

# Critical facts regarding the DRE licensing exam

## APPLYING FOR THE STATE EXAM

All **Department of Real Estate (DRE)** application forms and processing times are available at [www.bre.ca.gov](http://www.bre.ca.gov). For the sequential steps of the application process, see Figure 1 on the next page.

## HOW THE DRE LICENSING EXAM WORKS

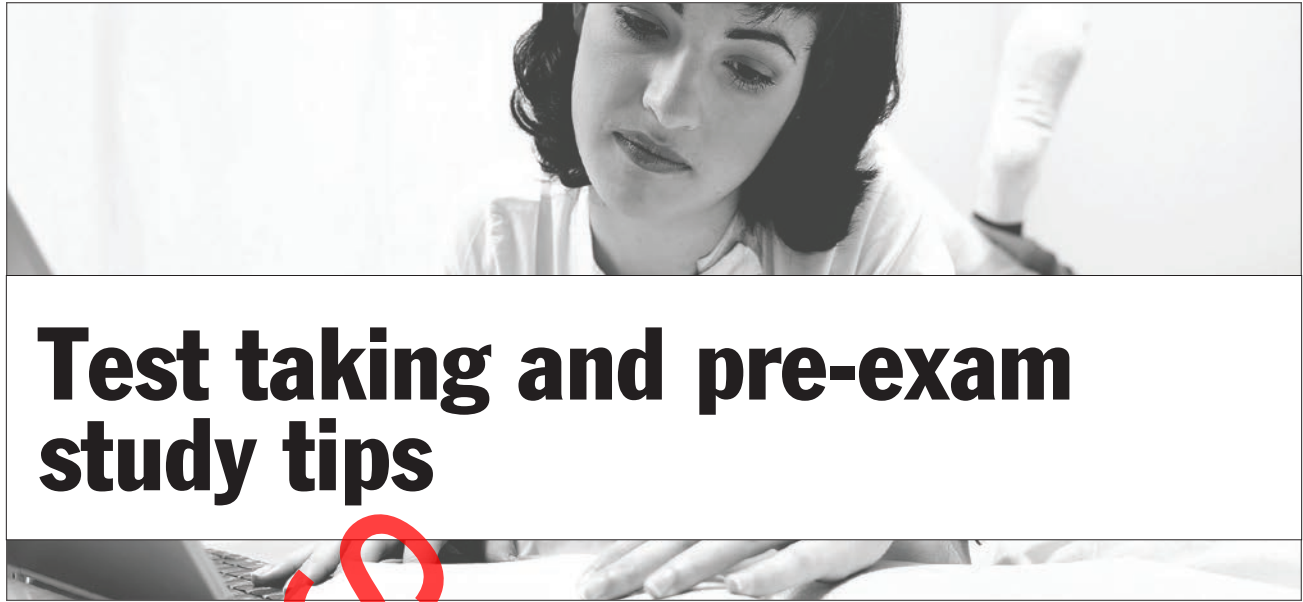
The qualifying DRE licensing exam for both **salespersons and brokers** tests an applicant's competency in:

- the general and fiduciary duties between an agent and their principal;
- the conveyancing of real estate and business opportunities;
- the purpose and use of contracts and real estate documents, such as seller's and buyer's listing agreements, purchase agreements, deeds, mortgages, leases, land sales contracts and disclosures;
- real estate economics and appraisal;
- ethical practice in real estate; and
- the real estate law governing all real estate transactions in California. [See Figure 2]

Further, license applicants need to demonstrate a proficient level of knowledge of the mathematical computations common in real estate transactions. However, a relatively small number of questions on the DRE licensing exam rely exclusively on the computation of mathematical formulas. Going into 2018 and beyond, many recent examinees report either zero to just a few math questions on the exam. Further, math-oriented questions are given equal weight as all the other questions on the exam.

The **salesperson exam** contains 150 questions and is administered in a three hour 15 minute session.

The **broker exam** contains 200 total questions and is administered in two sessions of two hours 30 minutes each, with each section containing 100 questions.



