indicate the time remaining. Don't rush to take a break when you are finished with your state portion. Take time to review the questions and answers. Staying longer can mean more points for you. You will have the time; use it to your advantage.

Reread the questions, asking yourself what is really being asked and then check your answers. You may discover you answered several questions based on the way you thought the question should read and not on what was actually asked. Misreading questions does not excuse a wrong answer.

Changing Answers

Never change an answer for change's sake. Your first decision is usually the best. However, if you discover that you misread a question, or a later question jogs your memory so that you now understand what is sought, change the answer.

Clues

If a question or an answer includes a word that is not familiar to you, it might help you to keep in mind that words ending in “or” are givers, such as *grantor* (one who makes a grant) and *donor* (one who makes a gift). Words ending in “-ee” describe receivers, such as *grantee* and *donee*. Should a word end in “-trix,” it designates a woman.

Calculations

For calculations on the examination, unless otherwise indicated, you should

- round off math answers to the nearest whole number;
- assume there are 5,280 feet in a mile and 43,560 square feet in an acre; and
- base prorations on the time scale indicated in the question, which will state if there are assumed to be 360 or 365 days in a year, as well as who is responsible for the date of closing (use the actual days in a month for prorating unless the question indicates otherwise).

Real Property and Ownership

PROPERTY

All property is divided into two categories: real property and personal property.

Elements of Real Property

Real property includes land and the improvements and benefits that transfer or go with the land, such as buildings, fences, trees, water rights, the ground below, mineral rights, air rights, and easements. Historically, ownership included the airspace to the highest heavens, the surface, and the ground below. Today we limit ownership to reasonable airspace. The rights, benefits, and improvements that go with the land are also called **appurtenances**. In most states, mobile homes on permanent foundations are regarded as real property.

Bundle of Rights

The beneficial rights to use, exclude others, lease, encumber, transfer, and inherit are ownership rights called the **bundle of rights**.

Elements of Personal Property

Also called **chattels**, personal property is any property that is not real property. Personal property is generally considered movable, whereas real property is regarded as immovable. Mobile homes on wheels are usually regarded as personal property. Naturally growing plants, perennial crops, and trees (**fructus naturales**) are classified as real property, but cultivated annual crops (**fructus industriales**) are considered personal property.

Real property can become personal property and personal property can become real property. For example, a growing tree is real property, but when cut down, it is personal property. Similarly, lumber from the tree (personal property) becomes real property if it is used to build a dwelling. Personal property becoming real property by becoming attached to real property is the process called **annexation**. **Severance** is the act of removing something from the land. For example, tearing

down a building (real property) would leave a pile of bricks and lumber, which is personal property.

Chattels real. Real estate interests less than fee ownership, such as tenant leasehold interests and mortgages, are called the seemingly contradictory term *chattels real* but are personal property.

FIXTURES

Fixtures are items that were once personal property but have become so affixed to the real property that they have become part of it. Fixtures are transferred with, and are taxed as, real estate.

Tests of Fixture

Courts require that at least one of the following four tests be met to determine that an item is a fixture.

1. **Agreement.** A written agreement of the parties as to whether an item is a fixture and will remain with the real estate or will be regarded as personal property will govern the character of the property between the parties.
2. **Intent.** Courts determine the intention of the parties if there is no agreement. Intent is considered the most important test of a fixture when there isn't an agreement. Did the parties intend that property would become part of the real estate? It can be difficult to prove intent.
3. **Attachment or method of annexation.** Can the item be removed without causing major damage to the real property? Is the method of attachment of a permanent nature?
4. **Adaptability.** Adaptability is a legal rather than a physical attachment. If an item is reasonably necessary for the normal use of the property, it probably is a fixture, even though it is not attached.

Relationship of parties. If the other tests are inconclusive, the law generally favors the buyer in a buyer-seller relationship or the tenant in a landlord-tenant relationship.

Trade fixtures. Fixtures installed by a tenant for the purpose of conducting a business or trade ordinarily remain personal property and can be removed by the tenant anytime before expiration of the lease. The tenant is liable for any damage caused by the removal.

Emblements. Cultivated annual crops are personal property. Unless otherwise agreed, tenants have the right to enter the property after expiration of the lease to harvest those crops that were the fruits of their labor.

METHODS OF PROPERTY DESCRIPTIONS



Concentrate on the method(s) of land description used in your state.

There are three methods of legally describing real property: lot, block, and tract; metes and bounds; and government survey. Street addresses and tax-assessor

descriptions, while sufficient for some purposes, are considered informal descriptions and are not legal descriptions.

1. Lot, Block, and Tract

State and/or local subdivision law requires recording of a subdivision map. This legal description uses the parcel's designation on the recorded map, as well as recording information. For example:

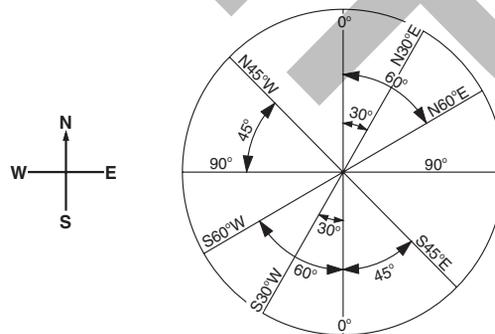
Lot 17, Block 4 of Atlantic Heights Third Addition recorded on pages 814–815 in Volume 36 of the official records of the County of Oceanside.

2. Metes and Bounds

Also called **measurements and directions**, this is the oldest method of describing property; it was used extensively in the original 13 states. The metes-and-bounds method shows the boundaries of a parcel by measuring from point to point. The measuring points in a metes-and-bounds description are called **monuments**. Trees, rocks, and rivers are examples of **natural monuments**, whereas iron stakes, fences, and roads are examples of **artificial monuments**. In the case of a difference between stated distances and actual monuments, the actual monuments would prevail. Metes-and-bounds descriptions are given in a clockwise manner, starting at the **point of beginning (POB)** and ending at the POB. If a description fails to end at the POB, it is defective because the property is not encircled. Angles in a metes-and-bounds description are measured in degrees ($^{\circ}$), minutes ($'$), and seconds ($''$) from a north-south line (see Figure 1.1). The size of a metes-and-bounds parcel may be described as “acres MOL.” The term **more or less (MOL)** indicates the acreage is not guaranteed to be exact.

FIGURE 1.1

Circle Demonstrating Angles in a Metes-and-Bounds Description



Circle Demonstrating Angles in a Metes-and-Bounds Description

There are 360° in a circle.
There are 180° in a half-circle.
There are 90° in a quarter-circle (right angle).
Each degree is divided into 60 minutes.
Each minute is divided into 60 seconds (\vee).
The point of beginning is at the intersection of the two lines (or the center of the circle).
The “bearing” of a course is described by measuring easterly or westerly from the north and south lines.

In cases where the boundary is in dispute, the parties can agree to a boundary line (**doctrine of agreed boundaries**). The agreed boundary is binding on future owners.

Boundaries may be described by natural features.

As a rule, the following apply:

- If a boundary is a private road, the boundary line is the center of the road.
- If a boundary is a navigable river, the boundary line is the average low water line.

- If a boundary is a nonnavigable river, the boundary line is the center of the river.
- If land borders tidelands, the boundary line is the average high-tide line.

