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Real Estate Exam Vocabulary

The terms that show up on the national portion of the salesperson exam, each with a one-line, plain-English definition. Grouped by the 10 national topics, with the legal source where one applies.

300	10	63
terms, no duplicates	national exam topics	with the legal source

- Property Ownership & Interests
- Land Use Controls & Regulations
- Agency & Brokerage Relationships
- Contracts & Leasing
- Real Estate Finance
- Valuation & Market Analysis
- Transfer of Title & Closing
- Fair Housing, Ethics & Federal Disclosures
- Property Management & Specialty Areas
- Real Estate Math

Checked November 4, 2026. Taken from GablePrep's reviewed flashcards and practice-question citations. **www.firsttrylicense.com**

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How to use it

Cover the definition with a card and say it out loud. Mark the terms you miss and come back to them the next day. Ten minutes a day beats one long session.

About the sources

A source is shown where one of our reviewed practice questions cites a law, rule, court case or standard for the term. Most are federal; uniform acts are models that states adapt. Your state's portion of the exam has its own rules.

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TOPIC 1 OF 10

01 Property Ownership & Interests

35 terms

Accretion
The gradual addition of land along a shore or riverbank as water slowly deposits soil.

Air rights
The right to use the space above the surface of land, subject to reasonable limits such as aviation regulations.

Appurtenance
A right or item that belongs to a parcel and passes automatically with it when the land is sold, such as an easement, a right of way, or a share in a water source.

Avulsion
The sudden loss or shifting of land by a violent event such as a flood or storm.

Bundle of rights
The collection of legal rights that come with owning real property: possession, control, enjoyment, exclusion, and disposition.

Chattel
An item of personal property, movable and not part of the land.

Community property
A marital property system, used in a minority of states, in which most assets earned during marriage belong equally to both spouses.

Condominium
A form of ownership in which a buyer owns the interior airspace of a unit outright in fee simple plus an undivided interest in the common elements with the other owners.

Cooperative
A form of housing in which a corporation owns the building and each resident holds shares in the corporation plus a proprietary lease for a particular unit.

Easement appurtenant
A right to use another's land that benefits a neighboring parcel and runs with the land.

Easement by necessity
A court-recognized easement created when a parcel is landlocked after a division of land, so the owner can reach a public road.

Easement in gross
An easement that benefits a person or company rather than a parcel of land, with no dominant tenement.

Emblements
Annual crops produced by cultivation (fructus industriales), which are treated as personal property.

Encroachment
The unauthorized intrusion of a building, fence, or other improvement onto a neighbor's land.

Estate pur autre vie
A life estate measured by the life of someone other than the holder.

Fee simple absolute
The most complete form of private ownership: unlimited in duration, freely transferable, and inheritable, subject only to government powers and existing private restrictions.

Fee simple determinable
A fee estate that ends automatically, with title returning to the grantor, if its stated limitation is broken.

Fixture
Personal property that has been attached to land or a building so permanently that it becomes real property.

Four unities
The requirements for a joint tenancy: unity of time (same moment), title (same deed), interest (equal shares), and possession (equal right to use the whole).

Joint tenancy
Co-ownership in which owners hold equal undivided shares with a right of survivorship; it requires the four unities.

Leasehold estate
A non-freehold estate that gives a tenant the right to possess and use property for a set time under a lease while the landlord keeps a reversion.

License
Personal, revocable permission to enter another's land for a limited purpose.

Life estate
A freehold estate whose length is measured by the life of a named person, usually the holder.

Littoral rights
The rights of owners of land bordering a large, still body of water such as a lake or ocean, to use the water and the shore.

Prescriptive easement
A right to use another's land gained by open, notorious, hostile, continuous use for a period fixed by state law.

Prior appropriation doctrine
A water-rights system, used mainly in arid western states, in which the right to use water depends on who first put it to beneficial use, not on land ownership.

Reliction
Land uncovered when water permanently and gradually recedes.

Remainder interest
A future interest that passes to a named third party (the remainderman) when a life estate ends.

Reversionary interest
The right of a grantor to get back the property when a limited estate, such as a life estate, ends and no remainderman was named.

Right of survivorship
The feature of joint tenancy and tenancy by the entirety under which a deceased co-owner's share passes directly to the surviving owners, outside the will and probate.

Riparian rights
The rights of owners of land bordering a flowing watercourse, such as a river or stream, to make reasonable use of the water.

Severalty
Ownership of property by one person or entity alone, so that no co-owner's consent is needed to sell.

Tenancy by the entirety
A form of co-ownership available only to married couples (or, in some states, civil-union partners) with survivorship.

Tenancy in common
Co-ownership in which each owner holds an undivided interest, which may be unequal, with no right of survivorship.

Trade fixture
Equipment a business tenant installs for its trade, which remains the tenant's personal property and may be removed before the lease ends, provided damage is repaired.

TOPIC 2 OF 10

02 Land Use Controls & Regulations

30 terms

Ad valorem tax
A property tax levied 'according to value,' calculated on the assessed value of real property.

Building code
A set of local requirements for design, materials, and construction methods to ensure safe structures.

CERCLA
The federal Comprehensive Environmental Response, Compensation, and Liability Act (Superfund), which allows cleanup of contaminated sites and imposes strict, joint-and-several liability on current owners and operators and on anyone who owned or operated the site when hazardous waste was disposed of there.

