

General Comprehensive Examination – 2010

- Thursday, January 28 – Friday, January 29, 2010
- Monday, April 26 – Tuesday, April 27, 2010
- Thursday, July 29 – Friday, July 30, 2010
- Wednesday, October 6 – Thursday, October 7, 2010

The General Comprehensive Examination is a 2-day, 4-part modular Exam with multiple-choice questions that is based upon the body of appraisal knowledge, and may cover anything in the Appraisal Institute's required examinations, current appraisal literature, and the Appraisal Institute's Bylaws and Regulations. It is designed to measure an examinee's ability to integrate classroom knowledge with judgment. There are approximately 100 questions in Module I and 50 questions each in Modules II-IV. All examinees receive the same Exam.

Exam schedule: Day One is Module I (3.5 hours) and Module III (4 hours). Day Two is Module II (3.5 hours) and Module IV (4 hours). On each day, there is a mandatory one-hour break commencing immediately after the examinee finishes the first module of the day (rather than at a set time). Schedule will vary for examinees that are retaking a single module.

The General Comprehensive Examination is scheduled over two consecutive days. General Associate Members must be examined on all modules at the initial examination and thereafter must be examined on all modules for which credit has not been granted. Failure to complete all required modules will result in an incomplete grade. If the examinee passes at least one module, then only those modules not receiving a passing grade are required for retesting. When general Associate Members present themselves for re-examination, they must write on all modules in which they have received failing grades. Failure to do so will result in an incomplete grade on all modules that have not previously been passed.

General Comprehensive Examination Registration Deadlines

Applications to take the General Comprehensive Examination should be received in the national office no less than 8 weeks prior to the examination date. **NO late applications will be accepted.**

- January 28-29 (2010) – deadline is December 4, 2009
- April 26-27 (2010) – deadline is March 1, 2010
- July 29-30 (2010) – deadline is June 3, 2010
- October 6-7 (2010) – deadline is August 11, 2010

Examination Sites

The General Comprehensive Examination may be taken only on the scheduled dates at Pearson VUE Professional Testing Centers. After verification of eligibility, examinees will receive a confirmation email providing the assigned Pearson AI identification number (Examination Identification Number) and instructions to contact a testing center to schedule the exam location. Availability of seats at testing centers is strictly on a first come, first served basis, so once you receive the confirmation email, we encourage you to make an appointment as soon as possible.

Pearson VUE testing center information, as well as their locations around the U.S. can be found at: <http://www.pearsonvue.com/ai/>

Eligibility

To be eligible to take the Comprehensive Examination, general Associate Members must have:-

- a. attended the required courses;
- b. received a passing grade on all required examinations;
- c. received credit for the college degree requirement
- d. met their Associate membership Ethics and Standards requirement (The Ethics and Standards requirement consists of BOTH Business Practices & Ethics AND USPAP).

Examination 540, *Report Writing and Valuation Analysis*, must be written at least ninety (90) days prior to the Comprehensive Examination, and any other required examination must be written eight weeks prior, to allow time for grading to be completed and the examinee notified of the results. You will not be registered for the Comprehensive Examination until all requirements are complete; availability of seats at testing site locations is strictly on a first come, first served basis.

Before applying for the comprehensive exam, [please login to your website account](#) and from the “My Appraisal Institute” page, click on the Associate Member Status Report link. If you see any requirements listed there except for the Demo Report, Experience Credit, and the Comprehensive exam – you may not be eligible to sit for the exam. If you have questions regarding these requirements please contact (312) 335-4111 or comp@appraisalinstitute.org.

Examination Cancellation/Transfer Policy

- There will be no penalty fee for those examinees that cancel or transfer more than 14 days prior to the Examination date. Examinees must cancel with both the Appraisal Institute and Pearson Vue (if a seat has been reserved). No cancellations can be accepted less than 14 days prior to the Examination date.
- Examination fees may be transferred one time only, and only within a 12-month period. Additional requests to transfer or cancel will result in the forfeiture of the Examination fee.
- Those examinees that choose to transfer less than 14 days, but more than one business day, prior to the Examination will be charged a \$50 late transfer fee.
- Examinees who elect to transfer less than one business day prior to the Examination (or simply fail to show up at their scheduled Examination site), or who fail to cancel their seats through Pearson VUE, will be penalized their full General Comprehensive Examination application fee.
- **PLEASE NOTE** that the cancellation policy that appears in the Pearson VUE confirmation e-mail is their generic policy and is superseded by this policy.