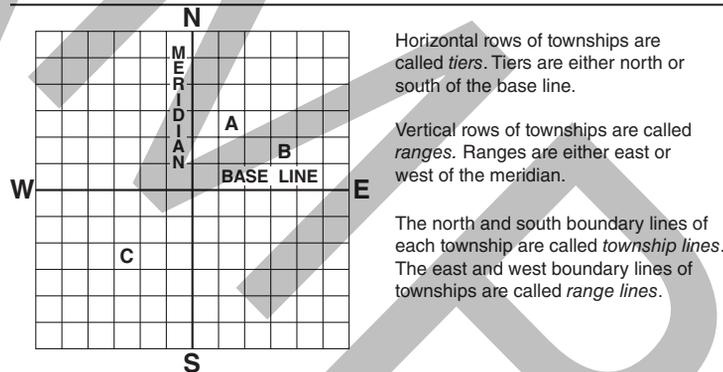
3. Government (Rectangular) Survey

Most U.S. land is laid out in a rectangular pattern by government survey. If your state uses the government survey method, pay close attention to the following material. If not, read it, but concentrate more on your own state's method[s] of land description. The government survey method measures land from the intersections of principal surveying lines. Lines going east and west are called **base lines**; those going north and south are called **meridians**. From the intersection of base lines and meridians, land is measured in **townships**. Townships are 6 miles square and contain 36 square miles.

The township marked A in Figure 1.2 is three tiers north of the base line and two ranges east of the meridian line. Therefore, it is designated Tier 3 North, Range 2 East, or T3N, R2E. To have a complete legal description, reference also must be made to the specific base line and meridian.

FIGURE 1.2

Meridians and Base Lines



Township B is two tiers above or north of the base line and four ranges east of the meridian and, thus, is designated Tier 2 North, Range 4 East, or T2N, R4E, with reference to the appropriate base line and meridian.

Township C is three tiers south of the base line and three ranges west of the meridian and is described as T3S, R3W, with reference to the appropriate base line and meridian.

Correction lines. If uncorrected, township lines would converge as they go north because of the curvature of the earth. To compensate for the curvature of the earth so as to maintain the square shape of townships, every fourth north/south township line is designated a **correction line** or **guide meridian**. East/west lines every 24 miles are called **standard parallels**. The 24-mile-square (24-mile-by-24 mile) parcels bordered by the guide meridians and standard parallels are called **government checks** or **quadrangles**.

Because of the curvature of the earth, adjustments are made in sections on the north and west boundaries of a township. Eleven sections of a township could be so affected.

FIGURE 1.5

Legal Descriptions of Land Within a Section

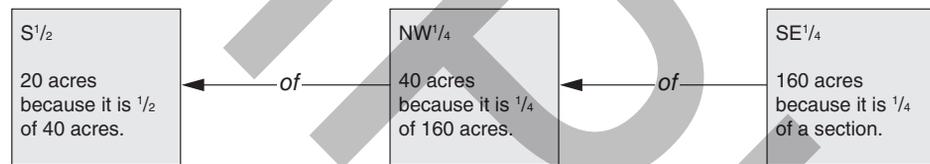
5,280 Feet					
1,320 20 Chains	1,320 80 Rods	2,640 40 Chains 160 Rods			
2,640 W 1/2 of NW 1/4 (80 Acres)	E 1/2 of NW 1/4 (80 Acres)	NE 1/4 (160 Acres)			
1,320 NW 1/4 of SW 1/4 (40 Acres)	NE 1/4 of SW 1/4 (40 Acres)	N 1/2 of NW 1/4 of SE 1/4 (20 Acres)		W 1/2 of NE 1/4 of SE 1/4 20 Acres	
		20 Acres		1 Furlong	20 Acres
1,320 SW 1/4 of SW 1/4 (40 Acres)	40 Acres	(10 Acres)	(10 Acres)	5 Acres	5 Acres
		660 Feet	660 Feet	5 Acs.	5 Acs.
80 Rods	440 Yards	SE 1/4 of SE 1/4 of SE 1/4 10 Acres			

Legal descriptions are not always as simple as finding a 1/4 section. Suppose the description is the S1/2 of the NW1/4 of the SE1/4 of section 27, T8N, R17W, SBBL&M (San Bernardino base line and meridian). We first find the township by counting 8 north from the base line and 17 west from the meridian. We find the section by the numbering, as previously explained.

We can find the size of a parcel by simply going backward, using its description alone (see Figure 1.6).

FIGURE 1.6

Property Descriptions



Another way to determine size of a parcel by its legal description is to multiply the denominators (bottom number of each fraction) and then divide that number into 640 (acres in a section).

The example given in Figure 1.6 is:

$$\begin{aligned} & \frac{1}{2} \times \frac{1}{4} \times \frac{1}{4} \\ & 2 \times 4 \times 4 = 32 \\ & 640 \div 32 = 20 \text{ acres} \end{aligned}$$

Because a section is 1 mile square, it has 5,280 feet on each of its four sides. A 1/4 section would have 2,640 feet on each side because it is 1/2 mile. A quarter of a quarter section would have 1,320 feet on each side because it is 1/4 mile square.

Benchmarks are permanent markers that have been set by the U.S. National Geodetic Survey. They indicate elevation above sea level. The **datum** or **datum plane** is a horizontal plane from which elevation is measured. Surveyors use it.

Topographical lines are lines on a map that indicate contour of the land. Lines set close together mean the surface has a slope; lines set far apart indicate relatively level land.

ESTATES IN REAL PROPERTY

An estate is the degree or nature of the ownership interest a person has in real property.

Freehold Estates

Freehold estates are estates for an indefinite period of time. Fee simple and life estates are the two basic types of freehold estates. Freehold estates are considered real property.

Fee Simple or Fee Simple Absolute Estates

Fee simple is the highest ownership possible in real property. It is also the most common degree of ownership. All other estates have a lesser interest than fee simple.

Three features characterize fee simple:

1. It has no time limitation.
2. It is freely transferable.
3. It may be inherited.

Fee Simple on Condition Subsequent

An estate on a condition subsequent conveys title, provided a specific condition is met. It does not provide a duration for which title is granted. An example is a grant of property on the condition that it is never used for the sale of alcoholic beverages. If the condition is breached, the grantor must declare the breach and retake the property within a reasonable period of time.

Note that grantor action is not required under a fee simple determinable estate.

Fee Simple Determinable

Like fee simple on a condition subsequent, fee simple determinable is a defeasible estate that can be lost upon the happening of a specified condition.

If a deed specifies that a grant shall be only “for as long as” or while a property is in a particular use, the length of the estate is really determined by the deed. Use for another purpose would automatically end the estate, and no action of the grantor is necessary. An example is a deed to a city for the length of time the property is used as a road; if the road use were to cease, title would revert to the grantor.

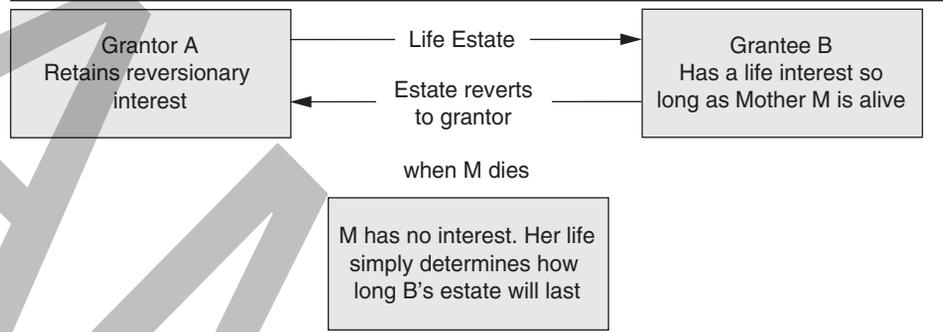
Life Estates

In life estates, grantees customarily hold the estate only for their lifetime. Therefore, the property cannot be inherited or encumbered by the life tenant beyond their lifetime. For example, if the life tenant leased the life estate for 20 years but died sooner, the lease would end with the life tenant's death.

