

TREC 3543
Introduction to Commercial Real Estate Sales
Exam Key

1. The three types of income defined by the Internal Revenue Code are active, passive and portfolio income.
True
False
2. The three types of income defined by the Internal Revenue Code are taxable, passive and portfolio.
True
False
3. Income earned by a taxpayer from a source in which the taxpayer materially participates is referred to as which type of income?
a.) Passive
b.) Active
c.) Material
d.) Portfolio
4. All of the following items may be deducted against income in a real estate investment, EXCEPT:
a.) actual operating expenses.
b.) sale proceeds.
c.) mortgage interest expense.
d.) depreciation.
5. Actual operating expenses may be deducted from income in a real estate investment.
True
False
6. Both net rental and sale proceeds defined as taxable income under the Internal Revenue Code.
True
False
7. Using straight line depreciation, what is the annual depreciation deduction for a residential rental property with a depreciable basis of \$550,000?
a.) \$14,103
b.) \$22,500
c.) \$36,750
d.) \$20,000
8. A property has a depreciable basis of \$300,000 and the annual depreciation deduction using the straight line method is \$7,692. Based on these facts, this is a residential rental property.
True
False
9. Under the Modified Accelerated Cost Recovery System, rental property is treated as having been placed in service or disposed of at what point during the month?
a.) The middle of the month
b.) The beginning of the month
c.) The end of the month
d.) The actual date when it was placed in service or disposed of.
10. A property has a depreciable basis of \$250,000 and a useful life of 27 ½ years. Using the Modified Accelerated Cost Recovery System, what is the total allowable depreciation deduction for the property in the first year?
a.) \$8,338
b.) \$8,717
c.) \$9,091
d.) \$9,096

11. The period of time over which a property may be depreciated is referred to as its “depreciable life.”
True
False
12. The period of time over which a property may be depreciated is referred to as its “useful life.”
True
False
13. In establishing the value of a real estate investment, the primary issue is whether the investor used his or her own assets to acquire the property, or whether the money was borrowed.
True
False
14. The methods used to value an investment property are much different from those used to value a residential property.
True
False
15. The most common method for valuing investment real estate is the capitalization method.
True
False
16. Data sources for real estate analysis include:
a.) Public Records
b.) Owners Records
c.) Multiple Listing Service
d.) All of the above
17. All of the following are the main methods used to calculate the value of an investment based on its income stream, EXCEPT:
a.) alternative depreciation system (ADS)
b.) capitalization of net income (“cap rate”)
c.) gross rent multiplier (GRM)
d.) internal rate of return (IRR)
18. Value x Rate = Income
True
False
19. The process of using one investment property to finance the acquisition of additional properties is called leverage.
True
False
20. The process of using one investment property to finance the acquisition of additional properties is called “leverage”
True
False
21. The two methods of pyramiding are pyramiding through sale and pyramiding through leverage.
True
False
22. An investor purchased the old Willard Building for \$1 million. The investor thoroughly rehabbed the Willard Building, and then sold it for \$2.5 million. The investor used the proceeds to purchase two buildings for \$1 million each. After they were rehabbed, the investor sold both buildings for \$2.5 million, and purchased four more old buildings. This investor is engaging in
a.) pyramiding through refinance.
b.) leveraging.
c.) FMRR.
d.) pyramiding through sale.

23. The difference between pyramiding through sale and pyramiding through refinance is that the investor who uses the refinance method retains possession of the acquired properties.
True
False
24. The advantage to pyramiding through refinance is that the investor can delay the capital gains taxes that would otherwise result from pyramiding through sale.
True
False
25. In a limited partnership, the general partner
a.) does not exist.
b.) is shielded from losses to the extent of his or her investment.
c.) oversees the day-to-day management of the investment.
d.) is a passive participant in the investment.