

# New Mexico Real Estate Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

**This is a sample study guide. To access the full version with hundreds of questions,**

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# Table of Contents

<b>Copyright</b> .....	<b>1</b>
<b>Table of Contents</b> .....	<b>2</b>
<b>Introduction</b> .....	<b>3</b>
<b>How to Use This Guide</b> .....	<b>4</b>
<b>Questions</b> .....	<b>6</b>
<b>Answers</b> .....	<b>9</b>
<b>Explanations</b> .....	<b>11</b>
<b>Next Steps</b> .....	<b>17</b>

# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## **1. Start with a Diagnostic Review**

**Skim through the questions to get a sense of what you know and what you need to focus on. Don't worry about getting everything right, your goal is to identify knowledge gaps early.**

## **2. Study in Short, Focused Sessions**

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations, and take breaks to retain information better.**

## **3. Learn from the Explanations**

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## **4. Track Your Progress**

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## **5. Simulate the Real Exam**

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## **6. Repeat and Review**

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning.**

## **7. Use Other Tools**

**Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly — adapt the tips above to fit your pace and learning style. You've got this!**

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## **Questions**

- 1. What is an option to purchase in real estate?**
  - A. A contract that gives a tenant the right to lease a property**
  - B. A contract that gives a tenant the right to purchase the leased property at a predetermined price**
  - C. A clause in a lease that allows for price negotiation**
  - D. An agreement for a seller to hold the price stable for a year**
- 2. What is included in a closing disclosure document?**
  - A. An estimate of property taxes**
  - B. A detailed outline of final terms and costs of a mortgage loan**
  - C. A summary of real estate commissions**
  - D. A record of property inspections**
- 3. To terminate tenancy for nonpayment of rent, what is the minimum written notice a property manager must provide?**
  - A. 3 days**
  - B. 10 days**
  - C. 30 days**
  - D. 90 days**
- 4. In the context of real estate, what is the significance of depreciation?**
  - A. To assess the market pitch for a property**
  - B. To indicate the increasing value of real estate**
  - C. To determine tax liabilities for investment properties**
  - D. To reflect the wear and tear that affects property value over time**
- 5. What is a transaction broker's duty toward the buyer?**
  - A. Investigate conditions that may affect the property**
  - B. Independently verify statements made by the seller**
  - C. Disclose conditions that adversely affect the property**
  - D. Disclose all information learned about the seller**



- 6. What does "leverage" mean in the context of real estate investing?**
- A. The ability to negotiate property prices effectively**
  - B. The use of cash alone to purchase property**
  - C. The use of borrowed capital to increase potential return on investment**
  - D. The ownership of multiple properties at once**
- 7. A tenancy agreement must contain all of the following EXCEPT?**
- A. Rental address**
  - B. Name of property owner**
  - C. Date possession begins**
  - D. How payments are to be applied**
- 8. What is the primary purpose of an escrow account in real estate transactions?**
- A. To hold earnest money and other funds until closing**
  - B. To finance property improvements**
  - C. To ensure property taxes are paid**
  - D. To provide legal representation during transaction**
- 9. When does the NM Environmental Improvement Board require inspection of a property's on-site wastewater system?**
- A. Upon obtaining signatures on the purchase agreement**
  - B. At the seller's listing of the property**
  - C. Upon the funding of the transaction**
  - D. Any transfer of ownership of the property**
- 10. What is an earnest money deposit?**
- A. A loan for purchasing the property**
  - B. A sum of money offered to demonstrate the buyer's good faith**
  - C. A fee paid to the real estate agent**
  - D. A tax paid upon closing**

## **Answers**

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1. B
2. B
3. A
4. D
5. C
6. C
7. B
8. A
9. D
10. B

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## **Explanations**

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## 1. What is an option to purchase in real estate?

- A. A contract that gives a tenant the right to lease a property
- B. A contract that gives a tenant the right to purchase the leased property at a predetermined price**
- C. A clause in a lease that allows for price negotiation
- D. An agreement for a seller to hold the price stable for a year

An option to purchase in real estate is a contractual agreement that grants a tenant or potential buyer the right to buy a property at a specified price within a certain period. This arrangement typically allows the individual to lock in a purchase price and provides them with an opportunity to consider their options without the immediate obligation to buy. In this context, having the right to purchase the leased property at a predetermined price means that the tenant can decide whether or not to go through with the purchase, often after having had time to evaluate the property and its market conditions. This can be particularly beneficial in a fluctuating real estate market where prices might rise, allowing the option holder to secure a favorable deal. The other choices focus on different aspects of real estate agreements, such as leasing rights, negotiation clauses, and price stability guarantees, which do not encapsulate the essence of an option to purchase. Only the selected answer specifically describes the unique nature of the option mechanism in a purchase context, highlighting the critical rights it affords the tenant or potential buyer.