Registering for the General Comprehensive Examination

Associate Members must submit the General Comprehensive Exam Application to:

Email: comp@appraisalinstitute.org

Fax: (312) 335-4146

Mail: Comprehensive Examination, Appraisal Institute, 550 W Van Buren, Suite 1000, Chicago IL 60607

All Associate Members must read and agree to abide by the regulations in “A Guide for Examinees Taking the General Comprehensive Exam” before applying to take the exam. This guide will give you a detailed overview of what the General Comprehensive Examination covers, how to prepare for the Examination, and includes sample questions.

Applicants who are approved to take the exam will be sent an email with information about scheduling the exam location through the Pearson VUE Testing Centers.

Other Available Information

Examinees who are not subject to the Level II curriculum may order course materials for Course 510, *Advanced Income Capitalization*, Course 520, *Highest & Best Use and Market Analysis*, Course 530, *Advanced Sales Comparison and Cost Approaches* and Course 550, *Advanced Applications* by emailing comp@appraisalinstitute.org and making the request to order.

What You May Bring With You to the Examination

1. Only the following equipment is allowed in the Examination room: One noiseless, **HP 10B, 10Bii, 12C, 17Bii, 17Bii+ or 19Bii or TI BA II PLUS** financial calculator. You will not be permitted to use any other type of calculator. All calculator memories must be cleared before and after the Examination.
2. Books, scratch paper and other material will **NOT** be permitted. Pearson VUE testing centers will provide a notebook-type six-page laminated whiteboard with 11 writable surfaces.
3. You will not be allowed access to your personal belongings during the Examination. All personal belongings (including such items as watches, wallets, handbags, etc.) will be locked in a personal locker outside the examination room.

Americans with Disabilities Act

In an effort to make the Exam equally accessible to persons with disabilities, special accommodations are available for individuals that have been professionally diagnosed as physically or learning disabled and can provide appropriate documentation. Reasonable efforts will be made to accommodate individuals whose requests are received at least eight weeks prior to the date of the examination. If accommodation is not requested in advance, we cannot guarantee the availability of accommodation on site.

Inquiries

If you have any questions, please contact us at (312) 335-4111 or comp@appraisalinstitute.org

General Comprehensive Examination Application

Identification

| | | |
|----------------|--|--------------|
| Last Name | First Name | Today's Date |
| Account Number | E-mail Address (test results will be sent via email) | |

Associate Member Request

I am applying for the Comprehensive Examination on (please choose only one):

- January 28-29, 2010
 April 26-27, 2010
 July 29-30, 2010
 October 6-7, 2010

Associate Member Certification *(please check all boxes below)*

- I understand that I will be registered for ALL modules which I have not previously passed.
- If I have a disability and I require accommodation, I will notify the Appraisal Institute in writing at least eight (8) weeks in advance. If accommodation is not requested in advance, I understand that Appraisal Institute cannot guarantee the availability of accommodation on site.
- I agree that I have read, understand and will abide by the policies in "A Guide for Examinees Taking the General Comprehensive Examination;" certify that I have not and will not engage in any misconduct related to the examination; understand and agree that in order to protect the integrity of the examination, the Appraisal Institute has the right to investigate any allegations of misconduct related to the examination; agree to cooperate with any such investigation and will abide by the remedies set forth by the Appraisal Institute; and understand and agree that if I reproduce test questions in any manner I am subject to a copyright infringement lawsuit and any other action(s) the Appraisal Institute may take.
- I have checked my status report and I do not have any education requirements or college transcript delivery outstanding. I have included a written statement, with this application, if I am awaiting examination results or official college transcript delivery. I understand that I will not be registered for the General Comprehensive Examination until all outstanding requirements (education, Standards & Ethics, official transcript) are successfully completed and current.
- I understand that I will need to reserve a seat at a Pearson Vue testing center once I have received my eligibility email(s) from the Appraisal Institute.
- I have included the appropriate payment: \$425 (first time all four modules), \$300 (retest for two (2) or more modules), \$175 (one module only)

| | |
|-----------|------|
| Signature | Date |
|-----------|------|

This application MUST be completed and received AT LEAST 8 WEEKS BEFORE the exam date, even if a report or exam is being graded. If, after submitting your application, it is determined that you are not eligible to challenge the examination, your fee will be refunded.