SOURCE 42 U.S.C. § 9601 et seq. (CERCLA); 42 U.S.C. § 9607(a)(2)

Certificate of occupancy
A document issued by a local building department after final inspection, confirming that a structure complies with codes and may be occupied.

Conditional use permit
Approval to put a land use in a zone where it is allowed only if certain conditions are met, such as a church, school, or day-care center in a residential district.

Dedication
The voluntary or required transfer of private land to the public for a public use, such as streets, parks, or utility easements, which the government must accept.

Eminent domain
The government's power to take private property for a public use, through condemnation, after paying just compensation.

SOURCE U.S. Const. amend. V (Takings Clause)

Escheat
The reversion of a deceased person's property to the state when they die without a will and with no heirs.

Homestead exemption
A state-law protection that shields part of the value of an owner's primary residence from property taxes or from certain creditors.

Impact fee
A charge imposed on developers of new projects to help pay for added public services and infrastructure, such as roads, schools, and utilities, that growth will demand.

Inverse condemnation
A lawsuit brought by a property owner claiming that government action has effectively taken or severely damaged their property without formal condemnation, seeking compensation.

SOURCE United States v. Clarke, 445 U.S. 253 (1980)

Lot and block system
A legal description that identifies a parcel by its lot and block numbers on a recorded subdivision plat, referring to the plat's book and page.

Master plan
A long-range municipal document that guides growth by laying out land uses, transportation, and public facilities.

SOURCE Standard City Planning Enabling Act (U.S. Dep't of Commerce, 1928)

Metes and bounds
A legal description that locates a parcel by starting at a point of beginning and following the boundary's courses (bearings) and distances back to the starting point.

Millage rate
A property tax rate stated in mills, where one mill equals one-tenth of one cent, or $1 per $1,000 of assessed value.

Nonconforming use
A use that was lawful when established but no longer complies with a new zoning rule; it may generally continue (it is grandfathered) but cannot usually be expanded or resumed after abandonment.

Phase I environmental site assessment
A review of a property's records, history, and a site visit, without soil sampling, to identify likely contamination.

SOURCE 40 C.F.R. Part 312 (All Appropriate Inquiries)

Planned unit development
A zoning technique that lets a developer mix housing types, open space, and sometimes commercial uses on one tract under a single approved plan rather than standard lot-by-lot rules.

Plat
A map of a subdivision showing the lots, streets, easements, and dimensions, recorded in the public records so lots can be described by number.

Police power
A state's inherent authority, often delegated to local governments, to regulate private property to protect public health, safety, morals, and general welfare.

Radon
A naturally occurring radioactive gas from soil and rock that can build up in buildings and is a leading cause of lung cancer.

Rectangular survey system
The government survey method used in many states, which divides land into a grid of 24-mile-square quadrangles, 6-mile-square townships, and 1-mile-square sections, measured from principal meridians and base lines.

Restrictive covenant
A private limitation written into a deed or subdivision declaration that controls how land may be used, such as minimum house size or a ban on commercial use.

Setback
The minimum distance a building must be set back from a lot line, street, or other feature, as required by zoning or a restrictive covenant.

Special assessment
A charge levied only on properties that benefit from a local improvement, such as new sidewalks or sewers.

Spot zoning
Rezoning a small parcel in a way that benefits one owner and conflicts with the surrounding area or the master plan.

Subdivision regulations
Local rules governing how raw land is divided into lots, including streets, utilities, drainage, and the required plat approval before lots may be sold.

Variance
Permission from a zoning board to depart from a specific requirement of the zoning ordinance, such as a setback, because strict application would cause unique hardship.

SOURCE Standard State Zoning Enabling Act § 7 (U.S. Dep't of Commerce, 1926)

Wetlands
Land saturated with water often enough to support plants adapted to wet soil, such as a marsh or swamp; filling one that is covered by the federal Clean Water Act generally requires a permit from the Army Corps of Engineers.

SOURCE 33 U.S.C. § 1344; 33 C.F.R. § 328.3(c)(2)

Zoning ordinance
A local law that divides a municipality into districts and regulates the use, height, density, and bulk of buildings in each.

SOURCE Standard State Zoning Enabling Act (U.S. Dep't of Commerce, 1926)

TOPIC 3 OF 10

03 Agency & Brokerage Relationships

35 terms

Agency by estoppel
An agency that arises when a principal's words or conduct lead a third party to reasonably believe a person is the principal's agent, and the third party relies on it.

Agency coupled with an interest
An agency in which the agent has a financial stake in the subject matter, such as a security interest.

Agency relationship
A legal relationship in which a principal authorizes an agent to act on the principal's behalf in dealings with third parties.

Broker protection clause
A listing provision that obligates the seller to pay a commission if, after the listing expires, the property is sold to a buyer the broker introduced during the listing period.

Buyer agency agreement
A contract in which a buyer hires a broker to find property and negotiate for them, creating fiduciary duties to the buyer.

Client versus customer
A client is a person to whom an agent owes fiduciary duties under an agency agreement; a customer is a third party who is treated honestly and fairly but is not represented.

Commingling
A broker's improper mixing of clients' money with the broker's personal or business funds.

Conversion
Using money or property that belongs to someone else for one's own purposes without authority.

Designated agency
An arrangement, available in some states, in which a brokerage appoints one licensee to represent the seller and a different licensee to represent the buyer in the same transaction.

