



# **Modern Real Estate Practice 18th Edition**



# **Chapter 1**

# **Introduction to the Real Estate Business**

The real estate business is more than just houses.  
“Real estate is big business”



# 1 Introduction to the Real Estate Business

- Learning objectives
  - **Identify** the various careers available in real estate, and the professional organizations that support them
  - **Describe** the five categories of real property
  - **Explain** the operation of supply and demand in the real estate market
  - **Distinguish** the economic, political, and social factors that influence supply and demand



# **1 Introduction to the Real Estate Business**

- A business of many specializations
  - Brokerage
  - Appraisal
  - Property management
  - Financing
  - Subdivision and development
  - Home inspection
  - Counseling
  - Education



# **1 Introduction to the Real Estate Business**

- Types of real property
  - Residential
  - Commercial
  - Mixed-use
  - Industrial
  - Agricultural
  - Special Purpose



# **1 Introduction to the Real Estate Business**

- The real estate market
  - Supply and demand
  - Factors affecting supply
  - Factors affecting demand



# **Chapter 2**

## **Real Property and the Law**

Many types of property define real estate's "product."

Land is one of the fundamental concepts of real estate, as well as "improvements" in the form of houses and outbuildings.



## 2 Real Property and the Law

- Learning objectives
  - **Identify** the rights that convey with ownership of real property and the characteristics of real estate
  - **Describe** the difference between real and personal property
  - **Explain** the types of laws that affect real estate
  - **Distinguish** between the concepts of land, real estate, and real property



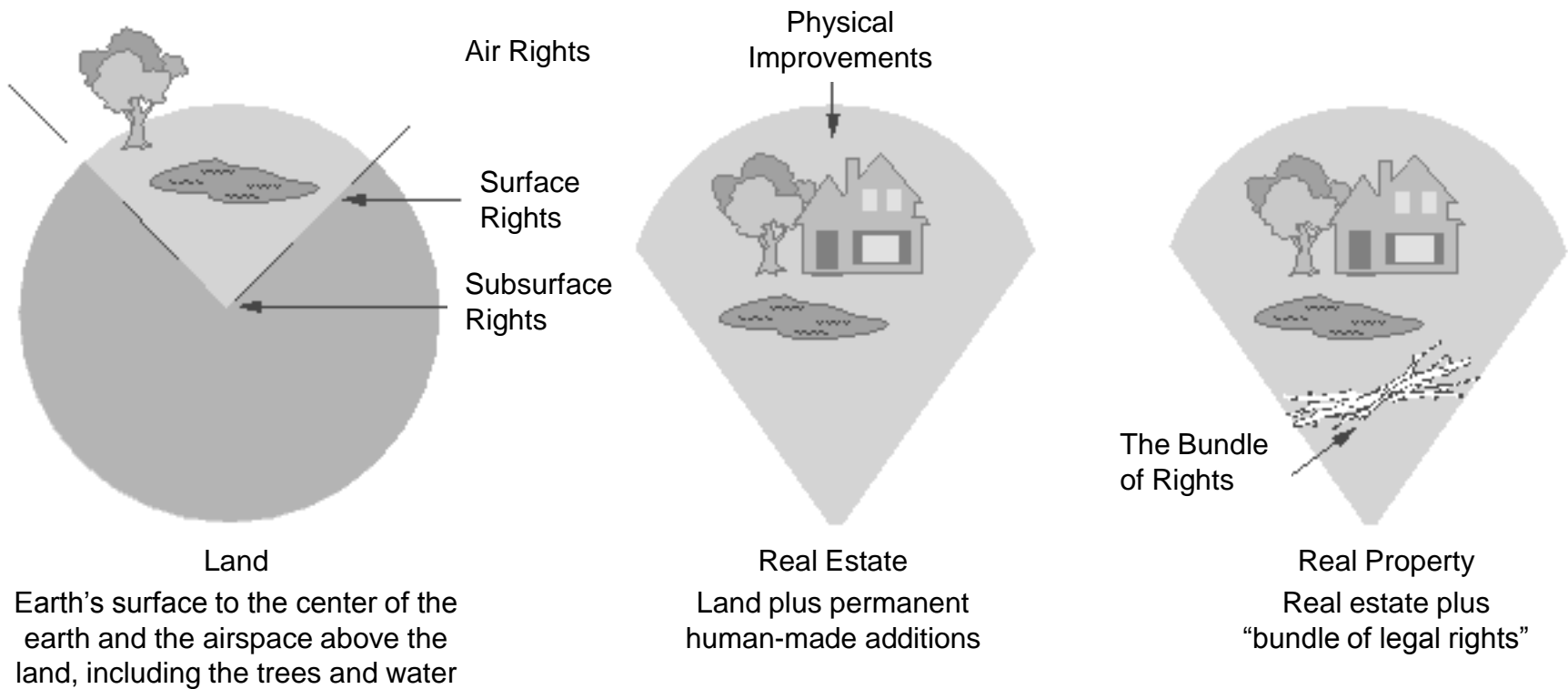


## 2 Real Property and the Law

- **Land:** the earth's surface extending downward to the center of the earth and upward to infinity, including permanent natural objects
- **Real estate:** land at, above, and below the earth's surface, plus all things permanently attached to it, whether natural or artificial
- **Real property:** the interests, benefits, and rights that are automatically included in the ownership of land and real estate



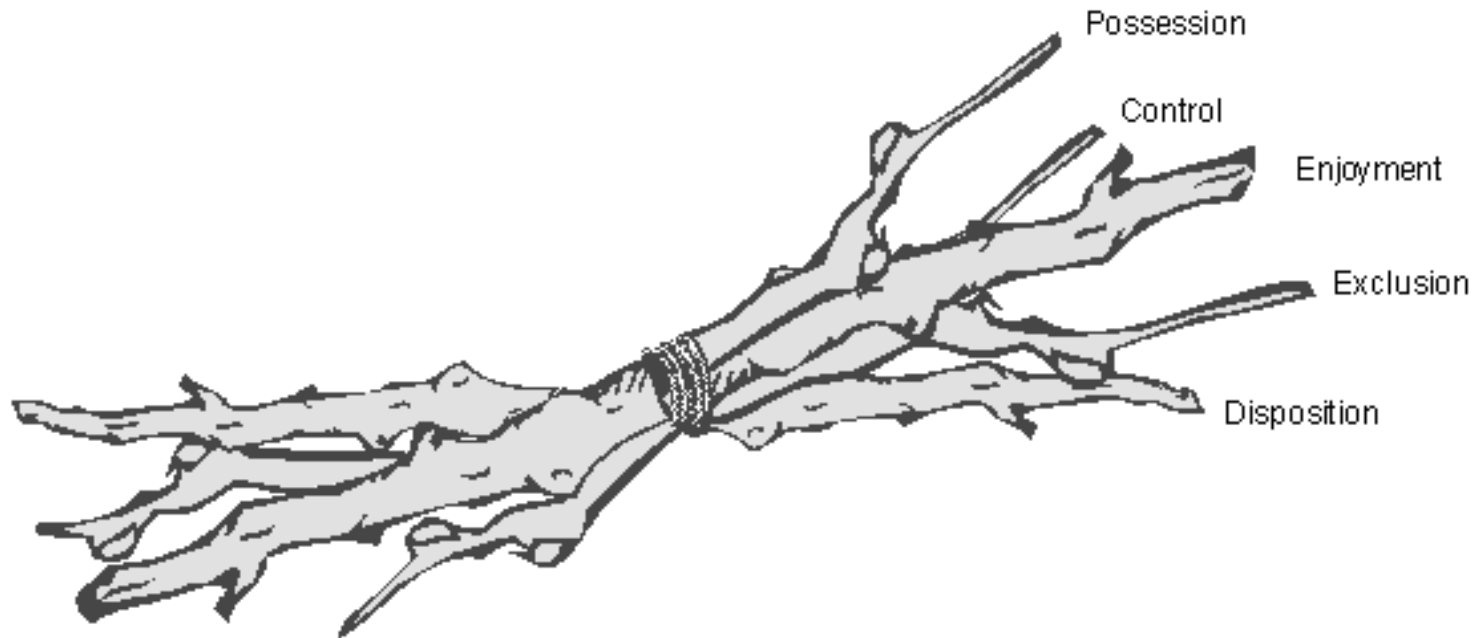
## 2 Real Property and the Law





## 2 Real Property and the Law

### Bundle of Legal Rights





## 2 Real Property and the Law

- Real property rights
  - Surface rights
  - Subsurface rights
  - Air rights
  - Water rights



## 2 Real Property and the Law

- **Personal property** (all property that does not fit the definition of real property)
- Manufactured housing
- **Plants**
- **Fixtures**
  - Intent
    - Method of annexation
    - Adaptation to real estate
    - Agreement
- **Trade fixtures**



## 2 Real Property and the Law

- Characteristics of real property
  - **Economic characteristics**
    - Scarcity
    - Improvements
    - Permanence of investment
    - Area preference or location
  - **Physical characteristics**
    - Immobility
    - Indestructibility
    - Uniqueness



## **2 Real Property and the Law**

- Laws affecting real estate
  - Contract law
  - General property law
  - Agency law
  - Real estate license law
  - Federal regulations
  - Federal, state, and local tax laws
  - Zoning and land use laws
  - Federal, state, and local environmental regulations



# **Chapter 3**

## **Concepts of Home Ownership**

A variety of housing types are available under the general heading of “home ownership”.





### 3 Concepts of Home Ownership

- Learning objectives
  - **Identify** the various types of housing choices available to homebuyers
  - **Describe** the issues involved in making a home ownership decision
  - **Explain** the tax benefits of home ownership
  - **Distinguish** the various types of homeowners insurance policy coverage



### **3 Concepts of Home Ownership**

- Types of housing
  - Single-family home
  - Apartment complex
  - Condominium
  - Cooperative
  - Planned Unit Development (PUD)
  - Retirement community



### **3 Concepts of Home Ownership**

- Types of housing
  - High-rise development
  - Converted-use property
  - Manufactured housing
  - Modular homes
  - Time-share



## 3 Concepts of Home Ownership

- **Homeowners' insurance**

- Basic versus broad-form policies
- **Liability**
- Coverage and claims
  - **Coinurance clause**
  - Comprehensive Loss Underwriting Exchange (CLUE)
- **National Flood Insurance Program**



# Chapter 4

## Agency

Real estate is an industry about property, but it's also an industry about people.

The concept of agency is entirely about people, and relationships between and among them.