# Test taking and pre-exam study tips

## PRE-EXAM STUDY TIPS

### Have a solid grasp of real estate vocabulary.

Many of the questions on the salesperson and broker exam require the applicant to complete the sentence by providing a **real estate term** to describe the concept or scenario provided. Thus, a reliable understanding of real estate terminology is critical. [See the **Real estate glossary** at the back of this book]

**Key terms** specific to a given area of real estate practice are listed at the beginning of each chapter in this book. These *Key terms* are critical to your comprehension of the topics contained within that section and your ability to correctly answer the sample questions covering that topic. A majority of the sample questions in this book will test your knowledge of these critical **Key terms** and put these principles in context.

Further, each section contains a list of **Exam jargon** consistent with the subject matter of that chapter. *Exam jargon* is highly specialized real estate terminology unique to the industry that has a strong likelihood of appearing on the exam.



This book contains a **Real estate glossary** which features easy-to-understand definitions of all the **Key terms** and **Exam jargon** referenced in these materials, as well as any other real estate terminology necessary to successfully pass the state exam.

### Take (and retake) the simulated exams.

Take the five **simulated exams** contained in the back of this book. The five simulated exams contain 150 questions each, the same length as the agent licensing exam (the broker exam contains a total of 200). Further, the subject matter of the sample questions provided in this book is allocated in proportion to the seven major areas of real estate practice covered on the state exam.



# Chapter 1: Property ownership and land use controls and regulations

## Key Concepts

*Critical real estate concepts equaling approximately 15% of the state licensing exam.*

- Classes of property
- Property characteristics
- Encumbrances
- Types of ownership
- Descriptions of property
- Government rights in land
- Public controls
- Environmental hazards and regulations
- Private controls
- Water rights
- Special categories of land

## Key Terms

*Fundamental real estate vocabulary likely to appear on the state exam with reference to the quiz questions illustrating its application. See the Real estate glossary on page 309 for the full definitions.*

adverse possession (q. 36)  
 appurtenance (q. 37)  
 easement (q. 17, 34)  
 eminent domain (q. 21)  
 encroachment (q. 47-48)  
 encumbrance (q. 31-35)  
 escheat (q. 4, 20, 21)  
 estate (q. 38-42)

hypothecate (q. 28)  
 ingress and egress (q. 44)  
 life estate (q. 30)  
 lis pendens (q. 19, 35)  
 police power (q. 8-10)  
 reversion (q. 26)  
 riparian rights (q. 12)  
 section (q. 5)

solar easement (q. 45)  
 Subdivided Lands Law (q. 46)  
 Subdivision Map Act (q. 11)  
 tenement (q. 43)  
 township (q. 6)  
 zoning (q. 8, 10)

*✓ Note: This section is designed to give you a broad understanding of the basic principles which relate to the subject matter of this chapter. However, it is not exhaustive. For further reading on this concept, see your Real Estate Principles licensing course materials.*