Dual agency
A situation in which one broker represents both the buyer and seller in the same transaction.

Exclusive agency listing
A listing that gives one broker the sole right to sell as agent but allows the owner to sell directly without paying a commission.

Exclusive right-to-sell listing
A listing in which the broker is entitled to a commission if anyone, including the owner, sells the property during the listing period.

Express agency
An agency created by the explicit words of the parties, in writing or orally.

Fiduciary duty
The highest standard of care in law, owed by an agent to the principal.

General agent
An agent authorized to carry out a continuing series of acts for the principal in a particular business, such as a property manager.

Implied agency
An agency created by the conduct of the parties rather than by words, where the principal acts as if an agent has authority and the agent acts on that basis.

Independent contractor
A worker who controls the means and methods of their work and is not an employee.
SOURCE 26 U.S.C. § 3508(b)(1)

Kickback
A payment or other thing of value given for referring business.
SOURCE 12 C.F.R. § 1024.14 (prohibition against kickbacks and unearned fees)

Latent defect
A hidden flaw not discoverable by ordinary inspection that harms the value or use of a property.

Listing agreement
A written employment contract between a seller and a broker authorizing the broker to market the property for a commission.

Material fact
A fact that would likely affect a reasonable person's decision about price or whether to buy or sell.

Multiple listing service
A cooperative data service run by brokers and associations that lets participating brokers share their listings with one another.

Net listing
A listing in which the seller sets a minimum amount to receive and the broker keeps any excess as commission.

Open listing
A non-exclusive listing in which any number of brokers may try to sell the property, and only the broker who procures the buyer is paid.

Power of attorney
A written document that gives another person (the attorney-in-fact) authority to act for the principal, either for specific acts or generally.

Principal
The person who hires and authorizes an agent to act for them and to whom the agent owes fiduciary duties.

Procuring cause
The broker whose efforts started an uninterrupted chain of events that led to a sale, generally entitling that broker to the commission when the right to payment is disputed.

Puffing
Exaggerated sales talk or opinion that no reasonable person would rely on as fact.

Ratification
The principal's after-the-fact approval of an act an agent had no authority to perform, which makes it binding as though it had been authorized.

Respondeat superior
The doctrine that an employer can be held liable for the acts of an employee within the scope of employment.

Special agent
An agent with limited authority to perform a specific task or transaction.

Stigmatized property
A property that is psychologically impacted by an event, such as a death, crime, or reputation for haunting, that has no physical effect on the building.

Subagent
An agent appointed by an agent to help perform duties of the principal, with the principal's permission.

Transaction broker
A licensee, in states that allow it, who assists both parties in a transaction without being an agent of either, and generally owes limited duties such as honesty and accounting for funds.

Trust account
A separate bank account, also called an escrow account, in which a broker holds money belonging to others, such as earnest money and rents, until it is properly disbursed.

TOPIC 4 OF 10

04 Contracts & Leasing

35 terms

Acceptance
The offeree's unqualified agreement to all the terms of an offer, communicated as the offer requires.

Assignment
The transfer of one party's rights or duties under a contract to another person.

Bilateral contract
A contract in which each party makes a promise to the other, so both are obligated from the moment of acceptance.

Consideration
Something of value that each party gives or promises in a contract, such as money, property, or a promise.

Constructive eviction
A landlord's failure to provide a habitable premises or other serious interference that forces the tenant to move out, which relieves the tenant of rent obligations.

Contingency
A condition in a contract that must be satisfied for the obligation to close to take effect.

Counteroffer
A response that changes any term of the original offer.

Equitable title
The interest a buyer obtains when a purchase contract is signed, giving the right to receive legal title when the terms are met.

Estoppel certificate
A signed statement by a tenant or lender confirming key facts, such as rent paid, lease terms, or loan balance, which cannot later be contradicted.

Executory contract
A contract that has not yet been fully performed by one or both parties.

Graduated lease
A lease with rent that rises by set amounts at set times agreed in advance, also called a step-up lease.

Gross lease
A lease in which the tenant pays a fixed rent and the landlord pays the property's operating expenses.

Ground lease
A long-term lease of land only, on which the tenant often constructs buildings.

Holdover tenant
A tenant who stays after the lease expires without the landlord's consent.

Installment land contract
A seller-financed arrangement, also called a contract for deed, in which the buyer takes possession and makes payments but the seller keeps legal title until the contract is paid off.

Laches
An equitable defense barring a claim because the claimant waited unreasonably long to assert it and the delay prejudiced the other side.

Liquidated damages
A sum fixed in advance in a contract as the compensation for breach.

Net lease
A lease in which the tenant pays rent plus some or all of the property's operating costs, such as taxes, insurance, and maintenance.

Novation
The substitution of a new party or a new obligation for an existing one with the consent of all parties, which releases the original party from liability.

Offer
A proposal by one party (the offeror) to enter a contract on stated terms, communicated to another party (the offeree), who may accept, reject, or counter.

Option contract
A contract in which an owner, for consideration, gives another the exclusive right to buy or lease property at a set price within a set time.

Parol evidence rule
A rule that bars the use of prior or contemporaneous oral statements to contradict the terms of a complete written contract.

Percentage lease
A lease, common for retail space, in which rent is a percentage of the tenant's gross sales, usually with a base rent as a minimum.

