



Real Estate Principles and Practices

REQUIRED COURSE for
Salesperson License Preparation Course

Day 1 Introduction and Property Ownership

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DAY 1

Introduction to the Real Estate Brokerage Business

The real estate business is more than just houses. As this chapter says, “**Real estate is big business,**” and includes commercial properties, condominiums, and open land in addition to single-family homes.





1 Introduction to the Real Estate Business

- Learning objectives
 - **Identify** the various Broker careers available in real estate, and the professional organizations that support them
 - **Describe** the six categories of real property
 - **Explain** Business Entities and Brokerage related businesses
 - **Distinguish** the economic, political, and social factors that influence supply and demand

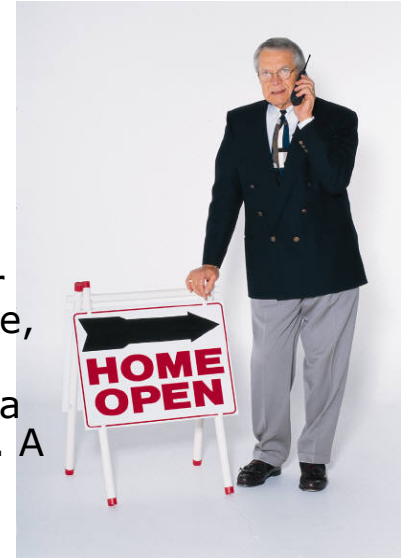




1 Introduction to the Real Estate Business

- **Business of Specializations**

- **Brokerage** —the business of bringing people together in a real estate transaction. Typically with multiple agents and brokers and Teams.
- **Real Estate Broker** – acts as a point of contact between two or more people in a real estate transaction negotiation (sale, purchase, rental, lease of property)
- **Real Estate Salesperson** – (Sales Agent, Sales Associate) is a licensee under a Broker (Brokerage) as an Independent Contractor. A salesperson works on behalf of the Broker in a Brokerage.
- **Real Estate Licensee** – is a person who has satisfied the CT State requirements set forth by the Real Estate Commission (REC) within the Department of Consumer Protection (DCP)
- **Appraisal** —the process of estimating the **market value** of real property. A Appraiser is a licensed professional. Appraisers cannot practice Real Estate (showing homes, selling,etc.)
- **Property management** —the business of managing real estate to protect the owner's investment and property.

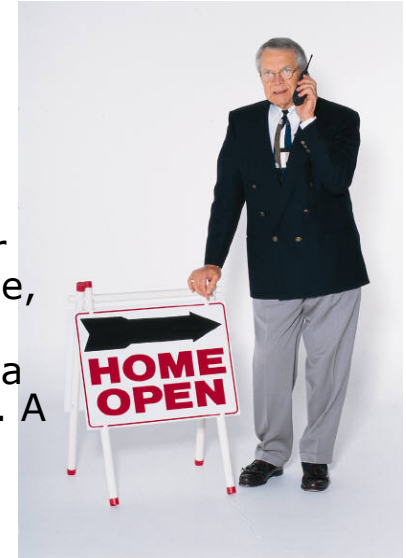




1 Introduction to the Real Estate Business

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- **Property management** —the business of managing real estate to protect the owner's investment and property.
- **Real Estate Investment**—the business of actively generating income from rental properties.





1 Who Can Own a Brokerage?

- A - **Broker**
- B - **Real Estate Salesperson**
- C - **Appraiser**
- D - **Lawyer** (specializing in Real Estate)
- E - **Marketing and Finance** Individual
- F - **Broker and Real Estate Salesperson**
- G - **Broker, Lawyer, Real Estate Salesperson**
- H - **Anyone**





2 Do Brokers need to have a Legal Entity?

A - No, their own Broker License suffice.

B - Yes in addition to their own License.

C - Only if there are affiliated Salespersons and Broker Associates

D - Only if the Brokerage has more than one Broker owner.