Payment Information

- VISA
 MasterCard
 American Express
 Check (payable to Appraisal Institute)

| | | |
|-------------|-----------------|-----------|
| Card Number | Expiration Date | Signature |
|-------------|-----------------|-----------|

Please **scan and email** this Application to: Comp@appraisalinstitute.org

Or Fax (312) 335-4146

If you need to send a *check*, please make it payable to Appraisal Institute-Comp, and mail to: Appraisal Institute, 550 W. Van Buren St., Suite 1000, Chicago IL 60607

Day One: Modules 1 / 3

Acct # 3190-20-2507 OR Acct #1720-00-0300

Day Two: Modules 2 / 4

A Guide for Examinees Taking the General Comprehensive Examination

The General Comprehensive Examination Panel

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Table of Contents

| | |
|---|--------------|
| Purpose of the General Comprehensive Examination | 6 |
| What is Covered in the General Comprehensive Examination | 7 |
| How to Prepare to Take the General Comprehensive Examination | 8 |
| What You May Bring With You To The Examination | 9 |
| Americans With Disabilities Act | 9 |
| Examination Cancellation/Transfer Policy | 9 |
| The Examination | 10 |
| Misconduct | 11 |
| Example Questions | 12–17 |

Purpose of the General Comprehensive Examination

The use of comprehensive examinations at the conclusion of periods of formalized training has a long tradition in both academic and professional circles in the fields of law, medicine, accounting, humanities, and the sciences. The concept of this Examination is to blend evaluation of an examinee's educational background, which was tested in basic courses, with evaluation of his or her judgment, which has not been tested. The object is to determine how an individual functions in the real estate world beyond the formula problems of the course laboratory.

As a future MAI designated member, you have the continuing responsibility to know current methods, techniques, information, and other content presented in courses and in the literature of the Appraisal Institute. We need to know that you can combine appraisal theory, methodology, and judgment to solve real appraisal problems. The General Comprehensive Examination is a measure of your ability to perform in real-world situations.

You should think of the General Comprehensive Examination as:

- a test of your competence in both the tools of your trade and the judgment necessary in their use
- an opportunity to demonstrate that you can apply your years of training in practical situations

What is covered in the General Comprehensive Examination

The General Comprehensive Examination is based on the body of appraisal knowledge and may cover anything in the Appraisal Institute's required examinations and courses, current appraisal literature, and the Appraisal Institute's Bylaws and Regulations. It is designed to measure an examinee's ability to integrate classroom knowledge with judgment. A general overview of concepts tested within the modules include:

Module I

General Concepts

- Introduction to Value

 - Principles and Definitions

 - Nature of Real Estate

 - Definition of Problem Data

 - Knowledge of Financing

- Statistics

- Taxes

- USPAP, Supplemental Standards and the Code of Ethics

- Market Conditions

- Reconciliation and Conclusion

Module II

Cost Approach

- Concepts of Cost Approach

 - Land Value

 - Improvements

 - Depreciation

- Highest and Best Use

- Feasibility

Module III

Income Capitalization Approach

- Concepts of Income Approach

 - Income and Expense

 - Capitalization and Discounting

 - GRM/GIM

 - Rates

- Value of Partial Interests

 - Physical and Legal Divisions

 - Economic and Financial Divisions

Module IV

Sales Comparison Approach

- Concepts of Sales Comparison

 - Units of Comparison

 - Elements of Comparison

 - Sales Analysis

- Cash Equivalence

How to Prepare to Take the General Comprehensive Examination

How do examinees prepare? Some study, some don't; some need to study, some don't. Some say that a good night's sleep is a prerequisite. Others say 100 hours of study is not enough. It's a matter of personal preference based on your ability to take examinations, your background, and your judgment.

The initial thrust of preparation for the General Comprehensive Examination should be to polish your skills in applying the basic methodology of appraisal to problem situations. With your technical skills developed to a high level through the Appraisal Institute's education courses, you can concentrate on the judgment necessary in appraisal. Your emphasis in this Examination should include functional knowledge of market analysis, discounted cash flow, leasehold interest, cost approach, depreciation, and the other technical aspects of the valuation process. You should also have the ability to understand the reasonableness of your answer in light of circumstances stated in your problem.

