

Appraisal Institute[®]

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Associate Member Guidance

Comprehensive Exam



What is the Comp Exam?

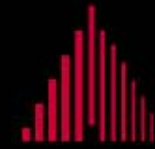


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Two-day exam that is the near
culmination of the process for achieving
MAI membership

Why Do We Have It?

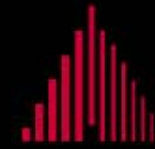


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- Common requirement for most professional designations and licenses
- Measure competence as testing previously through required course examinations
- Ascertain judgment capacity that has not been tested previously

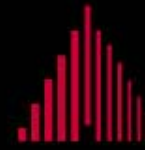
Why Do We Have It?



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- Measure of one's ability to perform in complex real-world situations
- Promotes and maintains the market's perception of worth for MAI designated membership



Who is Eligible?

- Active general Associate member in good standing
- Completed all MAI education requirements
- Met the college degree requirement
- Compliant with Standards & Ethics and CE requirements

History

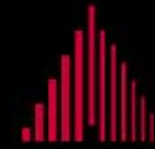


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- Until recently, considered essentially the last step in the admissions process
- Associate members may take the comp prior to completion of demo or experience screening
- Evolved through the years:
 - Essay
 - Multiple choice
 - One module
 - Multiple modules

What is Covered?



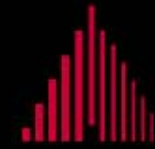
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Anything in the Appraisal Institute body of knowledge, including (but not limited to):

- All AI courses and seminars
- 13th Edition of *The Appraisal of Real Estate*
- Recognized principles and procedures
- Standards and Ethics (including USPAP)
- *The Dictionary of Real Estate Appraisal*

Current Format

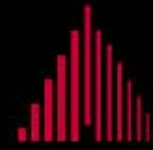


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- Administered by Pearson VUE Professional Testing Centers – high level of security
- Only offered on certain scheduled days each year
- Pearson Vue information & locations can be found at:

www.pearsonvue.com/ai/



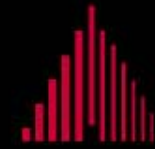
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What to Expect

- Four module examination
- Most of the content will have a direct correlation to what is taught in the AE courses
- Some of the questions will require you to perform at a more advanced level than necessary to pass the courses

Module I

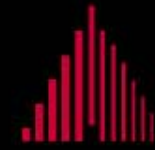


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- General theory and concepts
- First morning (for those taking more than one module that day) or first day (morning or afternoon) for those needing only this module
- 100 questions
- 3.5 hours available for completion

Module I

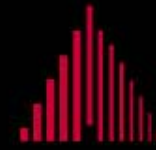


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- General concepts – introduction to value
 - Principles and definitions
 - Nature of real estate
 - Definition of problem data
 - Knowledge of financing
- Statistics
- Taxes
- USPAP and Code of Ethics
- Market conditions
- Reconciliations and conclusions

Module II

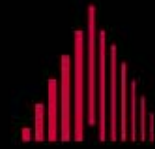


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- 50 questions
- Second morning (for those taking more than one module) or second day (morning or afternoon) for those needing only this module
- 3.5 hours for completion
- Advanced Market Analysis and Highest & Best Use
- Advanced Sales Comparison and Cost Approaches

Module II



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- Cost approach
 - Concepts of cost approach
 - Land value
 - Improvements
 - Depreciation
- Highest and Best Use
- Feasibility

Module III

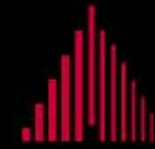


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- 50 questions
- First afternoon (for those taking more than one module) or first day (morning or afternoon) for those needing only this module
- 4 hours for completion
- Advanced Income Capitalization
- Advanced Applications

Module III

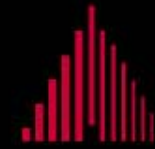


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- Income capitalization approach
 - Concepts of income approach
 - Income and expenses
 - Capitalization and discounting
 - GRM/GIM
 - Rates
- Value of partial interest
 - Physical and legal divisions
 - Economic and financial divisions

Module IV

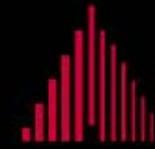


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- 50 questions
- Second afternoon (for those taking more than one module) or second day (morning or afternoon) for those needing only this module
- 4 hours for completion
- Advanced Sales Comparison and Cost Approaches

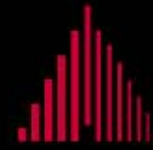
Module IV



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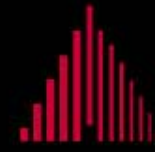
- Sales comparison approach
 - Concepts of sales comparison
 - Units of comparison
 - Elements of comparison
 - Sales analysis
- Cash Equivalence



What You Will Need

- Financial calculator
 - Specific HP or TI models
 - You are responsible for knowing how to use the calculator
- Everything else is provided
 - Erasable white board in lieu of graph paper/scratch paper
 - You are NOT allowed to take any personal items into the testing room

How Do I Receive Credit?

