Chartered Realty Investor

Sample items to prepare for the examination for CRI Associates

1.
A father and his two sons own an apartment building valued at $1,000,000 as tenants in common. The father owns a 60% interest and each son owns a 20% interest. Which of the following is the best estimate of an unrelated third party's valuation of the father's interest?

A. $540,000
B. $600,000
C. $660,000
D. $720,000

Answer: B

2.
A developer is trying to assemble three parcels of land for a shopping center. He pays $10,000 for an option to purchase Parcel A for $100,000. He purchases Parcel B for $150,000. The owner of Parcel C learns about the developer's plans and raises his price for parcel C to $500,000. The developer decides to abandon the project. What are the developer's costs?

A. $10,000
B. $110,000
C. $160,000
D. $260,000

Answer: C

3.

A potential purchaser of a Class B suburban office building is considering the following buildings:

1. **<u>Building 1</u> is on a prominent street close to several other multi-story buildings. It is a new building with above average improvements including access to fiber optics. It is well maintained and managed by one of the top management companies in the area.**

2. **<u>Building 2</u> is in an older part of the city. It is several years older than Building 1, but was renovated 8 years ago. Interior improvements are of average construction and the property is self-managed by the owner.**

3. **<u>Building 3</u> is a multi-story building close to a major highway. The building is 7-years-old, has a well landscaped courtyard, and ample surface parking surrounding the building. Interior improvements are above average. The building is managed by a regional management firm.**

4. **<u>Building 4</u> is on a very prominent street close to several multi-story buildings. The building is 3-years-old and is the most unique building in the area. Interior improvements are second to none with a marble lobby and exceptional tenant finishes. The building is extremely well maintained and managed by the top management company in the area.**

What building best matches the attributes of Class B suburban office use?

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

Answer: C

4.

An office building has a potential gross income of $1,465,000 and an effective gross income of $1,285,000. The building has the following expenses:

repair and maintenance	**$65,000**
insurance	**$25,000**
taxes	**$154,000**
utilities	**$125,000**
interest	**$372,000**
janitorial	**$31,000**

What is the net income ratio?

A. 40%
B. 47%
C. 60%
D. 69%

Answer: D

5.

Investors purchase a property for $1,000,000 and then form a corporation. The fair market value of the property is $3,000,000 at the time of the formation of the corporation. The property is transferred to the corporation in exchange for all of its authorized capital stock, which has a par value of $3,000,000. If this exchange does not qualify as a tax-deferred exchange, what is the taxable gain?

A. $0
B. $500,000
C. $1,000,000
D. $2,000,000

Answer: D

6.

Property owners M and N exchange properties conforming to an Internal Revenue Code Section 1031 Exchange. The like-kind mortgaged properties sold at their true market values. The amount of Realized Taxable Gain that N recognizes is any

1. **difference between the Fair Market Value and Adjusted Tax Basis of M's exchanged, like-kind property that N receives, to the extent of.**
2. **difference between the Fair Market Value and Adjusted Tax Basis of N's exchanged, like-kind property that M receives, to the extent of.**
3. **netted mortgage relief that M receives from N.**
4. **netted mortgage increase that N transfers to M.**

A. 1 and 3 only
B. 1 and 4 only
C. 2 and 3 only
D. 2 and 4 only

Answer: D

7.

An investor paid $6.5 million for a property 5 years ago. The property has depreciated by $1,200,000. A mortgage loan against the property has a current balance of $4,650,000. The property has a current appraised value of $7,475,000. The difference between the book value and the market value of the investor's equity is

A. $650,000.
B. $975,000.
C. $1,625,000.
D. $2,175,000.

Answer: D

8.
A corporation that owns real estate has prepared the following draft statement showing cash available for distribution to its shareholders:

Gross revenue	**$875,000**
Less:	
Operating expenses	**$212,500**
Depreciation expense	**$200,000**
Interest expense	**$320,000**
Taxable income	**$142,500**
Less:	
Income taxes	**$39,800**
Cash available to shareholders	**$102,700**

What is the flaw in this distribution statement?

A. Income taxes are calculated as a percentage of income before depreciation and interest expense.
B. Corporations do not pay income taxes.
C. Interest expense cannot be deducted from income before calculating the income tax liability unless debt amortization is also deducted.
D. Depreciation is a non-cash expense and represents additional cash available for shareholder distribution.

