

NAME: _____

COUNTY: _____

**APPRAISAL PROCESS
SELF-STUDY TRAINING SESSION**

REVIEW QUESTIONS

1. The appraisal process is a systematic method for arriving at an estimate of value. Below are the seven steps in the appraisal process. Label each step in their appropriate order from 1 through 7.

	Land value estimate
	Preliminary analysis and data collection
	Reconciliation of value indicators and the final value estimate
	Highest and best use analysis
	Definition of the appraisal problem
	Reporting the final value estimate
	Application of the approaches to value

2. A property can be physically identified in several ways: street address, legal description, or assessor's parcel number. What is the primary means of property identification?
- Street address
- Assessor's parcel number
- Legal description
3. The appraiser must obtain a precise definition of the property rights to be valued, as the purpose of all appraisals is to estimate value of some sort.
- True
- False
4. For most real property in California, the relevant appraisal date for property tax purposes is the date on which a change in ownership of property occurred or new construction was completed.
- True
- False

5. The preliminary analysis phase develops a logistical plan for an appraisal. Which of the following is *not* included in the preliminary analysis phase?

- List of the data, time, and resources needed
- Selection of the primary approaches to value that will be used
- Preliminary estimate of the property's current use value
- Preliminary inspection of the property and its surroundings

6. A competent appraisal is supported by information from the real estate market, referred to as *market data*. Market data may be divided into three categories: general, specific, and comparative.

- True
- False

7. An important step in the appraisal process is the determination of the appropriate method or methods by which the value will be estimated. The appraiser considers three primary approaches to value. Match the following approaches to the correct descriptions.

1	Cost Approach
2	Income Approach
3	Comparative Sales Approach

	Estimates market value by comparing the subject property to comparable properties of similar utility that have recently sold under competitive market conditions.
	Estimates value by first estimating the future income to be produced by the property and then discounting or capitalizing the future income into an estimate of current market value.
	Estimates the market value of a property by estimating the cost of either reproducing the existing improvements with duplicate improvements, or replacing the existing improvements with improvements of equivalent utility as of the appraisal date; reducing that estimated cost by the amount of depreciation, or loss in value; and adding the estimated value of the land or site to the depreciated cost of the improvements.

8. All three approaches to value are based on the principal of substitution.

- True
- False

9. The final step in the appraisal process is reporting the final value estimate. An appraisal may be reported in a letter, a form, or a narrative. For property tax purposes, form reports are always used.

- True
- False

10. Match the following methods commonly used to legally describe land to the correct descriptions.

1	Rectangular Survey
2	Metes and Bounds
3	Subdivision Maps

	It gives the distance and compass direction of each boundary line of the property.
	It is based on principal meridians running north and south and base lines running east and west, located by original surveyors to intersect at established landmarks.
	Divides the property into lots and blocks of lots.
	It starts at a point of beginning and traces all the way around the property boundary back to that point.
	It is used for irregular parcels.
	It is referred to as description by lot and block.
	It is referred to as description by recorded plat.

11. Since Spanish land grants are not surveyed under the authority of the United States, it is not necessary to give the name of the rancho.

- True
- False

12. In property tax appraisal, the primary means of real property identification is the assessor's parcel numbering system, which links property ownership, the assessor's maps, and the assessment roll entry. Which of the following is not a component of the assessors' parcel numbering system?

- Block number
- Parcel number within the map book
- Map book number

13. Land has value because of its productivity related to a purpose or use and is valued at its highest and best use. The factors that affect highest and best use are divided into three categories. Match the following categories with the corresponding descriptions.

1	Physical characteristics
2	Locational characteristics
3	Governmental restrictions

	Include parcel size and shape, frontage, topography, soil and subsoil conditions and drainage, site orientation, and existing on-site and off-site improvements.
	Place legal constraints on property use that significantly affect the utilization of land.
	Involves space and the need to transport people, goods, and services from one geographic location to another.
	Include zoning, building and safety, subdivision, and environmental regulations.