Rescission
The cancellation of a contract that returns the parties to their positions before the contract, either by mutual agreement or by court order for reasons such as fraud or mistake.

Right of first refusal
A right to match the terms of a third party's offer before the owner can sell to someone else, without any obligation to buy.

Specific performance
A court order requiring a party to carry out the terms of a contract, usually because money damages are inadequate.

Statute of frauds
A law requiring certain contracts, including those for the sale of real estate and leases longer than a year (in most states), to be in writing and signed by the party to be charged to be enforceable.

Statute of limitations
A law setting the time limit within which a lawsuit must be filed.

Sublease
A transfer in which the tenant gives another party a right to part of the lease term or space while keeping a stake in the lease.

Time is of the essence
A contract clause that makes performance on the exact date required, so that a delay is a material breach.

Undue influence
Excessive pressure by someone in a position of trust or power that overcomes a person's free will, making a resulting contract voidable.

Unenforceable contract
An agreement that may be valid in nature but cannot be enforced in court because of a defect or defense, such as the statute of frauds or the statute of limitations.

Unilateral contract
A contract in which one party makes a promise that becomes binding only when the other performs the requested act.

Void contract
An agreement with no legal effect from the start because it lacks a required element or has an illegal purpose.

Voidable contract
A contract that is valid until the party with the right to disaffirm it, such as a minor or a victim of fraud, chooses to cancel it.

TOPIC 5 OF 10

05 Real Estate Finance

40 terms

Acceleration clause
A loan provision allowing the lender to declare the entire unpaid balance immediately due if the borrower defaults.

Adjustable-rate mortgage
A loan with an interest rate that changes periodically, set by adding a margin to an index, subject to caps on how much it may rise per period and over the life of the loan.

Amortization
The gradual repayment of a loan through regular payments that include both interest and principal.

Assumption versus subject-to
When a buyer assumes a loan, the buyer becomes primarily liable, and the seller stays secondarily liable unless released. When a buyer takes subject to a loan, the buyer pays the loan, but the seller remains personally liable.

Balloon payment
A final installment on a loan that is considerably larger than the regular payments, typically because the loan was not fully amortized.

Blanket mortgage
A single mortgage that covers more than one parcel, often used by developers and usually containing a partial release clause that frees individual lots as they are sold and paid for.

Conforming loan
A loan that meets the loan size limits set by the Federal Housing Finance Agency and the underwriting guidelines of Fannie Mae and Freddie Mac.

SOURCE 12 U.S.C. § 1717(b)(2) (conforming loan limits)

Deed in lieu of foreclosure
A voluntary transfer of the property to the lender to satisfy a defaulted loan and avoid foreclosure.

Deed of trust
A three-party security instrument in which the borrower (trustor) conveys title to a trustee to hold as security for the lender (beneficiary).

Defeasance clause
A mortgage provision stating that when the debt is paid in full, the lender's interest is defeated, and the lien ends.

Deficiency judgment
A court judgment against a borrower for the amount still owed after the foreclosure sale proceeds fall short of the debt.

Discount points
Prepaid interest paid at closing to buy down the interest rate.

SOURCE 12 C.F.R. § 1026.4(b)(3) (points as finance charges)

Due-on-sale clause
A provision, also called an alienation clause, that lets the lender demand full repayment if the borrower sells or transfers the property.

SOURCE 12 U.S.C. § 1701j-3 (Garn-St Germain Depository Institutions Act, due-on-sale)

Equity of redemption
The borrower's right to prevent foreclosure by paying the debt and costs before the foreclosure sale.

Escrow (impound) account
An account kept by the lender to which the borrower pays monthly portions of property taxes and insurance, so that the lender can pay the bills when they are due.

SOURCE 12 C.F.R. § 1024.17 (escrow accounts)

FHA loan
A loan insured by the Federal Housing Administration, which protects lenders against default.

SOURCE 12 U.S.C. § 1709 (National Housing Act, Title II mortgage insurance)

Home equity line of credit
A revolving credit line secured by a lien on the borrower's home, allowing draws up to a limit during a draw period, typically at a variable interest rate.

SOURCE 12 C.F.R. § 1026.40 (home equity lines of credit)

Hypothecation
The pledging of property as security for a debt without giving up possession or title.

Judicial foreclosure
A foreclosure carried out through a lawsuit and court supervision, ending with a public sale of the property.

Lien theory and title theory
In lien theory states, the borrower keeps title and the mortgage is only a lien that the lender must foreclose to enforce. In title theory states, the lender holds title until the debt is paid.

Mortgage
A security instrument that pledges real property as collateral for a loan, giving the lender a lien that can be foreclosed if the borrower defaults.

Mortgagor and mortgagee
The mortgagor is the borrower who gives the mortgage, and the mortgagee is the lender who receives it.

Negative amortization
A condition in which payments are less than the interest owed, so the unpaid interest is added to the balance and the loan grows.

Power of sale
A clause, typically in a deed of trust, authorizing the trustee to sell the property after default through a nonjudicial foreclosure without going to court, after required notices.

Prepayment penalty
A fee charged by some lenders when a borrower pays off a loan early.

SOURCE 12 C.F.R. § 1026.43(g)(1)-(2)

Private mortgage insurance
Insurance protecting a conventional lender against loss, typically required when the down payment is below 20%.

SOURCE 12 U.S.C. § 4902 (termination of private mortgage insurance)

Promissory note
The borrower's written promise to repay a stated sum on specified terms.