2 Do Teams need to have a Broker member?

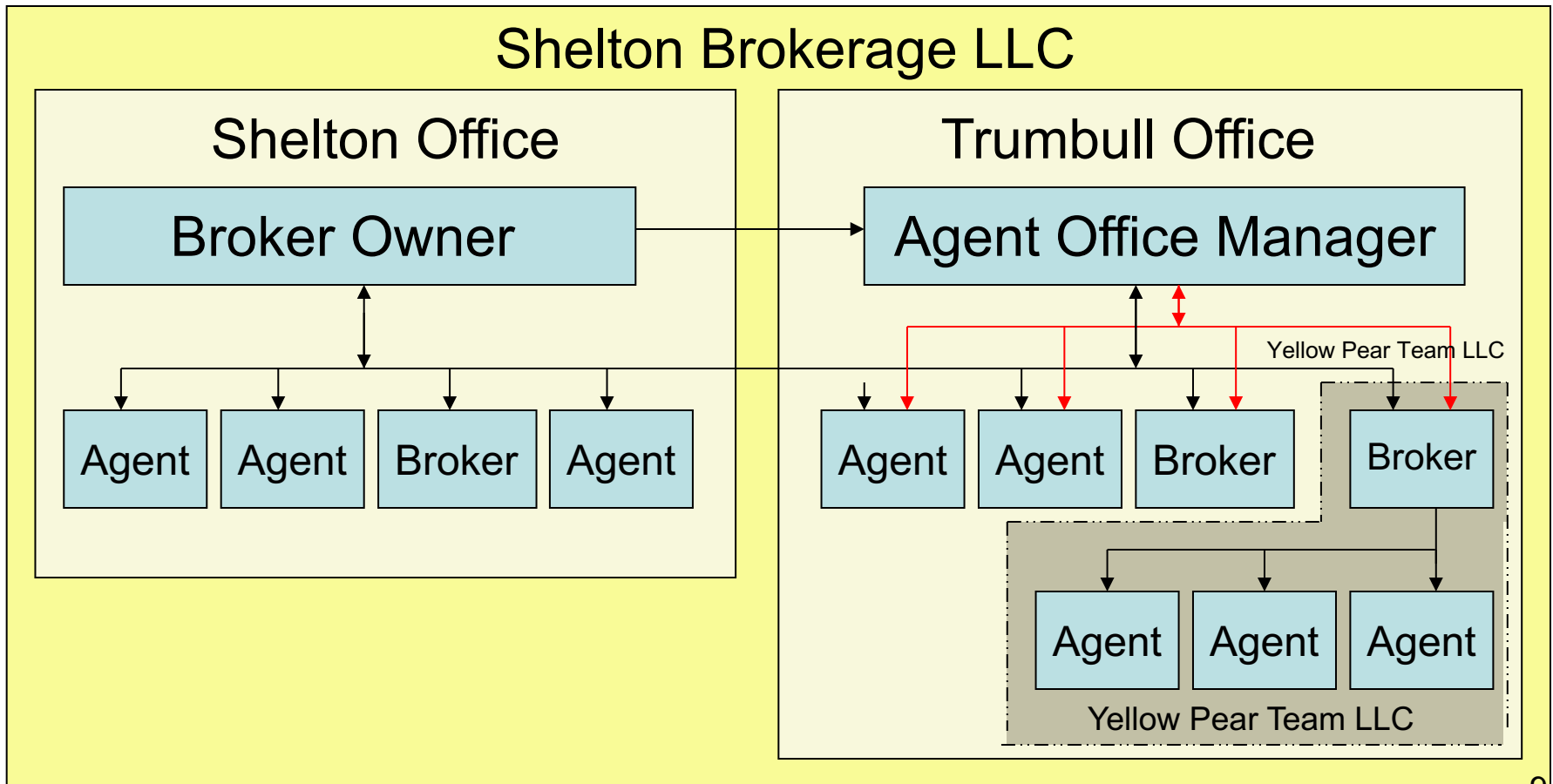
- A - No, they can be all Salespersons
- B - Only if there are more than 5 Salespersons in the team.
- C - Only if they are using a Legal Entity Name.
- D - Yes as a separate Legal Entity trade name is used for Real Estate business.





1 Introduction to the Real Estate Brokerage Business

- **Brokerage Organization**





Officers and Owners of Legal Entities

Officers must be:

- ✓ *licensed brokers*

Owners may be:

- ✓ *licensed brokers or salespersons*
- ✓ *brokers owning at least 51 percent*
- ✓ *salespersons owning up to 49 percent*

Teams may be:

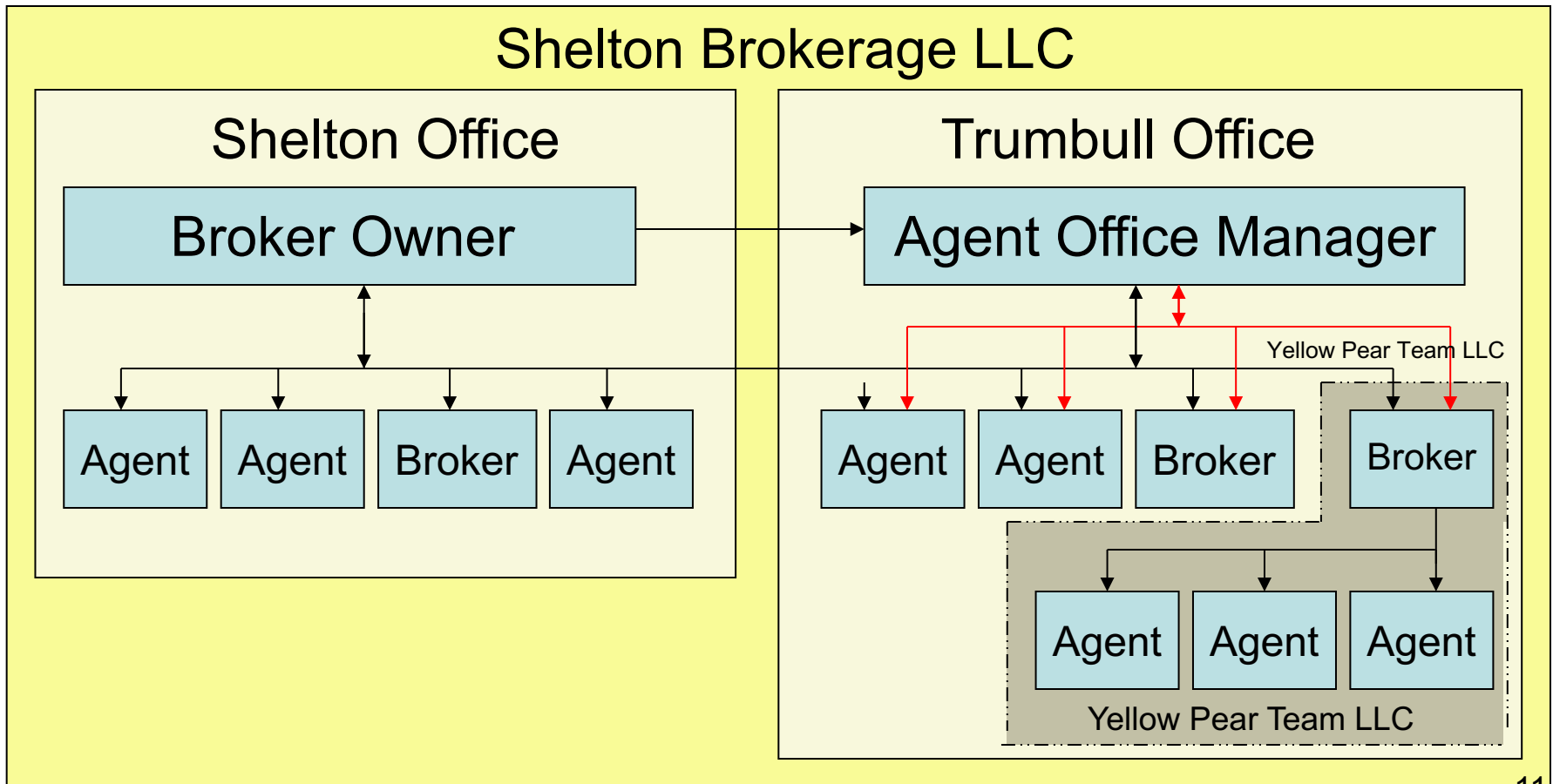
- ✓ *Create Legal Entity NAME (within a Brokerage)*
- ✓ *Broker within Team must create the Legal Entity*
- ✓ *Team Agents and Broker Associates are accountable to Broker Owner*





