

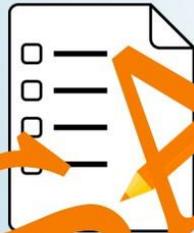
HUMBER REAL ESTATE EXAMS

750+
Questions

MiniCram®

**PRACTICE
QUESTIONS**

Course 4



COMMERCIAL

REAL ESTATE TRANSACTIONS

MiniCram.com®

MINICRAM®

**HUMBER COLLEGE REAL
ESTATE EXAM - COURSE 4**

**COMMERCIAL REAL ESTATE
TRANSACTIONS**

750+ PRACTICE QUESTIONS

With

DETAILED ANSWERS

MiniCram



You Simply Can't Go Wrong With MiniCram

----- MiniCram® -----

MiniCram® Real Estate Exam Practice Questions Course 4 – Commercial Real Estate Transactions

All rights reserved by *MiniCram®*. No part of this publication may be reproduced, distributed, transmitted, or stored in any material form (including photocopying or storing it in any medium by electronic means and, whether or not transiently or incidentally, to some other use of this publication) without the prior written consent of the publisher. *MiniCram®* does not assume any liability with respect to the use of information contained in this publication.

Warning and Disclaimer

The information contained in this publication is essentially a summary, for the only purpose of review of key concepts for exam preparation and is not intended to replace direct research or original source documents, actual classroom training or expert advice. This publication is for the sole purpose of education.

MiniCram® makes every effort to ensure that this book is as complete, error free and as accurate as possible, but no warranty or fitness is implied. The information is provided on 'as is' basis. The author and the publisher shall have neither liability nor responsibility to any person or entity with respect to damages arising from the use of information contained in this publication.

This warning and disclaimer apply regardless of whether you access this publication in paper format or using any electronic means. In case you are accessing this publication in any electronic format, including through the Internet, you expressly agree that the author or the publishers are not responsible or liable for any loss or corruption of data, and damage to hardware, software, applications and the operating system.

► *MiniCram® does not make any representation, warranty, or guarantee, of any kind whatsoever, whether expressed or implied, that the student will pass the exam. MiniCram® provides only study material to help you prepare for the exam. You are encouraged to review the Sample book before placing your order. No return, exchange or refund will be issued once the book has been purchased.*

We, at *MiniCram®*, are not affiliated with, endorsed by, or have any sponsorship from the *Real Estate Council of Ontario (RECO)*, the *Humber Real Estate College*, or any *Real Estate Board*.

Acknowledgements

The terms *MLS®* and *REALTOR®* are registered trademarks of the *Canadian Real Estate Association® (CREA®)*. *RECO®* is a trademark of *Real Estate Council of Ontario*. The use of these trademarks or logos in this publication is intended only for the purpose of general information and education and is not to affect any validity or legal status associated with them.

----- **MiniCram®** -----

TABLE OF CONTENTS

[Copyright](#)

Table of Contents

[Introduction](#)

PRACTICE QUESTIONS

- [1. Introduction to Commercial Real Estate](#)
2. Understanding Commercial Construction
3. Office and Retail Properties
4. Preparing to Sell Office and Retail Properties
5. Preparing to Sell Commercial Condominiums
6. Industrial Properties
7. Preparing to Sell Industrial Properties
8. Showing Office, Retail, and Industrial Properties
9. Agreement for Office and Retail Properties
10. Agreement for Commercial Condominiums
11. Agreement for Industrial Properties
12. Preparing to Lease Office, Retail, and Industrial Properties
13. Commercial Lease Transactions
14. Development Land and Farms
15. Brokering the Sale of a Business

DETAILED ANSWERS

[Module 1](#)

Module 2

Module 3

Module 4

Module 5

Module 6

Module 7

Module 8

Module 9

Module 10

Module 11

Module 12

Module 13

Module 14

Module 15

----- MiniCram® -----

INTRODUCTION

Dear Reader,

Congratulations on purchasing our **MiniCram®** for Ontario Real Estate License Exam preparation. The purpose of this book is to provide you with last minute review of important theory and math concepts for the exam. **MiniCram®** has compiled this booklet so that you can focus on key areas of study as well as prepare to overcome the most common mistakes that students make on the actual test day.

How to Use This **MiniCram®**

We understand that you do not have enough time for studying the online content of the official real estate courses. This **MiniCram®** booklet is designed in such a way that your review for the exam is fast paced. It is suggested that you go through each topic one by one. However, it is assumed that you have already covered the official course content in either the actual class or by self-study.

We Want to Hear from You

This book is written by a practicing Real Estate Broker who is also a trained adult trainer. If you have feedback for the author, need more information, or have general comments, please send an email to minicram@outlook.com.

We hope you enjoy your review. Good luck for the exam!

----- **MiniCram®** -----

[Table of Contents](#)

1. INTRODUCTION TO COMMERCIAL REAL ESTATE

Take a blank sheet of paper to write your answers. The [Quick Answer Key](#) is located after the last question followed by [Detailed Answers](#).