It is possible to have a life estate based on the life of a person other than the life tenant, called a **pur autre vie estate**. In such a case, the life tenant or the heirs will have the estate only as long as this other person lives (see Figure 1.7).

FIGURE 1.7

Life Estates



In the case shown in Figure 1.7, when M dies, B's interest reverts back to A, who would now have a fee simple interest. If B died before M, then B's heirs would inherit B's interest and would be able to enjoy the benefits of the life estate so long as M was alive.

The life tenant must make repairs, pay taxes, and avoid committing **waste**, which is characterized by damage or failure to make repairs. Because the life tenant is under no obligation to insure the premises, future interest holders should secure their own insurance if they wish to be protected.

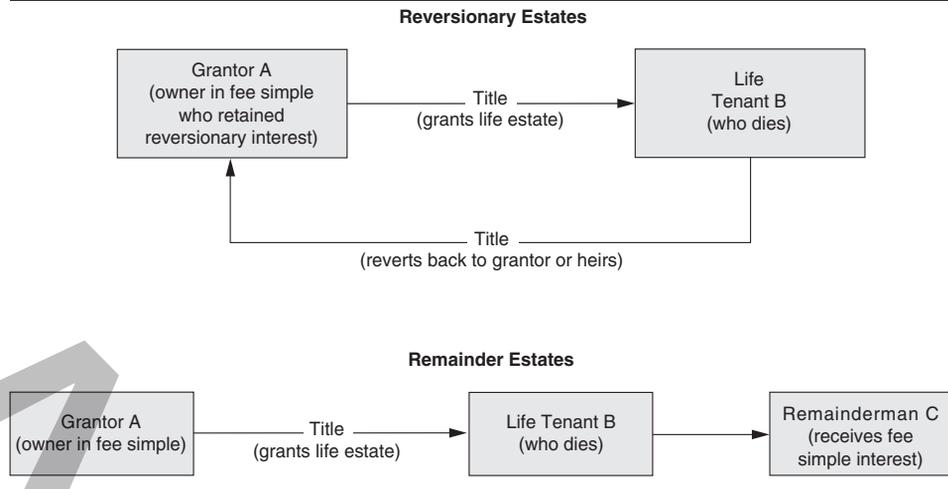
Lenders sometimes lend on a life estate but require that the life tenant take out a life insurance policy that will pay off the loan in the event of the life tenant's death. As an alternative, a lender might require that any future interest holders join in signing the mortgage.

Reversionary and remainder estates. On the death of a life tenant, the property reverts to the grantor or to the grantor's heirs (if either retained a reversionary interest) or to a named third party who has a remainder interest (see Figure 1.8).

If the conveyance shown in the diagram were from A to B for life and then to C, C or C's heirs would be certain of receiving the estate, so they would have a **vested remainder** interest.

If, however, the conveyance were from A to B for life and then to C if C is still alive, C must outlive B in order to obtain the property. In this case, C would have a **contingent remainder** interest.

FIGURE 1.8

**Reversionary and
Remainder Estates**

Creation. A life estate may be created by will, by grant where the grantor conveys a life estate, or by reservation where the grantor conveys the real property but reserves a life estate. In addition, a number of states recognize dower and curtesy as legal life estates created by law.

Dower. A wife's right to a life estate or an ownership interest in her husband's home upon his death is called **dower**. Some states don't provide dower interests, and dower varies among the states where it is provided.

Curtesy. A husband's right to a life estate in the wife's property upon her death is called **curtesy**. Usually, a one-third interest applies to curtesy. Not all states provide the right of curtesy.

In some states, homestead rights also create a legal life estate, giving a widow and minor children the right to occupy the homestead for life after the husband's death.

Termination. A life estate can be lost by **merger**. If the same party acquired the life tenant's interest, as well as the interests of the reversionary or remainder interest holder, the life estate would be lost through a merger. The single owner would now have a fee simple estate. Through the merger, the lesser interest is merged into the greater fee simple interest. A person cannot own a property in fee simple and also have a lesser interest as a life tenant.

Nonfreehold or Less-Than-Freehold Estates (Leasehold)

Leasehold interests of tenants are nonfreehold estates. Unless specifically prohibited, leasehold interests can be transferred freely and may be inherited. While freehold estates are considered real property, leasehold interests of the tenant are considered personal property. The leased fee estate of the lessor, however, is a freehold estate and is real property.

FORMS OF OWNERSHIP

While estates describe the degree of ownership interest, ownership can be in many forms, as discussed in the following sections (see Figure 1.9).

FIGURE 1.9

Common Ownership Forms

	Tenancy in common	Joint tenancy	Community property	Tenancy by the entirety
Parties	Any number of persons (can be husband and wife)	Any number of persons (can be husband and wife)	Husband and wife only	Husband and wife only
Division	Undivided interest (equal or unequal)	Undivided interest (must be equal)	Undivided interest (interests are equal)	Undivided interest (interests are equal)
Title	Each co-owner has a separate legal title to an undivided interest	There is only one title to the whole property	Title is in the "community" (similar to title being in a partnership)	There is only one title to the whole property
Possession	Equal right of possession	Equal right of possession	Equal right of possession	Equal right of possession
Conveyance	Each co-owner's interest may be conveyed separately by its owner	Conveyance by only one co-owner breaks the joint tenancy	Both husband and wife must join in conveyance; separate interests cannot be conveyed	Both husband and wife must join in conveyance; separate property interests cannot be conveyed
Purchaser status	Purchaser becomes a tenant in common with the other co-owners	Purchaser becomes a tenant in common with the other co-owners	Purchaser can acquire whole title of community only	Purchaser can acquire whole title only
Death	Upon co-owner's death, his or her interest passes by will to the devisees or heirs; no survivorship right	Upon co-owner's death, his or her interest ends and cannot be willed; survivor owns the property by survivorship	Upon co-owner's death, half goes to survivor in severalty; up to half goes by will or succession to others (consult attorney with specific questions)	Surviving spouse owns property in severalty; may not pass to third party by will
Successor status	Devisees or heirs become tenants in common	Last survivor owns property in severalty	If passing by will, tenancy in common exists between devisee and surviving spouse	Survivor owns property in severalty
Creditor rights	Co-owner's interest may be sold on execution sale to satisfy creditor; creditor becomes a tenant in common	Co-owner's interest may be sold on execution sale to satisfy creditor; joint tenancy is broken, and purchaser becomes a tenant in common.	Co-owner's interests cannot be seized and sold separately; the whole property may be sold to satisfy debts of either the husband or wife, depending on the debt (consult attorney with specific questions)	Co-owner's interests cannot be seized and sold separately; the whole property may be sold to satisfy debts of both the husband and wife (consult an attorney with specific questions)
Presumption	Favored in doubtful cases unless husband and wife (see Community property and Joint tenancy)	Must be expressly stated and properly formed (in some states, deed to husband and wife presumed to be joint tenancy)	Strong presumption that property acquired by husband and wife is community property in community property states	In many states, presumed if a joint tenancy between a husband and wife

Tenancy in Severalty

Tenancy in severalty is sole ownership by one individual or entity. A corporation can own property as a sole owner in the corporate name as if it were a person.

Joint Tenancy

Joint tenancy is an undivided ownership by two or more people with the right of survivorship. An **undivided interest** is a share in the whole property rather than ownership in a particular portion of the property. **Survivorship** means that on the death of one joint tenant, the deceased's interest immediately ceases and passes to the surviving joint tenants. Because the interest ceases immediately on the joint tenant's death, it cannot be transferred by will. Thus, probate procedure is not necessary for joint tenancy interests.