14. The zoning regulations of local governments are the most significant form of governmental restriction. Which of the following examples are not zoning regulations?
- Density or intensity of use
 - On-site parking requirements
 - Off-site improvements
 - Building height restrictions
15. The most important single attribute of land is its location.
- True
 - False

16. Match the following units of comparison to their corresponding descriptions.

1	Sale price per square foot
2	Sale price per units buildable
3	Sale price per acre
4	Sale price per front foot
5	Sale price per building site

	Typically used in the valuation of large industrial or commercial sites, subdivision land, and rural and farm properties.
	Applicable in industrial and commercial properties in which square footage is a good measure of development potential and frontage is not the dominant factor.
	Primarily concerned with the site's overall desirability (e.g., views or exposure) for residential purposes.
	Useful in the appraisal of commercial sites that benefit from drive-by or other visibility.
	Assumes that market participants value land based on its development potential on a units-buildable basis.
	Infrequently used in the appraisal of residential properties.

17. Match the following methods of land valuation with their correct descriptions.

1	Ground rent capitalization
2	Extraction
3	Land residual
4	Subdivision development
5	Allocation
6	Comparative sales

	Site value is estimated by subtracting the value contribution of the improvements from total property value.
	To apply this method, it is necessary to estimate a ratio between land and building value. This ratio is then applied to the subject property to estimate its site value.
	Hypothesizes a highest and best use of the site upon which the indicator of land value is premised.
	Produces the best indicator of value when a sufficient number of recent sales of similar properties exist. Used to value land that is vacant.
	The appraiser capitalizes the estimated market rent, less any anticipated expenses of the owner, into an indicator of value using the land capitalization rate.
	Primarily used to value vacant land that is ready for development to a higher use, for example, land changing from agricultural to residential or commercial use.

18. Local special assessment districts issue improvement bonds to the general public that are used in the construction of land improvements, or infrastructure, such as roads, schools, and utility services, that generally enhance land value.
- True
- False
19. What are some of the characteristics of the 1911, 1913, or 1915 Act improvement bonds? [Mark all that apply.]
- The bond debt is secured by a lien against the property
- Additional taxes are levied for the express purpose of retiring a specific debt against a specific parcel
- The tax rate or levy may be in excess of what is needed to retire the bonds
- Improvements authorized under these Acts are generally for a somewhat limited range of capital improvements that provide a specific benefit to specific parcels
- All of the above
20. What are some of the characteristics of the Mello-Roos Bonds? [Mark all that apply.]
- The bonded indebtedness is tied to specific parcels
- Require no test of benefit
- Bond obligations should not be included in the value of land subject to its encumbrances
- They are authorized for a wider variety of facilities and services
- All of the above
21. The three major appraisal approaches for estimating value are the cost, comparative sales, and income approaches.
- True
- False
22. The stock and debt approach is a variation of the income approach. The replacement, reproduction, and historical cost approaches are variations of the cost approach.
- True
- False
23. The nature of a property, its market, and the availability of data will normally indicate which approach(es) is most applicable. A simple arithmetic average of the several values should be used.
- True
- False

24. In the cost approach, the value of an improved property is estimated by adding the estimated land (or site) value and the estimated cost new of the improvements less depreciation. Which statement is *not* true regarding the concept of the cost approach?

- The only approach that can be applied to all improved real property and personal property
- Preferred when neither reliable sales nor income data are available
- The most universally applied approach in appraisal for property tax purposes
- Most reliable when the property being appraised is older and has experienced depreciation

25. Full economic costs are defined as the payments that must be made to secure the supply of all the necessary agents of production and include direct costs, indirect costs, and entrepreneurial profit.

- True
- False

26. Match the following terms with their corresponding descriptions.

1	Direct costs
2	Indirect costs
3	Entrepreneurial costs

	Expenditures not included in the direct construction of the property.
	Expenditures for permits, materials and labor, and contractor's overhead and profit.
	The return to the entrepreneur for his or her development expertise and risk-taking.
	Expenditures for the labor and materials required to construct the property.
	Expenditures for the developer's administrative expenses, professional fees, construction financing, construction insurance, property taxes during construction, and marketing, sales, and lease-up costs incurred to achieve initial occupancy or sale.