Purchase-money mortgage
A mortgage given at the time of purchase, either to the seller or to a lender, as part of the buying price.

Qualified mortgage
A residential loan that meets rules under the Dodd-Frank ability-to-repay requirement, such as limits on risky features, and gives the lender a legal presumption of compliance.

SOURCE 12 C.F.R. § 1026.43(e)(2)(i)-(ii)

RESPA
The Real Estate Settlement Procedures Act, which governs settlement of federally related residential loans, requires disclosures, and bans kickbacks and unearned fees among settlement service providers.

SOURCE 12 U.S.C. § 2607 (prohibition against kickbacks and unearned fees)

Reverse mortgage
A loan for homeowners, typically age 62 or older, who receive money against the home's equity without making monthly repayments.

SOURCE 12 U.S.C. § 1715z-20 (FHA-insured home equity conversion mortgages; homeowner at least 62)

Secondary mortgage market
The market in which existing mortgage loans and mortgage-backed securities are bought and sold, which replenishes the funds lenders have to make new loans.

SOURCE 12 U.S.C. § 1716 et seq. (Federal National Mortgage Association Charter Act)

Short sale
A sale of property for less than the amount owed on the mortgage, which requires the lender's approval.

Subordination clause
A provision under which a lienholder agrees that its lien will be junior to another, usually later, lien.

Temporary buydown
An upfront payment, often funded by a seller or builder, that lowers the borrower's interest rate or payments for the first few years of the loan.

TRID disclosures
The combined TILA-RESPA forms: the Loan Estimate, due within three business days after a loan application, and the Closing Disclosure, which must be received at least three business days before consummation.

SOURCE 12 C.F.R. § 1026.19(e); 12 C.F.R. § 1026.19(f)

Truth in Lending Act

A federal law, implemented by Regulation Z, requiring lenders to disclose the finance charge and annual percentage rate (APR) and giving borrowers a three-business-day right to rescind certain loans secured by their primary home, such as refinances.

SOURCE 15 U.S.C. § 1601 et seq. (Truth in Lending Act)

Usury

Charging interest above the maximum rate allowed by law.

SOURCE 12 U.S.C. § 1735f-7a (preemption of state usury laws for certain first-lien residential loans)

VA loan

A loan guaranteed by the Department of Veterans Affairs for eligible veterans and service members, typically requiring no down payment and no monthly mortgage insurance, but charging a funding fee.

SOURCE 38 U.S.C. § 3710 (VA home loan guaranty)

Wraparound mortgage

A seller-financed loan that includes the balance of an existing mortgage, with the seller continuing to pay the underlying loan from the buyer's payments.

TOPIC 6 OF 10

06 Valuation & Market Analysis

25 terms

Adjustment
A dollar amount added to or subtracted from a comparable's sale price to account for a difference with the subject.

Appraisal
A professional, supported opinion of value of a property as of a specific date, prepared by a licensed or certified appraiser for a stated purpose.

SOURCE 12 U.S.C. § 3350 (FIRREA Title XI definitions, incl. "appraisal" and "federally related transaction")

Comparable
A recently sold property that is similar to the subject property in location, size, condition, and features, and used to estimate value in the sales comparison approach.

Comparative market analysis
A real estate agent's estimate of a probable listing or selling price, based on comparable listings and sales.

Cost approach
An appraisal approach that values a property as land value plus the current cost to build the improvements, less accrued depreciation.

Curable and incurable depreciation
Depreciation is curable if the cost to fix it is no more than the value the fix adds, and incurable if the cost to fix is more than the value gained or the owner cannot fix it.

Economic obsolescence
Loss in value from causes outside the property, such as a nearby landfill, loss of a major employer, or rezoning.

Effective age
The age of a building as indicated by its condition and usefulness, rather than the number of years since it was built.

Functional obsolescence
Loss in value from a defect in design or utility inside the property, such as an outdated floor plan, poor layout, or too few bathrooms.

Highest and best use
The use of land that is legally permissible, physically possible, financially feasible, and maximally productive.

Income approach
An appraisal approach that values income-producing property by dividing its net operating income by a capitalization rate.

Market value versus market price
Market value is the most probable price a property would sell for in a competitive, open market with informed parties and no pressure. Market price is the amount actually paid, which can differ.

Physical deterioration
Loss in value from wear, tear, and aging of the improvements, such as a worn roof or cracked foundation.

Plottage
The increase in value that results from combining (assembling) adjoining lots into one larger parcel with a higher and better use.

Principle of anticipation
The principle that value is based on the expected future benefits of owning a property, such as income or enjoyment.

Principle of conformity
The principle that property value is maximized when the land use and buildings are similar to others in the area.

Principle of contribution
The idea that an improvement is worth what it adds to a property's market value, not what it cost to install.

Principle of progression
The principle that a lower-valued property tends to increase in value when it is close to higher-valued properties.

Principle of regression
The principle that a higher-valued property tends to lose value when located near lower-valued properties.

Principle of substitution
The idea that a buyer will not pay more for a property than the cost of acquiring an equally desirable substitute.

Reconciliation
The final step of an appraisal in which the appraiser weighs the value indications from the approaches used and chooses a single final opinion of value.

Replacement cost
The cost to build a building with the same utility using current materials and standards, not an exact copy.