If you have not recently taken a basic Appraisal Institute course, we recommend that your review include, at the very minimum, the course material from the capitalization courses and the *Advanced Applications* course. A review of the *Capitalization Theory and Techniques Study Guide* could also be beneficial.

General Associate Members must be examined on all modules at the initial examination and thereafter must be examined on all modules for which credit has not been granted. If the examinee passes at least one module, then only those modules not receiving a passing grade are required for retesting. When general Associate Members present themselves for re-examination, they must write on all modules in which they have received failing grades. Failure to do so will result in an incomplete grade on all Modules that have not previously been passed.

The General Comprehensive Examination Panel developed methods to closely monitor the performance of the two-day, four-part, modular examination. One of the methods of assessment was a detailed profile of the examinees that took the new modular examination. Examinee's performance on the General Comprehensive Examination was compared to their performance on required examinations. **The profile unequivocally proved that those examinees with the most current courses (Level II) do much better overall than those that took them longer ago, or not at all. The Panel strongly recommends that you attend, and take the examinations for, the Level II courses if you are preparing for the Comprehensive Examination.**

Read the current edition of *The Appraisal of Real Estate* and review *The Dictionary of Real Estate Appraisal*. Although the General Comprehensive Examination is not a test for definitions, principles, or basic theory, your knowledge of them will be required to solve the Examination problems. As you prepare for the Examination, try developing some questions of your own that require judgment to reach solutions. Try anticipating your answers in light of the Examination outline included in this guide.

Finally, become very familiar with your financial calculator. Know and understand how to use all of its financial functions prior to the Examination. The memory of your calculator will be cleared prior to taking the Examination. **The following calculators have been approved for this Examination: HP 10B, 10Bii, 12C, 17Bii, 17Bii+, 19Bii or TI BA II PLUS.** You will not be permitted to use any other type of calculator. You may **not** consult your operating manual during the Examination. An approved financial calculator is required for the Examination since it is an important working tool in every active appraiser's office.

What You May Bring With You To The Examination

1. Only the following equipment is allowed in the Examination room: One noiseless, **HP 10B, 10Bii, 12C, 17Bii, 17Bii+ or 19Bii or TI BA II PLUS** financial calculator. You will not be permitted to use any other type of calculator. All calculator memories must be cleared before and after the Examination.
2. Books, scratch paper and other material will **NOT** be permitted. Pearson VUE testing centers will provide a notebook-type six-page laminated whiteboard with 11 writable surfaces.
3. You will not be allowed access to your personal belongings during the Examination. All personal belongings (including such items as watches, wallets, handbags, etc.) will be locked in a personal locker outside the examination room.

Americans With Disabilities Act

In an effort to make the General Comprehensive Examination equally accessible to persons with disabilities, special accommodations are available for individuals that have been professionally diagnosed as physically or learning disabled and can provide appropriate documentation. Reasonable efforts will be made to accommodate individuals whose request is received at least eight weeks prior to the date of the examination. If accommodation is not requested in advance, we cannot guarantee the availability of accommodation on site.

Examination Cancellation/Transfer Policy

A cancellation/transfer/"no-show" policy has been established for the General Comprehensive Examination:

- There will be no penalty fee for those examinees that cancel or transfer more than 14 days prior to the Examination date. Examinees must cancel with both the Appraisal Institute and Pearson Vue (if a seat has been reserved). No cancellations can be accepted less than 14 days prior to the Examination date.
- Examination fees may be transferred one time only, and only within a 12-month period. Additional requests to transfer or cancel will result in the forfeiture of the Examination fee.
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- Examinees who elect to transfer less than one business day prior to the Examination (or simply fail to show up at their scheduled Examination site), or who fail to cancel their seats through Pearson Vue, will be penalized their full General Comprehensive Examination application fee.

The Examination

The General Comprehensive Examination is a 2-day, 4 part modular Examination with multiple-choice questions. The Examination questions are actual appraisal problems developed by competent appraisers. Most of the questions come from the files of panel members, and represent actual problems or parts of problems encountered in their work. Locations and other identifiable details are changed to protect client relations. You will be given a fact situation or question with four (4) suggested answers from which you must select one.