----- MiniCram® -----

M1.1. New salespersons interested in commercial properties must use due diligence in conducting their real estate business. While changes of fast progress are there, certain inherent problems also exist. Which of the following statements is correct in this regard?

- A. Income from commercial trading is unpredictable and several months may pass without any completed transaction.
- B. There is a guarantee of income from sales that involve lengthy negotiations and complex paperwork.
- C. Since the accountant takes care of taxation matters at the end of year, the salesperson need not worry much about timely remittances.
- D. Commercial buyers rarely back off from conditional sales and the salesperson may count on remuneration income.

M1.2. Salespersons starting their career in commercial real estate must be aware of complexities involved in this field. Which of the following statements is correct regarding a career in commercial real estate?

- A. Planning in advance is not much effective when handling queries for a listed commercial property because every property is unique.
- B. Salespersons involved in commercial transactions typically pay for their trade related expenses while the residential brokerages bear these expenses.
- C. When listing a commercial property for sale, the registrant must not ignore the contracts of the seller with utility and management companies.
- D. The registrant should focus on larger commercial projects in the beginning to gain as much knowledge as possible.

M1.3. A typical real estate brokerage would prefer to hire *Independent Contractor* salespersons instead of the *Employees*. This is because:

- A. Remuneration charged by Independent Contractors must be in compliance with brokerage policies, but Employee salespeople decide their own remuneration.
- B. Compliance with REBBA is required only for Employee salespeople but not for Independent Contractors.
- C. Independent contractor salespeople are required to attend the brokerage office during fixed office hours.
- D. Lesser control and supervision may be required for Independent Contractor salespersons as compared to Employee salespersons.

M1.4. A salesperson can work with a brokerage as an *employee* or as an *independent contractor*. Which of the following statements is NOT correct in this regard?

- A. Being an *independent contractor* does not mean that the brokerage is not responsible for the activities of its salespersons.
- B. The difference is mainly for the trading purposes, but for taxation purposes both are treated as *employees*.
- C. The difference is only for taxation purposes but for trading purposes both are treated as employees.
- D. The main difference is that the employee works according to the specific instructions of the brokerage, but an independent contractor uses his own judgment and methods.

M1.5. Salespersons may be hired by a real estate brokerage as *independent contractors* or as *employees*. Which of the following statements is correct in this regard?

- A. An *employee* salesperson is typically not responsible to pay operating expenses to the brokerage.
- B. Hiring *employees* certainly increases the brokerage responsibility for trading activities of its salespersons.
- C. *Independent contractors* are themselves responsible for their trading activities, which greatly reduces the responsibility of the brokerage for compliance with REBBA.
- D. Brokerages typically hire more salespersons and brokers as *independent contractors* because of limited or no liability for their trading activities.

M1.6. Jacky is looking for a real estate brokerage after completing her educational requirements for obtaining a real estate salesperson registration. She understands that when employed by a brokerage, she could work as an *employee* or as *independent contractor*. Which of the following statements is NOT correct regarding the difference between independent contractor and an employee?

- A. As an independent contractor, the brokerage could require that all advertising be approved in advance.
- B. As an independent contractor, the brokerage may require her to obtain and maintain HST registration.
- C. As an employee, she can always alter remuneration terms without authorization from the brokerage.
- D. As an employee, her employment can be terminated without notice, subject to the provisions of the *Employment Standards Act* of Ontario.

M1.7. The *Listing Agreement – Commercial* generally follows the structure of the residential listing agreement. Which of the following statements correctly describes one of the differences in these two agreements?

- A. The commercial Listing Agreement does not allow for co-operation between brokerages but allows multiple representation.
- B. The commission clause in commercial Listing Agreement provides that if the buyer's deposit is forfeited, the brokerage may retain up to 50% of the deposit.
- C. The commercial Listing Agreement does not require the consent of sellers if the listing is for more than six months.

- D. There is no provision in commercial Listing Agreement for a holdover period because the listing periods are much longer than residential listings.

M1.8. Salespersons specializing in commercial properties must be able to explain the preprinted clauses in the representation agreements to their clients. Which of the following clauses in the commercial listing agreement provides protection to the salespersons and brokerages from possible lawsuits?

- A. Indemnification and Insurance.
- B. Verification of Information.
- C. Title Search.
- D. Definitions and Interpretations.

M1.9. Which of the following statements is correct with respect to listing period for a commercial property?

- A. Listing periods for most commercial properties ranges from 30 days to 90 days but never exceeds six months.
- B. REBBA regulations do not allow for a commercial listing period to be less than one year.
- C. The listing period for a commercial property largely depends on the complexity of the property and negotiations between the parties.
- D. Since the time taken for selling a commercial property is unpredictable, the date of expiry of the listing is typically left blank.

M1.10. Due diligence in commercial transactions depends on the complexity of the commercial property. Which of the following statements is correct in this regard?

- A. The scope of analysis and due diligence vary with the type of property and all information and documents provided by the sellers must be verified,
- B. Every salesperson is required to use the standard due diligence clauses provided by their local real estate board.
- C. The sole purpose of due diligence is to verify the financial statements provided by the sellers.
- D. The buyer cannot simply walk away from the transaction if anything discovered during due diligence time period does not meet expectations.