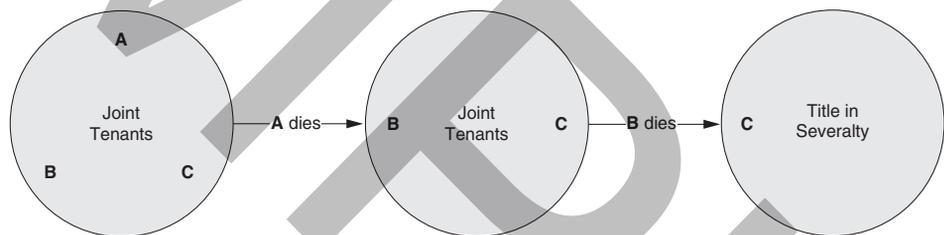
A joint tenancy is considered a single estate in real estate rather than separate estates for each joint tenant.

Because it can live forever, a corporation cannot hold title in joint tenancy, so survivorship is not possible.

If A, B, and C are joint tenants, the estate passes under the survivorship right, as shown in Figure 1.10.

FIGURE 1.10

Joint Tenancies



Creation. Four unities must occur for a joint tenancy to exist:

1. *Time.* The joint tenants must have obtained their interests at the same time.
2. *Title.* The joint tenants must have obtained their interests by the same document, usually a deed.
3. *Interest.* The interests of the joint tenants must be equal.
4. *Possession.* The joint tenants must have equal and undivided rights to possession.

To create a joint tenancy, it is necessary to indicate this intent clearly. In some states, however, a conveyance to husband and wife is presumed to be as joint tenants unless the deed states otherwise. Other states require that a deed creating a joint tenancy be signed by the grantees, showing their agreement to this form of ownership.

Cessation. A joint tenancy ceases when the four unities are no longer present as to two or more parties. For example, the sale by one joint tenant would result in a buyer who did not obtain an interest at the same time or by the same document as the other joint tenants, so the purchaser is a tenant in common, not a joint tenant. If there had been three joint tenants, the other owners would remain joint tenants as to a two-thirds interest, with the buyer having a one-third interest as a tenant in common.

Encumbering the joint tenancy. Joint tenants can encumber their interest. While a creditor of a joint tenant could foreclose on a lien or obtain a judgment in order to break up the joint tenancy and attach the property, the death of a joint tenant before the creditor forces sale of the property would result in the property passing free of the debt or encumbrance to the surviving joint tenant(s).

Tenancy in Common (TIC)

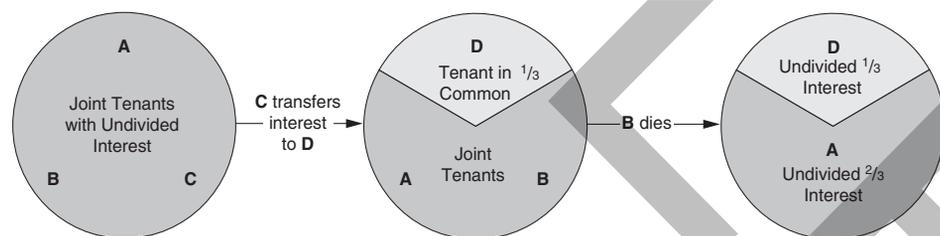
Undivided interest by two or more parties without the right of survivorship is called a **tenancy in common (TIC)**. Conveyances to two or more parties that do not specify how title is to be taken give the parties title as tenants in common. However, in some states, conveyances to spouses result in tenancy by the entirety or community property. Tenants in common may have equal or unequal ownership interests. If a deed does not specify the percentage of ownership, tenants in common are generally presumed to have equal shares.

Possession is the only one of the four unities required for joint tenancy that is also required for tenants in common. Tenants in common have equal and individual rights of possession. Because there is no survivorship, on the death of a tenant in common, the deceased's interest passes to the heirs by will, trust, or probate rather than to surviving tenants in common. Tenants in common can sell or mortgage their interest without affecting the rights of the other tenants in common.

All owners must join in encumbering or selling the entire property. The evolution of a tenancy in common from joint tenancy is shown in Figure 1.11.

FIGURE 1.11

Tenancy in Common



In this situation, D becomes a tenant in common because the unities of time and title do not apply to D. After C transfers interest, the four unities continue to apply to A and B until B's death which leaves A and D as tenants in common but with unequal interests.

Partition. A court action to break up a joint tenancy or tenancy in common is called **partition**. Courts favor **partition in kind**—that is, splitting the property, but where this is not possible or would result in loss of value, the court will order a sale and a division of the sale proceeds.

Community Property



If your state is a community property state, community property questions are likely to appear on the state-specific portion of your examination rather than in the general portion of your examination.

Originally a Spanish concept, community property has been adopted by a number of states. Community property status requires that the owners be married. Property acquired during marriage is considered equally owned by both spouses. Property acquired before marriage is considered **separate property**, as is property received by either spouse as a gift or an inheritance during the marriage. Income from separate property is also regarded as separate property.

The spouses can will their individual half of the community property to third parties. When a spouse dies **intestate** (without a will), the decedent's share of the community property will go to any heirs, in accordance with state law.

Because neither spouse can partition the community property, spouses cannot separately convey their community property interest. An agreement of one spouse to sell or give community property, therefore, would not be binding on the other spouse. Separate (noncommunity) property of a spouse might become community property if **commingled** (mixed).

Tenancy by the Entirety



Like community property, questions on tenancy by the entirety are most likely to be on the state-specific portion of your examination if your state recognizes tenancy by the entirety.

In many states, when title is conveyed to a husband and wife without designating the form of ownership, each owns the entire parcel as a tenant by the entirety. Neither spouse can separately convey an interest during the other's lifetime. On the death of a spouse, the survivor owns the property. This is similar to the survivorship of joint tenancy. Divorce would change the ownership to a tenancy in common because the survivorship was based on marriage.

Generally speaking, a creditor cannot reach property held in tenancy by the entirety unless the creditor is a creditor of both husband and wife.

Tenancy in Partnership



The following material from *Partnerships Through Real Property Securities* is more likely to be on broker examinations than on salesperson examinations.

A partnership is an agreement of two or more co-owners to conduct a business for profit. Agreements to share in the profit create a presumption of a partnership. Title to partnership property may be held in the name of the partnership and can be conveyed without the signatures of the partners' spouses, although real property cannot be conveyed or encumbered without the consent of all partners.

Partners have equal rights to use partnership property for partnership purposes. In the absence of an agreement to the contrary, they share equally in the control of the partnership and in its profits.

A partnership requires consent; therefore, partners cannot assign their individual interest to another. Personal creditors of a partner cannot attach partnership property for that partner's personal debts.

General partner. A general partner is an active partner and has unlimited personal liability for the debts of the partnership. One general partner can personally obligate the other general partners.

Limited partner. A limited partner is an inactive partner who contributes money to the partnership. If a limited partner takes an active role in management, then that partner would lose the limited liability. States that have adopted the **Uniform Limited Partnership Act** require the filing of a certificate listing the limited partners. Limited partners have limited liability and are liable only to the extent of their investments. Limited partnerships are regarded as securities because the investors have no control over the enterprise. A limited partnership must have a general or managing partner.

Taxation of partnerships. Partnerships do not pay separate income tax, although they must file a return. The tax is assessed directly against the partners even when profits are retained in the partnership for partnership activities.

Death of a partner. In a general partnership, the death of a partner dissolves the partnership. The heirs of a general partner have no rights to the partnership business but are entitled to the value of the deceased partner's share in partnership assets. Limited partnership interests may be inherited.