## 4 Agency

- Learning objectives
  - **Identify** the various types of agency relationships common in the real estate profession and the characteristics of each
  - **Describe** the fiduciary duties involved in an agency relationship
  - **Explain** the process by which agency is created and terminated and the role of disclosure in agency relationships
  - **Distinguish** the duties owed by an agent to his or her client from those owed to customers

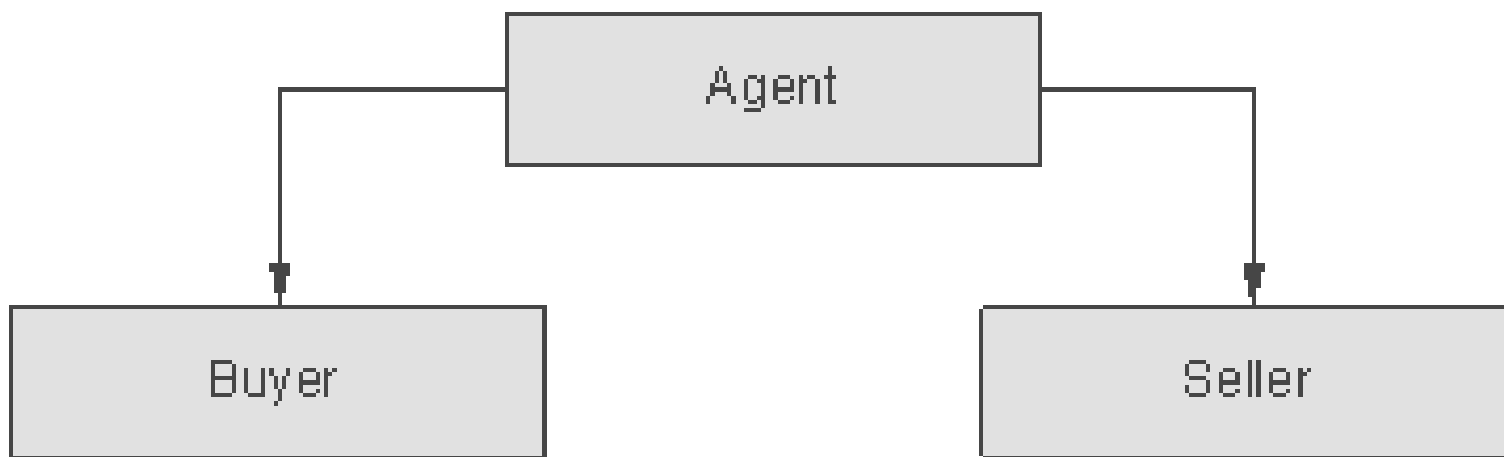


## 4 Agency

- Real estate agency
  - Common-law history
  - Definitions:
    - **Agent**
    - **Principal**
    - **Agency**
    - **Fiduciary**
    - **Client**
    - **Customer**
    - **Nonagent**



## 4 Agency







## 4 Agency

- **Fiduciary duties** of an agent
  - Care
  - Obedience
  - Loyalty
  - Disclosure
  - Accounting
  - Confidentiality



## 4 Agency

- Creation and termination of agency
  - Creation
    - Express agency
    - Implied agency
  - Termination
    - Completion, performance, or fulfillment
    - Death or incapacity
    - Destruction or condemnation of the property
    - Expiration
    - Mutual agreement
    - Breach
    - Operation of law



## 4 Agency

- Limitations on authority
  - **Universal** agent
    - Empowered to do anything the principal could do personally
  - **General** agent
    - Represents the principal in a broad range of matters related to a particular business or activity
  - **Special** agent
    - Authorized to represent the principal in one specific act or business transaction under detailed instructions



## 4 Agency

- Types of agency relationships
  - **Single** agency
    - **Seller** representation
    - **Buyer** representation
  - **Dual** agency
    - Disclosed dual agency
    - Designated agency
    - Undisclosed dual agency



# 4 Agency





## 4 Agency

- **Customer-level** services
  - Reasonable care and skill in performance
  - Honest and fair dealing
  - Disclosure of all facts the licensee knows (or should be expected to know) that materially affect the value or desirability of the property
  - State law may require additional services or disclosures



## 4 Agency

- **Puffing**

- Exaggeration of a property's benefits

- **Misrepresentation**

- **Fraud**: Intentional misrepresentation of a material fact to harm or take advantage of another
  - **Negligent Misrepresentation**: Broker should have known a statement was false



## 4 Agency

- Property conditions
  - **Latent defect**
    - A hidden structural defect that would not be discovered by ordinary inspection
  - **Stigmatized property (non-material defect)**
    - Properties branded “undesirable” because of actual or rumored:
      - criminal
      - tragic
      - scandalous events that occurred on the property





# **Chapter 5**

## **Real Estate Brokerage**

A real estate brokerage is more than a room full of desks. It's a hive of activity; people, information, and technology.



## 5 Real Estate Brokerage

- Learning objectives
  - **Identify** the role of technology, personnel, and license laws in the operation of a real estate business
  - **Describe** the various types of antitrust violations common in the real estate industry, and the penalties involved with each
  - **Explain** how a broker's compensation is usually determined
  - **Distinguish** employees from independent contractors and explain why the distinction is important



## 5 Real Estate Brokerage

- **Brokerage**

- The business of bringing parties together

- Real estate **broker**

- A person licensed to buy, sell, exchange, or lease real property for others and to charge a fee for these services



## 5 Real Estate Brokerage

- Broker-salesperson relationship
  - A real estate salesperson is licensed to perform real estate activities on behalf of a licensed real estate broker
  - **Employee—broker** may require employee to follow rules for hours, attendance, etc.
  - **Independent contractor—broker** cannot require specific office hours, attendance, etc.



## 5 Real Estate Brokerage

- Broker's compensation
  - Commission is always **negotiable**
  - Commission is usually **earned** when
    - A completed sales contract has been executed by a ready, willing, and able buyer
    - The contract is accepted and executed by the seller
    - Copies of the contract are in the possession of all parties



## 5 Real Estate Brokerage

- Broker's compensation
  - **Procuring cause**
    - Broker started a chain of events that resulted in a sale
  - Ready, willing, and able buyer
    - One who is prepared to buy on the seller's terms and ready to take positive steps toward consummation of the transaction

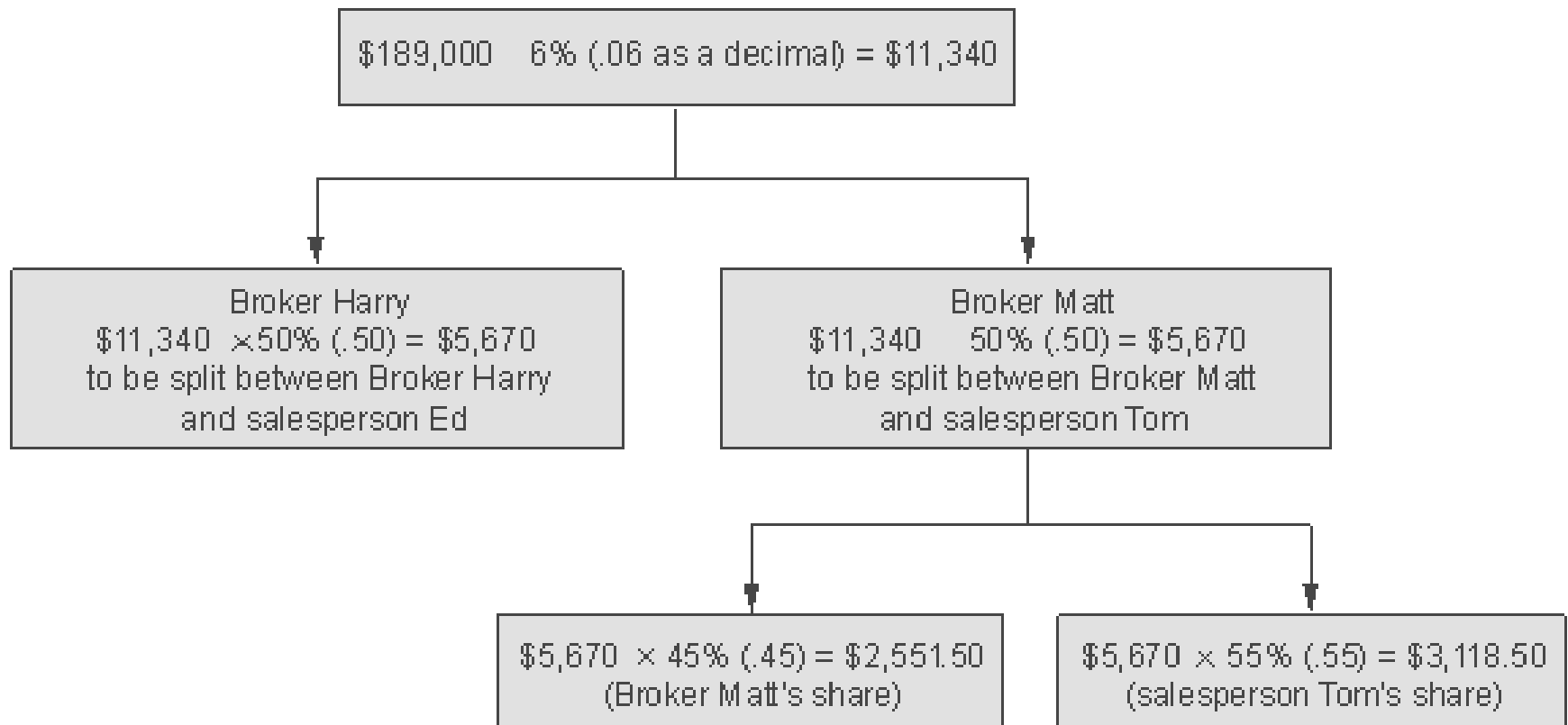


## **5 Real Estate Brokerage**

- Salesperson's compensation
  - Amount and method of compensation is set by agreement between the broker and the salesperson
  - Fixed salary
  - Share of commission
  - 100% commission plan
  - Graduated commission split



## 5 Real Estate Brokerage







## 5 Real Estate Brokerage

- **Antitrust** laws
  - Price-fixing
  - Group boycotting
  - Allocation of customers or markets
  - Tie-in (or tying) agreements
  - Penalties



# **Chapter 6**

## **Listing Agreements and Buyer Representation**

Whether representing sellers or buyers, the role of the real estate professional is one of building relationships.

The property for sale is the “product” but the focus of the agent’s business is relationships with the parties.



## 6 Listing Agreements and Buyer Representation

- Learning objectives
  - **Identify** the different types of listing and buyer representation agreements and their terms
  - **Describe** the ways in which a listing may be terminated
  - **Explain** the listing process and the parts of the listing agreement
  - **Distinguish** among the characteristics of the various types of listing and buyer representation agreements



## 6 Listing Agreements and Buyer Representation

- Listing agreements
  - **Exclusive-right-to-sell** listing
  - **Exclusive-agency** listing
  - **Open listing**
  - **Multiple-listing (MLS)**
  - **Net** listing



## 6 Listing Agreements and Buyer Representation

- Termination
  - **Purpose** is fulfilled
  - **Expiration** of listing period
  - **Property is destroyed** or use is changed
  - **Title is transferred** under the law
  - **Mutual agreement** of the parties
  - **Death or incapacity** of either party
  - **Breach**



## **6 Listing Agreements and Buyer Representation**

- Listing agreement issues
  - Broker's authority and responsibilities
  - Names of all parties
  - Brokerage firm
  - Listing price
  - Real and personal property
  - Leased equipment



## **6 Listing Agreements and Buyer Representation**

- Listing agreement issues
  - Description of the premises
  - Proposed closing and possession dates
  - Closing details
  - Evidence of ownership
  - Encumbrances
  - Home warranty program
  - Commission



## **6 Listing Agreements and Buyer Representation**

- Listing agreement issues
  - Termination
  - Broker protection clause
  - Owner warranties
  - Indemnification
  - Equal opportunity wording
  - Antitrust wording
  - Signatures and date





## **6 Listing Agreements and Buyer Representation**

- Buyer representation issues
  - Disclosures
  - Parties' rights and responsibilities
  - Specific services provided
  - Compensation



# **Chapter 7**

## **Interests in Real Estate**

Different types of property are affected by littoral and riparian rights. This view also suggests potential issues of estate types and taxation.