M1.11. Salesperson Jim of Square real Estate Ltd. has submitted an offer for purchase of a small retail building for his client developer Don. The offer requires the sellers to provide an up-to-date survey of the property and evidence of zoning compliance. According to your knowledge of due diligence matters, these documents fall in the category of:

- A. Financial.
- B. Environmental.
- C. Legal.
- D. Structural.

M1.12. Due diligence by the buyer for a particular commercial real estate transaction:

- A. Is applicable to vacant industrial development land but does not apply to buildings.
- B. Involves investigation of only financial and legal matters, considering future liability for the buyer.
- C. Focuses mainly on investigation of financial, legal, structural, and environmental issues related to the property.
- D. Does not include any environmental assessments because Environmental Insurance protects the buyer for all future liabilities.

M1.13. The *Commercial Tenancies Act* has certain provisions regarding termination of a commercial lease. Accordingly, which of the following statements is correct?

- A. The landlord may terminate the lease anytime by giving a 30 days' notice to the tenant.
- B. The tenant has no right to occupy the premises when the lease expires, and it is not renewed.
- C. Once the possession of the premises is given, the landlord must wait until the end of lease to give termination notice.
- D. If the tenant continues to occupy the premises after expiry of the lease, he is liable to pay two month's rent as additional security deposit.

M1.14. The *Commercial Tenancies Act* provides for several obligations of a commercial tenant to the landlord. Which of the following is NOT one of them?

- A. The tenant must fulfill all obligations as set out in the lease agreement.
- B. The tenant has the right to terminate the tenancy agreement if the landlord fails to fulfill lease obligations.
- C. The tenant must pay the agreed upon rent on due date to avoid default.
- D. The tenant has the right to take disputes involving the landlord to the Small Claims Court.

M1.15. Sale of a multi-residential apartment building may be impacted by several factors. Which of the following is NOT one of them?

- A. The landlord's rights under the *Commercial Tenancies Act*.
- B. The rent control provisions under the *Residential Tenancies Act*.
- C. The operational, financial, and legal matters involved with the property.
- D. The current lease agreements with existing tenants and contracts with service or utility companies.

M1.16. Which of the following is typically not a part of municipal requirements in a commercial zoning bylaw?

- A. Minimum front, side, and rear yard requirements.
- B. The permitted use of a particular vacant land or building.
- C. The procedures for creating a commercial subdivision.
- D. The maximum coverage of a lot and height restrictions.

M1.17. Developer Don purchased a parcel of land last week and has already hired an architect to design the small corner plaza. During a conversation with the buyer client, the salesperson makes several statements. Which of the following statements is correct with respect to the building permit process?

- A. You can start the construction any time after your building plan is approved.
- B. The building permit process involves four steps: Application, Fees, Building Plans, and Approval.
- C. After the builder permit is issued, you can change the building design as the construction work progresses.
- D. Instead of keeping all the drawings and building permit on site, you may keep them safe in your office.

M1.18. Developer Don purchased a 10-acre parcel of land for construction of a new 8-unit rental apartment building. His development plans are found to be in compliance with all municipal requirements and have been approved. However, the construction work cannot start unless:

- A. The developer has been issued a building permit.
- B. At least half of pre-construction units are leased.
- C. A property management company is hired.
- D. The developer has arranged utilities and services.

M1.19. Builder Bob has acquired a rundown property, which he wants to convert into a small commercial plaza. The approval of his project is conditional on certain requirements stipulated in an agreement with the municipality. These requirements relate to parking spaces, soil conditions, grading, tree lines, curbs, walkways, minimum distance to nearby residential areas, etc. Which of the following documents typically contains these requirements?

- A. The *Site Plan Control Agreement* with the municipality.
- B. The *Official Plan* enacted by the municipality.
- C. The site-specific deed restrictions.
- D. The zoning bylaw applicable to the site.

M1.20. A commercial property owner may apply to the local municipality for expanding a legal non-conforming use. An application may not be accepted by the municipality if:

- A. The intended use will be in compliance with the existing zoning.
- B. The intended use is completely different from the existing use.
- C. The interests of the local community are being protected.
- D. The expansion will not have any major impact on local planning.

M1.21. For which of the following development projects, a builder may NOT be required to have a *Site Plan Control Agreement*?

- A. A commercial plaza consisting of less than 20 units.
- B. An industrial building, which includes at least 15% office area.
- C. A 3-storey high office building.

D. Detached and semidetached single-family homes.

M1.22. Changes to zoning by-laws may affect the conformity status of some commercial properties. Which of the following statements is correct in this regard?

- A. If the use of the property were changed after passing the zoning by-law, a non-conforming use would still be legal.
- B. Municipal permission is required if a legal non-conforming use building needs to be modified or enlarged.
- C. Non-conformity of uses frequently occurs in commercial areas only but not in residential subdivisions.
- D. The legal non-conforming use does not bind to land and if the property is sold, the use becomes illegal.