Joint venture. A joint venture is an association formed for a single undertaking with the joint venturers sharing in profit or loss. A joint venture is treated by the law in most cases as a partnership; however, one joint venturer cannot contractually obligate the other joint venturers to a contract.

Franchise

A franchise is an independent business that is licensed to use a designated trade name and to use a common marketing and operating plan. Many real estate offices are franchises.

Syndicate

A syndicate is made up of two or more people organized to make an investment. Although a syndicate could be a general partnership, ordinarily it is a limited partnership. The syndicator is the general managing partner, and the investors have limited liability, which means that their liability is limited to the extent of their investment. Syndicates are subject to state regulations.

Corporation

A corporation is an artificial but legal person created by state law. Because it is a separate entity, its shareholders have no personal liability for corporate debts. If individuals who control a corporation mix corporate funds with noncorporate

funds, a court could “pierce the corporate veil” and hold them personally liable because they were not acting as a separate entity. Corporate profits are taxed. Dividends are taxed again as income to the stockholders who receive them. This is called **double taxation**. However, dividends are now taxed to shareholders at a reduced rate. Corporate ownership is by shares, which may be freely traded.

A **close corporation** is a corporation where the majority shareholders actively manage the corporation and there is no ready market for the shares, which are held by a small number of shareholders.

In dealing with a corporation, real estate agents should consider checking the corporate bylaws to ascertain the power of the person(s) they are dealing with. **Bylaws** are the corporation’s governance rules. If an act were outside the authority of the corporate representative, the corporation would not be liable for the act.

A corporation can live forever and only ceases upon legal dissolution. Because of this perpetual life, corporations may not hold title in joint tenancy because joint tenancy is based on survivorship. **Articles of incorporation** must be filed with the state before the corporation can exist. The articles of incorporation set forth the activities the corporation will engage in.

A deed to a corporation not yet in existence is void because a deed must have a definite grantee.

S Corporation

A small closely held corporation of 75 or fewer shareholders can become an S corporation, provided all shareholders elect to be taxed as partners. Shareholders avoid the double taxation of a standard corporation but retain the protection of being exempt from personal liability for corporate debts. S corporations cannot receive more than 20% of their income from passive sources (interest, rents, royalties, dividends). Real estate investment income is considered passive income. S corporations must be incorporated in the United States and cannot be affiliated with other corporations. Stock in S corporations is freely transferable.

Limited Liability Company (LLC)

This is a business entity in which the members have limited liability, as in a corporation, but are treated like a partnership for tax purposes. A **limited liability company (LLC)** obtains the benefits offered by an S corporation without the qualifying or operational restrictions of limited partnership. Laws regarding forming or converting a business to an LLC vary by state.

LLCs have operating agreements similar to corporate bylaws. Unlike limited partnerships, management activity would not affect the limited liability of the members. Because they are less restrictive and easy to form, LLCs are replacing S corporations as a means for small businesses to avoid personal liability.

Real Estate Investment Trust (REIT)

Ownership in a **real estate investment trust (REIT)** is held in trust form for the beneficiaries by a trustee. Under federal law, a REIT must have 100 or more

investors. It is taxed on retained earnings only if it distributes 90% or more of its ordinary income to the investors. Dividends received are taxed to the recipients. REITs avoid the double taxation of corporations. At least 75% of the assets must be in real estate. REITs may invest in mortgages as well as real estate.

Investors in REITs are given shares (certificates of ownership) that may be traded freely. A number of REITs are listed on the AMEX, NASDAQ, and New York stock exchanges. Interests in REITs are regarded as securities.

Trust. Besides real estate investment trusts, property can be held in trust by a trustee for the benefit of one or more parties. The trustee may have broad or restrictive powers, depending on the restrictions set forth in the trust document.

A **living trust**, whereby the trustors give the property to themselves and others but retain the control and benefits of ownership, is used as an estate-planning tool to avoid probate.

Real Property Securities

These are investments in which investors are inactive participants, such as limited partnerships, investment contracts, and real estate investment trusts. Condominiums sold as investments with a mandatory rental pool agreement are also real property securities because the investor gives up management control to another.

When investors put up money for an investment not yet determined, it is considered a **blind pool**. Blind pools are illegal in some states.

Real property securities must be registered with the federal Securities and Exchange Commission (SEC) unless they are exempt from registration. Securities sold within a single state, or intrastate, are exempt, as are private offerings to a limited number of investors who have significant net worth. Individual states also have requirements for security registration, as well as exemptions from registration. Even though a security may be exempt from SEC registration, it is still subject to federal disclosure and antifraud legislation, as well as state regulations. Real estate licensees may need special licenses to sell real property securities, depending on state law.

Special Forms of Ownership

State and local statutes govern land divisions for the purpose of sale, lease, or financing.

Standard subdivision. A standard subdivision is a land development with no areas owned in common.

Common interest subdivision. Any subdivision having interests owned in common by the owners is considered a common interest subdivision.

Undivided interest subdivision. An undivided interest subdivision is one where individual owners have an undivided interest in the entire subdivision and a nonexclusive right of occupancy. An example is a $\frac{1}{2500}$ ownership share in a campground with the right to use whatever campsite happens to be available.

Condominium. A condominium is a development in which there is individual fee simple ownership of a unit and shared ownership of common areas with other owners as tenants in common. The developer files a master deed and condominium declaration that sets forth separate and common ownership areas, as well as the condominium bylaws and restrictions. The land is regarded as a common area. Owners pay their own mortgages and property taxes. Note that the definition of a condominium varies among states and in some states may include land ownership.

Common elements. Common elements in a condominium are commonly owned areas for the use and benefit of all the owners. **Limited common elements** are commonly owned areas reserved for use by designated owners, such as designated parking spaces and storage lockers.

Planned unit development (planned development project). A planned unit development (PUD) subdivision offers individual lot ownership, with common areas owned by all owners as tenants in common. An example is a subdivision with a community-owned swimming pool.

Cooperative. In a cooperative development, each owner owns stock in a corporation and has the right to occupy a unit under a **proprietary lease**. Unlike those in condominium ownerships, co-op taxes and mortgage payments are generally made by the corporation, not by individual owners. A disadvantage is that co-op owners don't have title, so they can't mortgage their interests; however, they can borrow on their stock. Because stock rather than real estate is owned, cooperative ownership is really personal property. Most cooperatives require approval of the board to transfer the stock and possession and also may impose a stock transfer fee.

Community apartment project. In a community apartment property, owners are tenants in common owning an undivided interest in the whole but having an exclusive right of occupancy to a designated unit.

Time-share. Also called **interval ownership**, a time-share is an undivided interest in a unit (usually as tenants in common), coupled with the exclusive right of occupancy for either a designated or a floating period each year. Time-share owners have an undivided interest in the common area. Time-share interests can be leasehold estates, where the right of occupancy ends after a stated number of years, or fee simple ownership. Customarily, time-share properties are vacation units in which individual buyers enjoy occupancy for certain weeks each year. Some states provide a rescission period for purchasers of time-share and/or undivided interest subdivisions because of marketing practices sometimes used for these types of developments.

Homeowners associations (HOAs). The restrictive covenants of common interest developments provide for homeowners associations to care for common elements and enforce rules and regulations. Homeowners associations customarily have the power to assess members, and unpaid assessments may become a lien on the homeowner's property.