## 7 Interests in Real Estate

- Learning objectives
  - **Identify** the kinds of limitations on ownership rights that are imposed by government action and the form of conveyance of property
  - **Describe** the various estates in land, and the rights and limitations they convey
  - **Explain** concepts related to encumbrances and water rights
  - **Distinguish** the various types of government powers, and how they are exercised



## 7 Interests in Real Estate

- Government powers (“PETE”)
  - **P**olice power
  - **E**minent domain
  - **T**axation
  - **E**scheat



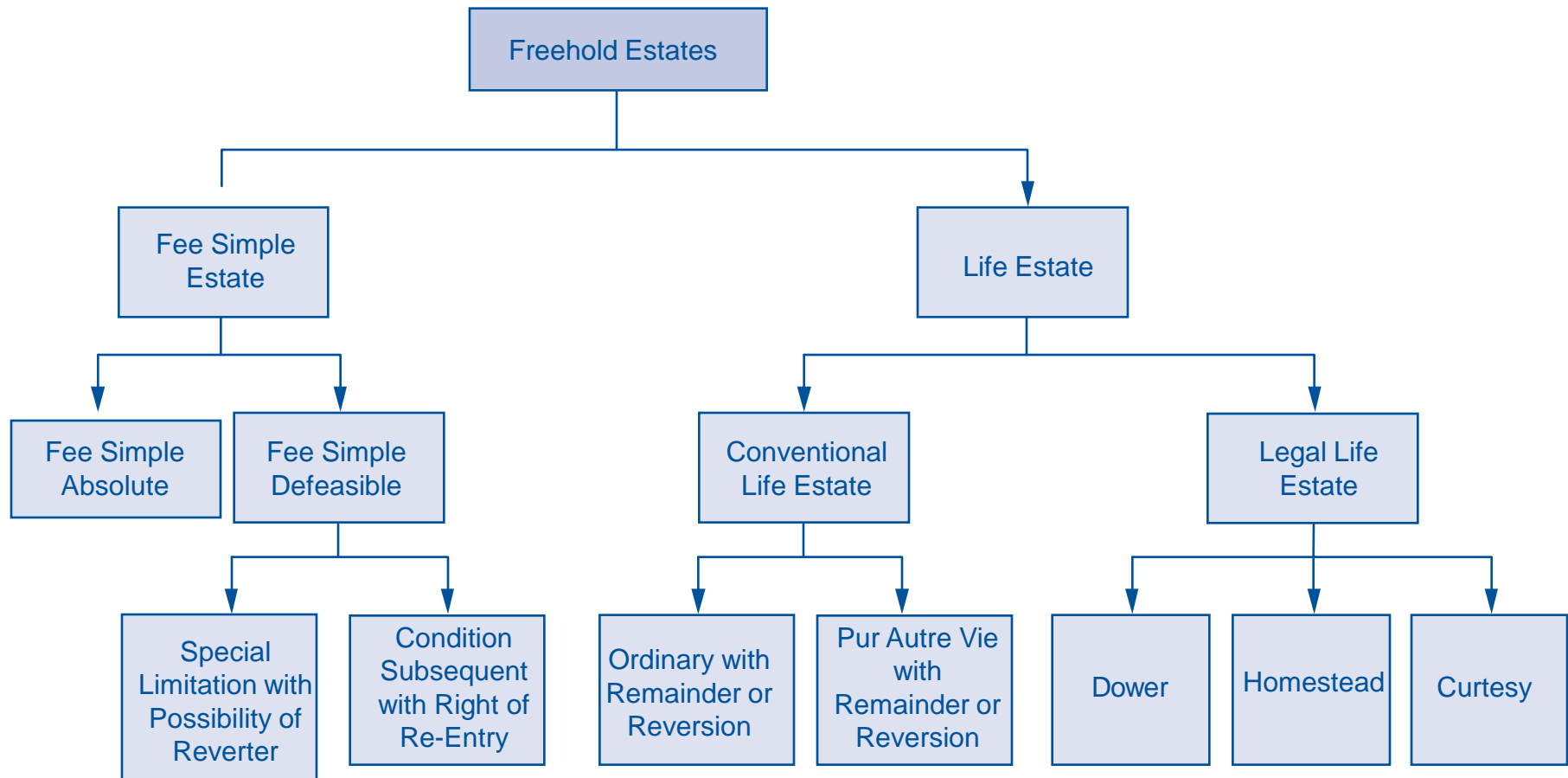
# 7 Interests in Real Estate

- **Freehold estates**

- Fee simple
  - Absolute
  - Defeasible
  - Determinable
- Life estate
  - Pur autre vie
  - Remainder and reversion
- Legal life estate
  - Dower and curtesy
  - Homestead



# 7 Interests in Real Estate





# 7 Interests in Real Estate

- **Encumbrances**

- Liens
- Deed restrictions
- Easements
  - Appurtenant or in gross
  - Party wall
  - By necessity or prescription
- Licenses
- Encroachments



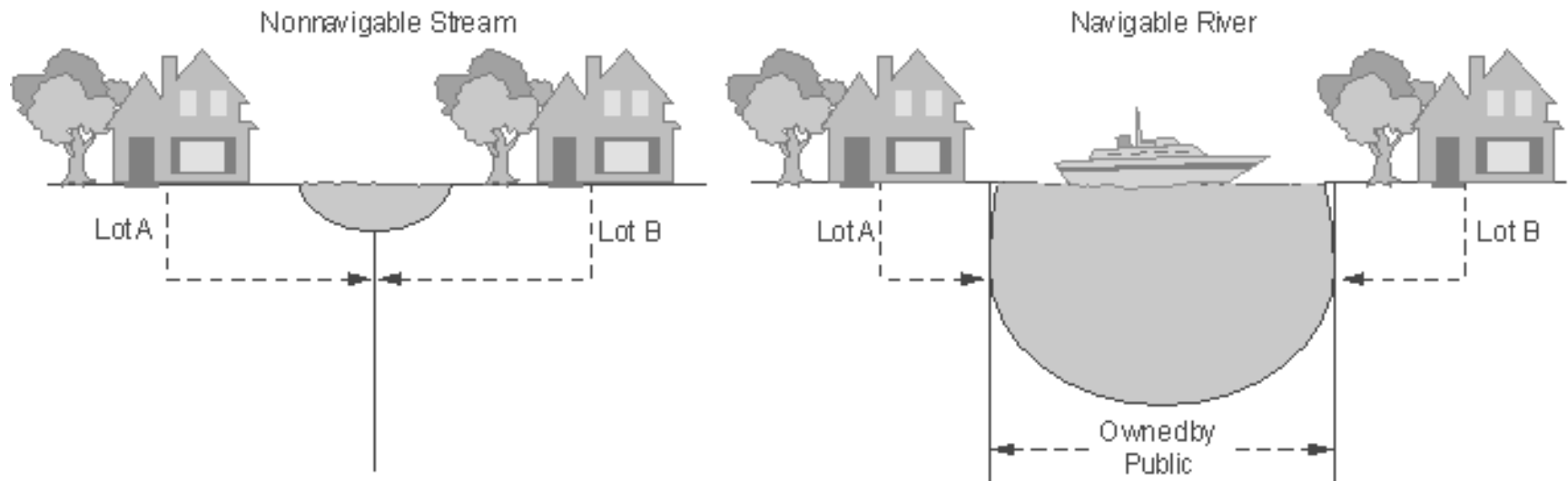
## 7 Interests in Real Estate

- Water rights
  - **Riparian** rights
  - **Littoral** rights
  - **Accretion, erosion, and avulsion**
  - Doctrine of **prior appropriation**





# 7 Interests in Real Estate





# **Chapter 8**

## **Forms of Real Estate Ownership**

Many people visualize single-family homes when they think of real estate ownership but the same issues apply to all types of property.



## 8 Forms of Real Estate Ownership

- Learning objectives
  - **Identify** the four basic forms of co-ownership
  - **Describe** the ways in which various business organizations may own property
  - **Explain** how a tenancy in common, joint tenancy, and tenancy by the entirety are created, and how they may be terminated
  - **Distinguish** cooperative ownership from condominium ownership



## 8 Forms of Real Estate Ownership

- Forms of ownership
  - **Severalty**
  - **Co-ownership**



## 8 Forms of Real Estate Ownership

- Forms of co-ownership

- **Tenancy in common**

- **Joint tenancy**

- Four unities: possession, interest, time, title
    - Partition

Recognized in CT

- **Tenancy by the entirety**

- Married couples only

- **Community property**

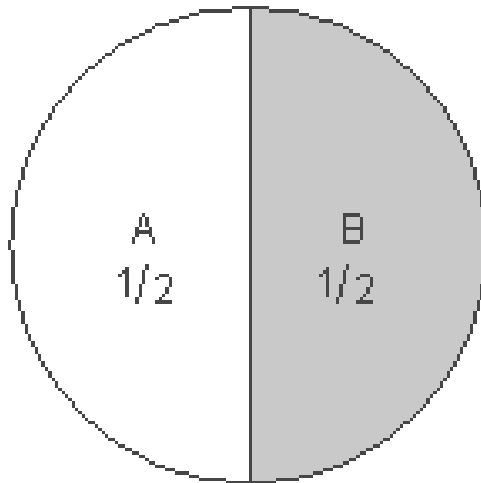
- Married couples only
    - Community property versus separate property

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Recognized  
in CT

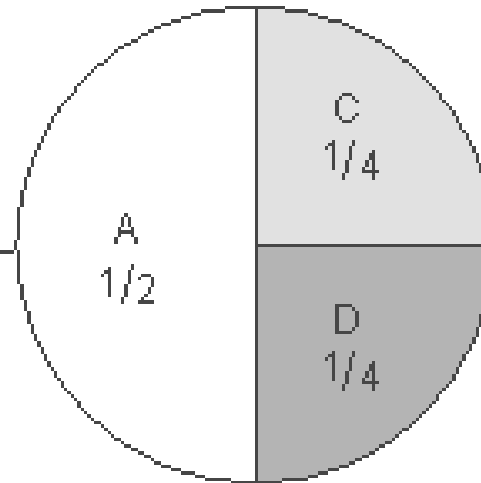


## 8 Forms of Real Estate Ownership

A and B are tenants  
in common.



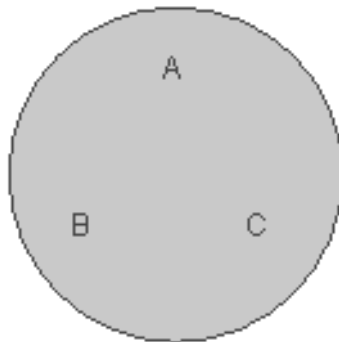
B dies and wills his interest to C and D  
equally as tenants in common.



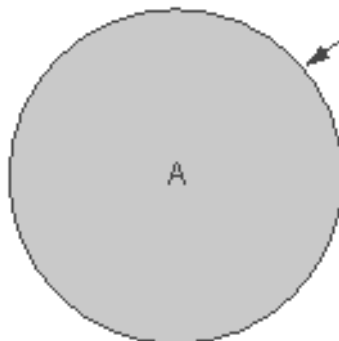
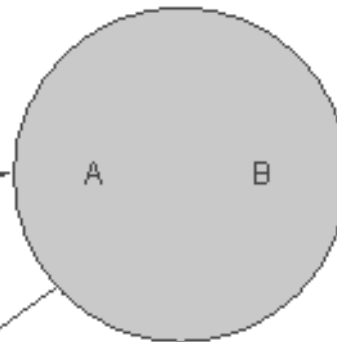


## 8 Forms of Real Estate Ownership

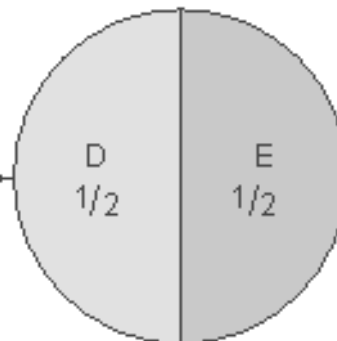
1. A, B, and C are joint tenants.



2. When C dies, A and B remain as joint tenants.



3. When B dies, A holds title in severalty, which is inheritable.



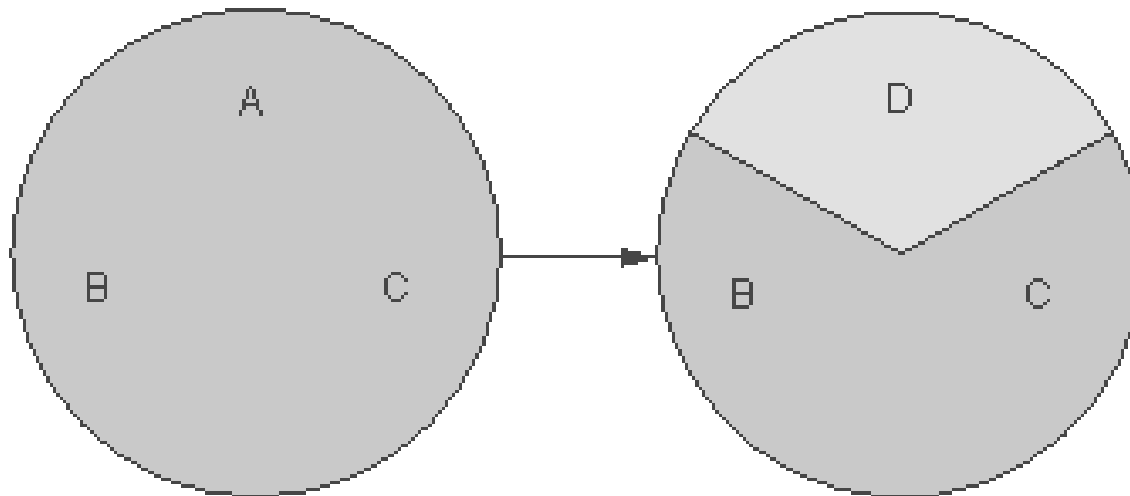
4. A dies and wills his interest to D and E as tenants in common.