M1.23. Salespersons need to be aware of different classes of office buildings, their location, and features as per the standards of *Building Owners and Managers Association (BOMA)*. One of the characteristics of a Class C office building is that:

- A. It is at an average location, built with average materials and quality of construction.
- B. It is located in a high tech and modern business centre.
- C. It is located in a less desirable area and needs extensive renovation but is available at comparatively low rent.
- D. It is located in a prestige area where rents are comparatively higher.

M1.24. The *Building Owners and Managers Association (BOMA)* provides general standards for classification of office buildings. Which of the following statements is NOT correct in this regard?

- A. Class C buildings are at less desirable locations; are always over 30 years old but well-maintained and rarely need renovation before being leased.
- B. Class B Buildings are identified by their fairly good location; they are older structures than Class A buildings but are well-managed and maintained.
- C. Class A buildings are found in downtown core areas; have prestige location and they typically attract corporate leaders, international corporations, and banks.
- D. Class A+ buildings are found in highly desirable sub-markets, designed by recognized architects, and are highly sought after by institutional investors.

M1.25. Salespersons trading in retail properties should be aware of this dynamic segment of commercial real estate. Which of the following statements is correct in this regard?

- A. Retail commercial operations include discount stores, luxury retailers, and departmental stores but exclude regional shopping centres and power centres.
- B. The only criteria for retail analysis are economic trends, demography, and shopper preferences.
- C. As with office buildings, retail properties are also classified as A, A+, B, and C buildings.
- D. Retailers are facing increasing competition from online distribution centres who deliver products directly to consumers.

M1.26. Salesperson Jim and his client developer Don have come across an abandoned parcel of land in the East end of the town. Another salesperson in the brokerage has informed Jim that the site is a *brownfield*. According to your knowledge, the *Ontario Brownfields Statues Law Amendment Act*:

- A. Encourages identification of contaminated lands and requires the landlords to clean-up within one year.
- B. Provides for identification, clean-up, and revitalization of abandoned or contaminated lands by simplifying development process and protection against future liability.
- C. Helps municipalities in making strict laws against any contamination of land in urban areas.
- D. Does not provide any protection to buyers interested to redevelop abandoned or contaminated lands against future liability because of high imputed costs.

M1.27. From the options given below, identify the commercial property in which the landlords' annual income will be impacted by the provincial rent legislation?

- A. A mixed-use development.
- B. An office building.
- C. A retail plaza.
- D. An industrial building.

M1.28. Which of the following is known as the most straight-forward form of business ownership, the easiest to start, and is most commonly found in the services sector?

- A. Limited Partnership.
- B. General Partnership.
- C. Corporation.
- D. Sole Proprietorship.

M1.29. Read the statement given below:

"This type of investment arrangement has a general partner who has unlimited liability and operates the commercial property. Other partners are only passive investors whose liability is limited to the amount they invest and profits they share. These passive investors do not actively participate in the operation of the commercial property."

This type of arrangement between two or more investors is known as:

- A. Partnership.
- B. Limited Partnership.
- C. Corporation.
- D. Investment Trust.

M1.30. A business may be owned by a partnership, which provides certain benefits as well as limitations for the partners. Which of the following statements is correct in this regard?

- A. A *Limited Partnership* has definite benefits to the *limited partner* who is not responsible for any liability of the business.

- B. Partners are jointly and severally liable for obligations of the business regardless of the type of partnership.
- C. Partnership has a disadvantage that all partners may be personally liable for the debts of the business.
- D. Partnership business is easy to form, and the business can be started immediately after the partners sign the agreement.

M1.31. Salesperson Ben of Cram Realty Inc. is interested in breaking into commercial real estate. He is learning the basics of commercial ownership. According to your knowledge, which of the following statements is NOT correct with respect to ownership of commercial properties?

- A. Partnerships are created under common law and there is no legal distinction between the business operation and its partners.
- B. All individuals in joint venture have undivided interest in the project and are issued equal number of shares irrespective of their investment.
- C. A corporation is treated as a distinct entity from its shareholders unless personal covenant is attached.
- D. One of the advantages of trusts is that taxes may be deferred by establishing a trust for transfer of assets from one generation to the next.

M1.32. Salespersons trading in commercial real estate should be aware of advantages and disadvantages of investment in commercial properties. According to your knowledge, which of the following statements correctly describes one of the advantages?

- A. Commercial properties always have lower taxes than residential properties.
- B. Lower initial investment is required as compared to a residential property.
- C. There is an opportunity for growth of invested capital through refinancing.
- D. Commercial investment properties provide fast liquidation of the investment.

M1.33. Salespersons trading in commercial real estate should be aware of advantages and disadvantages of investment in commercial properties. Which of the following statements describes one of the *disadvantages* of commercial real estate ownership?

- A. High degree of personal control on physical land and assets.
- B. Real estate offers a comparatively high liquidity given the amount of time needed to sell.
- C. The investment has physical presence as opposed to commercial papers, which lowers the risk of becoming valueless.
- D. Possibility of capital growth during period of inflation.

M1.34. Salespersons should refer their clients to third-party professionals when they do not have the necessary knowledge, skills, judgement, or competence in certain matters. Which of the following statements most correctly describes the role of a lawyer in a real estate transaction?

