

**Answer Guide No. 1**  
**Real Property and the Nature of Value**

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**This Assignment is a Multiple Choice Assignment**

Marks: 1 mark per question.

1. Answer: 3  
Option (3) is false. Value is not the key consideration in the analysis of highest and best use rather it is “that use which is most likely to produce the greatest return, in money of amenities, over a given period of time.” The type or definition of value being sought is considered in the initial step of the assignment when you are identifying the problem or the issue being addressed. The other options are true.
2. Answer: 3  
Option (3) is false as appraisal reports may be delivered orally. Option (1) is true because reporting formats can be distinguished by the degree of analysis and level of detail reported. Option (2) is true because oral or verbal reports are given in court testimony and in tribunals such as appraisals, as well as in other circumstances. Option (4) is true because the purpose and intended use of the appraisal determine the reporting format.
3. Answer: 3  
Option (3) is false. CUSPAP does not dictate the form, format or style of reporting. These are determined by the needs of the users and appraisers. Options (1), (2), and (4) are true.
4. Answer: 3  
There are four concepts that affect the value of land: government, economic, social, and geographic/environmental. The discussion of social forces in the text outlines different views on how land should be developed versus how it should be left in its natural state.
5. Answer: 3  
Option (3) is false because an appraiser must clearly understand the type of interest that is required because it impacts the value estimate. The legal understanding guides the appraiser in their selection of comparables, analysis and approach method utilized. Option (1) is true because if all that is known about a transaction is the sale price, it is not possible to accurately determine the value for either the buyer or seller, or ceiling and floor prices respectively. These prices are often not definite. They are affected by their respective negotiation skills and how anxious they are to complete the transaction. Option (2) is true and this form meets the needs of financial users. Option (4) is true.
6. Answer: 2  
Option (2) is false because use value is the value of a property as it is currently used or for a specific use, not its value considering alternative uses, that is its highest and best use. The other options are true.
7. Answer: 1  
CUSPAP’s Consulting Standard Section 13 covers analysis of feasibility, investment, and marketability, offering conclusions about alternatives rather than market value. Hence, the Consulting Standard would be applied to Statements A and C only. The Appraisal Standard would apply to Statements B and D where a point-in-time appraisal is required to determine a purchase price or market value.

8. Answer: 4  
Intended use is an important concept considered both in CUSPAP and First Principles of Value. All the other options are true.
9. Answer: 3  
The appraiser should not include the ovens because they are trade fixtures and unlike fixtures, which are regarded in law as part of the real estate, trade fixtures are not real estate endowed with the rights of real property ownership. A trade fixture is to be removed by the tenant when the lease expires unless this right has been surrendered in the lease.
10. Answer: 4  
The criteria for distinguishing between personal property and fixtures are the manner in which the item is affixed, the character of the item and its adaptation to the real estate, and the intention of the party who attached the item. Option (4), the length of time that the item has been on the property is not a criterion for distinguishing between personal property and fixtures.
11. Answer: 3  
The term "real estate" refers to a physical entity that is immobile and tangible, such as land or improvements. Examples of natural improvements found on a property include trees and minerals. Improvements made by humans include buildings and landscaping, things we can see and touch. The term "real property" refers to the rights attached to real estate which are intangible and which we cannot see or touch. However, they are present and they can affect value, particularly if they affect the use of the land or real estate. For example, leases or easements are real property, even though they are not tangible they are commodities which can be bought and sold. Options (1), (2), and (4) are examples of real property, whereas Option (3) is an example of real estate.
12. Answer: 4  
Option (4) is true. Options (1) and (2) are false because justified price is not equivalent to market value nor synergistic value. Option (3) is false because both ceiling price and floor price are considered in determining a justified price.
13. Answer: 3  
It is generally agreed that market value results from the collective value judgments of market participants, that is, the amount of money a property sells for on the open market. Option (1) is false because market value is an estimate and not a fact. Option (2) is false because while market value may equal sale price, that is not always the situation. Option (4) is false because the adequate amount of time is not a definitive number, but can vary from situation to situation.
14. Answer: 4  
The appraiser has obligations to four groups:
- Clients: to provide an unbiased, objective analysis to help in decision-making and to reduce risk.
  - Third parties: such as lending institutions, investors in lending institutions, government agencies that underwrite lending institution losses, and other unidentified parties that are removed from the initial transaction.
  - Society in general: by use of the valuation process, appraisers can help to promote the wise and efficient use of a scarce and limited resource, that is, land and land—related resources. Appraisers can be important in guiding sound real estate decisions, thereby helping society to avoid wasting resources that can cause urban problems.
  - The appraisal profession: by providing valuable analysis, the appraisers reinforce the value of the profession to clients, third parties, and society.

15. Answer: 2  
Use value is the value a specific property has for a specific use. In estimating use value, the appraiser focuses on the value the real estate contributes to the enterprise of which it is a part, without regard to the highest and best use of the property or the monetary amount that might be realized from its sale. The fire station represents a very specialized property in that the layout restricts the functional utility of the property for which it was originally built, therefore, a use value appraisal is appropriate.
16. Answer: 2  
The general principles of economics apply to the real estate market. However, the unique characteristics of improved land must be taken into consideration to understand how the market operates. The significant characteristics of improved land are its immobility, the durability of its improvements, the indivisibility of the services it provides, and the divisibility of ownership it allows. Option (2) is the only correct characteristic listed.
17. Answer: 1  
Utility is the ability of a product to satisfy a human want, need, or desire. Since the vacant residential lot cannot be built upon it has lost almost all of its utility as it will not satisfy the human want, need, or desire for housing.
18. Answer: 4  
Market value is the most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably and for self-interest, and assuming that neither is under undue duress. An appraiser must consider all the aforementioned subjects [Options (1) to (3)], the intrinsic value of the property should not be considered [Option (4)].
19. Answer: 1  
Option (1), special value, represents an amount that reflects the particular attributes of a real property asset that are only of value to a special purchase. Use, market and going-concern values are examples of objective values in appraisal.
20. Answer: 3  
Assessed values may not conform to the definition of market value or, on the other hand, could be calculated in relation to market value. Always read the provincial or federal statutes regarding the definitions used in that particular statute. Remember the definitions of assessed value can and do change from statute to statute.

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20 Total Marks