## 8 Forms of Real Estate Ownership

A, B, and C are joint tenants.

A sells her interest to D.



D becomes a tenant in common  
with B and C as joint tenants.





## 8 Forms of Real Estate Ownership

- Trusts
  - Parties
    - **Trustor**
    - **Trustee**
    - **Beneficiary**
  - Living and testamentary trusts
  - Land trusts



## 8 Forms of Real Estate Ownership

- Ownership by business organizations
  - **Partnerships**
    - General
    - Limited
  - **Corporations**
    - Managed by board of directors
    - Continues to exist until dissolved
  - **Limited Liability Companies (LLCs)**



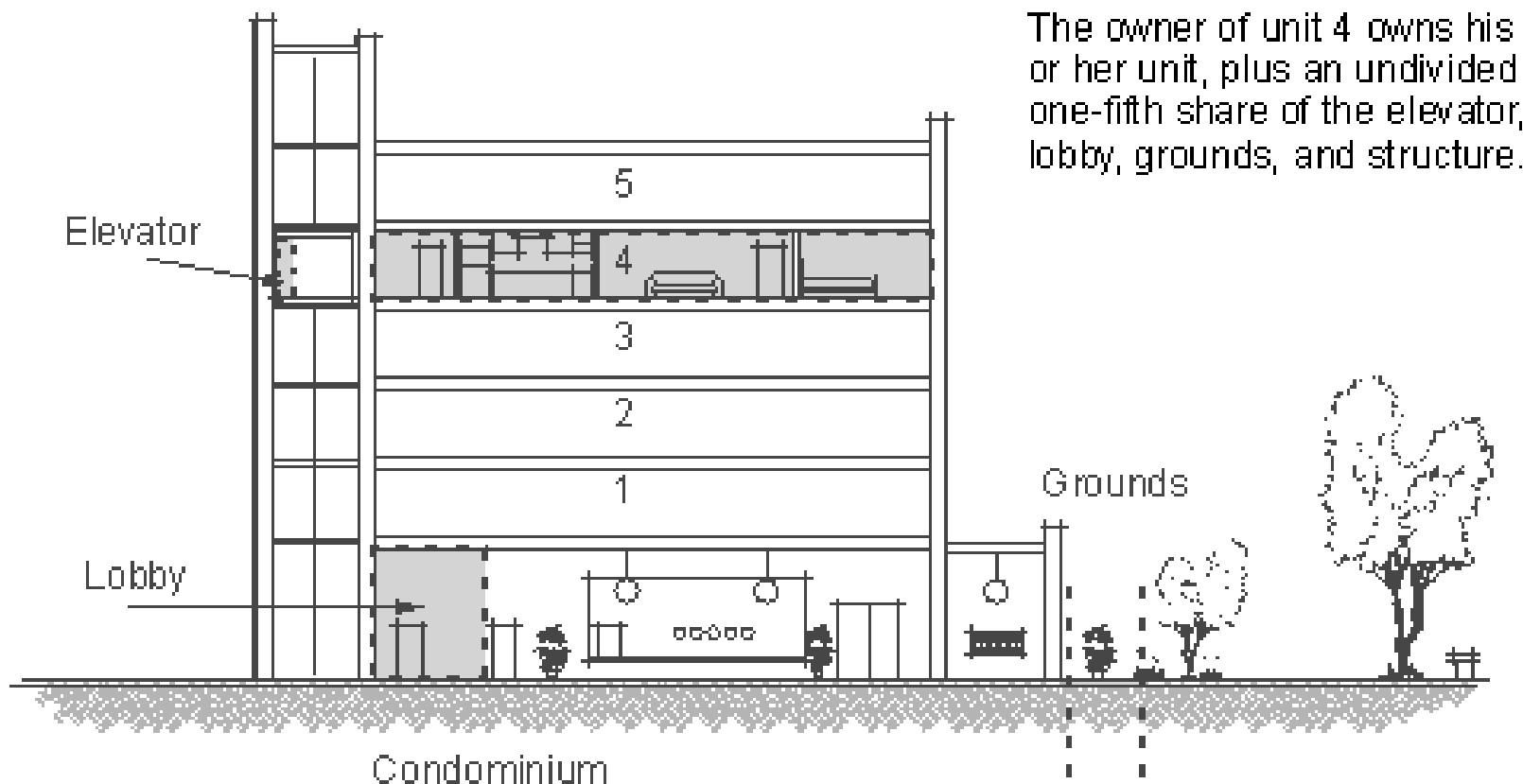
## 8 Forms of Real Estate Ownership

- **Condominiums**

- Fee simple ownership
- Common elements
- Operation and administration
- Right of first refusal on sales



## 8 Forms of Real Estate Ownership





## 8 Forms of Real Estate Ownership

- **Cooperatives**

- Proprietary lease
- Shareholder ownership
- Operation and management
- Tax advantages

- **Time-share ownership**

- Time-share estate
- Time-share use
- Membership camping
- Vacation ownership



## 8 Forms of Real Estate Ownership

- **Townhouse** ownerships
  - Common walls
  - Fee simple ownership
  - Common elements



# **Chapter 9**

## **Legal Descriptions**

This chapter is about how land is divided up for ownership and how to describe those divisions.



## 9 Legal Descriptions

- Learning objectives
  - **Identify** the three methods used to describe real estate
  - **Describe** how a survey is prepared
  - **Explain** how to read a rectangular survey description
  - **Distinguish** the various units of land measurement



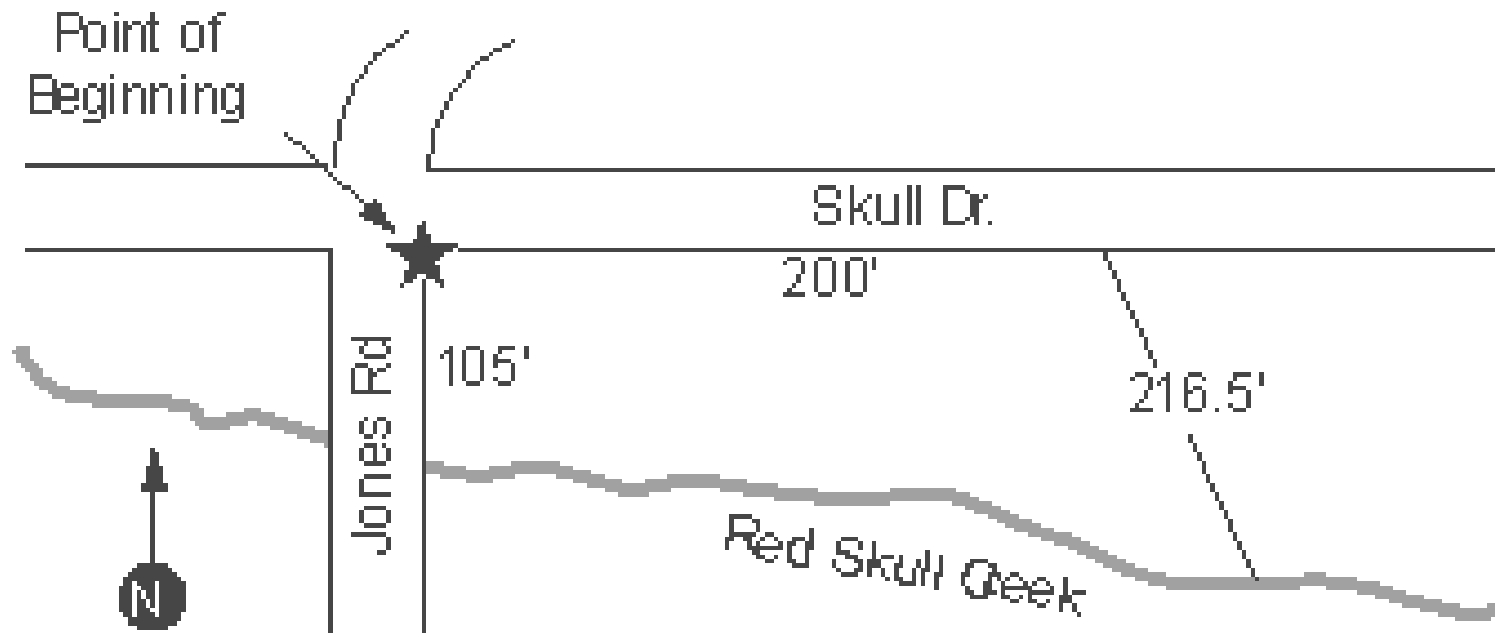


## 9 Legal Descriptions

- Methods of describing real estate
  - **Metes-and-bounds**
    - Point of beginning (POB)
    - Monuments



## 9 Legal Descriptions





## 9 Legal Descriptions

- Methods of describing real estate
  - **Rectangular (government) survey**
    - Principal meridians
    - Base lines
    - Ranges
    - Township lines and township tiers
    - Township squares
    - Sections



## 9 Legal Descriptions

- Methods of describing real estate
  - **Lot-and-block**
    - Plat map
    - Lot
    - Block





## 9 Legal Descriptions

- Measuring elevations
  - **Air lots**
  - **Datum**
  - **Benchmarks**



# **Chapter 10**

## **Real Estate Taxes and Other Liens**

One type of lien is the mechanic's lien, commonly found in home construction, rehabilitation, and addition projects.



## 10 Real Estate Taxes and Other Liens

- Learning objectives
  - **Identify** the various classifications of liens
  - **Describe** how real estate taxes are applied through assessments, tax liens, and the use of equalization ratios
  - **Explain** how nontax liens, such as mechanics' liens, mortgage liens, and judgment liens are applied and enforced
  - **Distinguish** the characteristics of voluntary, involuntary, statutory, and equitable liens





## 10 Real Estate Taxes and Other Liens

- Creating liens (VISE)
  - **V**oluntary—created intentionally
  - **I**nvoluntary—created by law
    - **S**tatutory—created by statute
    - **E**quitable—created by common law