Answer: D

9.
A limited liability company is an investor in commercial real estate. The company had net income from continuing operations of $8,500,000 at the end of the year. The company incurred a new material expense during the year. According to generally accepted accounting principles, the material expense should be presented separately as

A. usual in nature, but infrequent in occurrence.
B. unusual in nature and infrequent in occurrence.
C. a cumulative effect type change in accounting principle.
D. an extraordinary item.

Answer: A

10.
A lender is considering whether to finance the purchase of Office Building A. Office Building A is subject to a mechanic's lien and a 10-year triple net lease with a single tenant. There is a fence that belongs to the owner of an adjacent building (Office Building B), which encroaches on the Office Building A parking lot. To complete the financing of Office Building A, the lender should require that the

1. **fence encroachment be removed or that title insurance be obtained to insure against loss relating to the encroachment.**
2. **tenant agree to subordinate its interest to the financing and to pay the rent to the lender in the event of a loan default.**
3. **parking easement be terminated and released of record.**
4. **mechanic's lien be released of record.**

A. 1, 2, and 3 only
B. 1, 2, and 4 only
C. 1, 3, and 4 only
D. 2, 3, and 4 only

Answer: B

11.
Which of the following are accurate descriptions of condominium, cooperative, or timeshare ownerships?

1. **Condominium ownership is strictly a creature of statute.**
2. **The business judgment rule applies in the management by boards of cooperative owners.**
3. **Notwithstanding that in a cooperative the applicable corporation or association owns the real estate, the interest of the individual owner of a cooperative share together with the rights associated therewith is generally held to be an interest in real estate for purposes of the statute of frauds.**
4. **A condominium association solely in its capacity as manager has standing to sue as a real party in interest to recover against the developer or contractor for construction defaults relating to the common property even without specific statutory authority unless restricted by statute, condominium declaration, by-laws, or other direction of condominium owners.**

A. 1, 2, and 3 only
B. 1, 2, and 4 only
C. 1, 3, and 4 only
D. 2, 3, and 4 only

Answer: A

12.
A borrower will receive money from a lender to buy a piece of raw land and construct a speculative office building. Which of the following representations and warranties of the borrower typically should be included in the mortgage or deed of trust that secures the loan in this transaction?

1. **The property complies with all applicable environmental laws.**
2. **The income generated by an office building property of an affiliate of the borrower that is located next door has been meeting income projections.**
3. **The property has access to a public road.**
4. **The affiliate's office building tenants are current in their rent payments.**

A. 1 and 2 only
B. 3 and 4 only
C. 1 and 3 only
D. 2 and 4 only

Answer: C

13.
Which of the following statements are accurate descriptions of a leasehold mortgage?

1. **A leasehold lender will require that its interest in the property be insured and that the lender receive notice from the insurer in connection with any cancellation or material change in coverage.**
2. **Non-curable, non-monetary defaults in a ground lease are acceptable to a ground lease mortgagee.**
3. **A mortgagable ground lease will provide that no action will be taken to terminate the lease for any default by the tenant until the mortgagee has been notified of the default and given a reasonable amount of time to cure such default.**
4. **A provision providing for termination of the ground lease in the event of the tenant's bankruptcy or insolvency is not objectionable to a ground lease mortgagee.**

A. 1 and 3 only
B. 2 and 4 only
C. 1 and 4 only
D. 2 and 3 only

Answer: A

14.
Lenders generally require a "non-merger provision" in the ground lease when a leasehold estate will be the collateral for a proposed loan because such a provision

A. prevents the inadvertent merger of the fee and leasehold estates of the real property when both estates are owned by the same person or entity.
B. forbids the assignment of the mortgage by operation of a merger or other corporate transaction by the borrower.
C. precludes the borrower and its ground lessor from entering into a merger or other corporate transaction with the lender's consent.
D. keeps the borrower's assets and liabilities from consolidating onto the financial statements of any of its principals or affiliates.

Answer: A

15.
A lessee is a debtor in a bankruptcy case and is delinquent in making payments under a commercial real estate lease. Which of the following conditions must be satisfied to assign its interest in the lease to someone else?