## 2. What is included in a closing disclosure document?

- A. An estimate of property taxes
- B. A detailed outline of final terms and costs of a mortgage loan**
- C. A summary of real estate commissions
- D. A record of property inspections

The closing disclosure document is a critical component in the real estate transaction process, specifically designed to inform borrowers about the final terms and costs associated with their mortgage loan. It outlines essential details such as the loan amount, interest rate, monthly payment, and total costs relating to the mortgage, including closing costs, lender fees, and other financial obligations. This document serves to ensure transparency for buyers, allowing them to compare the final terms to the initial loan estimate provided during the application process. It helps borrowers confirm that they understand their financial commitments before finalizing the transaction. The precise breakdown of all the fees and terms makes it clear what the borrower will be responsible for, aiding in informed decision-making. Other answer choices pertain to relevant aspects of a real estate transaction but do not constitute the primary focus of the closing disclosure. While property taxes, real estate commissions, and property inspections are all key parts of the real estate process, they are not the main components of the closing disclosure document itself. Thus, the inclusion of a detailed outline of final terms and costs of a mortgage loan accurately reflects the purpose and details found in a closing disclosure.

**3. To terminate tenancy for nonpayment of rent, what is the minimum written notice a property manager must provide?**

- A. 3 days**
- B. 10 days**
- C. 30 days**
- D. 90 days**

In New Mexico, when it comes to terminating a tenancy for nonpayment of rent, the law stipulates that the property manager or landlord must provide written notice to the tenant. The minimum notice period required is three days. This short timeframe is designed to expedite the process of addressing issues related to unpaid rent, allowing landlords to take swift action when tenants are in default. Providing only three days for tenants to respond or pay the owed rent reflects the urgency of such situations, as prolonged nonpayment can significantly affect the landlord's financial situation. Once the notice is given, if the tenant does not comply by paying the overdue rent or vacating the property, the landlord can proceed with eviction processes. Other timeframes, such as ten days, thirty days, or ninety days, are typically associated with different rental termination circumstances and are not applicable specifically for nonpayment of rent. Thus, the correct answer underscores the efficiency intended in New Mexico's laws regarding nonpayment issues.

**4. In the context of real estate, what is the significance of depreciation?**

- A. To assess the market pitch for a property**
- B. To indicate the increasing value of real estate**
- C. To determine tax liabilities for investment properties**
- D. To reflect the wear and tear that affects property value over time**

The significance of depreciation in real estate primarily lies in its role in reflecting the wear and tear that affects property value over time. Depreciation is the process by which an asset, including real estate, declines in value due to factors such as age, use, and physical deterioration. By recognizing depreciation, property owners and investors can understand the effective value of their real estate asset over time, including how much it may be worth relative to its purchase price. This concept is especially important for tax purposes, as it allows property owners to account for the decrease in value when filing taxes or evaluating the financial performance of their investment. For investment properties, depreciation can also provide tax benefits. It allows investors to deduct the depreciation from their taxable income, which can offset income generated from the property and reduce overall tax liability. Thus, understanding depreciation is crucial for effective real estate investment and management, as it reflects not only the physical state of the property but also its financial implications.

**5. What is a transaction broker's duty toward the buyer?**

- A. Investigate conditions that may affect the property**
- B. Independently verify statements made by the seller**
- C. Disclose conditions that adversely affect the property**
- D. Disclose all information learned about the seller**

In a real estate transaction, a transaction broker plays a neutral role, representing neither party exclusively. Their primary duty is to facilitate the transaction in a way that ensures a fair and transparent process for both the buyer and the seller. When it comes to the buyer, the transaction broker's duty includes the timely disclosure of conditions that may adversely affect the property. This can encompass things such as potential structural issues, environmental hazards, or any other factors that might impact the buyer's decision to proceed with the purchase. By disclosing this information, the transaction broker helps the buyer make an informed decision, ensuring that they are aware of any risks associated with the property. This duty to disclose is crucial in maintaining transparency and trust within the real estate transaction. Other choices focus on actions that are not within the defined role of a transaction broker. For instance, investigating conditions or independently verifying statements is typically outside the scope of a transaction broker's responsibilities, which centers on facilitating communication and ensuring that all parties are treated fairly. Likewise, disclosing all information learned about the seller could breach confidentiality and goes against the neutral role that a transaction broker must uphold. Thus, the correct answer emphasizes the importance of disclosing relevant property conditions to ensure that the buyer can make a well-informed

**6. What does "leverage" mean in the context of real estate investing?**

- A. The ability to negotiate property prices effectively**
- B. The use of cash alone to purchase property**
- C. The use of borrowed capital to increase potential return on investment**
- D. The ownership of multiple properties at once**

In the context of real estate investing, leverage refers to the use of borrowed capital to enhance the potential return on investment. This means that an investor can purchase property without needing to put down the full cost upfront by using financing options, such as mortgages. By using borrowed funds, investors can acquire larger or multiple properties than they could if they were limited to using only their own cash resources. This strategy can lead to greater returns on investment if property values increase or rental income rises, as the investor gains a proportionally larger profit from any increases in property value compared to their initial investment. Essentially, leverage allows investors to control a more substantial asset base with less personal capital, which has the potential to magnify gains.