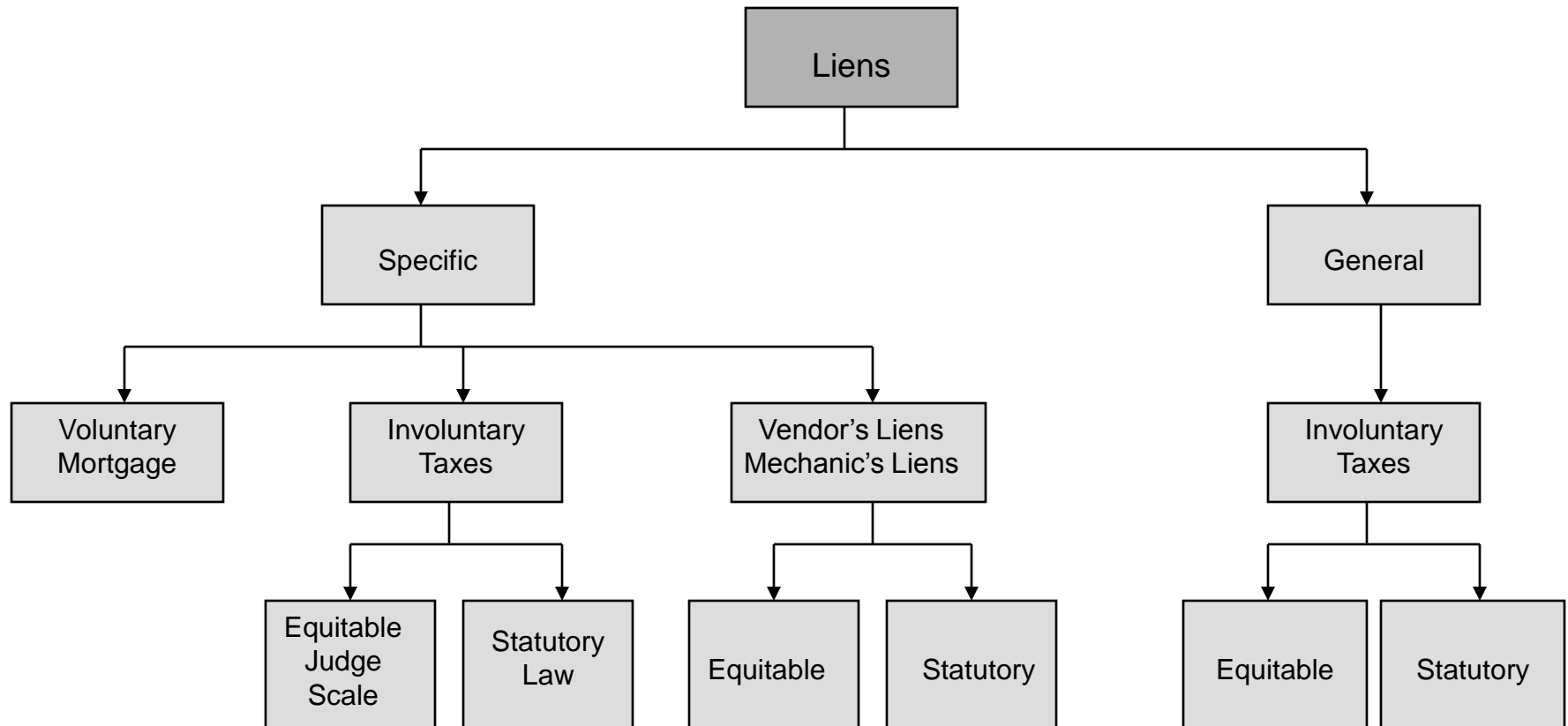


# 10 Real Estate Taxes and Other Liens

- Types of Liens
  - **General**
    - Affect all property, both real and personal
  - **Specific**
    - Secured by specific property
- Priority
- Subordination



# 10 Real Estate Taxes and Other Liens





## 10 Real Estate Taxes and Other Liens

- Types of tax liens
  - General (**ad valorem**)
    - Exemptions
    - Assessed value
    - Equalization
    - Tax rates and billing
    - Enforcement
      - Tax sale
      - Right of redemption—equitable or statutory
  - **Special assessments**
- Homeowner tax relief



## 10 Real Estate Taxes and Other Liens

- Other liens on real property
  - **Mechanic's** liens
  - **Judgment** liens
    - **Lis pendens**
    - **Attachment**
  - Estate and inheritance tax liens
  - Liens for municipal utilities
  - Bail bond lien
  - Corporation franchise lien
  - IRS tax lien



# **Chapter 11**

## **Real Estate Contracts**

The signing of a valid real estate contract is the keystone of a real estate transaction.



# 11 Real Estate Contracts

- Learning objectives
  - **Identify** the requirements for a valid contract
  - **Describe** the various types of contracts used in the real estate business
  - **Explain** how contracts may be discharged
  - **Distinguish** among bilateral and unilateral; executed and executory; and valid, void, and voidable contracts



# 11 Real Estate Contracts

- Contract law
- A contract is a
  - voluntary agreement or promise between
  - legally competent parties
  - supported by legal consideration
  - for a legal act





# 11 Real Estate Contracts

- Types of contracts
  - **Express** or implied
  - **Bilateral** or **unilateral**
  - **Executed** or **executory**



# 11 Real Estate Contracts

- **Elements of a valid contract**

- Offer and acceptance
- Consideration
- Consent
- Legal purpose
- Legally competent parties



# 11 Real Estate Contracts

- Validity of contracts
  - **Valid**: meets all the essential legal elements
  - **Void**: lacks some or all of the essential legal elements
  - **Voidable**: *appears* to be valid, but may be rescinded or disaffirmed by one or both parties based on some legal principle
  - **Unenforceable**: *appears* to be valid but neither party can sue the other for performance



# 11 Real Estate Contracts

- Discharge of contracts
  - **Performance**: “time is of the essence”
  - **Assignment**: *transfer* of existing contractual rights or duties
  - **Novation**: *substitution* of a new contract in place of the original



# 11 Real Estate Contracts

- Contracts used in the real estate business
  - Listing agreements
  - Buyer agency agreements
  - Real estate sales contracts
  - Option agreements
  - Land contracts or contracts for deed
  - Leases
  - Escrow agreements



# **Chapter 12**

## **Transfer of Title**

A wide variety of documents are needed to establish title, transfer title, and track ownership rights in real property.



## 12 Transfer of Title

- Learning objectives
  - **Identify** the basic requirements for a valid deed
  - **Describe** the fundamental types of deeds
  - **Explain** how property may be transferred through involuntary alienation
  - **Distinguish** transfers of title by will from transfers by intestacy



## 12 Transfer of Title

- **Voluntary alienation**

- A **grantor** conveys property title to a grantee
- A **grantee** receives property title from a grantor
- A **deed** is the instrument that conveys property title from a grantor to a grantee





## 12 Transfer of Title

- Requirements for a valid deed
  - Grantor with **legal competency** to execute the deed
  - Identifiable, **named grantee**
  - Statement of **consideration**
  - **Granting** clause
  - **Habendum** clause
  - Accurate **legal description** of the property conveyed
  - **Exceptions** or **reservations**
  - **Signature** of the grantor, including acknowledgment
  - **Delivery** and **acceptance** by the grantee

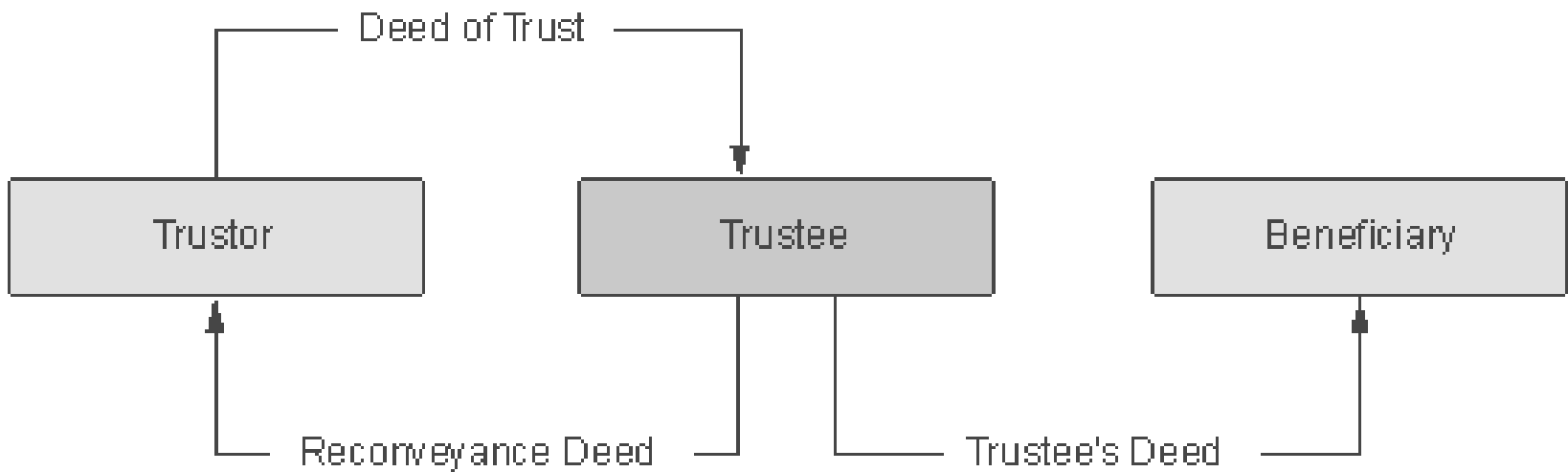


## 12 Transfer of Title

- Types of deeds
  - **General warranty** deed
  - **Special warranty** deed
  - **Bargain and sale** deed
  - **Quitclaim** deed
  - Deed executed pursuant to court order
  - Deeds used in a trust:
    - Deed in trust
    - Trustee's deed
    - Reconveyance deed

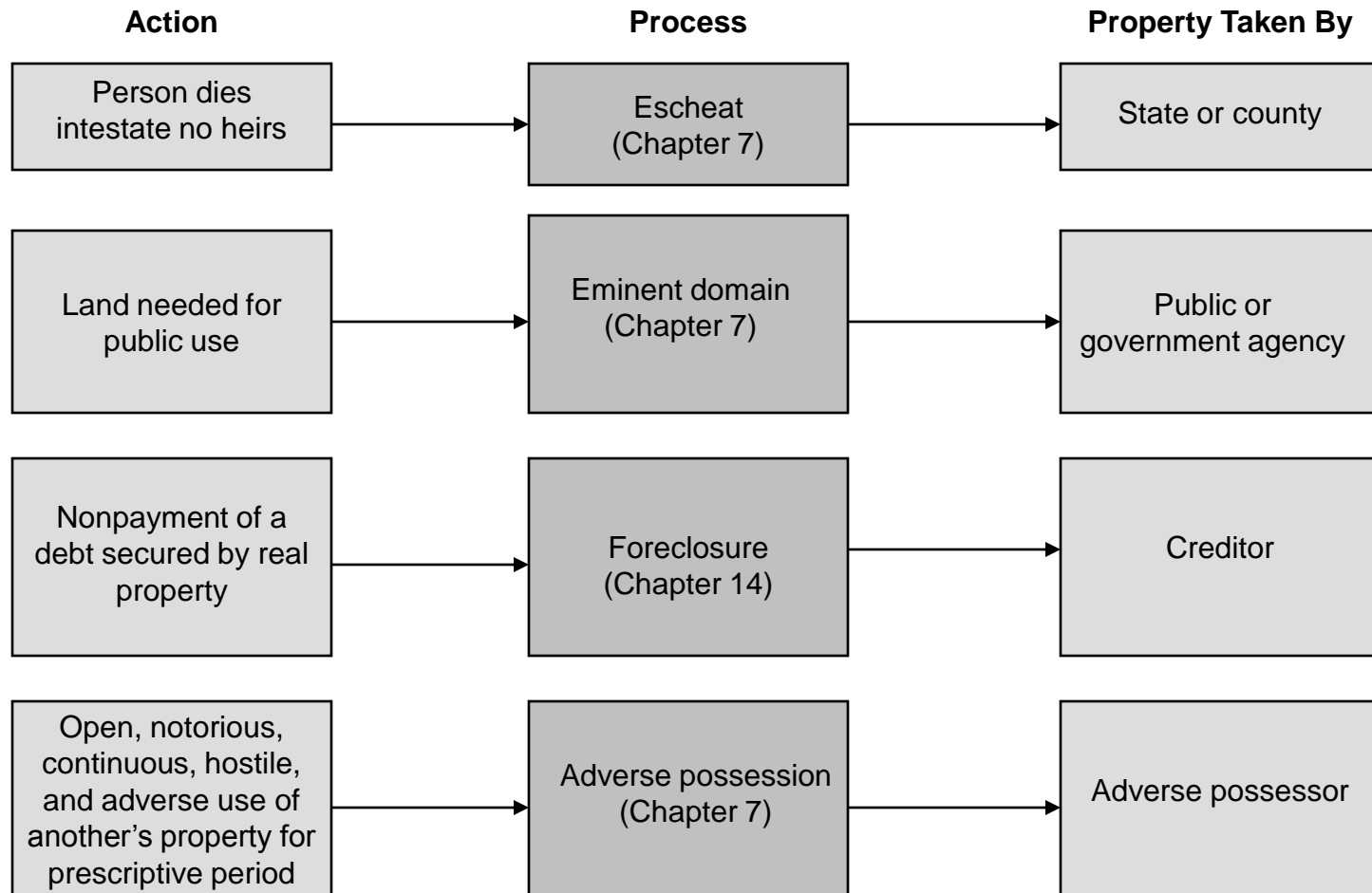


## 12 Transfer of Title





# 12 Transfer of Title





## 12 Transfer of Title

- Transfer of deceased person's property
  - Transfer of title by **will**
    - **Testate**
  - Transfer of title by **descent**
    - **Intestate**
  - **Probate** proceedings



# **Chapter 13**

## **Title Records**

The recording of property ownership is a serious undertaking, and the storage and maintenance of ownership and title records is a function of government.