- A. Lawyers assist the buyers and sellers in setting the value of real estate and ensuring that written agreements are carefully and correctly drafted.

- B. For a typical transaction, the lawyers are generally involved in advising the clients before binding agreement and the closing process after a binding agreement has been signed.
- C. Buyers do not normally sign offers and sellers do not accept offers from buyers until after their respective lawyers have reviewed and approved the agreement.
- D. The conduct of the lawyers is regulated under the Code of Ethics of REBBA when dealing with real estate.

M1.35. Both sellers and buyers need the services of their respective lawyers at different stages of a commercial transaction. More specifically, the seller needs lawyer's services in the process of selling their commercial property for all of the following matters, *except*.

- A. Explaining them the terms and conditions of the buyer's offer and their impact on the transaction.
- B. Prepare a statement of adjustments to provide a history of financial transactions.
- C. Prepare the deed of the property and coordinate with the buyer's lawyer for transfer of ownership.
- D. Perform a title search and identify if any deed restrictions are affecting the use of property.

M1.36. Salesperson Jim of Square Real Estate Ltd. is working with developer Don for purchase of an older downtown residential property. Don wants to demolish the existing building and convert it to a six-unit rental property. Which of the following professionals should be approached to obtain expert advice on the matter?

- A. Jim is experienced in commercial properties involving conversion of use and can provide expert advice to the buyer.
- B. A lawyer is best suited for providing advice because they can have the necessary qualifications to interpret and explain planning related legislations.
- C. Since mortgage lenders need an environmental site assessment, an environmental engineer can be helpful in conversion projects as well.
- D. The buyer should be referred to a planning consultant who can advise the buyer with interpretation of planning policies involving conversion projects.

M1.37. Which of the following third-party professionals are typically involved in preparing the design and specifications for a variety of commercial projects?

- A. Planning Consultants.
- B. Architects and Engineers.
- C. Environmental Engineers.
- D. Land Use Consultants.

M1.38. The buyer is contemplating purchase of a small commercial plaza backing onto a highway. Since the existing fence on the property is broken at several places, the buyer is concerned about the property boundaries. Which of the following professionals would be in a position to correctly identify property boundaries?

- A. The listing salesperson.

- B. A building inspector.
- C. A land surveyor.
- D. The seller's lawyer.

M1.39. Investor Sharma owns a mixed-use commercial property outside the town, which has a convenience store and a furniture store on the ground floor. The upper floor has three 2-bedroom units, which are currently rented to tenants. Smart wants salesperson Jenny of Cram Realty Inc. to provide him an estimate of value but Jenny cannot find any comparable sales. In this situation, what should Jenny do to comply with the REBBA Code of Ethics?

- A. Look for comparable sales in other parts of the town.
- B. Advise the owner to consult a professional appraiser.
- C. Insist that she would complete a Form Report instead of a Narrative Report.
- D. Provide a verbal opinion of value based on her past experience with similar properties.

M1.40. Salespersons trading in commercial properties should understand the terminology associated with commercial financing. It is important to know that commercial lenders offer a variety of loans for various purposes. Which of the following statements is correct in this regard?

- A. A *Wrap Around* mortgage refers to a single mortgage loan against more than one property, wherein the lender may place a lien on all properties.
- B. A *Bridge Loan* refers to an interim mortgage loan when the borrower needs close a transaction, but his earlier transaction has not closed yet.
- C. The *Gap Loan* refers to a mortgage loan where there is a large gap of time between expiry of an existing mortgage and its renewal.
- D. A *Letter of Guarantee* is typically required by lenders when the borrower has B or C level credit and the risk to lender is high.

----- MiniCram® -----

[Detailed Answers](#)

[Table of Contents](#)

ANSWER KEYS – MODULE 1

- | | | |
|-------|-------|-------|
| 1. A | 2. C | 3. D |
| 4. B | 5. A | 6. C |
| 7. B | 8. A | 9. C |
| 10. A | 11. C | 12. C |
| 13. B | 14. B | 15. A |
| 16. C | 17. B | 18. A |
| 19. A | 20. B | 21. D |
| 22. B | 23. C | 24. A |
| 25. D | 26. B | 27. A |
| 28. D | 29. B | 30. C |
| 31. B | 32. C | 33. B |
| 34. B | 35. D | 36. D |
| 37. B | 38. C | 39. B |
| 40. B | | |

-----MiniCram®-----

[Detailed Answers](#)

[Table of Contents](#)

DETAILED ANSWERS

Module 1. Introduction to Commercial Real Estate

M1.1. Answer A.

It is correct that income from real estate trading business is unpredictable. Some new salespersons spend several months waiting for their first transaction to close. Especially, commercial transactions may take several months to close.

Sometimes, a commercial transaction involves lengthy negotiations or complex paperwork, without even a guarantee that the sale will close. Salespersons must use due diligence and keep aside the tax money they receive. Further, commercial buyers may also back off due to conditional sales and chances are that the salesperson may lose the remuneration.

M1.2. Answer C.