27. In the case of real property, improvement cost is the total cost of development of the improvements added to a site, exclusive of the cost of items classified as land. Which of the following would be considered an improvement cost? [Mark all that apply.]

- Marketing and lease-up expenses
- Architect's fees
- Building permits
- Inspection fees
- All of the above

28. In the case of personal property, total cost includes (but is not limited to) the cost of the asset, freight, sales tax, and installation.

- True
- False

29. Special use property is a limited market property with a unique physical design, special construction materials, or a layout which restricts its utility to the use for which it was built.

- True
- False

30. Rule 3 prescribes more than one type of cost approach that the appraiser may use. Match the following types of the cost approach to their corresponding description.

1	Reproduction cost
2	Historical cost
3	Replacement cost

	It reflects the level of cost at the time of a property's original construction or acquisition.
	Estimates cost by adjusting a property's original cost for price level changes.
	The cost to replace an existing property with a property of equivalent utility as of a particular date.
	The cost to replace an existing property with a replica as of a particular date.
	Estimates cost by applying current costs to a property's cost components to arrive at an estimate of full economic cost.

31. Trended historical, or original, cost method can be used to estimate replacement cost.

- True
- False

32. The greater the time interval between original construction and the appraisal, the less reliable the trended historical cost method becomes because of the difficulty of measuring cost changes over long periods.

- True
- False

33. Match the following submethods of the trended historical cost method to their corresponding descriptions.

1	Quantity survey method
2	Square foot costs method
3	Unit-in-place method

	Total costs of installing a common unit of construction are applied to the number of units in the project.
	The most comprehensive and accurate form of cost estimating and, therefore, requires the most time.
	All unit costs are totaled to provide the total estimated direct costs for the entire improvement. Indirect costs are then added to arrive at an estimate of the full economic cost of the property.
	Under this method, buildings are classified according to design type, construction type, quality class, area class, and shape class.

34. What are the typical sources for property cost information? [Mark all that apply.]

- Manufacturer's catalogs and price lists
- Building contractors
- Costs of comparable new construction
- Published property cost tables
- All of the above

35. Depreciation is an increase in value from any cause, is the most difficult aspect of the cost approach, and is best verified by sales and income analysis.

- True
- False

36. There are three generally recognized sources of depreciation: physical deterioration, functional obsolescence, and external obsolescence.

- True
- False

37. Virtually all properties deteriorate as they age, lowering their utility and reducing their value. This is known as physical deterioration and may be the result of wear and tear either from use or from the forces of nature. Which of the following is *not* an example of physical deterioration?
- Wearing out of water heaters
 - Termite infestation
 - Water damage
 - Poor design of the property
 - Worn machine parts
38. Functional obsolescence is the loss of value in a property caused by the design of the property itself. An element of functional obsolescence is considered *incurable* when the cost to correct the deficiency is less than the economic benefit resulting therefrom. When the cost to correct the deficiency is greater than the resulting economic benefit, the element of functional obsolescence is considered *curable*.
- True
 - False
39. Losses in value attributable to external obsolescence are usually beyond the power of any single property owner to influence and cannot be cured by making changes to the subject improvement. Which type of property does this type of depreciation affect?
- Tangible property
 - Real property
 - Both
 - None of the above

40. There are several methods of estimating depreciation, and an appraiser will often use more than one method when determining the total depreciation from all causes. Match the following methods of depreciation to their corresponding definitions.

1	Straight-line or age-life method
2	Breakdown method
3	Sales data or market method

	A comprehensive and detailed way to measure all items of depreciation individually.
	Depreciation is estimated by dividing the effective age of the improvement by its estimated economic life.
	The most direct and preferred method of measuring depreciation. This measurement of depreciation is taken from the actions of buyers and sellers in the market.
	In this method, total depreciation is determined by adding together all the individual estimates of depreciation.
	A measurement for determining the effective age of an improvement (or personal property) and is based on the relationship between the physical age of an improvement and its estimated economic life.