1 Introduction to the Real Estate Brokerage Business

- **Brokerage Organization**





Legal Entity Licensing in Connecticut

**All legal entities
engaging in the real estate business
must be licensed
by DCP**

- Limited Partnerships
- Limited Liability Companies
- General Partnerships
- S-Corporations
- C-Corporations

What are the differences between these legal entities?



Legal Entity Definitions

Partnership: an association of two or more co-owners who carry on a business for profit based on an agreement as to how profits and losses will be divided

Limited Liability Company: an entity whose owners (members) actively manage the LLC and are protected against personal liability

Corporation: an independent legal entity owned by shareholders that may be privately or publicly held

NOTE: CT Corporations are \$290 and LLC are \$160



1 Legal Entities and Differences



C-Corporation

- Traditional and most common type of corp, generally taxed more than S-Corp or LLC.

Advantages

- Limits personal liability from business debts and business lawsuits
- No restrictions on ownership
- Easy to transfer stock
- C-Corporations can offer public stock

Disadvantages

- Profits are "double taxed" meaning taxed at corporate and individual level.

S-Corporation

- Similar to C-Corp, with some advantages for qualified small businesses.

Advantages

- Limits personal liability from business debts and business lawsuits
- Potentially favorable taxation; avoids the "double tax" of a C-Corp
- May also avoid the "self-employment tax" that is common for most LLCs

Disadvantages

- No more than 100 company shareholders
- All shareholders must be U.S. citizens or lawful permanent residents & not other corporations or LLC

LLC (Limited Liability Co.)

- Newest type of company with the most flexible management structure.

Advantages

- Limits personal liability from business debts and business lawsuits
- No restrictions on ownership
- Formation and ownership requirements are less stringent than with C-Corp or S-Corp

Disadvantages

- LLC can be 11+ member
- Transferring ownership is more complicated than with C-Corp or S-Corp
- Potentially higher taxation than S-Corp



HERE'S THE QUESTION. What's the Answer?

QUESTION:

I am a broker planning to form a LLC for my real estate business. Does the LLC itself need to be licensed?

ANSWER:

YES. Partnerships, limited liability companies and corporations engaging in the real estate business in the name of that legal entity are required to be licensed.



QUICK QUIZ

What type of legal entity is owned by members?

- A. general partnership
- B. limited liability company
- C. corporation
- D. limited partnership



QUICK QUIZ

What type of legal entity is owned by shareholders?

- A. general partnership
- B. limited liability company
- C. corporation
- D. limited partnership



QUICK QUIZ

Can a salesperson solely own a legal entity in Connecticut for real estate purposes?

- A. Yes, the law allows a salesperson to be the sole owner (shareholder) of a corporation.
- B. Yes, as long as a salesperson owns at least 51% and a broker owns no more than 49% of the legal entity.
- ➔ C. No, the law does not allow salespersons to solely own a legal entity engaging in the real estate business.
- D. No, only brokers can own a legal entity formed for their real estate business.



Community Association Managers (CAMs)

What are CAMs?

- CAMs provide services to condominium associations.

The services CAMS provide:

1. Control funds;
2. Prepare budgets;
3. Conduct meetings;
4. Advise in obtaining insurance; and/or
5. Run the overall operations of the association.

CGS §20-450 to 20-455



CAMS Must Register with DCP

CAMs are required to :

1. **Submit an application** for registration to DCP
2. **Submit a state & national criminal record check and**
3. **Obtain a bond.**

CGS §20-457



New CAMS Applications

New applicants are required to:

1. Take a review course, and
2. Pass the CAMs National Board of Certification exam within one year from the date of initial registration.

***REMEMBER:** CAM registrations must be renewed before **January 31** every year.*

CGS §20-457



Legal Entities Must Register

Business Legal Entities:

- CAMs doing business as a Corporation or LLC must register the legal entity with DCP.
- CAM legal entity registrations expire on January 31 every year.
- Failing to renew a registration is subject to a fine up to \$500, or imprisonment for less than a year, or both.



CAMs Education and Testing

CAMs are required to:

1. Complete a nationally recognized course, such as the Community Association Institute's **M-100** course.

AND

2. Pass a CAMs National Board Certification exam, unless the individual is exempt.

NOTE: Currently, there are no continuing Education requirements for CAMS.

For more information, visit:
<http://www.CAIONLINE.ORG>



What happens if I do not comply with the CAM Act?

If CAMS fail to comply, the Real Estate Commission may:

- revoke or suspend the certificate of registration.
- refuse to issue or renew the certificate of registration.
- place a registrant on probation.
- issue a letter of reprimand.



CGS §20-456



Grounds for Suspension or Revocation of CAMs

What could jeopardize my CAM registration?