The Examination is designed so that you will have adequate time to complete each question if you are properly prepared. Check the number of questions and time yourself accordingly.

If a Comprehensive Examination fails based on grading by the computerized testing software, the general Associate Member will be notified in writing.

Nothing herein shall be construed to prohibit the General Comprehensive Examination Panel from choosing to re-grade one or more Comprehensive Examinations.

There is a specific passing score; the Examination is not graded on a "curve." The Panel recognizes that new questions must be tested for validity and that old questions sometimes become outdated through changes in current practice. The development and review of questions is an ongoing process.

To ensure consistency and compatibility, the results of each Examination are reviewed, analyzed and compared with prior Examinations. New questions are given particular attention to see that responses are consistent with expected results. This review has shown a consistent examinee performance level over many years of testing. We have a high level of confidence in the General Comprehensive Examination. Statistics show that it is an impartial, fair, and accurate measure.

Misconduct

1. You may not engage in misconduct relating to the Comprehensive Examination. Misconduct includes, but is not limited to, the following:
 - Unauthorized communication with another examinee or party while the examination is in progress;
 - Copying or attempting to view another examinee's answers, worksheets, or work product or allowing another examinee to see your answers, worksheets, or work product;
 - Improperly possessing or using any unauthorized reference materials, textbooks, notes, equipment or devices while the examination is in progress;
 - Taking an examination for another person or arranging for another to take an examination in your name;
 - Reproducing specific content of an examination for one's own future use;
 - Receiving or divulging unauthorized information about the specific content of an examination prior to, during, or after the examination;
 - Failing to comply with written or oral instructions related to the examination; and
 - Failing to comply with the provisions of the Examination Certification.

If you engage in misconduct relating to the Comprehensive Examination, either your exam will not be graded or you will receive a failing grade. In addition the matter will be referred to Ethics and Counseling for a review under Regulation No. 6. If possible misconduct is observed while the examination is in progress your exam may be confiscated.

Example Questions

There are approximately 100 questions in Module I and 50 questions in Modules II–IV.

The following are sample questions intended only to show the format of questions on the Examination.

- I. Eleven years ago, the seller carried back a \$100,000-purchase-money mortgage, with 20 years amortization, 8.5%, and monthly payments. The loan cannot be assumed by a subsequent buyer. Currently mortgages on similar real estate are yielding 12%. Market value of the real estate is \$150,000. Current net operating income is \$16,500.

What would happen to the market value of the real estate if the loan could be assumed?

- 1) Increase significantly
- 2) Decrease significantly
- 3) Remain the same
- 4) Decrease slightly

The correct answer is (3). Market value has not changed because of the financing. Market price, however, probably has. This question requires the candidate to apply knowledge of the differences between market price and market value to a specific set of circumstances. This is not a trick question, but rather involves the philosophy of the definition of market value.

- II. How are the various indications of value analyzed in the reconciliation process?

- 1) The three approaches are averaged
- 2) The cost approach sets the upper limit of value
- 3) The median of the various value indications is adopted
- 4) Major emphasis is placed on the approach that appears to be the most reliable

The correct answer is (4). This question is a test of the member's knowledge of procedure.

THE NEXT TWO QUESTIONS ARE BASED ON THE FOLLOWING INFORMATION:

A small parcel of speculative land was purchased for \$60,000 with \$17,000 down and the balance of \$43,000 financed at 10% with monthly payments of \$300 and a balloon in five years.

III. What will the loan balance be (nearest \$100) after five years?

- 1) \$47,300
- 2) \$47,500
- 3) \$67,400
- 4) \$94,000

IV. If the interest rate is not 10%, causing the loan balance to be \$50,000 after five years, and the purchaser is to receive a 15% equity yield, what must the sale price (nearest \$100) be in five years?

- 1) \$ 58,500
- 2) \$ 59,900
- 3) \$108,500
- 4) \$120,000

The answer to Question III is (2). Solution of this problem on a financial functions calculator is straightforward. Keystrokes for an HP12C are: f FIN 5 g n 10 g i 43,000 PV 300 CHS PMT FV. Note that the loan should be analyzed on a monthly basis and has a negative amortization.