Interstate Land Sales Full Disclosure Act. The purpose of this act is to prevent fraud. This federal act requires disclosure of property information to buyers for unimproved land sales sold in interstate commerce. The act is enforced by the

Consumer Financial Protection Bureau (CFPB). The fraud provisions of the act apply to subdivisions of 25 or more lots. If the buyer does not receive a disclosure report, the purchaser has the right to void the agreement. If the purchaser receives the disclosure report, the purchaser has a seven-day right of rescission from the date of purchase. Some of the exemptions from the act include lots sold with structures, subdivisions where every lot is 20 acres or larger, cemetery lots, sales to adjoining property owner, sales to builders, and business and industrial property.

YOUR PERTINENT STATE INFORMATION

1. What is the mobile home requirement for real property?
2. Is the government survey system used in your state?
3. What type of ownership is created when a husband and wife fail to indicate how a title should be held?
4. May a real estate licensee sell real property securities?
5. How is a condominium defined by your state?
6. Does your state recognize dower and curtesy rights?
7. Does your state recognize community property or tenancy by the entirety?

CHAPTER 1 QUIZ

- Real property interests include
 - cultivated annual crops.
 - leasehold interests.
 - mortgages.
 - fences.
- What is a form of ownership that is restricted to husbands and wives?
 - Joint tenancy
 - Tenancy in severalty
 - Tenancy in common
 - Tenancy by the entirety
- What would result from a condition in a deed?
 - Fee simple
 - Defeasible fee
 - Life estate
 - Nonfreehold estate
- A man installed central air-conditioning in his home. The compressor unit, which was located outside the home, is regarded as
 - a trade fixture.
 - personal property.
 - an emblem.
 - real property.
- An investor's personal assets could be subject to a creditor's claim in a
 - general partnership.
 - syndicate.
 - real estate investment trust.
 - corporation.
- How does an S corporation differ from other corporations?
 - Its investors have no personal liability.
 - The number of shareholders is limited.
 - It has a separate life from that of the investors.
 - Its tax rates are higher than those for other corporations.
- A tenant in a commercial building installed a large sign that was anchored to the building with steel rods. Which term properly describes the sign?
 - Fixture
 - Trade fixture
 - Real property
 - Emblement
- What type of real property description would include reference to an iron stake?
 - Metes and bounds
 - Informal
 - Lot, block, and tract
 - Government survey
- A tenancy in common differs from a joint tenancy in that
 - there is a survivorship right if a tenant in common dies without a will.
 - tenants in common may have unequal interests.
 - tenants in common have divided interests.
 - tenants in common must acquire their interests at the same time.
- Chattels real differ from appurtenances in that they
 - transfer with the land.
 - include growing trees.
 - are personal property.
 - are freehold interests.
- Rights, benefits, and improvements that go with the land are called
 - chattels.
 - emblems.
 - appurtenances.
 - encumbrances.
- Which is classified as real property?
 - Trade fixtures
 - Water rights
 - Chattels real
 - Mortgages

13. Three of the tests of a fixture are
- adaptability, intent, and attachment.
 - adaptability, cost, and attachment.
 - size, weight, and adaptability.
 - intent, cost, and attachment.
14. All of the ownership rights that transfer with a fee simple estate are called
- fixtures.
 - emblems of title.
 - remainder rights.
 - the bundle of rights.
15. Items that were formerly personal property but are now regarded as real property are described as
- emblems.
 - fructus industrials.
 - fixtures.
 - trade fixtures.
16. An example of a real property security is
- condominiums sold with a mandatory rental pool arrangement.
 - general partnership shares in investment property.
 - a pur autre vie estate.
 - a vested remainder interest.
17. Part of a legal description on a deed stated "38° 7'." What type of description was it?
- Metes and bounds
 - Informal description
 - Lot, block, and tract
 - Government survey
18. A brother and his sister hold land as joint tenants. The sister conveys one-half of her interest to her husband. Ownership would now be held by the
- brother, the sister, and the sister's husband as tenants in common.
 - brother and the sister as joint tenants and by the sister's husband as a tenant in common.
 - brother, the sister, and the sister's husband as joint tenants.
 - brother and the sister as joint tenants.
19. An owner granted a life estate to another but retained a future interest, which was a
- remainder interest.
 - chattel real.
 - defeasible estate.
 - reversionary interest.
20. K, who had a life estate for the life of L, leased the property to M for five years. What would happen if K were to die?
- M's lease would terminate.
 - K's heirs would be entitled to K's interest.
 - The remainder interest holder would obtain title.
 - L would obtain title.
21. A person other than the grantor has a future interest in a life estate. That interest is
- fee simple.
 - fee simple determinable.
 - a remainder interest.
 - a reversionary interest.
22. A life estate was lost by merger. Merger occurred when the
- original grantor died.
 - life tenant died.
 - remainder interest holder purchased the life tenant's interest.
 - life tenant vacated the premises.
23. The statutory right of a widow in the estate of her deceased husband is a
- dower right.
 - curtesy right.
 - tenancy at sufferance.
 - remainder interest.
24. A man had to pay a stock transfer fee when he sold his unit. What type of development was it?
- Condominium
 - Planned unit development
 - Cooperative
 - Time-share

25. A common feature that owners of condominium units and owners of cooperative units have is that they
- have individual title to the land.
 - own their units in fee simple.
 - own shares of stock.
 - pay assessments to an owners association.
26. Owning property as tenants in common permits each owner to
- have title in severalty to half the property.
 - have the right of survivorship.
 - own unequal shares.
 - avoid personal liability.
27. An example of a limited common element in a common interest subdivision is
- the clubhouse
 - the gym.
 - designated parking spaces.
 - elevators.
28. A swimming pool in a condominium development is regarded as
- a common element.
 - a limited common element.
 - a leasehold element.
 - an emblemment.
29. L, M, and N are joint tenants. N sells his interest to O, and then M dies. Which of the following statements is *TRUE*?
- M's heirs, O, and L are joint tenants.
 - M's heirs and L are joint tenants, but O is a tenant in common.
 - L's, O's, and M's heirs are all tenants in common.
 - L and O are tenants in common.
30. What is a partition action?
- A subdivision of lots by a developer
 - A court proceeding to break up a co-ownership
 - The conversion of rental apartments to condominiums or cooperatives
 - The conveyance of a partial interest to form a co-ownership
31. How much fencing is required to fence the $S\frac{1}{2}$ of a quarter section?
- 1 mile
 - 1.5 miles
 - 4 miles
 - 5 miles
32. A buyer of a residential unit received a share of stock and occupancy based on a lease. What type of development was the unit in?
- Cooperative
 - Condominium
 - Planned unit
 - Time-share
33. Joint tenancy and tenancy in common are similar in that
- interest passes to heirs upon death of an owner.
 - interests of owners must be equal.
 - a sale of an interest requires approval of other owners.
 - all owners have equal rights of possession.
34. A deed to a brother and his sister did not specify how title should be taken. Title is as
- joint tenancy.
 - tenancy in severalty.
 - tenancy by the entirety.
 - tenancy in common.
35. J deeded property to K. The deed provided that if K ever used the property for the sale of alcoholic beverages, title would revert to J. The estate created by this conveyance is
- an estate on a condition subsequent.
 - a fee simple absolute.
 - a life estate.
 - a nonfreehold estate.
36. The lot and block reference in a legal description relates to
- a metes-and-bounds description.
 - a recorded subdivision map.
 - the government survey system.
 - correction lines and datum plane.