- (1) making misrepresentations or false promises likely to influence, persuade or induce;
- (2) failing to account for any money;
- (3) conviction of forgery, embezzlement, obtaining money under false pretenses, larceny, extortion, conspiracy to defraud;
- (4) commingling funds in an escrow or trustee account; and/or
- (5) any dishonest, fraudulent or improper dealings.

CGS § 20-456



HERE IS THE QUESTION. What is the Answer?

QUESTION:

I get paid for providing services to a condominium association.
Do I have to register as a Community Association Manager?

ANSWER:

YES. Anyone providing services for a fee to a condominium association must be registered as a CAM.



HERE IS THE QUESTION. What is the Answer?

QUESTION:

Are there any Continuing Education requirements for CAMs?

ANSWER:

NO. Currently, there are no required Continuing Education requirements for CAMs.



QUICK QUIZ

Persons failing to register as a CAM with the DCP are subject to a maximum fine up to:

A.

\$ 200

B.

\$ 300

C.

\$ 500

D.

\$ 600



QUICK QUIZ

CAM registrations must be renewed every:

A.

year

B.

2 years

C.

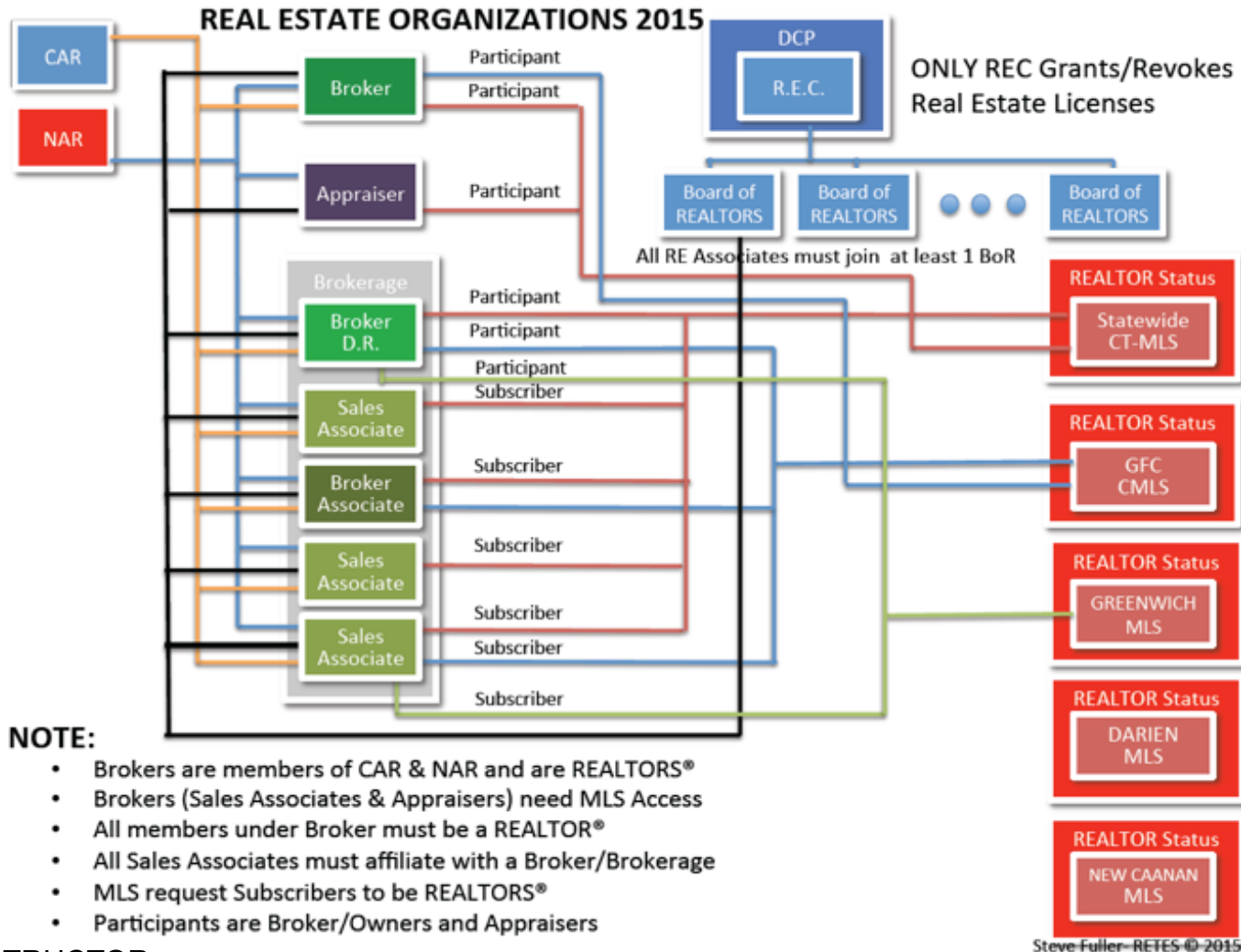
3 years

D.

5 years



1 Introduction to the Real Estate Business

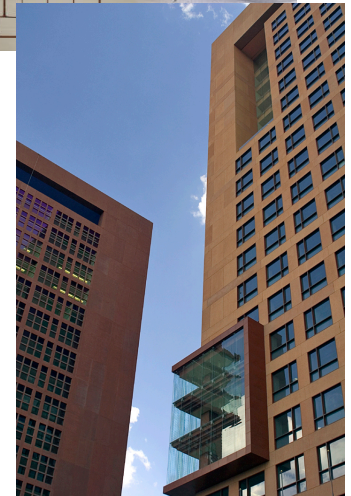




1 Introduction to the Real Estate Business

- **Types of real property**

- **Residential** – all property used for single family or Multi-family housing in urban, rural and suburban areas.
- **Commercial** – business property including office space, shopping centers, stores, theaters, hotels and parking facilities.
- **Mixed-use** – property that allows for two uses, commercial and residential in the same structure (Building)
- **Industrial** - warehouses, factories, land in industrial districts and power plants.
- **Agricultural** – farms, timberland, ranches and orchards.
- **Special Purpose** - churches, schools, cemeteries, and government-held lands.