Also, note that the 4th proposed answer results from overlooking CHS, the 3rd from mixing monthly and annual parameters, and the 1st from performing the calculations annually.

The Examination contains proposed answers, which result from logic errors or careless mistakes.

The answer to Question IV is (3) calculated as follows:

FV of \$17,000 for 5 years @ 15% = \$34,193
FV of \$3600/year for 5 years @ 15% = \$24,273
Mortgage Balance @ end of 5 years = \$50,000

TOTAL \$108,466

Note: The \$300/month interest payment becomes a part of the investment in the property. Therefore, it must be included in the calculations. Keystrokes for an HP12C are: f FIN 5 n 15 i 17000 chs PV 3600 chs PMT FV 50,000 +. The correct answer to this question does not depend on choosing the correct answer to Question III.

V. Properties comparable to the one being appraised have been selling for 6.0 to 6.5 times gross income. The typical expense ratio is 45%, what is the indicated range in overall rates?

- 1) 0.069 to 0.075
- 2) 0.085 to 0.092
- 3) 0.109 to 0.118
- 4) 0.133 to 0.144

The correct answer is (2). Net income is 100% minus 45% expenses or 55% of gross, thus:

55% of gross divided by 6.0 = 0.092 Overall Rate

55% of gross divided by 6.5 = 0.085 Overall Rate

VI. The following property is encumbered by a ten-year lease. Based on the following data, what is the present value of the leased fee interest?

| | |
|------------------------|---|
| Net operating income: | \$24,000 in year 1; increasing \$1,000 per year |
| Projection period: | 5 years |
| Property value change: | 3% per year increase (compounded) |
| Yield rate: | 10% |

- 1) \$258,100
- 2) \$324,700
- 3) \$342,900
- 4) \$349,200

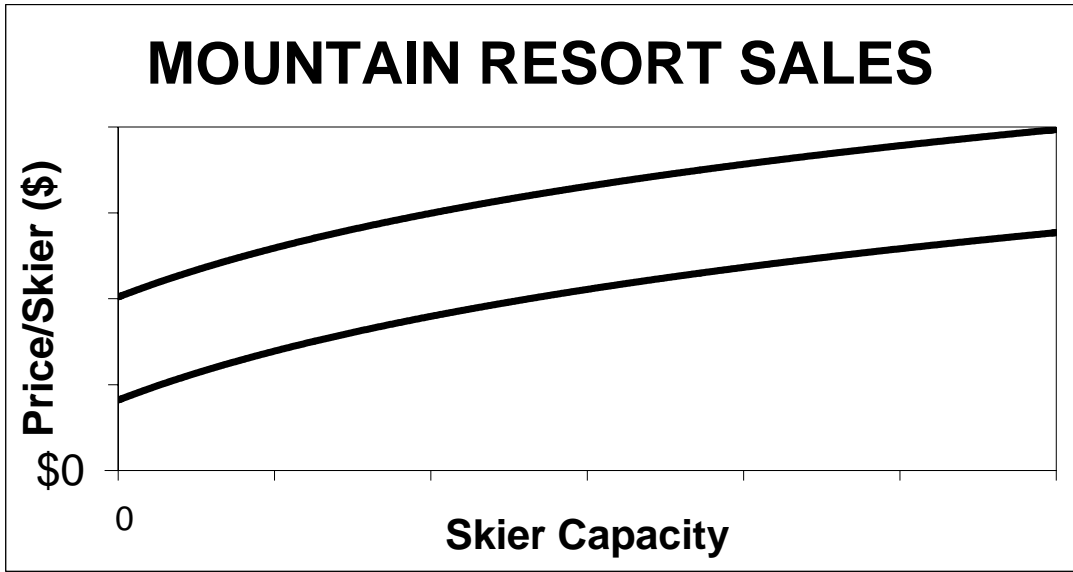
The correct answer is (4). Answer number (1) forgets property value increase. Answer number (2) forgets the rent increase. Answer number (3) is if the first year's net income of \$24,000 is capitalized at 7% ($R=Y-CR$); this is not correct because the income and value are not rising at the same compound rate.

VII. A \$250,000 loan can be obtained at 9.5% interest for 20 years with monthly payments. What will the lender's yield be if 4 points are charged and the loan is paid off in 3 years?