37. J and M plan to buy a home together but want to be able to will their property individually to their own children from previous marriages. They should hold title as
- tenants by the entirety.
 - joint tenants.
 - tenants in common.
 - tenants in severalty.
38. J and his sister K were co-owners of a lot. K became the sole owner automatically when J died, because they owned the lot
- in severalty.
 - in joint tenancy.
 - as community property.
 - in tenancy by the entirety.
39. L, M, and N owned property as joint tenants. M died, followed by the death of N. Title to the property is held by
- L in severalty.
 - L and the heirs of N as tenants in common.
 - L and the heirs of N in joint tenancy.
 - L and the heirs of both M and N as tenants in common.
40. Interval exclusive occupancy coupled with a tenancy-in-common interest describes
- an estate for years.
 - a tenancy at sufferance.
 - a cooperative.
 - a time-share ownership.
41. What is the highest form of ownership?
- Fee simple determinable
 - Fee simple absolute
 - Fee on a condition subsequent
 - A nonfreehold estate
42. The court will grant a request for a partition when title is held
- in severalty.
 - as community property.
 - as a tenancy by the entirety.
 - as a joint tenancy.
43. A property description in a deed mentions a point of beginning. Which method was the description based on?
- Lot and block
 - Informal method
 - Government survey
 - Metes and bounds
44. An example of an estate in real property is
- joint tenancy.
 - fee simple.
 - severalty ownership.
 - community property.
45. A legal description outlines the boundaries of a property. What type of description is it?
- Government survey
 - Lot and block
 - Metes and bounds
 - Base line and meridian
46. J gave K a life estate, and L was named to receive the interest on K's death. Given these facts,
- L has a reversionary interest.
 - L has a remainder interest.
 - K can defeat L's interest by deed or will.
 - K cannot borrow on her interest.
47. By purchasing the reversionary interest of the grantor, the former life tenant would now have a
- tenancy by the entirety.
 - less than freehold estate.
 - fee simple.
 - fee simple determinable.
48. J purchased a property with K as joint tenants. When J died, it was discovered that an encumbrance had been placed against J's interest in the property and that J's will provided that the property interest should pass to L. How would title to the property be held?
- K in severalty free of the encumbrance
 - K in severalty subject to the encumbrance
 - K and L as tenants in common free of the encumbrance
 - K and L as tenants in common subject to the encumbrance

49. A condominium is described as
- an undivided interest in the whole.
 - an undivided interest in common areas and separate interest in individual units.
 - a separate interest in the whole.
 - a divided interest in common areas and undivided interest in each unit.
50. Homeowners associations meet the needs of
- common interest development.
 - emblemment ownership.
 - metes-and-bounds descriptions.
 - nonfreehold estates.
51. A life estate could become a fee simple estate by
- the sale of the property.
 - mortgage of the property.
 - merger of interests.
 - leasing the property.
52. One quarter of a quarter section contains
- 20 acres.
 - 40 acres.
 - 160 acres.
 - 640 acres.
53. Bricks are used to build a backyard barbecue. The bricks have become real property through the process of
- severance.
 - annexation.
 - easement.
 - progression.
54. Creditors can go against the personal assets of investors in
- a chapter S corporation.
 - a limited partnership.
 - an LLC.
 - a general partnership.
55. The maximum number of complete townships possible within a ranch that is 26 miles square is
- 4.
 - 6.
 - 16.
 - 18.
56. What section is directly north of Section 2 in a township?
- 3
 - 5
 - 11
 - 35
57. Where in a township would Section 18 be located?
- NW $\frac{1}{4}$
 - SW $\frac{1}{4}$
 - NE $\frac{1}{4}$
 - SE $\frac{1}{4}$
58. How much fencing would it take to fence a township?
- 1 mile
 - 2 miles
 - 12 miles
 - 24 miles
59. The Consumer Financial Protection Bureau is concerned with unimproved land sales in interstate commerce of
- any parcel.
 - 10 or more parcels.
 - 25 or more parcels.
 - 50 or more parcels.
60. The south boundary line of Section 13 Township 2 North Range 3 East is
- 9 miles north of the base line.
 - 15 miles east of the meridian.
 - 3 miles east of the meridian.
 - 9 miles east of the base line.
61. A form of ownership where one owner cannot separately convey interest is a
- tenancy by the entirety.
 - tenancy in common.
 - joint tenancy.
 - limited partnership.
62. Which of the following rectangles is larger than an acre?
- 100' \times 420'
 - 90' \times 450'
 - 1 mile \times 8'
 - 209' \times 209'

63. A joint venture is a form of
- corporation.
 - partnership.
 - community property.
 - joint tenancy.
64. A woman owned an undivided half interest in a property. She now owns the entire property in severalty, although she did not buy or inherit the other one-half interest. The woman originally owned her undivided one-half interest as a
- limited partner.
 - tenant in common.
 - joint tenant.
 - general partner.
65. A building was torn down leaving material that was classified as personal property. The act was one of
- severance.
 - accretion.
 - avulsion.
 - reliction.
66. A vertical strip of land is six miles wide and is adjacent and west of a principal meridian. The strip is described as
- a section.
 - range 1 east.
 - range 1 west.
 - T1NR1W.
67. The U.S. Geological Survey sets
- benchmarks.
 - topographical lines.
 - range lines.
 - meridians.
68. The SW $\frac{1}{4}$ of the SE $\frac{1}{4}$ of NW $\frac{1}{4}$ of SW $\frac{1}{4}$ of a section contains
- 1 $\frac{1}{4}$ acres.
 - 2 $\frac{1}{2}$ acres.
 - 5 acres.
 - 10 acres.
69. An estate in real estate
- is forever.
 - must be created by grant.
 - must include immediate possession.
 - can run within another estate.
70. A major difference between a planned unit development and a condominium is
- common elements.
 - a homeowners association.
 - land ownership.
 - fee ownership.
71. A father wished to deed property to his son and daughter-in-law on a two-thirds and one-third basis. To do so, title is
- in severalty.
 - in joint tenancy.
 - as tenants in the entirety.
 - as tenants in common.
72. A business that has the limited liability of a corporation yet is taxed as a partnership is
- a REIT.
 - a joint venture.
 - a general partnership.
 - an LLC.
73. A city purchased land for a dump site. How would the city hold title?
- As tenants in common
 - As joint tenants
 - As community property
 - In severalty
74. Four unities refers to ownership
- in severalty.
 - as joint tenants.
 - as tenants in common.
 - in partnership.
75. If a boundary is a private road, the boundary line is
- the near edge of the road.
 - the far edge of the road.
 - the center of the road.
 - three feet in from the near edge of the paving.
76. Areas of land enclosed by standard parallels and guide meridians are called
- sections.
 - townships.
 - government checks.
 - government lots.

77. Nonstandard quarter sections resulting from land lost by rivers and lakes are designated as
- A. checks.
 - B. quadrangles.
 - C. government lots.
 - D. plots.
78. L, M, N, and O owned property as joint tenants. L sold her interest to P, and M died. The property is owned by
- A. N, O, and P as joint tenants
 - B. N and O as joint tenants and P as a tenant in common
 - C. N, O, and P as tenants in common
 - D. P, M's heirs, N, and O as tenants in common
79. HOAs are associated with
- A. partnerships.
 - B. common interest developments.
 - C. REITs.
 - D. defeasible estates.
80. Which is subject to double taxation?
- A. REIT
 - B. LLC
 - C. Corporation
 - D. Partnership