1 Introduction to the Real Estate Business

- **The real estate market**
 - **Market**—a place or economic system where goods are bought and sold.
 - **Supply and demand**—the economic forces that set prices for products.
 - Characteristics of real estate **affecting supply and demand** are
 - uniqueness, immobility and indestructibility, and
 - effect of natural disasters or changes in financial markets or local events.
 - » Prices will generally drop as supply increases relative to demand.
 - » Prices will generally rise as demand increases relative to supply.





1 Introduction to the Real Estate Business

- **The real estate market**
 - **Factors affecting supply:**
 - **Labor force**
 - **Construction** and material costs
 - **Government controls** at all levels
 - **Government financial** policies
 - **Factors affecting demand:**
 - **Population**
 - **Demographics**—the make-up of the population including mobility, financial stability, and size and nature of family unit
 - **Employment and wage levels**- where and how money is spent; perceived job security relative to supply.





1 Introduction to the Real Estate Business – Questions!!

1. When demand for a commodity decreases and supply remains the same
 - a. price tends to rise.
 - b. price tends to fall.
 - c. price is not affected.
 - d. the market becomes stagnant.



1 Introduction to the Real Estate Business – Questions!!

1. When demand for a commodity decreases and supply remains the same
 - a. price tends to rise.
 - b. price tends to fall.
 - c. price is not affected.
 - d. the market becomes stagnant.

ANSWER

- b. Under the concept of supply and demand, if demand decreases and supply remains the same, producers need to attract more customers, and prices fall. (page 7)



1 Introduction to the Real Estate Business – Questions!!

2. A licensed real estate professional acting as a point of contact between two or more people in negotiating the sale, rental, or purchase of a property is known as a(n)
 - a. Sales affiliate.
 - b. Broker.
 - c. Property Manager.
 - d. Appraiser.



1 Introduction to the Real Estate Business – Questions!!

2. A licensed real estate professional acting as a point of contact between two or more people in negotiating the sale, rental, or purchase of a property is known as a(n)
- a. Sales affiliate.
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ANSWER

- b. A broker is a person licensed to conduct real estate activities for others and able to charge a fee for those activities. (page 4)



1 Introduction to the Real Estate Business – Questions!!

All of the following are categories of the uses of real property *EXCEPT*

- a. residential.
- b. developmental.
- c. agricultural.
- d. industrial.



1 Introduction to the Real Estate Business – Questions!!

All of the following are categories of the uses of real property *EXCEPT*

- a. residential.
- b. developmental.
- c. agricultural.
- d. industrial.

ANSWER

b. Residential, agricultural, and industrial are all classifications of real estate. Development can occur with any of these types. (page 7)



1 Introduction to the Real Estate Business – Questions!!

All of the following affect how quickly the forces of supply and demand work EXCEPT

- a. degree of standardization of the product.
- b. mobility of the product.
- c. degree of standardization of the product's price.
- d. mobility of the parties to the transaction.



1 Introduction to the Real Estate Business – Questions!!

All of the following affect how quickly the forces of supply and demand work EXCEPT

- a. degree of standardization of the product.
- b. mobility of the product.
- c. degree of standardization of the product's price.
- d. mobility of the parties to the transaction.

ANSWER

- c. Mobility with regard to supply and demand refers to the mobility of the product, not the mobility of parties to the transaction. The immobility of real estate has an effect on supply and demand. (page 8)



1 Introduction to the Real Estate Business – Questions!!

Detailed information about the age, education, behavior, and other characteristics of members of a population group is called

- a. population.
- b. demographics.
- c. family lifestyles.
- d. households.



1 Introduction to the Real Estate Business – Questions!!

Detailed information about the age, education, behavior, and other characteristics of members of a population group is called

- a. population.
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- c. family lifestyles.
- d. households.

ANSWER

- b. Information about members of a population group is called demographics. These factors are important as they contribute to the amount and type of housing needed. (page 9)



UNIT 1a

Real Property and the Law

Many types of property define real estate's "product." Land is one of the fundamental concepts of real estate, as well as "improvements" in the form of houses and outbuildings. The fence suggests the limits of ownership.