Reproduction cost
The cost to build an exact duplicate of the existing structure, with the same materials and design, at current prices.

Sales comparison approach
An appraisal approach that estimates value by comparing recent sales of similar properties and adjusting for differences.

USPAP
The Uniform Standards of Professional Appraisal Practice, the ethical and performance standards that appraisers follow in federally related transactions, published by the Appraisal Foundation.

SOURCE Uniform Standards of Professional Appraisal Practice (The Appraisal Foundation)

TOPIC 7 OF 10

07 Transfer of Title & Closing

25 terms

Abstract of title
A summary of all recorded documents affecting a property's title.

Acknowledgment
A formal declaration by the signer before a notary public or other authorized officer that they signed voluntarily.

Adverse possession
A way to acquire title by occupying another's land openly, notoriously, hostilely, continuously, and exclusively for the period set by state law.

Bargain and sale deed
A deed that implies the grantor holds title and has the right to convey it, but usually gives no warranties against encumbrances.

Bona fide purchaser
A buyer who pays value in good faith without notice, actual or constructive, of another person's claim to the property.

Chain of title
The recorded history of ownership of a property, showing each transfer from the earliest owner to the present.

Cloud on title
An outstanding claim or encumbrance, even if invalid, that might impair the owner's title and affect marketability.

Constructive notice
The legal presumption that everyone knows what is in the public records, such as a recorded deed or easement, whether or not they actually looked.

Deed
A written instrument that conveys title to real property.

Delivery and acceptance
The final requirements for a deed to take effect: the grantor must hand over the deed intending to transfer title now, and the grantee must accept it.

Escrow
An arrangement in which a neutral third party holds money and documents until all conditions of the transaction are met and then delivers them to the proper parties.

General warranty deed
A deed that gives the broadest protection, with the grantor promising to defend title against all defects, including those arising before the grantor owned the property.

Grantor and grantee
The grantor is the person who transfers title by signing a deed, and the grantee is the person who receives it.

Intestate succession
The statutory scheme that decides who inherits a deceased person's property when there is no valid will.
SOURCE Uniform Probate Code § 2-101 (intestate estate)

Judgment lien
A general lien that attaches to a debtor's real property, generally in the county where the judgment is recorded, after a court judgment for money.

Lis pendens
A recorded notice that a lawsuit affecting title to or possession of real property is pending, which warns buyers that they would take subject to the outcome.

Marketable title
Title free from reasonable doubt and significant defects, so that a reasonably prudent buyer would accept it.

Mechanic's lien
A lien claimed by contractors, laborers, or suppliers who have not been paid for work on a property.

Probate
The court-supervised process of proving a will, paying debts and taxes, and distributing a deceased person's property.

Proration
The division of ongoing costs and credits, such as property taxes, rent, interest, and HOA dues, between seller and buyer as of the closing date.

Quiet title action
A lawsuit to establish ownership and resolve competing claims, removing clouds on title.

Quitclaim deed
A deed that transfers whatever interest, if any, the grantor has, with no warranties at all.

Recording statute
A law providing for public recording of deeds and other instruments, to give constructive notice and protect later purchasers from unrecorded earlier claims.

Special warranty deed
A deed in which the grantor warrants only against defects or claims that arose during the grantor's own period of ownership.

Title insurance
Insurance that protects an owner or lender against financial loss from covered title defects, including hidden ones such as forgery or undisclosed heirs, for a one-time premium.

TOPIC 8 OF 10

08 Fair Housing, Ethics & Federal Disclosures

30 terms

Americans with Disabilities Act
A federal law prohibiting discrimination against people with disabilities in employment and in public accommodations, including commercial facilities.
SOURCE 42 U.S.C. §§ 12181(7), 12182

Blockbusting
Inducing owners to sell by claiming that people of a protected class are moving in and values will fall; it is also called panic selling.
SOURCE 42 U.S.C. § 3604(e)

CAN-SPAM Act
A federal law governing commercial email: it bans deceptive headers and subject lines and requires a physical address and a working way to opt out, honored within 10 business days.
SOURCE 15 U.S.C. § 7704(a)

Civil Rights Act of 1866
A federal law that bars racial discrimination in the sale and rental of property.
SOURCE 42 U.S.C. § 1982

Code of Ethics
The professional standards adopted by the National Association of REALTORS that bind its members to honesty and fairness, enforceable through local associations.

Community Reinvestment Act
A 1977 federal law that encourages banks to meet the credit needs of the communities where they take deposits, including low- and moderate-income neighborhoods, to counter redlining.
SOURCE 12 U.S.C. § 2901

Disparate impact
A practice that looks neutral but has a disproportionate negative effect on a protected class and is not justified by legitimate business necessity.
SOURCE Texas Dep't of Housing & Community Affairs v. Inclusive Communities Project, Inc., 576 U.S. 519 (2015)

Disparate treatment
Intentional different treatment of a person because of a protected characteristic.