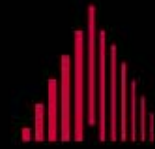


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- Each module graded separately
- Receive credit for each module passed
- Must take all modules for which passing grade has not yet been achieved
- Must pass each module to receive credit for the requirement
- No limit on number of times you can sit

What are the Questions Like?



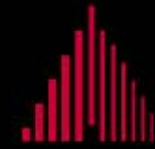
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- Multiple choice with only one correct answer
- Many incorrect answers relate to something done wrong in the problem (distracter)
- Questions generally categorized as:

Hard	0%-29% score correctly
Difficult	30%-49% score correctly
Medium	50%-74% score correctly
Easy	75% or more score correctly

How Many of Each?

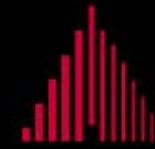


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- No set rules on the level of difficulty
- Most questions are Easy or Medium difficulty
- Only a few are Hard

Tips

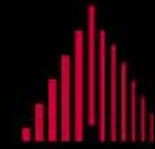


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- Get all the easy ones and a good share of the medium ones
- You don't have to get all the hard and very hard ones to pass
- You could get some of them right just by guessing
- Hard questions are for the elite to show their stuff; very hard are for very elite

Possible Basic Cap Example



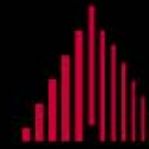
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What is R_0 ?

- 10,000 square feet
- Market rent - \$14 psf net
- Market vacancy – 6% of GSI
- Recoverable operating expenses - \$6 psf
- Non-recoverable expenses - \$0.25 psf
- Sale price - \$1,320,000

What is R_o ?

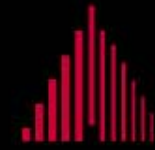


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GSI 10,000 x \$14	\$140,000
Recoverable - \$6 psf	<u>60,000</u>
PGI	\$200,000
Less Vacancy @ 6%	<u>(12,000)</u>
EGI	\$188,000
Less Recoverable	(60,000)
Less Non Recoverable	<u>(2,500)</u>
NOI	\$125,500
R_o (\$125,500 / \$1,320,000) =	9.5%

Possible Advanced Cap Example



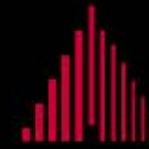
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What is R_{LH} ?

- 10,000 square-feet
- Market rent - \$14 psf
- Contract rent - \$11 psf
- Market vacancy - 5%
- Contract vacancy - 1%
- Recoverable expenses - \$6 psf
- Non-recoverable expenses - \$0.25 psf
- Sale price - \$1,200,000
- R_O - 9.5%

Possible Advanced Cap Example

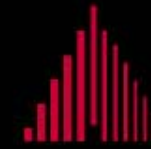


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I_0	\$125,500
R_0	9.5%
V_0	\$1,321,052
I_{LF}	\$105,800
V_{LF}	\$1,200,000
R_{LF}	8.82%
I_{LH}	\$19,700
V_{LH}	\$121,052
R_{LH}	16.27%

Possible Module III Example



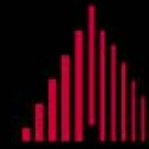
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What is the minimum remaining lease term?

- 10,000 square-feet
- Market rent - \$14 psf level
- Contract rent - \$11 psf level
- Market vacancy - 5%
- Contract vacancy - 1%
- Recoverable expenses - \$6 psf
- Non-recoverable expenses - \$0.25 psf
- Sale price - \$1,200,000
- R_O - 9.5%
- Y_O - 12%
- Assume monthly payments

Possible Module III Example

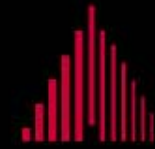


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I_{LH} (PMT)	\$19,700/12
V_{LH} (CHS PV)	\$121,052
Y_{FS} (12gi)	1
Minimum Term (n)	135 (11.25 years)

Pass Scores and Percentages

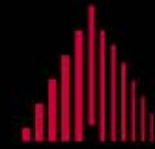


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- Statistical information is confidential
- Many Associate members take one or more modules more than once
- High initial rate of success with Modules I & II, Module II generally has lower initial success rate than Module I
- Lower initial success rate with Modules III & IV
- Module III has lowest pass rate (helps to be current on course work)

Where is the Exam Given?