When a commercial property is sold, the seller's contracts with third-party utility or management companies are usually transferred to the buyer. As such, the salesperson should use due diligence and verify all the relevant information. These contracts cannot be ignored at the time of listing the property.

It is advisable that a registrant is well prepared for handling queries on the commercial property that he/she has listed. Providing accurate information is an ethical duty of the registrant. New registrants should focus on smaller commercial projects in the beginning and not on larger projects.

M1.3. Answer D.

Independent Contractor salespersons work according to their own judgment and methods. For the brokerage, this means that lesser control and supervision is required as compared to *Employee* salespersons. The brokerage still has the responsibility of supervising their activities, providing training, ensuring compliance, etc.

It does not matter whether a salesperson is an Independent Contractor or an employee, both have to be in compliance with brokerage policies and REBBA regulations with respect to remuneration. Independent contractors do not have to attend the brokerage office during fixed office hours whereas this may be a requirement for Employees.

M1.4. Answer B.

REBBA makes no difference between an *employee* and an *independent contractor* status for the trading purposes. Both are treated as *employees* of the brokerage.

The brokerage is responsible for the activities of both employees and independent contractors. The *employee* does not work according to his own judgment or methods, but it is the *independent contractor* who does so.

M1.5. Answer A.

An *employee* salesperson or broker does not typically pay operating expenses or desk fees to the brokerage.

Hiring salespersons and brokers as *employees* does not increase responsibility of the brokerage because it remains the same for both *independent contractors* as well as *employees*. It is incorrect that hiring more *independent contractors* will in any way reduce the responsibility of the brokerage for their trading activities.

M1.6. Answer C.

A salesperson may be hired by a brokerage as an independent contractor or as an employee. It may not be possible for an employee salesperson to decide or alter the remuneration policies of the brokerage.

A salesperson working as independent contractor uses his own judgement and methods and decides himself/herself what remuneration is charged from clients. The salesperson working as an employee may not be able to work in the same manner. The termination of an employee salesperson must be with appropriate notice in compliance with the *Employment Standards Act*.

M1.7. Answer B.

The *Commission* clause in *Listing Agreement – Commercial* provides that in case the transaction does not close, and the buyer's deposit is forfeited or released by the seller, the brokerage is authorized to retain 50% of the deposit, but not exceeding the remuneration agreed with the seller. There is no such provision in the residential *Listing Agreement*.

Both residential and commercial listing agreements have a *holdover* provision and allow the listing brokerage to co-operate with other registered brokerages for selling the property. REBBA requires the consent of both residential and commercial sellers when the listing period exceeds six months.

Note: The term '*commission*' has been replaced with '*remuneration*' in REBBA.

M1.8. Answer A.

The *Indemnification and Insurance* clause in the commercial listing agreement provides protection to the salesperson and the brokerage against any claims, costs, damages, and injury caused by contamination or environmental problems. The seller provides a warranty that the property is insured, including personal liability insurance, against any claims or lawsuits resulting from bodily injury or property damage to others.

M1.9. Answer C.

Commercial properties may take a long time to sell, and the listing period agreed with the seller largely depends on the complexity of the property and the negotiations between the sellers and the listing brokerages. It is not true that the listing period never exceeds six months.

REBBA does not restrict the listing period but requires that the consent of the sellers be obtained if the listing period exceeds six months. The Listing Agreement must have a date of commencement as well as a date of expiry to be valid and legally enforceable.

M1.10. Answer A.

The scope of analysis and due diligence involved in a commercial transaction depends on the type of property. Salespersons must ensure that all information provided by the sellers with respect to financial, legal, building, and environmental matters be investigated.

There is no standard clause for due diligence and no such clauses are mandated by any real estate board. A commercial buyer usually has the right to simply walk away from the transaction if anything discovered during due diligence does not meet expectations.

M1.11. Answer C.

Due diligence documentation is broadly classified into four categories: *Financial*, *Legal*, *Structural*, and *Environmental*. The due diligence related to surveys and zoning compliance falls in the *legal* category. Some other items in this category that need verification include property title, assets, seller's licenses, permits, contracts, and existing mortgages or other encumbrances.

Financial documentation is related to income and expense statements. Environmental due diligence includes an environmental site assessment to ensure that the property is free from contaminants and environmental hazards. Structural due diligence focuses on physical inspection of the building components.

M1.12. Answer C.

Due diligence in a typical commercial real estate transaction involves inspection of various financial, legal, structural, and environmental documents related to the property. The buyer needs to ensure that he will not be held liable for any problems after the closing. It is incorrect that due diligence is needed only for vacant industrial land and not for commercial buildings. Due diligence for a specific property may include environmental assessments because of imputed costs involved in any future liability caused by existing environmental contamination or hazards.

M1.13. Answer B.

Under the provisions of the *Commercial Tenancies Act*, if the lease is for a fixed term, the tenant must vacate the premises on the last day of lease term, unless the lease is renewed.