1. **The lessor must consent to the assignment.**
2. **The lessee must cure, or provide adequate assurance that it will promptly cure, any defaults under the lease.**
3. **The lessee or assignee must provide adequate assurance of future performance under the lease by the assignee.**
4. **The bankruptcy court must approve of the assignment.**

A. 1, 2, and 3 only
B. 1, 2, and 4 only
C. 1, 3, and 4 only
D. 2, 3, and 4 only

Answer: C

16.
Before funding a construction loan, a bank requires pre-leasing that produces a minimum debt service coverage ratio (DSCR) of 1.15, based on a 9% interest rate, and a 25-year amortization. They also require a stabilized valuation using a 10% capitalization rate that results in a 75% loan-to-value (LTV). The bank does not consider replacement reserves as an expense in its analysis. The bank considers a construction loan request with the following characteristics:

Net Rentable Square Feet	**50,000**
Preleased Square Feet	**36,000**
Rental Rate	**$20/SF triple net**
Loan Request	**$6,000,000**

Which of the following statements accurately describe facts about this request?

1. **The preleasing produces a 1.19 DSCR.**
2. **The stabilized valuation indicates a 60% LTV.**
3. **The stabilized valuation indicates an 83% LTV.**
4. **The preleasing produces a 1.66 DSCR.**

A. 1 and 2 only
B. 1 and 3 only
C. 2 and 4 only
D. 3 and 4 only

Answer: A

17.
A mortgage loan underwriter requires a less risky loan-to-value (LTV) ratio at the maturity date of a potential loan by selecting either a Balloon (i.e. Amortizing) or Bullet (i.e. Interest-only) loan structure. Both structures have the same mortgage coupon interest rate, initial mortgage principal face amount, and 10-year mortgage maturity date. The value of the subject mortgage collateral property is constant for the loan term with either loan structure. Which of the following accurately describe these loan structures?

1. **The Balloon loan is less risky than the Bullet loan.**
2. **The Bullet loan is less risky than the Balloon loan.**
3. **Balloon loan requires the potential borrower to pay a lower annual debt service.**
4. **Bullet loan requires the potential borrower to pay a lower annual debt service.**

A. 1 and 3 only
B. 1 and 4 only
C. 2 and 3 only
D. 2 and 4 only

Answer: B

18.
Tenants are seeking owner concessions for tenant improvements. Net effective rents have been $20/SF/year. Tenant build-outs generally are running $40/SF for full fit-ups. For the risk, the owner is expecting a 12.5% return and a 5-year recapture of the investment. What should be the approximate face rent in this environment?

A. $10/SF/year
B. $20/SF/year
C. $30/SF/year
D. $40/SF/year

Answer: C

19.
Potential gross income for a 240-unit apartment building is $3,456,000 per year while the effective gross income is $3,179,520 and operating expenses are $1,271,808. The vacancy rate is closest to

A. 8%.
B. 9%.
C. 14%.
D. 22%.

Answer: A

20.
The <u>efficiency ratio</u> is best described as the ratio between the

A. net rentable area of a building and its gross area.
B. product value flowing from a site and the labor and capital expenses.
C. net operating income and potential gross income.
D. ends produced and the means used.

Answer: C

21.
A CRI Charter holder is processing a loan for a multi-family complex. The complex contains 8 one-bedroom/one-bath units and 8 two-bedroom/two-bath units. Each unit is leased on a month-to-month basis and the complex is fully occupied. An appraisal indicates that the units are leased at below market rates, which is a factor contributing to a consistently high occupancy. One-bedroom units are leased for $550/month and two-bedroom units are leased for $700/month. The complex also has storage units in the garage, which are leased to tenants at $35/month. The appraiser estimates that the owner of the complex could raise rents by $50/month for each one- and two-bedroom unit. The average monthly rent per unit for the complex is

A. $625.
B. $660.
C. $675.
D. $710.

Answer: A

22.
A CRI Charterholder is processing a loan for a multi-family complex. The project contains 100 one-bedroom/one-bath units and 100 two-bedroom/two-bath units. Each unit is leased on a 12-month basis with tenants rolling over to new 12-month leases at expiration. The project has a master utility meter with tenants separately sub-metered and billed by the building ownership. Ownership collects, on average, $65/month per tenant for utility usage. Current contract rents for the project are $133,400 per month, but ownership has 40 leases terminating in the next 3 months and expects to raise rents on these units by $50/month. This rental increase is consistent with the appraiser's estimate of market rent. The average monthly rent per unit for the complex is

A. $667.
B. $677.
C. $752.
D. $762.

Answer: A

23.
A bank is competing for a large loan in one of its target markets. The bank must provide maximum loan dollars to win the financing. The bank differs from other lenders competing in one very important way. Which of the following could give an underwriting advantage to the bank, allowing it to prudently lend more dollars?

