

California Real Estate Practice Exam (Sample)

Study Guide



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Questions

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- 1. An "agreement in a deed" best matches which of the following?**
 - A. Avulsion**
 - B. Covenant**
 - C. Option**
 - D. Prescription**

- 2. When all expenses, including taxes and insurance, are paid by the lessee along with a new amount of "rent" as agreed upon to the landlord, this is referred to as a:**
 - A. Gross lease**
 - B. Net lease**
 - C. Percentage lease**
 - D. Sandwich lease**

- 3. A tenant is justified in abandoning a lease property if the landlord demonstrates constructive eviction. Which of the following acts would be considered constructive eviction?**
 - A. The landlord has failed to make needed repairs and maintain the property in the agreed manner.**
 - B. The landlord has altered the building to an extent that it is no longer usable for its original purpose.**
 - C. All of the above.**
 - D. The property has been shown to another party that has entered into negotiations with the landlord.**

- 4. An owner gives an "open listing" to many brokers, including "A" and "B." Broker A shows the home to a customer, but does not make a sale. Broker B later sells the home to the same customer. The seller is obligated to pay:**
 - A. "A" a full commission**
 - B. "A" and "B", who both receive full commissions**
 - C. "A" and "B", who split the commission**
 - D. "B" a full commission**

- 5. In the determination for replacement costs of a new property, an appraiser would use all of the following methods, except:**
- A. Comparative square foot**
 - B. Observed condition of the property**
 - C. Quantity survey**
 - D. Unit cost-in-place**
- 6. A borrower negotiates a \$4,500 loan secured by a 2nd trust deed through a broker. The loan was to be for a term of 2 years. What is the maximum commission the broker can charge for services?**
- A. \$450**
 - B. \$225**
 - C. \$675**
 - D. None of the above**
- 7. Who is the grantor in a real estate transaction?**
- A. Buyer**
 - B. Lender**
 - C. Renter**
 - D. Seller**
- 8. Which method is used to calculate depreciation in the context of property appraisal?**
- A. Accrual basis**
 - B. Annual basis**
 - C. Fixed basis**
 - D. Value basis**
- 9. In which of the following would you use a "package mortgage"?**
- A. When encumbering real property and using personal property as additional collateral.**
 - B. When securing additional financing from the lender at a later date without rewriting the original loan.**
 - C. When covering more than one parcel of land in a subdivision.**
 - D. None of the above**

- 10. An investor needed cash for additional investments, and "took out" a loan against his property. His interest payment on this new loan was less than the net return he was realizing on the property. This is an example of:**
- A. Band of investment**
 - B. Capital turnover**
 - C. Deficit financing**
 - D. Trading on equity**

Answers

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- 1. B**
- 2. A**
- 3. A**
- 4. A**
- 5. A**
- 6. A**
- 7. A**
- 8. A**
- 9. A**
- 10. A**

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Explanations

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1. An "agreement in a deed" best matches which of the following?

A. Avulsion

B. Covenant

C. Option

D. Prescription

The term that best matches "agreement in a deed" is a covenant. In real estate, a covenant is a binding promise written into the deed, which sets certain conditions or restrictions on the property by the seller. It can pertain to how the property may be used or maintained, thus forming an agreement between the parties involved in the deed. Covenants can ensure that certain conditions are upheld for future owners of the property, which is why they are significant in property law. This legal concept is essential in real estate transactions because it defines the rights and responsibilities of the property owner under the terms specified in the deed. Avulsion, while related to property and land changes, refers to the sudden removal of land due to natural forces, which does not involve an agreement in a deed. An option generally relates to the right to purchase or lease a property at a future date but does not typically describe an agreement that gets recorded in a deed. Prescription relates to the method of acquiring rights through continuous and open use, rather than a contractual agreement.

