

Circle *True* or *False* as the better answer.

1. Income capitalization converts income to its current value equivalent.  
True                      False
2. Leverage results from equity in a property that is earning a greater return than the cost of money.  
True                      False
3. Reversionary returns from an investment do not include equity build-up from loan pay-off.  
True                      False
4. True discount yield is often called the internal rate of return  
True                      False
5. In appraisal, the interest rate means the same as yield rate.  
True                      False
6. The overall capitalization rate theoretically allows for a return on the investment, without any recapture.  
True                      False
7. A composite rate includes interest and recapture, in separately determined amounts.  
True                      False
8. When the net income is divided by the sales price to derive a capitalization rate, the band of investment method is being used.  
True                      False
9. Direct capitalization is usually the most reliable technique of income capitalization.  
True                      False
10. The equity residual technique analyzes the cash flow, rather than the actual net income from an investment.  
True                      False

**Multiple Choice Questions. Indicate the best answer.**

1. Which of the following aspects of future income are to be considered by income capitalization?
  - a. Quantity
  - b. Quality
  - c. Duration
  - d. All of the above
2. Income property is compared by certain investment requisites. Which of the following refers to the ability to “trade on the equity”?
  - a. Safety
  - b. Liquidity
  - c. Yield
  - d. Leverage
3. There are several types of rates used in income capitalization. Which of the following is composed of interest and recapture in separately determined amounts?
  - a. Interest rate
  - b. Overall rate
  - c. Composite rate
  - d. None of these
4. If 60% financing is available on a certain income property at a loan constant of 11%, what equity cash-on-cash return is available where the overall rate is 10.6%?
  - a. 5%
  - b. 1.5%
  - c. 6.5%
  - d. 10%
5. What net income would a \$700,000 property have to produce if a 70% loan requires a 12% annual payoff, and the buyer expects a 2% return on her 30% down payment?
  - a. \$84,000
  - b. \$63,000
  - c. \$49,000
  - d. \$42,000
6. If you assume that the typical buyer requires a recapture of the building portion of the purchase price in 25 years, what is the indicated recapture rate for the building?
  - a. 5%
  - b. 25%
  - c. 4%
  - d. 2%

7. In real estate finance, recapture of the investment capital is that portion of the loan payment that is earmarked for
- Interest on money due
  - Payoff of principal
  - Interest and principal payment
  - None of these
8. Which income capitalization technique is considered to be the simplest and most reliable?
- Building residual
  - Direct capitalization
  - Land residual
  - Equity residual
9. Which capitalization technique analyzes the net income after debt service, rather than the total net income? (*Optional question – not part of reading assignment*)
- Equity residual
  - Direct capitalization
  - Building residual
  - Land residual
10. A new income property is under appraisal where you have very few improved sales, but adequate vacant sales to determine land value. Assume the following, and solve for total value using the building residual capitalization method. Be sure to add the land value to the capitalized building value!
- |                      |           |
|----------------------|-----------|
| Net operating income | \$ 80,000 |
| Land value           | \$100,000 |
| Interest rate        | 8%        |
| Recapture rate       | 2%        |
- \$820,000
  - \$695,000
  - \$100,000
  - \$500,000
11. Which of the following is an example of “yield capitalization”? (*Optional question – not part of reading assignment*)
- Residual capitalization
  - Ratio capitalization
  - Direct capitalization
  - Discounted cash flow
12. Cash flow is defined as the (*Optional question – not part of reading assignment*)
- Net income after debt service
  - Effective gross income less expenses
  - Advantage of a favorable loan
  - Total gross income before any expenses or payments.