Equal Credit Opportunity Act
A federal law prohibiting credit discrimination on the basis of race, color, religion, national origin, sex, marital status, age, receipt of public assistance, or good-faith exercise of rights under consumer credit laws.
SOURCE 15 U.S.C. § 1691 (Equal Credit Opportunity Act)

Equal housing opportunity statement
The statement or logo, along with the phrase 'Equal Housing Opportunity,' that real estate advertisers commonly display to show they follow fair housing law.
SOURCE 24 C.F.R. § 100.75

Fair Housing Act
Title VIII of the Civil Rights Act of 1968, which prohibits discrimination in the sale, rental, financing, and advertising of housing based on race, color, religion, sex, national origin, familial status, and disability.
SOURCE 42 U.S.C. § 3601

Fair housing complaint deadlines
A person may file an administrative complaint with HUD within one year of the discriminatory act, or sue in federal or state court within two years.
SOURCE 42 U.S.C. § 3610(a)(1)(A)(i); 42 U.S.C. § 3613(a)(1)(A)

Familial status
A protected class covering families with children under 18, pregnant women, and people in the process of getting custody of a child.
SOURCE 42 U.S.C. § 3602(k)

FIRPTA
The Foreign Investment in Real Property Tax Act, which requires the buyer of U.S. real property from a foreign seller to withhold a portion of the amount realized, up to 15%, unless an exemption applies.
SOURCE 26 U.S.C. § 1445

Group boycott
An agreement among competitors to refuse to deal with another business or broker in order to harm it or keep it out of the market.
SOURCE 15 U.S.C. § 1

Home Mortgage Disclosure Act

A federal law requiring many lenders to report data about mortgage applications and loans, so regulators and the public can check lending patterns for discrimination.

SOURCE 12 U.S.C. § 2801 et seq. (Home Mortgage Disclosure Act)

Housing for older persons

A category exempt from the familial status rules: housing intended for and occupied only by persons 62 or older (narrow exceptions include resident staff), or housing with a resident 55 or older in at least 80% of occupied units that follows published age policies and verifies occupancy by reliable surveys.

SOURCE 42 U.S.C. § 3607(b)(2)(B), (b)(3); 24 C.F.R. § 100.303; 42 U.S.C. § 3607(b)(2)(C)

Interstate Land Sales Full Disclosure Act

A federal law requiring developers of large subdivisions, generally 100 or more lots, sold across state lines to register with the CFPB and give buyers a property report.

SOURCE 15 U.S.C. § 1703

Lead-based paint disclosure

A federal rule for housing built before 1978 requiring sellers and landlords to disclose known lead paint, provide the EPA pamphlet, and give buyers a 10-day opportunity to inspect, which they can waive or change by agreement.

SOURCE 42 U.S.C. § 4852d(a); 40 C.F.R. § 745.107

Market allocation

An agreement among competitors to divide territories, customers, or product lines among themselves rather than compete.

SOURCE 15 U.S.C. § 1

National Do Not Call Registry

A federal list of numbers that telemarketers may not call without consent.

SOURCE 16 C.F.R. § 310.4(b)(1)(iii)(B)

Owner-occupied exemption

Under the Fair Housing Act, an owner-occupied building of four or fewer units (the 'Mrs. Murphy' exemption) is exempt from the Act's rental provisions, but not from the ban on discriminatory advertising or from the 1866 Act as to race.

SOURCE 42 U.S.C. § 3603(b)(2)

Price fixing

An agreement among competing brokers to set commission rates or prices, which violates the Sherman Antitrust Act.

SOURCE 15 U.S.C. § 1; United States v. Socony-Vacuum Oil Co., 310 U.S. 150 (1940)

Reasonable accommodation

A change in rules, policies, or services that gives a person with a disability equal opportunity to use and enjoy housing.

SOURCE 24 C.F.R. § 100.204(a)-(b)

Reasonable modification

A structural change to a dwelling that a person with a disability needs to use the housing fully, such as a ramp.

SOURCE 24 C.F.R. § 100.203

Redlining

Refusing to lend, insure, or invest in certain geographic areas because of the characteristics of the people who live there rather than the creditworthiness of the applicants.

SOURCE 42 U.S.C. § 3605

Single-family home exemption

An owner who owns three or fewer single-family houses and sells or rents without a broker and without discriminatory advertising can be exempt from the Fair Housing Act.

SOURCE 42 U.S.C. § 3603(b)(1)

Steering

Directing buyers or renters toward or away from certain neighborhoods based on a protected class.

SOURCE 42 U.S.C. § 3604(a)

Testers

People who pose as home seekers to find out whether housing providers treat people differently because of a protected class.

SOURCE Havens Realty Corp. v. Coleman, 455 U.S. 363 (1982)

Tying arrangement

Requiring a customer to buy one product or service as a condition of getting another, which can violate antitrust law when the seller has market power.

SOURCE 15 U.S.C. § 1; 12 U.S.C. § 2607

TOPIC 9 OF 10

09 Property Management & Specialty Areas

20 terms

1031 exchange

An Internal Revenue Code Section 1031 transaction that lets an investor defer capital gains tax by exchanging investment or business real property for like-kind real property, within strict deadlines: 45 days to identify the replacement property and 180 days to receive it, or the due date (with extensions) of that year's tax return if it comes first.

SOURCE 26 U.S.C. § 1031(a)(1), (d); 26 U.S.C. § 1031(a)(3)

Adjusted basis

An owner's cost basis in a property, plus capital improvements, less depreciation deducted, used to compute taxable gain on a sale.

Anchor tenant

A major, well-known tenant in a shopping center that draws customers who then shop at smaller stores.

Boot

Cash, debt relief, or other non-like-kind property received in a tax-deferred exchange, which is taxable to the extent of the gain.