41. The capitalization of rental loss technique requires the appraiser to estimate the cost to cure items of physical deterioration and functional obsolescence that are in fact curable.
- True
- False
42. The comparative sales approach may be defined as an approach that uses direct evidence of the market's opinion of the value of a property. Which of the following statements are correct regarding the concept of this approach? [Mark all that apply.]
- It is the only approach that utilizes market data
- It is based on the premise that the fair market value of a property is closely and directly related to the sales prices of comparable, competitive properties
- It is not based upon the principle of substitution
- The appraiser estimates the market value of the subject property by comparing it to similar properties that have recently sold
- All of the above
43. A sale price represents an agreement between two or more parties at a particular instant of time and may not be indicative of market value.
- True
- False

44. In selecting market data for analysis, an appraiser should focus on transactions pertinent to the subject property's specific market, and the subject and comparable properties must have the same highest and best use.
- True
- False
45. Which of the following statements are true regarding sales data? [Mark all that apply.]
- Adjustments are made to the subject property, not the comparable property
- The number of sales needed depends on the comparability of the sales to the subject property
- Verification of sales data is an important step in the comparative sales approach
- None of the above
46. The adjustments reflect aspects of the transaction or characteristics of the property that have affected sales prices and are referred to as elements of comparison. Which of the following is **not** an element of comparison? [Mark all that apply.]
- An adjustment for differences in highest and best use
- An adjustment of all non-cash components of the sale price to cash equivalence
- An adjustment for real property components of the sale, such as tangible personal property
- An adjustment for rights and interests conveyed
- None of the above
47. If a note's stated interest rate is not equal to the market rate of interest for similar notes at the time of the sale, an adjustment for financing terms is not necessary.
- True
- False
48. Market conditions change due to shifts in demand and supply and/or inflationary or deflationary economic forces.
- True
- False
49. An adjustment for location is not required if the locational characteristics of a comparable property are significantly different from those of the property being appraised.
- True
- False

50. Non-real property components of value include stocks, bonds, tangible personal property, copyrights, patents, trade names, etc. With the exception of tangible personal property, the other items listed are intangible personal property.
- True
- False
51. Units of comparison are the components into which a property may be divided in order to make comparisons. They are used to compare the subject and comparable properties.
- True
- False
52. Land is generally subject to depreciation, and its value may be estimated by direct comparison with sold properties.
- True
- False
53. The stock and debt approach states that the value of a corporation or other business organization's assets equals the value of its liabilities plus its net worth. To use the approach, the securities of the company whose taxable property is being appraised cannot be publicly traded.
- True
- False
54. The income approach to value includes any method of converting an income stream into a present value estimate. Which of the following statements are true regarding this approach? [Mark all that apply.]
- Basic assumption of the income approach is that property is purchased for the income that it will produce
- It is the preferred approach for the appraisal of improved real properties, personal properties, and land when reliable sales data are not available
- It is often difficult to apply the income approach to single-family residences
- Also called the capitalization approach
- All of the above
55. An appraiser values an income property by computing the present worth of a future income stream.
- True
- False

56. What is the difference between gross return and gross outgo?
- Gross return
 - Gross outgo
 - Net return
 - None of the above
57. Gross outgo means any money or money's worth which the property will yield over and above vacancy and collection losses, including ordinary income, return of capital, and the total proceeds from sales of all or part of the property.
- True
 - False
58. Gross return means any outlay of money or money's worth, including current expenses and capital expenditures (or annual allowances therefor) required to develop and maintain the estimated income.
- True
 - False
59. The validity of using the income approach depends upon whether the subject property meets the following three assumptions: (1) value is a function of income; (2) value depends upon the quality and quantity of the income stream; and (3) future income is less valuable than present income. If the circumstances of the subject property do not meet these three assumptions, the income approach should not be given great weight as an indicator of the property's current market value.
- True
 - False
60. Rents are, in effect, sales prices for long-term rights to use property.
- True
 - False

61. Investors demand both a *return of* their investment and a *return on* their investment. The yield rate contains components for time preference, liquidity preference, risk, and investment management. Match the following terms with the corresponding descriptions.

1	Time preference
2	Risk
3	Investment management
4	Liquidity preference

	Investors would rather have assets that are readily convertible into cash at face value.
	Refers to the uncertainty involved with any projection into the future.
	That component of the yield rate that compensates the investor for personal efforts involved in making decisions between alternative investments.
	The return investors demand for forgoing present consumption.