- 1) 9.50%
- 2) 10.09%
- 3) 11.12%
- 4) 13.50%

The correct answer is (3). Answer number (1) ignores points. Answer number (2) loan runs 20 yrs. Answer number (3) is 9.5% + points.

VIII. The subject property is a mountain resort. Incremental value is based on skier visits. Sales in the subject's region form a consistent curvilinear pattern, as shown below (**lower line**). The trend for a more desirable region is also shown (**higher line**).



Based on this market information, what type of location adjustment is indicated for sales in the more desirable region?

- 1) Downward dollar adjustment
- 2) Upward dollar adjustment
- 3) Downward percent adjustment
- 4) Upward percent adjustment

The correct answer is (1).

IX. The following sales were verified:

| | Sale 1 | Sale 2 | Sale 3 | Sale 4 |
|----------------|---------------|---------------|---------------|---------------|
| Location | Similar | Similar | Similar | Similar |
| Size (Sq. Ft.) | 5,800 | 4,900 | 4,600 | 6,000 |
| Bedrooms | 12 | 11 | 10 | 13 |
| Units | 6 | 6 | 5 | 6 |
| Gross Income | \$23,000 | \$20,500 | \$21,000 | \$24,500 |
| Sale Price | \$150,000 | \$140,000 | \$125,000 | \$160,000 |

Based on these sales, what appears to be the most reliable unit of comparison?

- 1) Gross Income Multiplier
- 2) Price Per Unit
- 3) Price Per Bedroom
- 4) Price Per Square Foot

The correct answer is (3).

X. A city has seen a rapid building of apartments with about 500 units built per year for the last 5 years. The current total of units in the town is 7,292 with about 10% current vacancy.

The rapid rise in apartment units is due to the rapid increase in job growth. The current number of jobs in town is 25,000 with a forecast to be 32,000 jobs in the next 5 years.

Based on this data, what is the best estimate of total demand for occupied units 5 years hence?

- 1) 7,700
- 2) 8,400
- 3) 9,300
- 4) 9,800

The correct answer is (2).

Answer number (3) is 28% increase based on supply. Answer number (4) is $500/\text{yr} \times 5 + \text{current supply}$.

The current number of occupied apartments is $7,292 * 90\%$, or 6,563 units. The forecast is that the number of jobs will increase by 28%. A 28% increase in occupied apartments would result in 8,400 occupied apartments.

XI. An improved property sold for \$350,000. The purchaser assumed an existing mortgage that was issued 5 years prior to the sale. The original loan balance was \$250,000. The loan was for 30 years at 9% interest per annum, with monthly payments. This loan cannot be paid off. The current market interest rate for 25 year amortizing loans with monthly payments is 6%. If land value is \$100,000 and reproduction cost new of the improvements is \$400,000, what percent depreciation can be extracted?

- 1) 19%
- 2) 22%
- 3) 38%
- 4) 56%

The correct answer is (1).

Answer number (2) amortizes \$250,000 for 25 years, not \$239,000 loan balance. Answer number (3) does not include the necessary adjustment for cash-equivalency. Answer number (4) is from deducting, not adding, the cash equivalency adjustment.

The first step is to calculate the cash-equivalent sale price. The monthly loan payments on the original \$250,000 at the contract interest rate are \$2,011.56 per month, and the balance is \$239,700. The present value of the 25 years of remaining monthly payments at the market interest rate of 6% is \$312,207. The cash equivalency adjustment is a PLUS \$72,507, indicating a cash-equivalent sale price of \$422,857 (the adjustment is positive because the buyer assumed an onerous loan that cannot be paid off).

Deducting \$100,000 for the land value leaves \$322,857 for the contributory value of the improvements. When compared with the \$400,000 replacement cost new, the indicated depreciation is 19.29%.

These are sample questions and represent the general format to be expected on the Examination. They do not reflect distribution of types of questions, styles of questions, or areas to be covered in the Examination.

This booklet is intended to be informative rather than a course on the Examination itself. The General Comprehensive Examination Panel hopes this guideline will enable you to prepare better and to anticipate the types of questions you will find on the Examination. If you have any comments, please direct them to the Admissions Department.

—The General Comprehensive Examination Panel