2. When all expenses, including taxes and insurance, are paid by the lessee along with a new amount of "rent" as agreed upon to the landlord, this is referred to as a:

A. Gross lease

B. Net lease

C. Percentage lease

D. Sandwich lease

The correct answer is the net lease. In a net lease arrangement, the lessee is responsible for not only paying the base rent to the landlord but also covering additional expenses associated with the property. These expenses typically include property taxes, insurance, and maintenance costs. The key characteristic of a net lease is that it shifts these financial responsibilities onto the tenant, allowing the landlord to receive a more predictable income stream without the burden of property-related expenses. In contrast, a gross lease would require the landlord to cover all operating expenses, with the tenant providing only a single rent payment. Therefore, in a gross lease, all costs are included in the rent, which differs significantly from the net lease structure. A percentage lease involves rent that is based on a percentage of the tenant's sales revenue, typically seen in retail scenarios, while a sandwich lease refers to a subleasing arrangement where the middle party leases the property and then leases it to another tenant. Each of these lease types possesses distinct characteristics, reinforcing why a net lease is the accurate choice for the scenario described.

3. A tenant is justified in abandoning a lease property if the landlord demonstrates constructive eviction. Which of the following acts would be considered constructive eviction?

A. The landlord has failed to make needed repairs and maintain the property in the agreed manner.

B. The landlord has altered the building to an extent that it is no longer usable for its original purpose.

C. All of the above.

D. The property has been shown to another party that has entered into negotiations with the landlord.

The correct understanding of constructive eviction recognizes that it occurs when a tenant is effectively forced to leave the property due to the actions or inactions of the landlord that violate the terms of the lease or diminish the property's habitability. When a landlord fails to make necessary repairs and maintain the property as agreed, this can lead to conditions that make the property unlivable or significantly detract from its use. This situation exemplifies constructive eviction, as the tenant is justified in vacating the premises when essential repairs are ignored and the living conditions become intolerable. Furthermore, if a landlord alters the building in such a way that it is no longer usable for its intended purpose, this would also constitute constructive eviction. Such alterations could impede the tenant's ability to conduct their business or live in the property comfortably, thereby justifying their decision to abandon the lease. Therefore, the correct answer encompasses both situations where the landlord's failure to act or unreasonable alterations directly impact the tenant's ability to enjoy the premises, reinforcing that a tenant has legitimate grounds for abandoning the property under these circumstances.

4. An owner gives an "open listing" to many brokers, including "A" and "B." Broker A shows the home to a customer, but does not make a sale. Broker B later sells the home to the same customer. The seller is obligated to pay:

A. "A" a full commission

B. "A" and "B", who both receive full commissions

C. "A" and "B", who split the commission

D. "B" a full commission

In an open listing scenario, a property owner has the flexibility to work with multiple brokers without being tied to any one of them. This means that if one broker brings in a buyer and the sale occurs, that broker is entitled to a commission, while other brokers who showed the property but did not lead to a sale are not entitled to any compensation. In this case, Broker A showed the home to a customer but did not complete the sale, and Broker B ultimately sold the home to the same customer. The key factor here is that Broker A did not have a successful transaction that resulted in a sale. Therefore, Broker A does not earn a commission since the arrangement was based on the understanding that only the broker who successfully sells the property is entitled to a commission. Since Broker B completed the sale, Broker B is the only one entitled to a full commission. In an open listing, the seller only pays the broker who successfully closes the sale, which in this instance is Broker B.

5. In the determination for replacement costs of a new property, an appraiser would use all of the following methods, except:

- A. Comparative square foot**
- B. Observed condition of the property**
- C. Quantity survey**
- D. Unit cost-in-place**

The method that typically would not be used in determining replacement costs is the comparative square foot method. This approach is more suited for estimating the value of properties based on recent sales of similar properties rather than directly assessing the costs associated with the construction or replacement of a specific property. The quantity survey method provides a detailed assessment of exact quantities and costs of materials and labor needed for construction, making it very thorough for determining replacement costs. The unit cost-in-place method focuses on the costs of constructing components of the property as they are installed, which is relevant for replacement calculations. The observed condition of the property allows appraisers to account for any wear and tear or unique aspects of a property that affect replacement costs. In contrast, the comparative square foot method is better suited for market analysis rather than for precise replacement cost evaluations, making it the outlier among the options presented.

6. A borrower negotiates a \$4,500 loan secured by a 2nd trust deed through a broker. The loan was to be for a term of 2 years. What is the maximum commission the broker can charge for services?