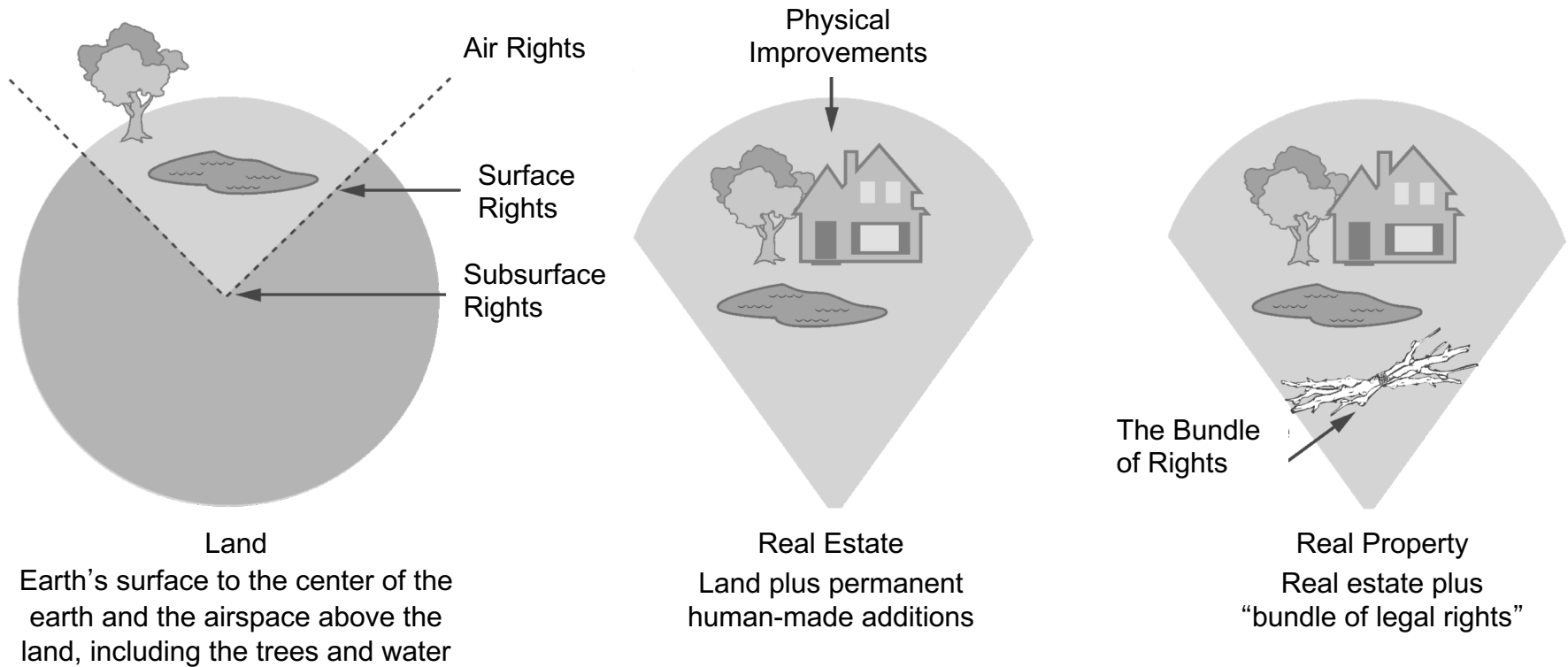
1a Real Property and the Law

- **Land:** the earth's surface extending downward to the center of the earth and upward to infinity, including permanent natural objects
 - Water rights, air rights, mineral rights, subsurface rights. **Fructus Naturales** (trees, shrubs, etc.)
 - **Fructus Industrials** (crops, cultivation)
- **Real estate:** land at, above, and below the earth's surface, plus all things permanently attached to it, whether natural or artificial
 - Permanently attached things.
 - Includes **improvements**. (house, man-made)
- **Real property:** the interests, benefits, and rights that are automatically included in the ownership of land and real estate
 - Includes **Interests and Benefits** and rights automatically included in the ownership of land and real estate.





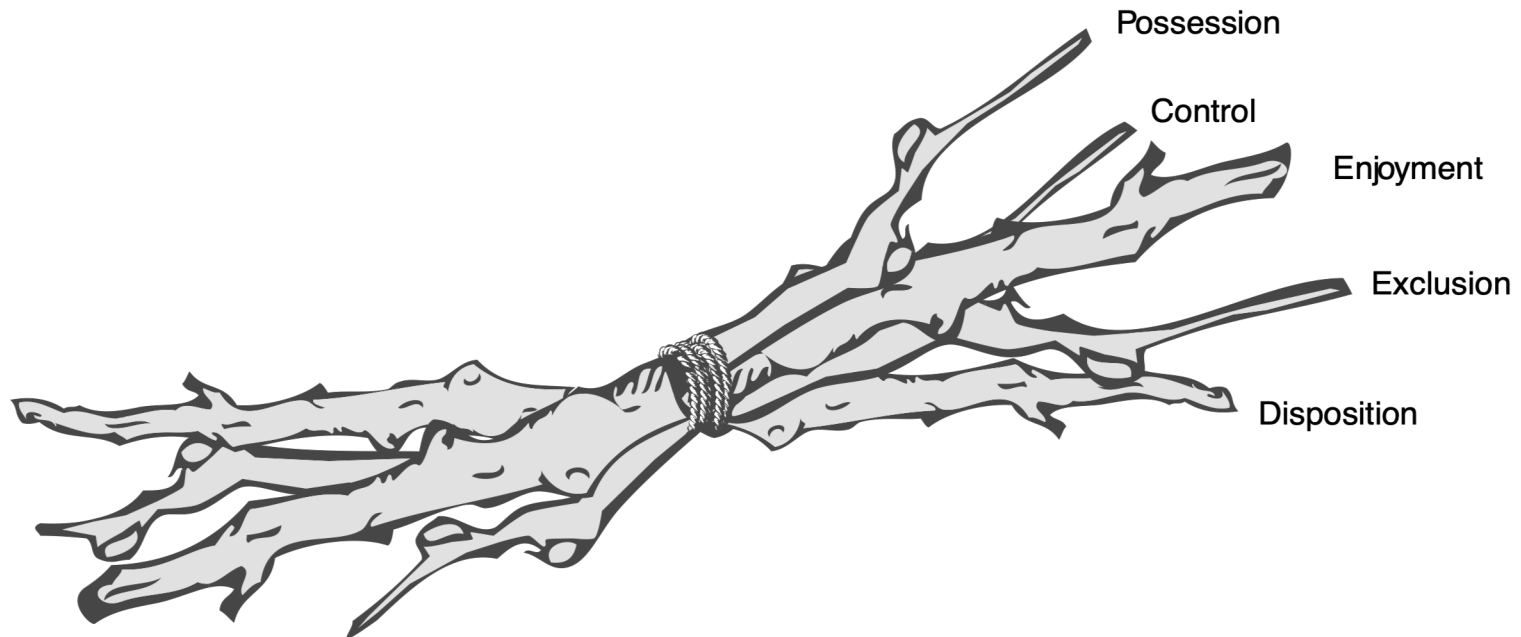
1a Real Property and the Law





1a Real Property and the Law

Bundle of Legal Rights





1a Real Property and the Law

- **Real property rights**

- Surface rights
- Subsurface rights
- Air rights
- Water rights





1a Real Property and the Law

- **Personal property**

- *all property that does not fit the definition of real property*
- *Also known as **Personalty and Chattels***