## 13 Title Records

- Learning objectives
  - **Identify** the various proofs of ownership
  - **Describe** recording, notice, and chain of title issues
  - **Explain** the process and purpose of a title search
  - **Distinguish** constructive and actual notice



## 13 Title Records

- Public records
  - **Recording**: the act of placing documents in the public record
  - **Notice**: constructive or actual
  - **Priority**: the order of rights in time
  - **Chain of title**: the record of a property's ownership
  - **Title search and abstract of title**
  - **Marketable title**





## 13 Title Records

- Proof of ownership
  - **Certificate** of title
  - **Abstract** and **attorney's opinion** of title
  - **Title insurance**
    - Standard coverage
    - Extended coverage
    - Owner's policy
    - Lender's policy
  - **Torrens** system



# **Chapter 14**

## **Real Estate Financing: Principles**

This financing chapter focuses on the documents and concepts involved in real estate lending.



# 14 Real Estate Financing: Principles

- Learning objectives
  - **Identify** the basic provisions of security and debt instruments: promissory notes, mortgage documents, deeds of trust, and land contracts
  - **Describe** the effect of discount points on yield
  - **Explain** the procedures involved in a foreclosure
  - **Distinguish** between lien and title theories
  - **Explain** the three methods of foreclosure



# 14 Real Estate Financing: Principles

- Mortgage law
  - **Mortgagor** = Borrower
  - **Mortgagee** = Lender
  - **Title theory**
  - **Lien theory**



# 14 Real Estate Financing: Principles

- Security and debt
  - **Hypothecation**
  - **Promissory note**
    - Interest
    - Usury
    - Loan origination fee
    - Discount points
    - Prepayment penalty



# 14 Real Estate Financing: Principles

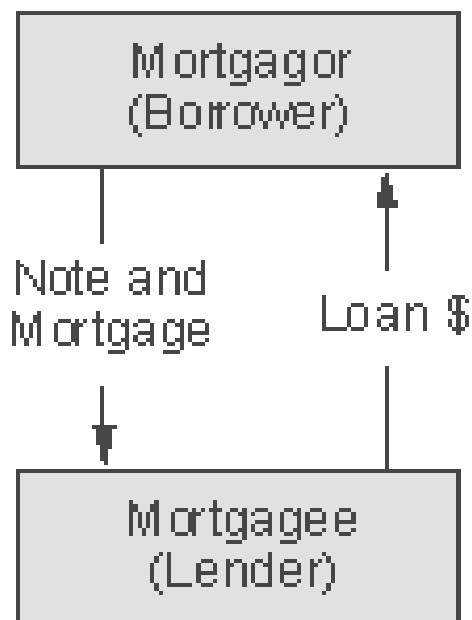
- Mortgages or deeds of trust
  - **Assignment** of note
  - Release of note
  - Tax and insurance **reserves**
    - Flood insurance reserves
  - Assignment of rents
- Buying “**subject to**” or **assumption**
- Recording and priority



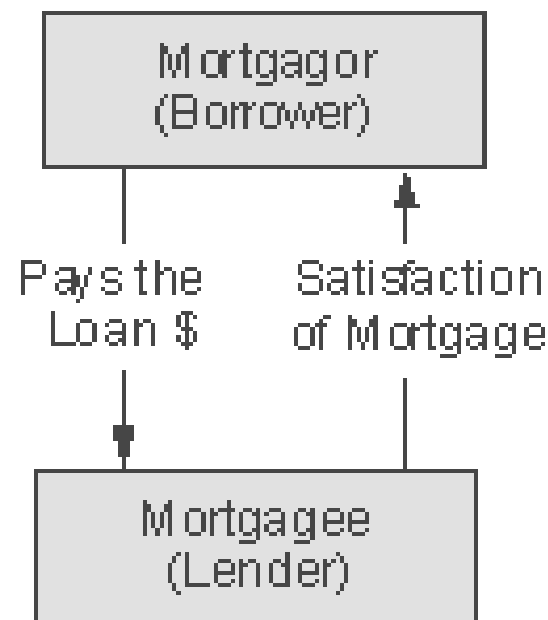
# 14 Real Estate Financing: Principles

## Mortgage—Two Parties

### When the Money is Borrowed



### When the Money is Repaid

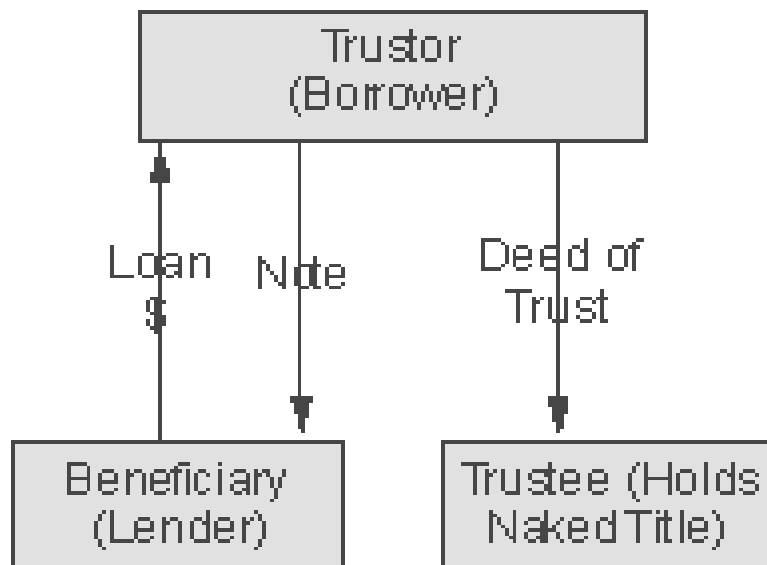




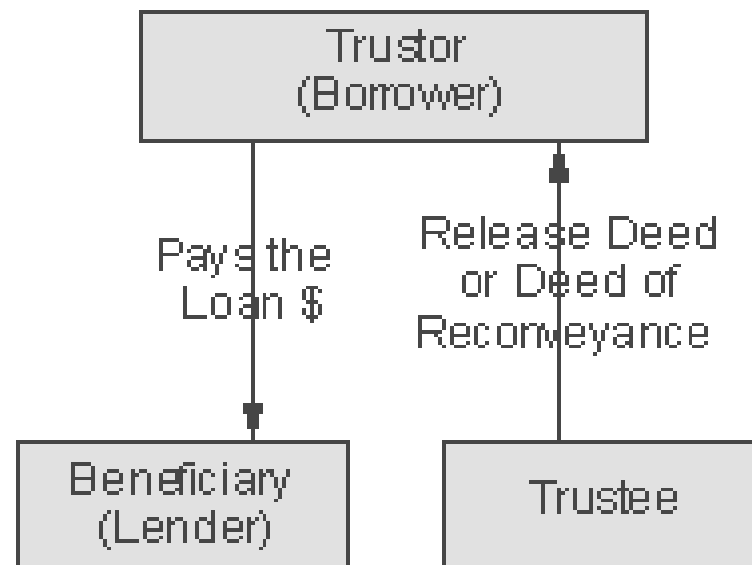
# 14 Real Estate Financing: Principles

## Deed of Trust—Three Parties

### When the Money is Borrowed



### When the Money is Repaid







# 14 Real Estate Financing: Principles

- Land contracts
  - **Contract for deed** or **installment contract**
  - Other financing may not be available
  - Buyer = **vendee**
  - Seller = **vendor**
  - Owner financing

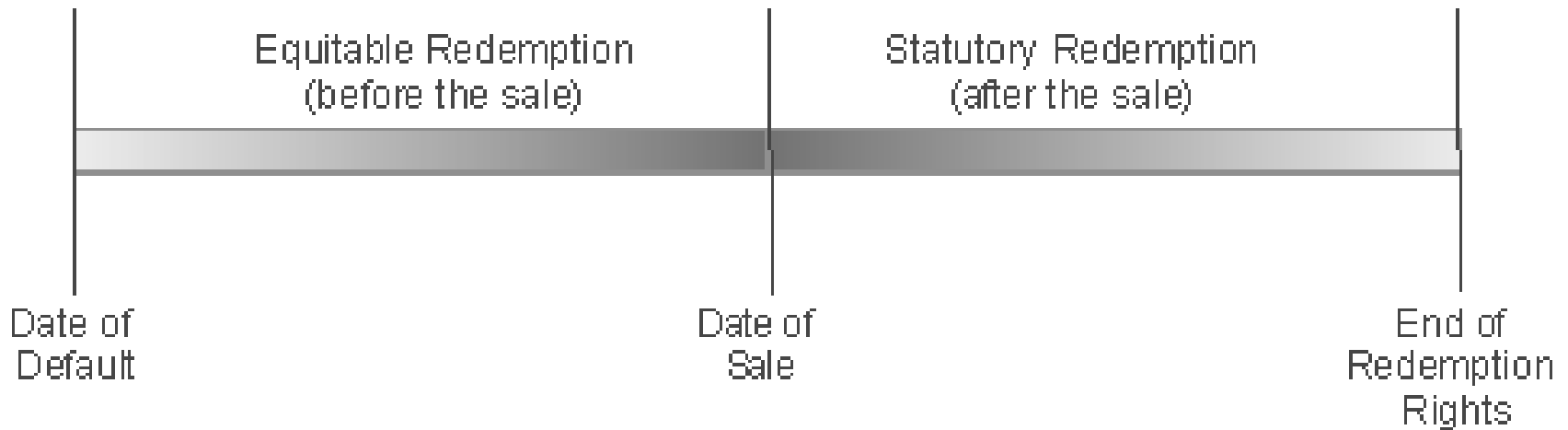


# 14 Real Estate Financing: Principles

- Foreclosure
  - **Judicial**
  - **Nonjudicial**
  - **Strict**
  - **Deed in lieu of foreclosure**
- Deed to purchaser at sale
- **Deficiency** judgment
- Redemption
  - **Equitable**
  - **Statutory**



# 14 Real Estate Financing: Principles





# **Chapter 15**

## **Real Estate Financing: Practice**

This chapter focuses on the institutions and logistics of real estate lending.