CHAPTER 1 QUIZ ANSWERS

1. **(D)** An appurtenance that goes with the land. (1)
2. **(D)** Community property also is restricted to husbands and wives. (10, 13)
3. **(B)** The estate could be lost. (7)
4. **(D)** It is a fixture. Attachment and adaptability meet two of the tests. (2)
5. **(A)** A general partner has unlimited personal liability. (14)
6. **(B)** Chapter S corporations are limited to 75 shareholders. (15)
7. **(B)** A tenant can remove a trade fixture but is liable for removal damage to real property. (2)
8. **(A)** An iron stake is referenced as a monument or point in a metes-and-bounds description. (3)
9. **(B)** Or equal interests. (10, 12)
10. **(C)** Chattels real are personal property related to real property, such as mortgages and tenant lease rights. (1)
11. **(C)** Appurtenances belong with the real estate. (1)
12. **(B)** As well as mineral rights and easements. (1)
13. **(A)** Intent is often said to be the most important of these three tests. (2)
14. **(D)** They are the rights of ownership. (1)
15. **(C)** They have been joined to the realty. (2)
16. **(A)** Owner of a security does not have any management control. (16)
17. **(A)** Degrees and minutes measure the angles between monuments. (3)
18. **(A)** There are no longer two owners possessing the four unities of joint tenancy (the brother has an undivided one-half interest, and the sister and her husband each have an undivided one-quarter interest). In some states, the sister could convey her interest to her husband and to herself as joint tenants, but in this case, she conveyed only one-half of her interest. (11)
19. **(D)** The interest reverts back to the owner. (8, 9)
20. **(B)** The life estate is based on L's life. (8)
21. **(C)** A third-party future interest is a remainder interest. An interest that reverted to the grantor is a reversionary interest. (8, 9)
22. **(C)** The life interest and remainder interests are merged into a single interest. (9)
23. **(A)** In some states, a wife is entitled to a percentage of her husband's real property and/or a life estate in a husband's home upon the husband's death. (9)
24. **(C)** The man owned a share in a cooperative. (17)
25. **(D)** HOA is required. (17)
26. **(C)** Tenant-in-common interests need not be equal. (10, 12)
27. **(C)** While owned in common, the area's use is restricted to designated tenant. Others are common elements. (17)
28. **(A)** Common areas for all owners. (17)
29. **(D)** When N sold to O, N broke the joint tenancy as to N's interest, and O had a one-third interest. When M died, L took the share by survivorship. L has a two-thirds interest and O has a one-third interest. (11–12)

30. **(B)** This is an action to divide the land of a tenancy in common or joint tenancy when the owners cannot agree. The court could physically divide the property (if feasible) or order a sale. (12)
31. **(B)** Because a $\frac{1}{4}$ section is $\frac{1}{2}$ mile on each side, the $S\frac{1}{2}$ is $\frac{1}{4}$ mile by $\frac{1}{2}$ mile. (6)
32. **(A)** Stock ownership plus proprietary lease. (17)
33. **(D)** The only one of the four unities present in tenancy in common is possession. (10, 12)
34. **(D)** TIC to other than husband and wife if not stated in deed. (12)
35. **(A)** The estate is presently valid but can be lost. (7)
36. **(B)** The legal description references the recorded map. (3)
37. **(C)** There is no right of survivorship for tenants in common. Choices (A) and (B) would go to the survivor, and (D) is ownership by one person only. (10, 12)
38. **(B)** Tenancy by the entirety and community property are only for spouses. (10, 11)
39. **(A)** On M's death, L and N held title as joint tenants. When N died, L owned the property in severalty. Interest of joint tenant passes by survivorship to remaining joint tenant(s). (11)
40. **(D)** A time-share can be a leasehold or fee simple interest for specified periods of time. (17)
41. **(B)** Fee simple ownership has no time limitation and can be freely transferred and can be inherited. (7)
42. **(D)** Or tenancy in common. (12)
43. **(D)** It measures from point to point. (3)
44. **(B)** Fee simple is the degree of ownership (estate), the others are forms of ownership. (7)
45. **(C)** It encircles the parcel from point to point. (3)
46. **(B)** L is third person. (8–9)
47. **(C)** Life estate was lost by merger into greater fee simple interest. (9)
48. **(A)** Title passes free of J's encumbrance to the survivor. It does not pass by will. (11–12)
49. **(B)** Condominium owners own their own air space, but common areas are owned with other owners as tenants in common. (17)
50. **(A)** HOAs are present and collect assessments whenever there is a common interest development. (17)
51. **(C)** When the owner of a life estate acquires the reversionary interest in the property, the interests become one and the title is no longer defeasible. (9)
52. **(B)** Because a section contains 640 acres and a quarter section is 160 acres, $\frac{1}{4}$ of a quarter section is 40 acres. (6)
53. **(B)** Personal property has become attached so as to become real property. (1)
54. **(D)** General partners are personally liable for debts of the partnership. (14)
55. **(C)** A township is six miles square, meaning it measures six miles on each side. Four complete townships can be placed in a ranch that is 26 miles square. Four rows, each containing four townships, equals 16 townships. (5)
56. **(D)** Section 2 of a township is bordered by Section 35 of the township adjoining to the north. (5)

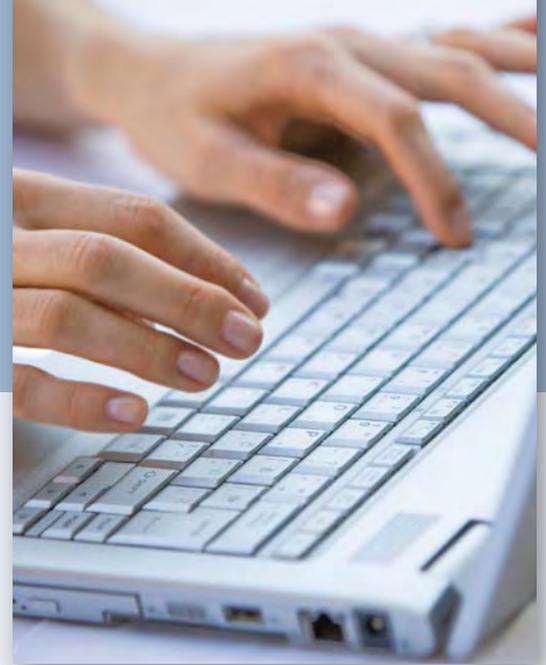
57. (A) However, section 19 is in the southwest quarter. (5)
58. (D) Because it is six miles on each side. (5)
59. (C) They enforce interstate land sales disclosure that requires full disclosure to prevent fraud. (17–18)
60. (A) Section 13 is three miles north of its township line plus one township (six miles) north of the base line. (4, 5)
61. (A) Tenancy by the entirety is a joint tenancy between spouses where the spouses cannot separately convey their individual interests. (10,13)
62. (D) An acre is 43,560 square feet. (5)
63. (B) Partnership for a single undertaking. (14)
64. (C) Upon the death of the other joint tenant, the other half became the woman's property. (10, 11)
65. (A) Severed from the land. (1–2)
66. (C) It is the first range west of the meridian. (4)
67. (A) Markers showing elevation above sea level. Topographical lines follow elevation to show contour of the lands. (7)
68. (B) Go backwards from 640 acres. (6)
69. (D) Such as a leasehold interest in property held in fee simple. (7–9)
70. (C) In a PUD, the unit owner owns land under the unit, as well as a share in the common area. In a condominium, the land is owned in common. (17)
71. (D) A is one owner only, and B and C require equal ownership. (10, 12)
72. (D) The limited liability company description also applies to S corporations. (15)
73. (D) Because the city (municipal corporation) would own the property by itself. (11)
74. (B) The four unities are time, title, interest, and possession. (11)
75. (C) Similarly, the boundary is a nonnavigable river; the boundary line is the center of the river. (3)
76. (C) Or quadrangles. (4)
77. (C) Identified by lot number. (5)
78. (B) P has a $\frac{1}{4}$ interest as a tenant in common and N and O have the other $\frac{3}{4}$ interest as remaining joint tenants. (11–12)
79. (B) Homeowners associations. (18)
80. (C) Although S corporations also avoid the double taxation. (15)

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