5. There are \_\_\_\_\_ baseline and meridian systems in California.
  - a. 36
  - b. 12
  - c. 3
  - d. infinite
6. Which of the following would be the least desirable reference point for a metes and bounds description?
  - a. The corner of a section.
  - b. A township line.
  - c. The corner of a quarter section.
  - d. A riverbank.
7. A lot contains 73,000 square yards. How many acres does this equal?
  - a. 29
  - b. 14.7
  - c. 10
  - d. 15.1
8. Which of the following statements regarding zoning is true?
  - a. Zoning is never retroactive.
  - b. Aesthetic values are not an interest in the establishment of zoning.
  - c. Zoning always takes precedence over deed restrictions.
  - d. Zoning law always keeps commercial and residential properties separate.
9. Before a new home can be occupied:
  - a. all construction loans need to be paid off.
  - b. a certificate of occupancy must be issued by the local building department.
  - c. a notice of completion needs to be recorded by the owner.
  - d. offsite improvements need to be complete.
10. On a zoning map, 'M' generally indicates:
  - a. multiple use.
  - b. multi-unit.
  - c. manufacturing.
  - d. mobile homes.
11. The Subdivision Map Act grants control to the:
  - a. corporation counsel.
  - b. Department of Real Estate (DRE).
  - c. local government.
  - d. state building inspector.
12. An owner with riparian rights has rights relating to the use and ownership of water from which of the following sources:
  - a. rivers, streams and watercourses.
  - b. oceans and bays.
  - c. underground caves with water.
  - d. swimming pools and watering systems.
13. Individual ownership of a lot and common ownership of other areas in the development constitutes a:
  - a. fully improved subdivision.
  - b. planned unit development (PUD).
  - c. multi-unit apartment project.
  - d. condominium.
14. The Real Estate Commissioner rescinds their approval of a subdivision by:
  - a. issuing an injunction.
  - b. issuing a writ of prohibition.
  - c. revoking the developer's license.
  - d. issuing a desist and refrain order.
15. A roof on which all four sides slope to the eaves is classified as a:
  - a. gambrel roof.
  - b. gable roof.
  - c. mansard roof.
  - d. hip roof.

**ANSWER KEY**

1. **d** — The **capitalization rate (cap rate)** is the annual rate of return produced by the operations of an income property. The cap rate is calculated by dividing the **net operating income (NOI)** by the price asked or offered for income property. Thus, the value moves in the opposite direction of the rate, and a higher risk is rewarded by a higher return.
2. **a** — **Regression** is the loss of value of nicer homes due to lower-value neighboring properties, **progression** is the increase in value of lesser homes due to higher-value neighboring properties. Both are elements of the principle of **conformity**.
3. **b** — When an appraiser is appraising income-producing property, they use the **income approach** to determine its value. This is accomplished by dividing the value by the rent, yielding the gross rent multiplier (GRM). Then, using the rent of the subject property, the appraiser can determine the value of the subject property.
 
$$\begin{aligned} \$2,940,000 \div \$21,000 &= 140 \\ 140 \times \$16,000 &= \$2,240,000 \end{aligned}$$
4. **d** — Demand requires the ability to pay, called **purchasing power**.
5. **b** — The vacancy level and rental income will fluctuate as supply increases or demand grows or shrinks.
6. **a** — **Economic life** is that length of time during which the building remains viable and generates a return on investment.
7. **a** — As explained in Question 1, the value will move in the opposite direction as the capitalization rate (cap rate).
 
$$\begin{aligned} \$300,000 \times .05 &= \$15,000 \text{ (net income)} \\ \$15,000 \div .08 &= \$187,500 \end{aligned}$$
8. **a** — The elements of value are **Demand, Utility, Scarcity and Transferability (DUST)**. Therefore, the correct answer, that which is not included as an element of value, is A.
9. **b** — As shown in Question 3,  $\$240,000 \text{ (value)} / \$2,000 \text{ (rent)} = 120$ .
10. **d** — Comparisons need to consider all elements of a property and its neighborhood. Therefore, answer selection C is not the best answer, and answer select B is not a measurement that is considered in residential real estate.
11. **a** — **Value** is the relationship. Cost is simply the price.
12. **c** — The price a **reasonable, unpressured buyer** would agree to for property on the open market refers to fair market value (FMV).
13. **d** — Answer choice D is the exception. The other choices might be appropriate reasons for a separation of site and improvements, whereas the gross rent multiplier (GRM) approach requires nothing other than calculating the rent multiplied by a multiplier to arrive at a value.
14. **c** — Whenever possible, an appraiser prefers to compare properties.
15. **d** — Financing is not part of the appraisal process. All the other answer selections are part of the narrative report.
16. **c** — **Replacement cost** is the cost to build a structure of a similar size and utility using modern methods and materials. **Reproduction cost** is creating something as similar as possible to the original. Both use current costs in the calculation.
17. **d** — **Rehabilitation** suggests making necessary repairs without changing any other elements of the property. **Remodeling** would change things to current style and preference.