62. In its simplest form, the capitalization process may be represented by which of the following equations?

- $V = I/R$
 $R = I/V$
 $I = RV$
 All of the above

63. What is a single year's gross income that may be converted to an indicator of value by multiplying it by an income multiplier derived from the sales of comparable properties?

- Income multiplier analysis
 Yield capitalization
 Direct capitalization
 None of the above

64. What is the method that converts a single year's income estimate into a value indicator in one step, either by dividing the income estimate by a capitalization rate or multiplying it by an income factor?

- Income multiplier analysis
 Yield capitalization
 Direct capitalization
 None of the above

65. Yield capitalization is a method that converts a series of future benefits into an estimate of present value by discounting each future benefit at a selected yield rate.

- True
- False

66. A capitalization rate is any rate used for conversion of income into value. It is based on a hoped for or anticipated rate of return on and of the investment. It is the rate required to attract capital to the investment. Direct market evidence is the preferred source for obtaining capitalization rates.

- True
- False

67. An income stream is a flow of income over time. It can be of one pattern or shape, or a combination of several shapes. There are five primary income patterns to which appraisal models are applied. Which of the following is a primary income pattern? [Mark all that apply.]

- Constant Perpetual
- Single Income Payment
- Variable Terminal
- Straight Line Inclining Terminal
- Constant Terminal
- All of the above

68. When deriving an overall capitalization rate, the income is processed to the level of net income before recapture. List these levels of income.

Anticipated potential gross income (APGI)
minus Anticipated vacancy and collection losses
equals _____
minus Anticipated operating expenses
equals _____
minus Anticipated property taxes
equals _____

69. When appraising larger residential properties, appraisers commonly speak of gross rent multipliers.

- True
- False

70. When valuing property using a gross income multiplier, the income stream is processed to the level of economic potential gross income. When valuing property using an overall capitalization rate, the income stream is processed to the level of economic gross income before recapture and property taxes.
- True
- False
71. The general formula for valuing property using a gross income multiplier is to multiply the estimated economic potential gross income (EPGI) by a gross income multiplier derived from the sales of comparable properties.
- True
- False
72. Residual techniques of income capitalization allow an appraiser to capitalize the income allocated to an investment component of *unknown* value once all investment components of *known* value have been satisfied.
- True
- False
73. The land residual technique is used when the value of the land is known but the value of the improvements is unknown.
- True
- False
74. The final analytical step in the appraisal process is to reconcile value indicators from the separate approaches utilized into a final estimate of value. Resolving the differences among the value indicators is called *reconciliation*. The result of reconciliation is the final value estimate.
- True
- False
75. The reconciliation step should involve an analysis of which of the following items? [Mark all that apply.]
- The consistency in the manner in which the approaches to value were applied
- The accuracy of the data collected and calculations made in each approach
- The quantity of data available for each approach
- The relative appropriateness of the approaches applied
- All the above

76. Personal property includes all property except real estate. It has the same basic appraisal principles that apply to real property. However, unlike real property, personal property is assessed at market value every year; it is not governed by the value limitations under article XIII A of the California Constitution (Proposition 13).

- True
- False

77. Although taxed at the same maximum percentage of market value as real property, personal property is treated differently in many other respects. Mark T for true or F for false next to each statement regarding real and personal property.

	Tangible personal property can be assessed to insurance companies, banks, and financial corporations.
	Unless otherwise provided by the Legislature, the tax on State and national banks shall be according to or measured by the net income and shall be in lieu of all other taxes and license fees upon banks or their shares, except taxes upon real property and vehicle registration and license fees.
	Special assessments are levied on both real and personal property.
	The tax rate on the unsecured roll is the rate of the current year's secured roll.
	There is no taxable possessory interest in personal property, except as provided for in section 201.5.
	The Legislature has wide authority pursuant to article XIII, section 2, of the Constitution concerning the taxation and/or exemption of personal property.
	Locally assessed real property is governed by article XIII A, while personal property is appraised at market value annually.