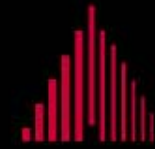


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- Pearson Vue testing centers (U.S., Canada, and some other countries)
- Find locations at www.pearsonvue.com/ai/
- Space-available basis only – applying before the AI deadline does not guarantee a seat at any specific center

Keys to Success

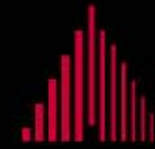


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- Proficiency with course work
- Statistical evidence strongly suggests:
 - Associate members who do well on corresponding course exams have greater chance of passing
 - Associate members with marginal passing score have poor chance of passing
 - You should have a feel for how well you did on an exam if you really think about it

Keys to Success

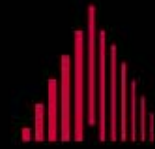


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- Associate members receive an exam critique for Level II education
- Use this to prep for the comp
- Critique indicates topics where one or more questions were missed and where to find this info in the course materials
- For copies of your critiques contact the Admissions Department

Keys to Success

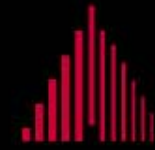


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- Associate members who have taken the MAI education within the 2 years prior to the comp have a better chance of passing
- Highest level of success – Associate members who passed the MAI education with a high score within 2 years of taking the comp

Other Noted Advantages

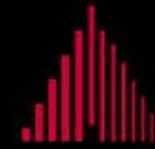


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- Work in an office with other proficient MAIs
- Regularly exposed to more complicated appraisal situations in daily work

Observation 1



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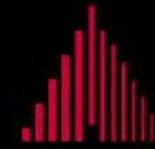
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Some Associate members view the passage of the Comprehensive Exam as a right bestowed as a result of passing the Level II exams.

It's not!

There is no alternative to hard work to prepare for the exam.

Observation 2



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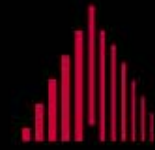
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Many appraisers know how to manipulate prepared financial software but don't really understand what it all means.

They will usually fail (and often complain).

The Comprehensive Exam requires you to understand the fundamental principles that underlie the correct answer.

How Should I Prepare?



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- Be diligent with course work
 - Don't be afraid to sit in the front row
 - You may have to take a course more than once
- Have a firm grasp on the problems in the course manuals
- Not just about how to get the right answer but what it all means

How Should I Prepare?

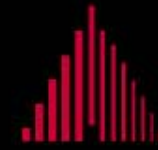


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- Use your Level II course materials
- General Associate members who are eligible to take the comp can re-order these materials – send request to admissions@appraisalinstitute.org

Exam Time

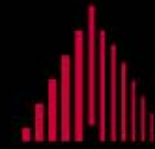


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- Relax and take your time
- Use good test taking skills
 - Don't get bogged down on questions you don't understand – come back to them at the end
 - Eliminate answers that are obviously incorrect
 - Don't second guess your first instincts
 - Answer everything

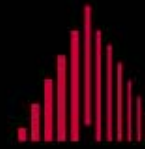
Application and Guidebook



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- Found on the AI Web site on the [Designation Requirement Tools](#) page (under the Membership tab)
- Includes application and sample questions

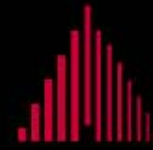


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Sample Question #1

Four years ago, a seller carried back a \$100,000 purchase-money mortgage with 20 years amortization, 8.5%, and monthly payments. The loan cannot be assumed by a subsequent buyer. Currently, mortgages on similar real estate are yielding 12%. The market value of the real estate is \$150,000. The current net operating income is \$16,500.



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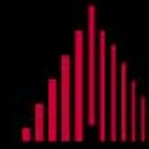
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Sample Question #1

What would happen to the market value of the real estate if the loan could be assumed?

- Increase significantly
- Decrease significantly
- Remain the same
- Increase slightly

Sample Question #2



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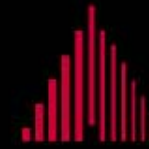
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The next two questions are based on the following information:

A small parcel of speculative land was purchased for \$60,000 with \$17,000 down and the balance of \$43,000 financed at 10% with monthly payments of \$300 and a balloon in five years.