- A. \$450**
- B. \$225**
- C. \$675**
- D. None of the above**

In California, the maximum commission a broker can charge on a loan secured by a second trust deed is subject to specific regulations. For loans with terms of two years or less, brokers typically charge a commission that is based on a percentage of the loan amount. The standard maximum commission for a second trust deed is set at 10% of the loan amount. In this case, the loan amount is \$4,500. To find the maximum commission, you would calculate 10% of \$4,500: $0.10 \times \$4,500 = \450 . This calculation aligns with the maximum allowable commission based on the loan terms outlined. Therefore, the correct answer is that the maximum commission the broker can charge for this service is \$450.

7. Who is the grantor in a real estate transaction?

- A. Buyer**
- B. Lender**
- C. Renter**
- D. Seller**

In a real estate transaction, the grantor is the party who conveys or transfers ownership of the property to another party. This is typically the seller, as they are the ones who provide the deed to the buyer (who is referred to as the grantee in this context). The grantor is responsible for executing the deed that transfers the title to the buyer, thereby relinquishing ownership rights over the property. A buyer is not the grantor in this scenario; instead, they are often the recipient of the property transfer, making them the grantee. The lender and renter roles do not pertain to the act of transferring ownership; rather, a lender provides financing for the purchase, and a renter occupies the property under a lease agreement without transferring ownership. Understanding this distinction between the roles in a real estate transaction is essential for comprehending how ownership is transferred and the legal implications involved.

8. Which method is used to calculate depreciation in the context of property appraisal?

- A. Accrual basis**
- B. Annual basis**
- C. Fixed basis**
- D. Value basis**

In property appraisal, the method used to calculate depreciation must accurately reflect the decline in property value over time. The accrual basis, often involved in accounting, recognizes revenues and expenses when they are incurred, regardless of cash flow. In property valuation, this concept translates into understanding how various factors, such as wear and tear, economic obsolescence, or changes in market conditions, can impact a property's value. Using an accrual basis for depreciation allows appraisers to consider all relevant factors that might affect the overall market value of the property, not just the superficial or immediate costs associated with maintenance. This comprehensive approach is essential for providing a more accurate appraisal figure, as it acknowledges the ongoing nature of property value changes over time rather than merely reflecting annual fluctuations or fixed amounts. Other methods might not encompass the full scope of depreciation and could overlook important elements affecting the property's overall valuation.

9. In which of the following would you use a "package mortgage"?
- A. When encumbering real property and using personal property as additional collateral.**
 - B. When securing additional financing from the lender at a later date without rewriting the original loan.
 - C. When covering more than one parcel of land in a subdivision.
 - D. None of the above

A package mortgage is designed to secure a loan by using both real property (like a home or land) and personal property (such as furniture, equipment, or other movable assets) as collateral. This type of mortgage is particularly useful in situations where the borrower wants to include personal property within the financing arrangement, thus making the loan a more comprehensive package. By offering both types of collateral, the borrower may have greater leverage with the lender, potentially leading to more favorable loan terms. In contrast, securing additional financing later without rewriting the original loan pertains more to a different type of financing structure, which doesn't specifically involve package mortgages. Covering multiple parcels in a subdivision usually involves different financing strategies, often using separate mortgages for each parcel rather than packaging them together. Therefore, utilizing a package mortgage clearly aligns with the scenario presented in the first choice, making it the appropriate answer to the question.

10. An investor needed cash for additional investments, and "took out" a loan against his property. His interest payment on this new loan was less than the net return he was realizing on the property. This is an example of:
- A. Band of investment**
 - B. Capital turnover
 - C. Deficit financing
 - D. Trading on equity

The scenario described illustrates the concept of trading on equity. In this case, the investor has leveraged the equity in their property to obtain a loan, and the interest expense associated with that loan is lower than the net return generated from the property. This situation indicates that the investor is utilizing borrowed capital to enhance their overall returns on investment. Trading on equity refers to the use of borrowed funds to increase the potential return on investment. By taking out a loan against the property, the investor is effectively using the available equity to pursue additional investment opportunities while still maintaining a positive cash flow from their existing property. The other options do not rightly apply to this scenario. The band of investment concept involves evaluating the total return on property investments and does not specifically address leveraging equity. Capital turnover focuses on the efficiency of using capital to generate revenue rather than the benefits of leveraging equity. Deficit financing typically refers to funding through borrowing to cover operational shortfalls, which isn't the case here as the investor is leveraging for growth, not addressing a deficit. Thus, the correct context and application of the concepts clearly align with trading on equity.