- **Manufactured housing**

- **Plants**

- Fixtures
- Intent
- Method of annexation
- Adaptation to real estate
- Agreement

- **Trade fixtures**





1a Real Property and the Law

- **Classification of fixtures**
- **Fixture** —an article that was once personal property but has been so affixed to land or a building that the law now recognizes it as part of the real property
- **Legal tests of a fixture:** overall test is intention of the annexation.
 - The method of annexation
 - The adaptation to real estate
 - The existence of an agreement
- **Trade fixture** —an article owned by a tenant and attached to rented space or a building for use in operating a business
 - Tenant's personal property
 - Must remove on or before last day of lease
 - Not removed—becomes landlord's real property





1a Real Property and the Law

- Characteristics of real property
 - **Economic characteristics**
 - Scarcity
 - Improvements
 - Permanence of investment
 - Area preference or location
 - **Physical characteristics**
 - Immobility
 - Indestructibility
 - Uniqueness





1a Real Property and the Law

• **Laws affecting real estate**

- Contract law
- General property law
- Agency law
- Real estate license law
- Federal regulations
- Federal, state, and local tax laws
- Zoning and land use laws
- Federal, state, and local environmental regulations





UNIT 2a

Concepts of Home Ownership

A variety of housing types are available under the general heading of “home ownership,” including single family, small multifamily residences, and high-rise condos.



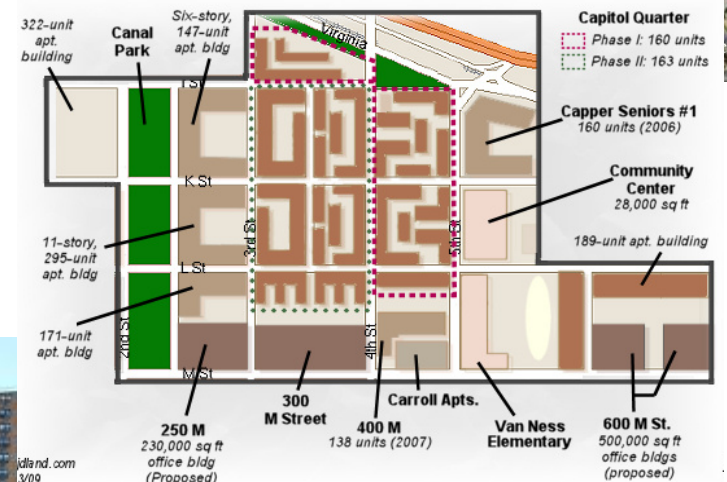


3 Concepts of Home Ownership

- Types of housing
 - Single-family home
 - Apartment complex
 - Condominium
 - Cooperative
 - Planned Unit Development (PUD)
 - Retirement community



Capper/Carrollburg Redevelopment





3 Concepts of Home Ownership

- Types of housing
 - High-rise development
 - Converted-use property
 - Manufactured housing
 - Modular homes
 - Time-share





2a Concepts of Home Ownership

- Housing affordability
 - Mortgage terms
 - Ownership expenses and ability to pay
 - Investment considerations
 - Tax benefits





2a Concepts of Home Ownership

- Homeowners' insurance
 - Coverage and claims
 - Basic versus broad-form pol
 - Liability
 - Coinsurance clause
 - Comprehensive Loss Underwriting Exchange (CLUE)
 - National Flood Insurance Program





UNIT 2

Real Estate Agency

Real estate is an industry about property, but it's also an industry about people. The concept of agency is entirely about people, and relationships between and among them.





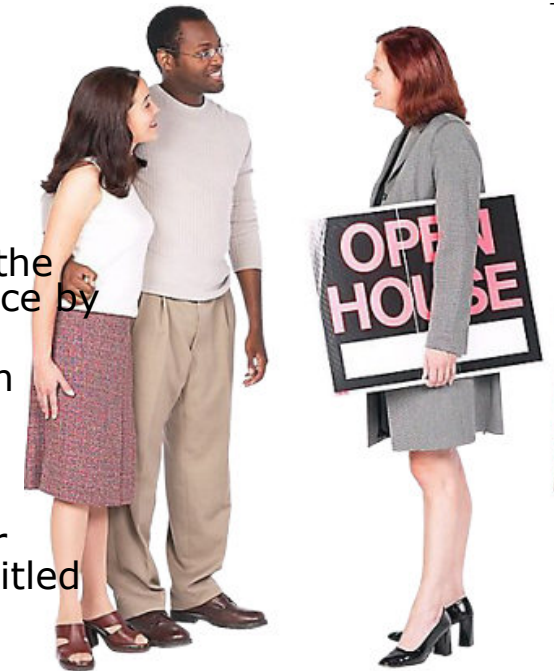
2 Agency

- **Real estate agency**

- **Common-law history**

- **Definitions:**

- **Agent** -An agent is hired by principals to act on their behalf.
 - **Principal** – is the client
 - **Agency**- Agency is the fiduciary relationship in which the agent is held in a position of special trust and confidence by the principal.
 - **Fiduciary** – A relationship in which the agent is held in position of special trust and confidence by principal
COLD/AC
 - **Client** – is the principal
 - **Customer** - A customer is the unrepresented party for whom some level of service is provided and who is entitled to fairness and honesty.
 - **Nonagent** - A nonagent (also known as a facilitator, intermediary, transactional broker, transactional coordinator, or contract broker) assists one or both parties with the transaction without representing either party's interests and often is subject to specific statutory responsibilities.