**7. A tenancy agreement must contain all of the following EXCEPT?**

- A. Rental address**
- B. Name of property owner**
- C. Date possession begins**
- D. How payments are to be applied**

In a tenancy agreement, certain fundamental details are essential for the contract to be enforceable and clear to both parties involved. Typically, the rental address identifies the premises being rented, while the start date for possession clarifies when the tenant can move in. The method of applying payments ensures that both the tenant and landlord understand how the rent will be processed. Now, regarding the inclusion of the property owner's name: while it's important for the parties in a lease agreement to understand who the landlord is, the specific provision of the owner's name isn't always mandated by law in every jurisdiction. Thus, a tenancy agreement could be enforceable without explicitly listing the property owner's name, provided the agreement contains all other necessary components and the identity of the landlord is otherwise clear (e.g., through management contact details). This makes the property owner's name an optional detail in certain contexts.

**8. What is the primary purpose of an escrow account in real estate transactions?**

- A. To hold earnest money and other funds until closing**
- B. To finance property improvements**
- C. To ensure property taxes are paid**
- D. To provide legal representation during transaction**

The primary purpose of an escrow account in real estate transactions is to hold earnest money and other funds until the transaction successfully closes. During this period, the escrow account acts as a neutral third party that safeguards the funds, ensuring that neither buyer nor seller has access to them until all terms of the purchase agreement are fulfilled. When a buyer makes an offer on a property, they typically include earnest money as a show of good faith. This money is placed in the escrow account, signaling the seller that the buyer is serious about the transaction. The use of an escrow account protects both parties: the buyer has assurance that their funds are secure until the sale is finalized, and the seller knows that the buyer has a financial commitment to following through with the purchase. While financing property improvements, ensuring payment of property taxes, and providing legal representation are important aspects of real estate transactions, they do not encompass the primary function of an escrow account. An escrow account specifically addresses the need for a secure holding place for funds involved in the transaction until all contractual obligations are met.



**9. When does the NM Environmental Improvement Board require inspection of a property's on-site wastewater system?**

- A. Upon obtaining signatures on the purchase agreement**
- B. At the seller's listing of the property**
- C. Upon the funding of the transaction**
- D. Any transfer of ownership of the property**

The requirement for inspection of a property's on-site wastewater system by the New Mexico Environmental Improvement Board is triggered by any transfer of ownership of the property. This regulation is in place to ensure that all wastewater systems are functioning properly and in compliance with local health and safety standards. The inspection aims to protect public health by confirming that the system is safe and does not pose environmental hazards, especially as ownership changes. When a property is sold or transferred, it is vital that the new owner is aware of the condition of the wastewater system, as it can have significant implications for the health and safety of the occupants and the surrounding environment. Consequently, conducting an inspection at this stage helps to mitigate future issues related to wastewater management. Other scenarios, such as obtaining signatures on the purchase agreement, listing the property, or funding the transaction, are not stipulated as specific triggers for this requirement. These phases of the process don't inherently address the need for assessing the wastewater system's compliance and condition, which is why they do not serve as the correct basis for when an inspection is mandatory.

**10. What is an earnest money deposit?**

- A. A loan for purchasing the property**
- B. A sum of money offered to demonstrate the buyer's good faith**
- C. A fee paid to the real estate agent**
- D. A tax paid upon closing**

An earnest money deposit is a sum of money offered to demonstrate the buyer's good faith in a real estate transaction. This deposit shows that the buyer is serious about purchasing the property and is a way to secure the property while the details of the sale are finalized. The earnest money is typically held in an escrow account and may be applied toward the purchase price at closing. This practice helps to protect the seller from potential buyers who may not follow through with the transaction. The other choices do not accurately represent what an earnest money deposit is. It is not a loan for purchasing the property, as that involves borrowing money and is separate from demonstrating good faith in a transaction. Additionally, it is not a fee paid to a real estate agent; agents are typically compensated through commission rather than earnest money. Lastly, the deposit is not a tax paid upon closing; taxes are related to property transaction fees and state and local regulations, distinct from earnest money's role in negotiating the sale.

## Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://nmspecificrealestate.examzify.com>**

**We wish you the very best on your exam journey. You've got this!**