SOURCE 26 U.S.C. § 1031(b); 26 C.F.R. § 1.1031(d)-2

CAM charges

Common area maintenance charges: tenants' share of the cost of maintaining shared areas such as parking lots, hallways, and landscaping, usually billed in proportion to leased space in commercial properties.

Depreciation (tax)

A tax deduction that spreads the cost of income-producing improvements over their tax life: 27.5 years for residential rental and 39 years for nonresidential property.

Homeowners association

An organization of owners in a subdivision or condominium that enforces the declaration and covenants, maintains common areas, and collects assessments.

Management agreement

The written contract between an owner and a property manager that spells out the manager's authority, duties, fees, reporting, and term.

Preventive maintenance

Scheduled upkeep, such as servicing heating equipment and cleaning gutters, that is done to avoid breakdowns and keep property value and tenant satisfaction.

Property manager

A person or firm hired by an owner to operate real estate, typically by marketing space, screening tenants, collecting rent, arranging maintenance, and keeping records.

Real estate investment trust

A company that owns or finances income-producing real estate and sells shares to investors.

SOURCE 26 U.S.C. § 857(a)

Rent roll

A schedule listing each unit in a property with its tenant, rent amount, lease dates, and deposit.

Reserve fund

Money set aside from a property's income, or from a condominium association's assessments, to pay for big future repairs and replacements, such as roofs and elevators.

Section 121 exclusion

A federal tax rule allowing a homeowner who owned and used a home as a main residence for at least two of the last five years to exclude up to $250,000 of gain from income, or $500,000 for married couples filing jointly.

SOURCE 26 U.S.C. § 121(a), (d)(6)

Security deposit

Money a tenant pays at the start of a lease to cover unpaid rent and damages beyond normal wear and tear.

SOURCE Uniform Residential Landlord and Tenant Act § 2.101 (1972)

Syndication

A way for a group of investors to pool money to buy real estate, often using a limited partnership or LLC with a sponsor who manages the deal.

Tenant improvements

Alterations to leased commercial space made to fit a tenant's needs, such as walls, flooring, and lighting.

Tenant mix
The combination of types of tenants in a commercial property, which a manager plans so that businesses complement each other and increase traffic.

Time-share
An arrangement allowing multiple owners to have rights to use a vacation property for specific periods each year.
SOURCE Uniform Real Estate Time-Share Act (1980)

Warranty of habitability
A duty, imposed by law or implied in residential leases in most states, that the landlord keep the premises safe, clean, and fit to live in, with working heat, water, and sanitation.

TOPIC 10 OF 10

10 Real Estate Math

25 terms

Acre
A unit of land area equal to 43,560 square feet.

Appreciation rate
The percentage increase in value: Rate = (New value − Original value) ÷ Original value.

Area of a rectangle
Length × width, expressed in square units.

Area of a triangle
Area = ½ × base × height, where the height is the perpendicular distance from the base to the opposite corner.

Back-end ratio
The share of gross monthly income that goes to housing costs plus all other monthly debt payments: (Housing payment + Other debt) ÷ Gross monthly income.

Capitalization rate
A property's annual net operating income divided by its value or price: Cap rate = NOI ÷ Value.

Commission
The broker's fee as a percentage of the sale price: Commission = Sale price × Commission rate.

Commission split
The share of a commission that goes to each brokerage and agent: multiply the total commission by each side's percentage, then by the agent's split.

Discount point cost
One discount point costs 1% of the loan amount: Cost = Loan × (points ÷ 100).

Effective gross income
Potential gross income less vacancy and collection losses: EGI = PGI − (PGI × vacancy rate), plus any other income.

Equity
An owner's interest in a property: Equity = Market value − Total liens and loans against it.

Front-end ratio
The share of gross monthly income that goes to housing costs: Housing payment (principal, interest, taxes, insurance, and any HOA dues) ÷ Gross monthly income.

Gross rent multiplier
A quick value estimate for small rental properties: GRM = Sale price ÷ Monthly gross rent.

Loan-to-value ratio
The loan amount divided by the lesser of the sales price or the appraised value: LTV = Loan ÷ Value.

Monthly interest on a mortgage
The interest part of a payment is the unpaid balance × annual rate ÷ 12.

Net operating income
Annual income left after subtracting operating expenses and vacancy losses from gross income: NOI = Effective gross income − Operating expenses.

Net to seller
What a seller receives at closing: Net proceeds = Sale price − Commission − Loan payoff − Other closing costs.

Per diem proration
The daily charge used to prorate costs at closing: Per diem = Annual amount ÷ days in the year (365, or 360 under the banker's year with 30-day months) and then multiplied by the number of days to be prorated.

Price per square foot
A unit comparison used by agents and appraisers: Price per sq ft = Price ÷ Square footage.

Property tax with mill rate
Tax = Assessed value × mill rate ÷ 1,000, since one mill is $1 per $1,000 of assessed value.

Section of land
In the rectangular survey system, a section is one square mile, containing 640 acres, and a township has 36 sections.

Simple interest
Interest computed only on the principal: I = P × R × T, with the rate as a decimal and time in years.

Square yard conversion
A square yard is 3 feet by 3 feet, which is 9 square feet.

Straight-line depreciation
Equal annual deductions over a useful life: Annual depreciation = Depreciable basis ÷ Recovery period.

Volume of a rectangular space
Volume = Length × width × height in cubic units.

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