## 15 Real Estate Financing: Practice

- Learning objectives
  - **Identify** the types of institutions in the primary and secondary mortgage markets
  - **Describe** the various types of financing techniques available to real estate purchasers and the role of government financing regulations
  - **Explain** the requirements and qualifications for conventional, FHA, and VA loan programs
  - **Distinguish** among the different types of “creative” financing techniques that address borrowers’ different needs
  - **Review** legislation affecting real estate financing



# 15 Real Estate Financing: Practice

- Real estate financing market
  - Federal Reserve System (FED)
  - **Primary** Mortgage Market
    - Thrifts, savings associations, commercial banks
    - Insurance companies
    - Credit unions
    - Pension funds
    - Endowment funds
    - Investment group financing
    - Mortgage banking companies
    - Mortgage brokers

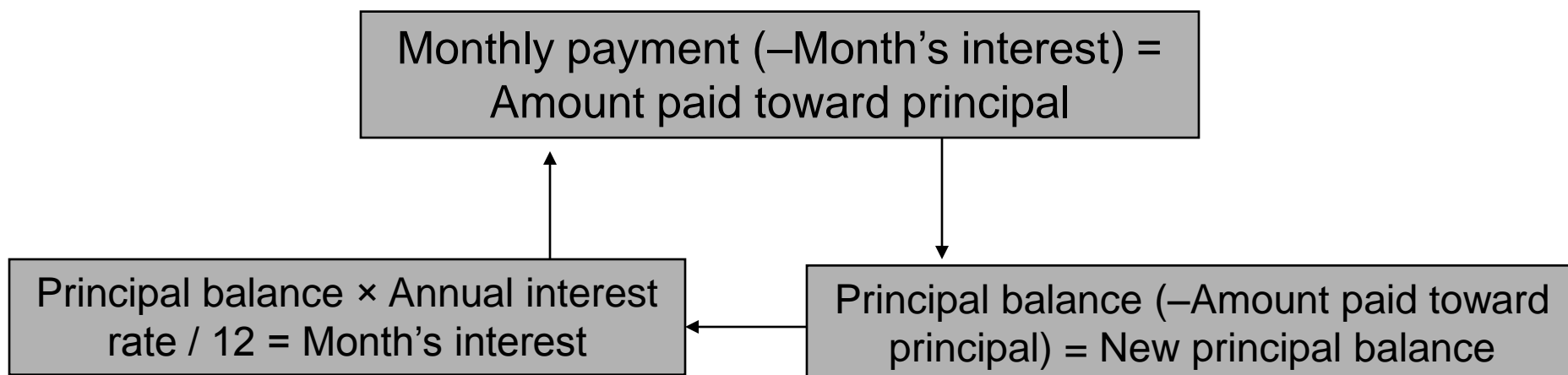


# 15 Real Estate Financing: Practice

- Real estate financing market
  - **Secondary** Mortgage Market
    - Fannie Mae
    - Freddie Mac
    - Ginnie Mae



## 15 Real Estate Financing: Practice







# 15 Real Estate Financing: Practice

Monthly Payment (–Month's interest) = Amount paid toward principal

1.  $\$1,074.00 - \$968.76 = \$105.24$

2.  $\$1,074.00 - \$968.08 = \$105.92$

Principal balance  $\times$  Annual interest rate  $\div$  12 = Month's interest

1.  $\$150,000.00 \times 7.75\% \div 12 = \$968.75$

2.  $\$149,894.76 \times 7.75\% \div 12 = \$968.07$

Principal balance (–Amount paid toward principal) = New principal balance

1.  $\$150,000.00 - \$105.24 = \$149,894.76$

2.  $\$149,894.76 - \$105.92 = \$149,788.84$



## 15 Real Estate Financing: Practice

- Financing legislation
  - Truth-in-Lending Act and Regulation Z
    - Special *creditor* definition
    - Three-day right of rescission
    - Advertising *trigger* terms
    - Penalties
  - Equal Credit Opportunity Act (ECOA)
  - Community Reinvestment Act (CRA)
  - Real Estate Settlement Procedures Act (RESPA)



# 15 Real Estate Financing: Practice

- Loan programs
  - **Conventional** loans
    - Loan-to-value ratio (LTV)
    - Private mortgage insurance (PMI)
  - **FHA-insured** loans
  - **VA-guaranteed** loans
  - **Agricultural** loan programs



# 15 Real Estate Financing: Practice

- Financing techniques
  - **Straight** loans
  - **Interest-only** mortgages
  - **Balloon** payment loans
  - **Amortized** loans
  - **Adjustable-rate mortgages** (ARMs)
  - **Growing-equity mortgages**
  - **Reverse mortgages**



# 15 Real Estate Financing: Practice

- Other financing techniques
  - **Purchase-money** mortgages
  - **Package** loans
  - **Blanket** loans
  - **Wraparound** loans
  - **Open-end** loans
  - **Construction** loans
  - **Sale-and-leaseback**
  - **Buydowns**
  - **Home equity** loans



## **15 Real Estate Financing: Practice**

- Computerized loan origination (CLO)
  - Electronic network for handling loan applications
  - Scoring and automated underwriting



# Chapter 16

## Leases

Rental units come in all shapes and sizes; from single-family homes to multistory high-rises that contain hundreds of units.



## 16 Leases

- Learning objectives
  - **Identify** the four types of leasehold estates
  - **Describe** the requirements and general conditions of a valid lease, and how a lease may be discharged
  - **Explain** the rights of landlords and tenants in an eviction proceeding, and the effect of pro-tenant legislation and civil rights laws on the landlord-tenant relationship
  - **Distinguish** the various types of leases



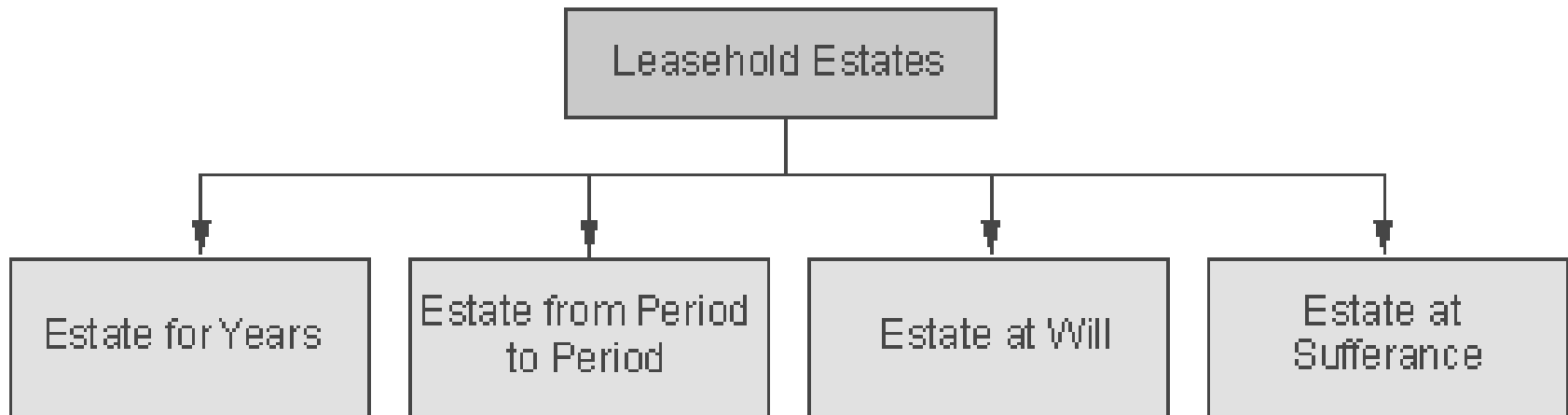


## 16 Leases

- Leasehold estates
  - Estate for **years**
  - Estate from **period to period** (periodic tenancy)
  - Estate **at Will**
  - Estate **at Sufferance**



# 16 Leases





## 16 Leases

- **Requirements** of a valid lease
  - Offer and acceptance
  - Consideration
  - Capacity to contract
  - Legal objectives



## 16 Leases

- Lease agreements
  - Possession of premises
  - Use of premises
  - Term of lease
  - Security deposit
  - Improvements
  - Maintenance



# 16 Leases

- Lease agreements
  - Destruction of premises
  - Assignment and subleasing
  - Recording a lease
  - Nondisturbance clause
  - Options



## 16 Leases

- Discharge of leases
  - Breach
  - Suit for possession: **actual eviction**
  - Tenants' remedies: **constructive eviction**
  - Pro-tenant legislation



## 16 Leases

- Fair Housing and Civil Rights Laws
  - Affect landlords and tenants
  - Cannot discriminate against protected classes



# **Chapter 17**

## **Property Management**

This manager may be checking a property's plans for adequate fire planning, for upgrading the HVAC system, or for a remodeling project.

A property manager is also a "people manager" and relationships are important.





# 17 Property Management

- Learning objectives
  - **Identify** the basic elements of a management agreement
  - **Describe** a property manager's functions
  - **Explain** the role of environmental regulations and the Americans with Disabilities Act in the property manager's job
  - **Distinguish** the various types of insurance alternatives



# 17 Property Management

- Elements of a **management agreement**
  - Description of the property
  - Time period
  - Definition of the manager's responsibilities
  - Statement of the owner's purpose
  - Extent of the manager's authority



# 17 Property Management

- Elements of a **management agreement**
  - Reporting requirements
  - Compensation
  - Allocation of costs
  - Antitrust provisions
  - Equal opportunity statement



# 17 Property Management

- Manager's responsibilities
  - Financial reports
  - Renting the property
  - Marketing
  - Selecting tenants
  - Collecting rents
  - Maintaining good tenant relations



# 17 Property Management

- Manager's responsibilities
  - Maintaining the property
    - **Preventive**
    - **Repair or corrective**
    - **Routine**
    - **Construction**
    - **Tenant improvements**



# 17 Property Management

- Federal laws affecting property management
  - ECOA
  - Fair Housing Act
  - Americans with Disabilities Act (ADA)



# 17 Property Management



Provide doors with automatic opening mechanisms



Provide menus (and real estate listings) in a large-print or Braille format



Install an intercom so customers can contact a second-floor business in a building without an elevator



Lower public telephones



Add grab bars to public restroom stalls



Permit guide dogs to accompany customers



Provide a shopper's assistant to help disabled customers



Provide ramps in addition to entry stairs



# 17 Property Management

- Risk management
  - **Risk management techniques**
  - Tenant security





# 17 Property Management

- Risk management
  - Insurance
    - Fire and hazard
    - Flood
    - Consequential loss, use, and occupancy
    - Contents and personal property
    - Liability
    - Casualty
    - Surety bonds
  - Handling environmental concerns



# **Chapter 18**

## **Real Estate Appraisal**

Measurement is vital to the appraiser. Not just physical measurement in feet and inches, but measurement of value and cost.



## 18 Real Estate Appraisal

- Learning objectives
  - **Identify** the different types and basic principles of value
  - **Describe** the three basic valuation approaches used by appraisers
  - **Explain** the steps in the appraisal process
  - **Distinguish** the four methods of determining reproduction or replacement cost



# 18 Real Estate Appraisal

- Appraisal process
  1. State the problem
  2. List the data needed
  3. Gather, record, verify, and analyze data
    - General data
    - Specific data
    - Data for each approach
  4. Determine the highest and best use
  5. Estimate the land value
  6. Estimate value by each of the three approaches
  7. Reconcile the estimated values
  8. Report the final value estimate



# 18 Real Estate Appraisal

- Value
  - Market **value**
  - Market **price**
  - **Cost**



# 18 Real Estate Appraisal

- Basic principles of value
  - **Anticipation**
  - **Change**
  - **Competition**
  - **Conformity**
  - **Contribution**
  - **Highest and best use**



# 18 Real Estate Appraisal

- Basic principles of value
  - **Increasing and diminishing returns**
  - **Plottage**
  - **Regression and progression**
  - **Substitution**
  - **Supply and demand**



## 18 Real Estate Appraisal

- **Sales comparison approach** to value
  - Subject property versus comparable properties
  - Property rights
  - Financing concessions
  - Market conditions
  - Conditions of sale
  - Market conditions since date of sale
  - Location
  - Physical features and amenities





# 18 Real Estate Appraisal

- **Cost approach** to value
  - **Reproduction** cost versus replacement cost new
    - **Square-foot** method
    - **Unit-in-place** method
    - **Quantity-survey** method
    - **Index** method
  - **Depreciation**
    - **Physical** deterioration
    - **Functional** obsolescence
    - **External** obsolescence



## 18 Real Estate Appraisal

- **Income approach to value**
  - **Annual potential income**
  - **Effective gross income**
  - **Annual operating expenses**
  - **Capitalization rate**
  - **Gross rent multiplier (GRM)**
  - **Gross income multiplier (GIM)**



# 18 Real Estate Appraisal

- **Reconciliation**

- Not taking an average of the three estimates of value
- Certain approaches are more valid and reliable with some types of properties
- Different weight given to each approach



# **Chapter 19**

## **Land-Use Controls and Property Development**

Issues controlled by local land-use controls include how close developers can place units to each other and how to protect historic characteristics of an area.