A. requires personal recourse
B. does not underwrite reserves
C. is not a publically-traded company
D. keeps loans in its portfolio

Answer: A

24.
A property shows an NOI before reserves of $200,000 in year 1 plus net cash flow before debt service, but after underwritten reserves, of $175,000. The property has a projected NOI of $250,000 and a projected NCF of $225,000. How should the lender calculate the most conservative loan amount based on a 30-year amortization schedule using a 1.30x DSR constraint?

A. projected NOI/1.30/rate
B. year 1 NCF/1.30/constant
C. year 1 NOI/1.30/rate
D. projected NCF/1.30/constant

Answer: B

25.
An investor is buying a warehouse for $1,000,000. A lender has offered a loan of $800,000 with the investor investing $200,000 of equity. The property has a 10-year flat lease to a credit tenant and yields a net operating income of $100,000 per year before debt service. Assuming an 8% rate compounded monthly and a 25-year amortization, what is this investor's return on equity?

A. 10.00%
B. 12.50%
C. 12.95%
D. 18.00%

Answer: C

26.
An investment property is purchased with borrowed money. The investor is enjoying positive leverage of the income based on calculation of comparative capitalization rates. What is the relationship, if any, between the capitalization rates on the debt and the property?

A. The property alone has a capitalization rate.
B. Cannot be determined without interest rate and net operating income information.
C. The property capitalization rate exceeds the debt constant.
D. The debt capitalization rate exceeds the property capitalization rate.

Answer: C

27.
A chief loan officer is reviewing an appraisal for a proposed collateral property. Market value was based on direct capitalization where the capitalization rate was estimated using a weighted average, band of investment method. Interest rates on loans have recently declined compared to the time when the appraisal was done. All other factors remain constant. If the appraiser revised the calculations to reflect the interest rate change, then what, if any, change should be expected in the market value of the property?

A. increased
B. decreased
C. neutral
D. cannot be estimated

Answer: A

28.
A fully-amortizing mortgage for an apartment project will carry a 7% rate compounded monthly, a 30-year term, and a value of $110.00. The U.S. Treasury 5.25% coupon, 30-year term, non-callable bond has a yield of 5.50%. Which of the following is the traditional measurement of the yield spread in basis points?

A. 8
B. 58
C. 66
D. 150

Answer: C

29.
A 20-year mortgage security on an apartment project will carry a Government National Mortgage Association-guaranteed 6% rate, a price of 95, and a U.S. Treasury 7.00% coupon, 20-year, non-callable bond with an annual yield of 6.57%. Which of the following is the traditional measurement of the yield spread in basis points?

A. -57.0
B. 7.5
C. 9.0
D. 17.0

Answer: D

30.
A fully-amortizing mortgage with an AA-rated credit enhancement has a 8% rate, 30-year term, 98 price, and a U.S. Treasury 8.00% coupon, 30-year, non-callable bond with an annual yield of 6.333%. Which of the following is the traditional measurement of the yield spread in basis points?

A. 14
B. 116
C. 138
D. 152

Answer: D

31.
Which of the following amounts is the equivalent conditional prepayment rate measurement for a mortgage or pool of mortgages with a 1% single monthly mortality rate?

A. 11.36%
B. 12.00%
C. 12.05%
D. 12.68%

Answer: A

32.
The owner of a 100,000 square foot office building has full-service gross leases. These leases include a provision requiring tenants to reimburse their pro rata share of operating expenses over and above the base year of their leases. Operating expenses for the last three full years were as follows:

one year ago	$600,000
two years ago	$550,000
three years ago	$500,000

Tenant A occupies 20,000 square feet and took occupancy three years ago. Tenant B occupies 20,000 square feet and took occupancy two years ago. How much should the owner have billed these tenants one year ago for their shares of operating expenses from the year before?

	Tenant A	Tenant B
A.	$0	$0
B.	$10,000	$0
C.	$10,000	$10,000
D.	$20,000	$10,000

Answer: B

33.
The following information is available about a city:

Characteristics	20 years ago	10 years ago
population	170,616	191,262
persons per household	2.47	2.25
% of households that are homeowners	63	59

Which of the following is the best straight-line forecast for the present number of homeowners?

A. 51,200
B. 54,700
C. 56,200
D. 57,800

Answer: D

34.

A sales office is in a downtown location that is three blocks from the city center. Travel costs are $25 per block each way. Each sales call results in an average of $350 in revenue. An average of 3,500 sales calls are made each year to the city center. Operating costs are $135,000 per year. What is the most rent the office could pay and still break even?

A. $565,000
B. $652,500
C. $740,000
D. $827,500

Answer: A