1. What will the loan balance be (nearest \$100) after 5 years?
2. If the interest rate is not 10%, causing the loan balance to be \$50,000 after five years, and the purchaser is to receive a 15% equity yield, what must the sale price (nearest \$100) be in five years?

Sample Question #2



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What will the loan balance be (nearest \$100) after 5 years?

- \$47,300
- \$47,500
- \$67,400
- \$94,000

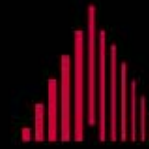
Answer: \$47,500

Keystrokes for HP12C are: f FIN 5 g n 10 g i 43,000 PV 300 CHS PMT FV.

Note that the loan should be analyzed on a monthly basis and has a negative amortization.

4th proposed answer results from overlooking CHS, the 3rd from mixing monthly and annual parameters, and the 1st from performing the calculations annually.

Sample Question #2



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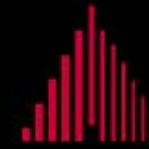
If the interest rate is not 10%, causing the loan balance to be \$50,000 after five years, and the purchaser is to receive a 15% equity yield, what must the sale price (nearest \$100) be in five years?

- \$58,500
- \$59,900
- \$108,500
- \$120,00

FV of \$17,000 for 5 years at 15% =	\$34,193
FV of \$3,600/year for 5 years at 15% =	24,273
Mortgage Balance at end of 5 years =	50,000
TOTAL	\$108,466

The \$300/month interest payment becomes a part of the investment in the property. Therefore, it must be included in the calculations. Keystrokes for HP12C are: f FIN 5 n 15 i 17000 chs PV 3600 chs PMT FV 50,000 +. The correct answer to this question does not depend on choosing the correct answer to the previous

Sample Question #3

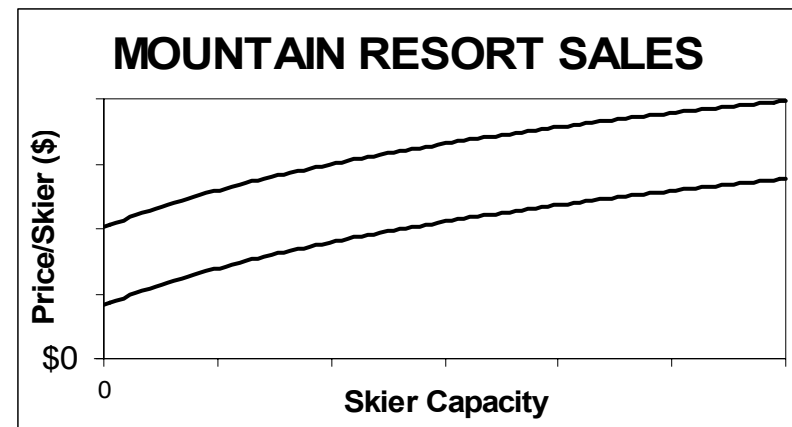


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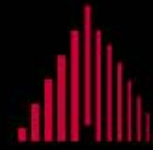
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The subject property is a mountain resort. Incremental value is based on skier visits. Sales in the subject's region form a consistent curvilinear pattern, as shown below (lower line).

The trend for a more desirable region is also shown (higher line).



Based on this market information, what type of location adjustment is indicated for sales in the more desirable region?



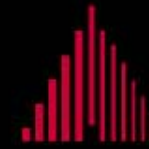
Sample Question #3

Based on this market information, what type of location adjustment is indicated for sales in the more desirable region?

- Downward dollar adjustment
- Upward dollar adjustment
- Downward percent adjustment
- Upward percent adjustment

Answer: Downward dollar adjustment

Sample Feedback on Comp Exam



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Module III Income Capitalization Approach

Comp Exam Critique

This critique is to be used as a study guide only, not a tool to calculate your score.

Note: The following sessions correspond with the Advanced Income Capitalization course materials.

RANGE OF NUMBER OF QUESTIONS MISSED

Basic Capitalization Concepts	4 – 7
Projecting Cash Flows	0 – 3
Investment Analysis Concepts	0 – 3
Property Yield Capitalization	2 – 5
Leverage	0 – 3
Stabilizing Income & Equity Yield Capitalization	8 – 11
Risk Analysis	0 – 3
Applications	6 – 9
Supporting the Discount Rate	0 - 3

Questions?



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