# 19 Land-Use Controls and Property Development

- Learning objectives
  - **Identify** the various types of public and private land-use controls
  - **Describe** how a comprehensive plan influences local real estate development
  - **Explain** the various issues involved in subdivision
  - **Distinguish** the function and characteristics of building codes and zoning ordinances



# 19 Land-Use Controls and Property Development

- The **comprehensive plan**
  - Land use
  - Housing needs
  - Movement of people and goods
  - Community facilities and utilities
  - Energy conservation



# 19 Land-Use Controls and Property Development

- Zoning ordinances
  - **Buffer** zones
  - **Bulk** zoning
  - **Aesthetic** zoning
  - **Incentive** zoning
- 14th Amendment and Takings Clause (5th Amendment)
  - **Taking**
  - **Inverse condemnation**



# 19 Land-Use Controls and Property Development

- Zoning permits
  - Zoning hearing board
  - Nonconforming use
  - Conditional use
  - Variance





# 19 Land-Use Controls and Property Development

- Subdivision
  - Subdivider versus developer
  - Land planning
    - Plat
  - Subdivision plan
  - Density



# 19 Land-Use Controls and Property Development

- Subdivision
  - **Private land-use controls**
    - Restrictive covenants
    - May be more restrictive than zoning ordinances
  - Regulation of land sales
    - **Interstate Land Sales Full Disclosure Act**
    - State subdivided land sales laws



# **Chapter 20**

## **Fair Housing and Ethical Practices**

Fair housing is not just “nice to have”—it’s the law. Fair housing practices are established by local, state, and national laws and regulations, and the judicial system actively enforces them.



## 20 Fair Housing and Ethical Practices

- Learning objectives
  - **Identify** the classes of people who are protected against discrimination in housing by various federal laws
  - **Describe** how the Fair Housing Act is enforced
  - **List** the exemptions allowed in the Fair Housing Act



## 20 Fair Housing and Ethical Practices

- Learning objectives
  - **Explain** how fair housing laws address a variety of discriminatory practices and regulate real estate advertising
  - **Distinguish** the protections offered by the Fair Housing Act, the Housing and Community Development Act, the Fair Housing Amendments Act, the Equal Credit Opportunity Act, and the Americans with Disabilities Act



## 20 Fair Housing and Ethical Practices

- Equal opportunity in housing
  - **Civil Rights Act of 1866**
  - Fair Housing Act
  - HUD
    - “Housing”
    - “Familial status”
    - “Disability”



**We Do Business in Accordance With the Federal Fair  
Housing Law**

(The Fair Housing Amendments Act of 1988)

**It is Illegal to Discriminate Against Any Person  
Because of Race, Color, Religion, Sex,  
Handicap, Familial Status, or National Origin**

- In the sale or rental of housing or residential lots
- In the provision of real estate brokerage services
- In advertising the sale or rental of housing
- In the appraisal of housing
- In the financing of housing
- Blockbusting is also illegal

Anyone who feels he or she has been discriminated against may file a complaint of housing discrimination with the:  
1-800-424-8590 (Toll Free)  
1-800-424-8529 (TDD)

U.S. Department of Housing and  
Urban Development  
Assistant Secretary for Fair Housing and  
Equal Opportunity  
Washington, D.C. 20410



## 20 Fair Housing and Ethical Practices

- Equal opportunity
  - Jones v. Mayer
  - **Equal Credit Opportunity Act**
  - Americans with Disabilities Act





## 20 Fair Housing and Ethical Practices

- Fair housing issues
  - **Blockbusting**
  - **Steering**
  - **Advertising**
  - **Redlining**
- Intent and effect
- Response to concerns of terrorism



## 20 Fair Housing and Ethical Practices

- **Enforcement** of the Fair Housing Act
  - Complaints initiate investigation by HUD
  - Conciliation
  - Administrative proceedings
  - Penalties
  - Civil action in federal court



## 20 Fair Housing and Ethical Practices

- Professional **ethics**
  - Standards for integrity and competence in dealing with consumers
  - Code of conduct for relations among industry professionals
  - Code of Ethics



# **Chapter 21**

## **Environmental Issues and the Real Estate Transaction**

Pollution, such as hazardous runoff into local waterways, is a serious issue for homeowners, developers, and real estate professionals.



## 21 Environmental Issues and the Real Estate Transaction

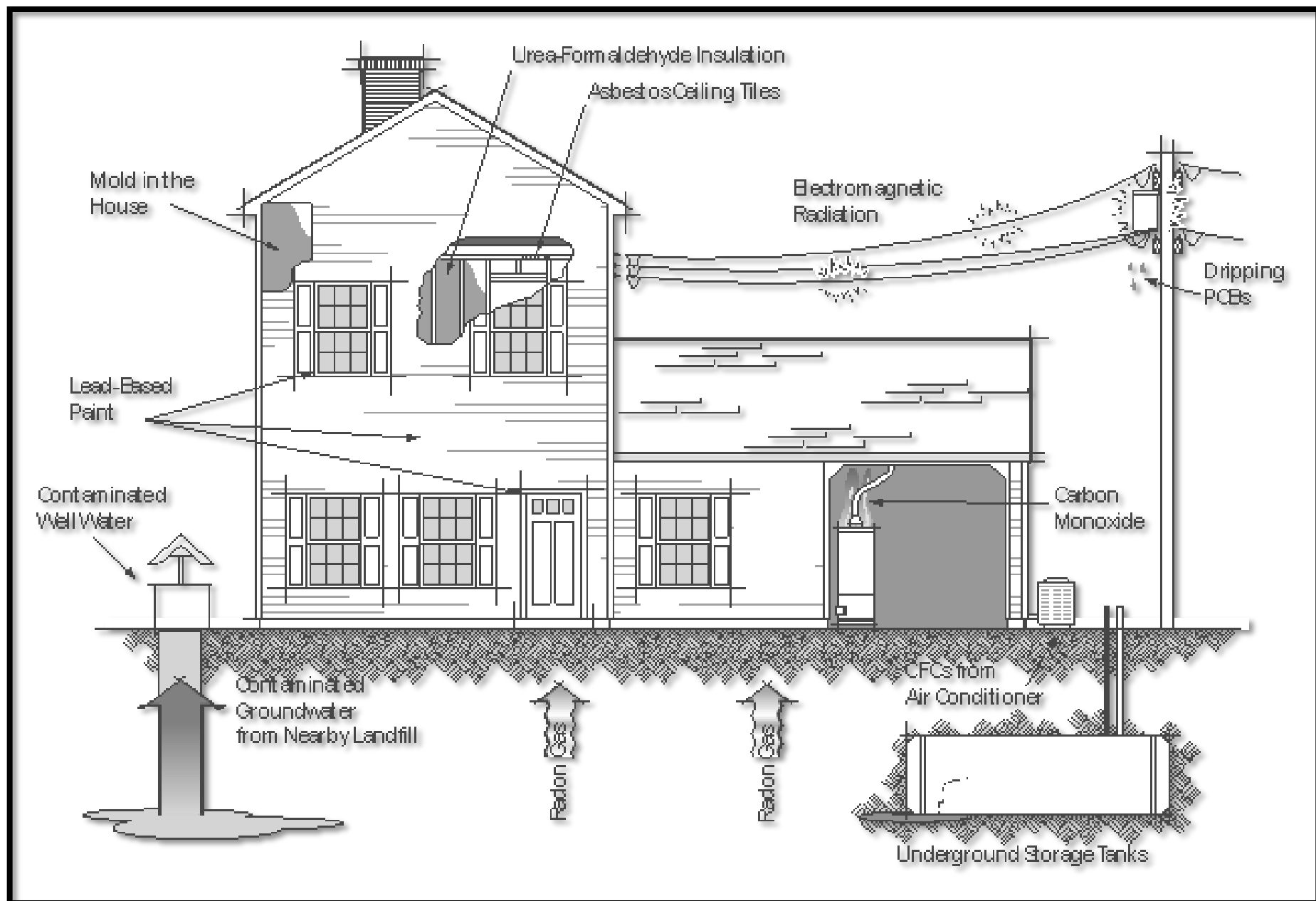
- Learning objectives
  - **Identify** the basic environmental hazards an agent should be aware of in order to protect the client's interests
  - **Describe** the warning signs, characteristics, causes and solutions for the various environmental hazards most commonly found in real estate transactions
  - **Explain** the fundamental liability issues arising under environmental protection laws
  - **Distinguish** lead-based paint issues from other environmental issues



## **21 Environmental Issues and the Real Estate Transaction**

- **Hazardous substances**

- Asbestos
- Lead-based paint and other lead hazards
- Radon
- Formaldehyde
- Carbon Monoxide
- Polychlorinated Biphenyls (PCBs)
- Chlorofluorocarbons (CFCs)
- Mold
- Electromagnetic fields





## **21 Environmental Issues and the Real Estate Transaction**

- **Groundwater protection**
  - Groundwater
  - Water table
  - Safe Drinking Water Act (SDWA)
- **Underground Storage Tanks (USTs)**
  - Registration and administrative requirements
  - Exempted types of tanks





## 21 Environmental Issues and the Real Estate Transaction

- Landfills
  - **Capping**
- **Brownfields**
- Comprehensive Environmental Response, Compensation, and Liability Act (**CERCLA**)
- Superfund Amendments and Reauthorization Act (**SARA**)



## **21 Environmental Issues and the Real Estate Transaction**

- **Agent liability**
  - Discovery of environmental hazards
  - Environmental site assessments
  - Environmental Impact Statements (EIS)
  - Disclosure of environmental hazards



# **Chapter 22**

## **Closing the Real Estate Transaction**

Some closings are face-to-face, and some are conducted through escrow.



## 22 Closing the Real Estate Transaction

- Learning objectives
  - **Identify** the issues of particular interest to the buyer and the seller as a real estate transaction closes
  - **Describe** the steps involved in preparing a closing statement
  - **Explain** the general rules for prorating
  - **Distinguish** the procedures involved in face-to-face closings from those in escrow closings



## 22 Pre-closing Issues

- Buyer's issues
  - Title evidence
  - Seller's deed
  - Removal of liens and encumbrances
  - Survey
  - Inspection results
  - Leases
- Seller's issues
  - Payment
  - Buyer financing
  - Compliance with buyer requirements



## **22 Closing the Real Estate Transaction**

- The closing
  - Face-to-face closing
  - Closing in escrow



## 22 Closing the Real Estate Transaction

- **RESPA** requirements
  - Controlled business arrangements (**CBA**)
  - Disclosure requirements
    - **Information booklet**
    - **Good-faith estimate of settlement costs**
    - **Uniform Settlement Statement (HUD-1)**
  - Prohibition on kickbacks and referral fees



## 22 Closing the Real Estate Transaction

- Prorations
  - Accrued items
  - Prepaid items
  - Rules for prorating
    - Ownership on closing day
    - Calendar for calculating prorations
    - Taxes
    - Assessments
    - Interest
    - Rents
    - Security deposits





# **Chapter 23**

## **Real Estate Investment**

One type of real estate investment is unimproved land; but, this type of investment has many uncertainties.



## 23 Real Estate Investment

- Learning objectives
  - **Identify** the advantages and disadvantages of property investing
  - **Describe** the difference between adjusted basis and capital gains
  - **Explain** the concepts of pyramiding
  - **Distinguish** between depreciation and appreciation



## 23 Real Estate Investment

- Advantages of real estate
  - Rate of return may justify borrowing
  - Greater control of investment
  - Tax benefits



## 23 Real Estate Investment

- Disadvantages of real estate
  - Not highly liquid
  - Large amounts of capital usually needed
  - Requires active management
  - Does not guarantee profit



## 23 Real Estate Investment

- Types of property and objectives
  - Types of property
    - Income property: managed for appreciation or cash flow
    - Unimproved land: riskier investment
  - Income objective
  - Cash flow objective



## 23 Real Estate Investment

- Leverage
  - Goal: small down payment, low interest rate, and long-term payments
  - Equity build-up
  - Pyramiding
    - Pyramiding through sale
    - Pyramiding through refinance



## 23 Real Estate Investment

- Tax benefits
  - Capital gains
  - Depreciation (cost recovery)
  - Exchanges
  - Tax deductions
  - Installment sales



## 23 Real Estate Investment

- Other investments
  - Real estate investment syndicates
  - Real Estate Investment Trusts (REIT)
  - Real Estate Mortgage Investment Conduits (REMIC)