78. All property taxed by local government shall be assessed in the county, city, and district in which it is situated.

- True
- False

79. The _____ is the declaration of assessable property, signed under penalty of perjury, on which business personal property is reported.

80. If a person is required to file a property statement (because of either the \$100,000 threshold or at an assessor's request) and fails to do so, under section 463 there is no penalty applied to the taxable personal property and fixtures that were subject to the reporting requirement.

- True
- False

81. According to rule 172, an assessee, a partner, a duly appointed fiduciary, or an agent are authorized to sign the property statement.
- True
- False
82. Which of the following statements regarding the concept of trade level is true. [Mark all that apply.]
- The trade level concept is applicable when book costs provide adequate information for making a fair market value appraisal.
- The trade level concept requires adjustments based on what a consumer at that level of consumption would pay.
- Both of the above
83. Which of the following items is *not* a major exemption of personal property imposed by the Legislature?
- Business inventories
- Personal property of insurance companies
- Personal property of banks and financial corporations
- Household furnishings
- Leased property to another party from a bank or financial corporation
- Pets
84. The physical appraisal method is used when accounting records are nonexistent or are inadequate for appraisal purposes, or when there are other reasons to believe that an accurate appraisal cannot be made by using the property statement or other available documents.
- True
- False
85. Assessors are required by section 469 to regularly audit the books and records of certain taxpayers. The purpose of an audit is to determine whether existing assessments (including previous years' assessments within the statute of limitations) are correct or should be changed.
- True
- False

86. Section 441(d) states that at any time, as required by the assessor for assessment purposes, every person is required to make available for examination information or records regarding his or her property or any other personal property located on premises he or she owns or controls.
- True
- False
87. Upon completion of an audit of the taxpayer's books and records, the taxpayer shall be given the assessor's findings _____ with respect to data that would alter any previously enrolled assessment.
88. It is the property owner's goal to determine the current market value of the taxable property.
- True
- False
89. Which of the following are included in the definition of a manufactured home?
- Designed to be used as a dwelling unit
- 8 or more feet in length
- 40 or more feet in width
- Must be built on a permanent chassis
- A structure that is transportable
- All of the above
90. Section 5801(b)(2) provides that manufactured homes are classified as personal property unless they are placed on a permanent foundation.
- True
- False
91. Although classified as personal property, most of the provisions relating to the taxation of personal property are not applicable to the taxation of manufactured homes. What are the primary differences in the taxation of manufactured homes from other personal property?
- The assessment is entered on the unsecured roll
- A base year value is determined on the date it changes ownership
- They are subject to supplemental assessments
- The taxes may be paid in two installments
- All of the above

92. When is a manufactured home taxable on the local property tax roll? [Mark all that apply.]
- Sold new on or after July 1, 1980
 - So requested by the assessor
 - So requested by the owner
 - All of the above
93. Section 5803 provides that full cash value of a manufactured home does not include any value attributable to the particular site where the manufactured home is located on rented or leased land which would make the sale price of the manufactured home at that location different from its price at some other location on rented or leased land.
- True
 - False
94. Health and Safety Code section 18008.5 defines manufactured home accessories as including, but not limited to, which of the following items? [Mark all that apply.]
- Carports
 - Heaters
 - Coolers
 - Porches
 - All of the above
95. Section 229 provides that floating homes shall be assessed and valued in the same manner as real property.
- True
 - False
96. Which of the following is *not* one of the characteristics of a floating home?
- It has its own mode of power
 - It is dependent for utilities upon a continuous utility linkage to a power source originating onshore
 - It is designed and built to be used, or is modified to be used, as a stationary waterborne residential dwelling
 - It has a permanent continuous hookup to a shoreside sewage system

97. New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value.
- True
- False
98. The cost approach is used to determine the amount of costs in place relative to the partially completed project on the lien date.
- True
- False
99. The commencement of construction is the date when actual physical activity first occurs on the site.
- True
- False
100. Rule 463.5 defines the date of completion as the latest of either the date that an improvement is available for use, the date a certificate of occupancy is issued, or the date that it is occupied.
- True
- False