The landlord must honour lease obligations and cannot unreasonably give 30 days' termination notice to the tenant. It is also incorrect that the landlord must wait until the end of lease term to give termination notice. An *overholding tenant* who continues to occupy the premises after the expiry of the lease *may be* liable for two months of rent every month. It is incorrect that the tenant must pay two months' rent as security deposit.

M1.14. Answer B.

The tenant cannot stop rent payments in case the landlord fails to fulfill obligations under the lease. This is not permitted under the *Commercial Tenancies Act*.

Other statements are correct. The tenant must continue to fulfill all obligations set out in the lease, must pay rent on time, and has the right to take disputes to the *Small Claims Court* or the *Superior Court of Justice*.

M1.15. Answer A.

The *Commercial Tenancies Act* regulates the landlord and tenant relationships for commercial buildings. It is incorrect that the landlord's rights under this Act impacts the sale of a multi-residential apartment building.

Other options correctly describe some of the factors that may impact the marketing or sale of a multi-residential apartment building. The rights of residential tenants are protected under the *Residential Tenancies Act*.

M1.16. Answer C.

The setback requirements in zoning bylaws do not specify the procedures for creation or registration of a commercial subdivision. These regulations are included the provincial *Planning Act*. Zoning by-laws typically include minimum setbacks requirements, maximum lot coverage, maximum height of buildings and permitted uses.

M1.17. Answer B.

The only correct statement by the salesperson is that the building permit process involves four steps. First, an application is made with appropriate fees and building plans. The application is reviewed and approved, a building permit is issued, and then the construction work starts. The construction work must start within the specified time given in the building permit.

Construction must proceed according to the approved building plans. If any changes to the approved plan are required, the developer must notify the municipality and an approval for the changes may be required. After the construction is completed, a final inspection is required. The approved plans and the building permit must be kept on the construction site.

M1.18. Answer A.

The developer must obtain a building permit from the local municipality before the actual construction work can start. A building permit is only issued after the application complies with the planning, zoning, and other municipal requirements. The permit must be kept on construction site and the construction work must be in accordance with the approved plans.

There is no requirement that the developer must lease at least half units or has hired a property management company before starting the construction work. Arrangement of utilities and services is a part of the construction project.

M1.19. Answer A.

The *Site Plan Control Agreement* contains certain requirements in which the municipality wants the owners of a parcel of land to develop the property in a specific manner.

Other answers are not correct because *Site Plan Control Agreement* is signed after the developer's plans are found to be in compliance with the official plan and zoning bylaws.

M1.20. Answer B.

An application for expansion of a legal non-conforming use may not be considered by the municipality if the intended use is completely different from the existing use, it may be considered 'significant departure from existing use'. Three major factors are considered when

analyzing the application - (i) significant departure from existing use, (ii) level of intensification for the local area (impact on adjacent owners), and (iii) interests of the community.

M1.21. Answer D.

A *Site Plan Control Agreement* is required under the *Planning Act* for most development projects. Commercial, industrial, and recreational property developers are required to sign this agreement with the municipality. However, there is a specific exemption for detached and semidetached single family residential properties.

M1.22. Answer B.

If a *legal non-conforming* commercial building needs to be modified or enlarged, appropriate permits from the municipality are typically required.

Non-conformity is usually created when a specific use of the property existed before the passing of a new zoning bylaw which makes that use illegal. It is not correct that non-conformity occurs only in commercial areas and not in residential subdivisions. If the status of the property is a '*legal non-conforming*', it does not become illegal but remains as such when the property is sold.

M1.23. Answer C.

A Class C office building is typically located in a less desirable area as compared to Class A and Class B buildings. These buildings may be as older as 20 years or more, having older technology, and may need renovation before tenants can move in. These buildings attract those tenants who are looking for affordable space at low rents and who cannot afford office space in Class A or Class B buildings.

M1.24. Answer A.

It is not true that Class C buildings are always more than 30 years old, or they must be renovated before they are leased to tenants. In general, the classification criteria are that these buildings are typically more than 20 years old and *may* need extensive renovation.

M1.25. Answer D.

Retailers are increasingly facing tough competition from online distribution centres who deliver products directly to consumers. This means that retailers must improve their storefront designs and enhance their customer service standards to attract and retain customers.

Retail properties are *not* classified in the same way as office properties. They are generally classified based on retail operations such as discount stores, big box stores, shopping centres, power centres, main street retail, etc. In addition to economic trends, demography, and shopper preferences, retail analysis include several other aspects of the market.

M1.26. Answer B.

The *Ontario Brownfields Statutes Law Amendment Act* provides for identification, clean-up, and revitalization of abandoned or contaminated lands. This law simplifies the redevelopment process by amendments in the *Municipal Act* and the *Planning Act*. The law also provides certain protection to buyers/developers against future environmental liability.

M1.27. Answer A.

In a mixed-use development, the landlord's income from residential units may be impacted by the *Residential Tenancies Act*. The landlord must be in compliance with the *Annual Rent Guideline* when increasing the rent for residential tenants.

The rent provisions in office buildings, retail plaza, and industrial buildings is under the *Commercial Tenancies Act*. This Act does not regulate the rent increase in commercial properties, which is a matter of negotiations between the landlords and the tenants.