2 Agency Relationship

- **Real estate agency Relationships**

- **Common-law & Statutory history**

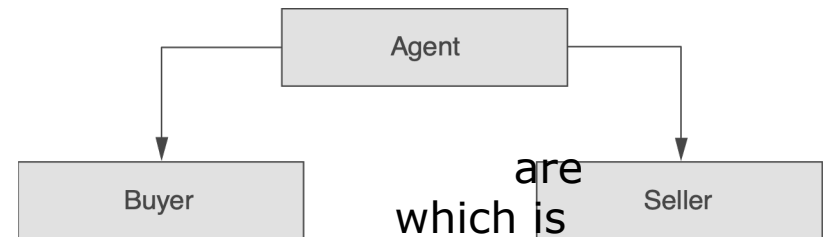
- **Real estate agency relationships**

governed by **common law**, established by tradition and court decisions, and **statutory law**, which is passed by state legislatures and other governing bodies.

- **Disclosure** by real estate brokers of agency relationship is required in Connecticut.

- **Agency relationships encompass** the following:

- **Express agency** is based on a formal agreement between the parties.
- **Implied agency** results from the behavior of the parties.
- The compensation source does not determine agency because
 - the agent may be compensated by someone other than agent's client, and
 - agency can exist even if no compensation is involved—gratuitous agency.





2 Agency

- **Fiduciary duties of an agent**

- **Care** - An agent must exercise a reasonable degree of care.
- **Obedience** - An agent must act in good faith at all times, with obedience toward the principal's instructions.
- **Loyalty** - An agent must place the principal's interests above those of all others, including the agent's own interests.
- **Disclosure** - An agent is duty-bound to inform the principal of certain relevant facts concerning the transaction, particularly those mandated by state law.
- **Accounting** - An agent must be able to report the status of all funds received from or on behalf of the principal.
- **Confidentiality** - An agent owes the principal confidentiality in carrying out agency obligations.





2 Agency

- **Creation and termination of agency**
 - **Creation**
 - **Express agency** – in writing
 - **Implied agency** – by actions
 - **Termination of Agency can be accomplished by:**
 - completion, performance, or fulfillment of purpose of agency;
 - destruction or condemnation of the property;
 - expiration of the terms of the agency;
 - mutual agreement of all parties to the contract;
 - breach by one of the parties, who may be liable for damages; and
 - Operation of law, as in the bankruptcy of the principal.
 - **Agency coupled with an interest** cannot be revoked by the principal or re-run-timed upon the principal's death.





2 Agency

- **Limitations on authority**
 - **Universal agent**
 - Empowered to do anything the principal could do personally
 - **General agent**
 - Represents the principal in a broad range of matters related to a particular business or activity
 - **Special agent**
 - Authorized to represent the principal in one specific act or business transaction under detailed instructions





2 Agency

- Types of agency relationships
 - Single agency
 - Seller representation
 - Buyer representation
 - Owner as principal
 - Dual agency
 - Disclosed dual agency
 - Designated agency
 - Undisclosed dual agency





2 Agency

- Types of agency relationships
 - Disclosure laws
 - Nonagency
 - Agency statutes





2 Agency

- **Customer-level services**
 - Reasonable care and skill in performance
 - **Honest and fair** dealing
 - Disclosure of all facts the licensee knows (or should be expected to know) that materially affect the value or desirability of the property
 - State law may require additional services or disclosures





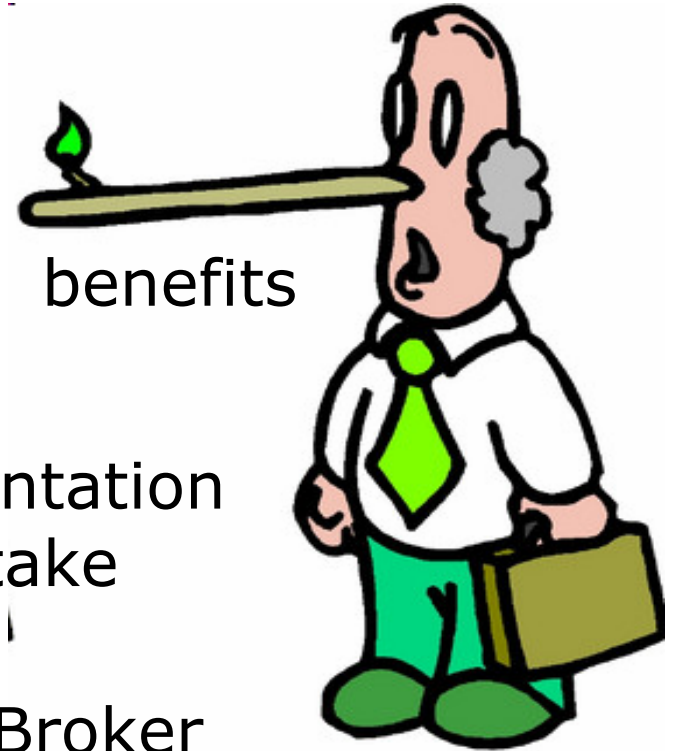
2 Agency

- **Puffing**

- *Exaggeration* of a property's benefits

- **Misrepresentation**

- Fraud: *Intentional* misrepresentation of a material fact to harm or take advantage of another
 - Negligent Misrepresentation: Broker *should have known* a statement was false





2 Agency

- **Property conditions**

- **Latent defect**

- A hidden structural defect that would not be discovered by ordinary inspection

- **Stigmatized property**

- Properties branded “undesirable” because of actual or rumored criminal, tragic, or scandalous events that occurred on the property





2 Agency

End of Section 2 Agency