M1.28. Answer D.

Sole proprietorship is the simplest and straight-forward form of business ownership which is easy to establish and relatively inexpensive. It is owned by a single person and can be started immediately with minimum paperwork and initial investment. This type of ownership is commonly found in service sector, such as self-employed professionals.

Limited partnership, general partnership, and corporation need registration of the business, legal and accounting services, and adequate initial investment.

M1.29. Answer B.

The given statement refers to a *Limited Partnership*. In a Limited Partnership, there are at least two partners; a *general* partner and a *limited* partner. The general partner manages the business operation and has unlimited liability while the limited partner is a passive investor whose liability is limited to the amount invested and profits shared.

M1.30. Answer C.

A *partnership* business suffers from a disadvantage that all partners may be personally liable for the debts of the business.

A partnership business cannot be started right after the partners sign the agreement. It must be registered under the *Business Partnerships Act*. It is not true that in a *limited partnership*, the limited partner has no liability at all because the limited partner also shares liability based on the proportionate share of the investment.

M1.31. Answer B.

Although every individual investor in a *joint venture* has an undivided interest in the project, it is not necessary that they are issued equal shares. The allocation of shares is proportionate to their investment.

Other statements are correct. In a partnership, there is no legal separation between the business operation and the partners. All partners are severally and personally liable for the debts of the business. A corporation is a legal entity, which is separate from its shareholders. In certain situations, personal liability of shareholders may be attached. An advantage of trusts is that tax can be deferred by establishing a trust that will pass on the assets from one generation to the next.

M1.32. Answer C.

Investment in commercial real estate has certain advantages. One such example is that the investor can grow the invested capital by refinancing of the property after several years of ownership when sufficient equity has been built up.

It is not true that commercial properties always have lower property taxes than residential properties. Lenders require relatively higher down payment (*initial investment*) when providing loans for commercial properties. *Liquidation* refers to the ease by which assets can be converted to cash. Commercial properties take longer time periods to sell as compared to residential properties.

M1.33. Answer B.

Liquidity refers to the ease by which an asset can be converted to cash. It is not true that commercial real estate offers high liquidity because it takes longer than usual to sell commercial properties. This is one of the disadvantages of ownership of commercial properties. Other options describe some of the advantages of investment in commercial real estate.

M1.34. Answer B.

The services of a lawyer are typically required when a buyer or seller need legal advice before a binding agreement takes place and for closing the transaction after a legally binding agreement has taken place.

Lawyers do not estimate or set the value of real estate and their activities are not regulated under REBBA. Buyers and sellers usually seek their lawyer's advice when an agreement is conditional and has not become binding.

M1.35. Answer D.

Title search is performed by the *buyer's* lawyer and not by the seller's lawyer. The purpose of the title search is to ensure that the title is good, clean, and in marketable condition. The search also identifies registered liens, restrictions, and easements on the property.

M1.36. Answer D.

If a commercial buyer intends to convert the existing use of a commercial property, he/she should be advised to obtain the services of a municipal planning consultant. These professionals can advise the buyer on matters such as regulations, legislation, obligations, charges, committees, and appeal procedures.

Lawyers are typically involved in advising the sellers and buyers in interpreting the agreement and performing title search and closing procedures. An environmental engineer can provide valuable services on environmental matters and environmental site assessment.

M1.37. Answer B.

Commercial architects and engineers are experienced in preparing designs and specifications of a variety of commercial buildings, such as office, retail, industrial, and recreational facilities. Their proposals include feasibility studies and site reports, which can be used as support documents for applications to municipal authorities.

M1.38. Answer C.

A land surveyor licensed by the *Association of Ontario Land Surveyors (AOLS)* is professionally qualified to perform measurements on seller's land and identify and mark property boundaries. This will also help in verifying the correct area of the land where the commercial plaza is located.

The listing salesperson may be able to physically verify property boundaries if an up-to-date survey is available. The job of a building inspector is to check various building components and identify potential defects in the structure. The seller's lawyer is not involved in identifying property boundaries.

M1.39. Answer B.

To comply with REBBA Code of Ethics, salesperson Jenny should recommend services of a third-party professional (a qualified appraiser in this case) to estimate the value of owner's property.

Jenny should not provide an estimate of value using either the *Form Report* or the *Narrative Report* as she does not have the required skills or competence in professional valuations, even if she has experience in selling similar properties in the past.

M1.40. Answer B.

A *bridge loan* is a temporary loan, given in situations when a borrower needs to close a transaction, but his earlier transaction has not closed yet. This loan is provided for a short time period and paid off when the earlier transaction closes.

A *Wrap mortgage* is on a single property and wraps around (*covers*) existing mortgages. The borrower makes one payment to the wrap mortgagee, which in turn, makes payments to previously registered mortgagees. A *gap loan* is an interim loan given to developers when there is a gap between construction advances and placement of permanent financing. A *letter of guarantee* is typically required for municipal or other public projects.

----- MiniCram® -----

[Table of Contents](#)

MiniCram



You Simply Can't Go Wrong With MiniCram

MiniCram