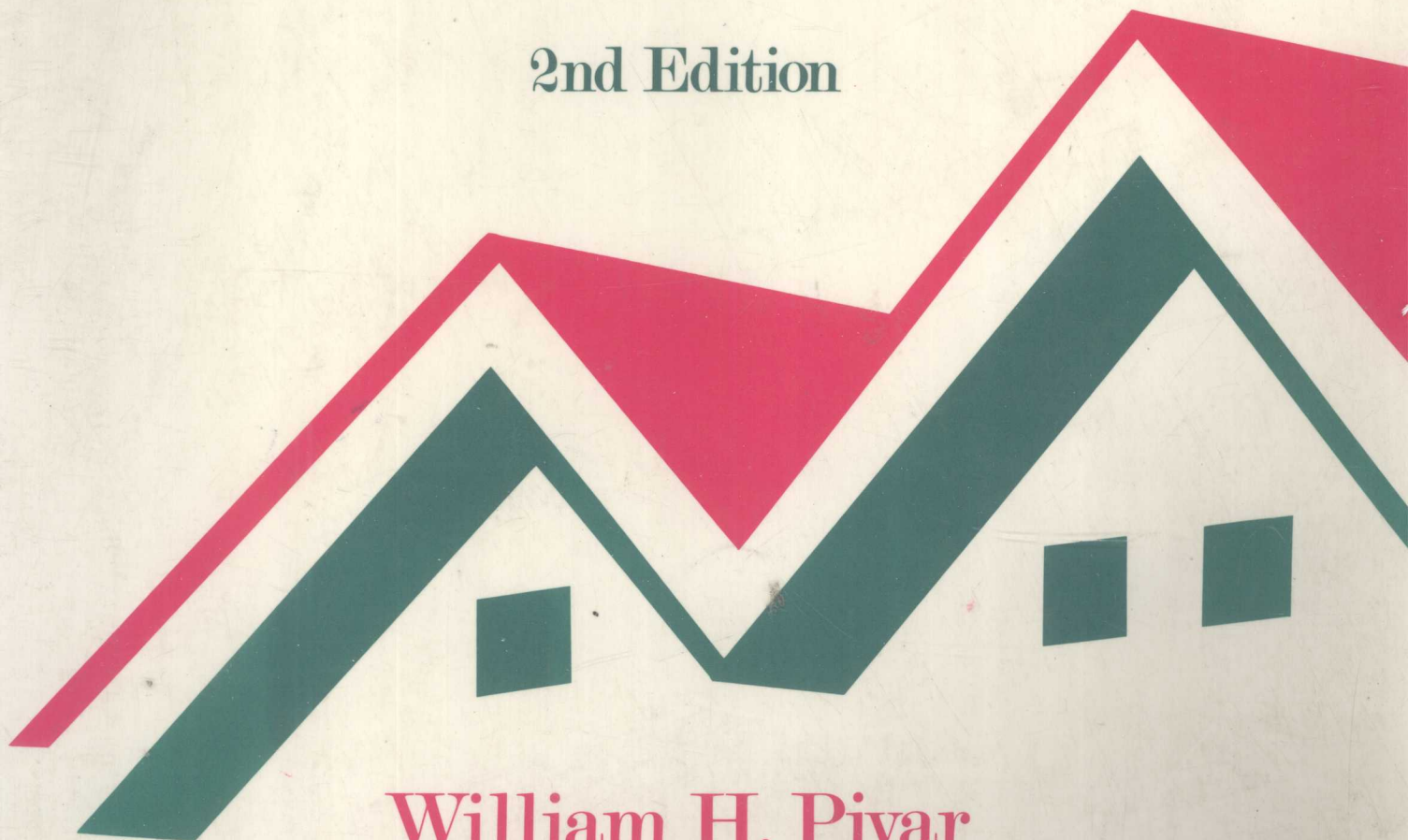


# REAL ESTATE EXAM GUIDE

Designed for  
**ASI**  
Sales and Broker Exams

2nd Edition



William H. Pivar

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**REAL ESTATE EDUCATION COMPANY**

a division of Longman Financial Services Institute, Inc.

While a great deal of care has been taken to provide accurate and current information, the ideas, suggestions, general principles and conclusions presented in this book are subject to local, state and federal laws and regulations, court cases and any revisions of same. The reader is thus urged to consult legal counsel regarding any points of law—this publication should not be used as a substitute for competent legal advice.

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# FOREWORD

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In compiling this study guide for the Real Estate Assessment for Licensure Program (REAL), we have tried to provide vital information to candidates prior to taking the examination. It is important to note, however, that Assessment Systems, Inc. (ASI) is not responsible for the content of this book. The structure of this book follows very closely the content outline that was put together by the examination committee and accepted by jurisdictions for use in their licensure process. ASI is a testing service, and as such is responsible for the structure of testing programs, but not for the specific content of test questions. They employ job analysis, statistical and operational techniques that support the validity of examinations. A brief description of these techniques may be helpful.

The process of licensure is intended to determine which candidates have attained a level of knowledge sufficient for safe practice. In order to determine what that level is, one must first identify what the job of real estate practitioner entails and the knowledge and skills required to perform each. This is accomplished by performing analyses of the real estate profession with the guidance of a representative committee of real estate personnel. After the opinions of the committee are confirmed by analysis, test questions are written specifically to address the knowledge and skills that were identified as important and currently performed by practitioners. Committees of practitioners then review and approve all test questions. Representatives from each jurisdiction using ASI examination materials also review questions and other program-related materials. The validity of the examinations is dependent upon the judgments of many content experts, not upon the opinions of a few test editors at ASI.

We hope that you find the information in this study guide helpful. The intent of this guide is to provide helpful information to candidates preparing for the examination. We wish you success on the examination and in your career.

—The Editors

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—William H. Pivar

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# **ONE**

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## **Introduction to the REAL Examination**

The Real Estate Assessment for Licensure (REAL) examination is a professional examination that was developed by the staff of Assessment Systems, Inc. (ASI) in conjunction with local and national examination committees. ASI, an independent testing company, administers the exam under contract with state licensing authorities.

The REAL examination is not a test of language ability, reading or knowing how to take tests. It is designed to identify candidates who have sufficient skills and knowledge to serve the interests of the public, and to lead those who are lacking in these skills to further study. The material you will be tested on was determined after analyzing responses from 12,000 real estate salespeople or brokers as to the scope of tasks that real estate salespeople or brokers perform and the knowledge and skills needed to perform them.

The REAL examination is divided into two parts: Section A covers general topics and Section B covers state laws. All questions are of the four-answer multiple-choice variety. Both the salespersons' and the brokers' general sections contain 80 questions on general real estate knowledge. The state section contains between 30 and 50 questions.

Your state licensing agency will provide you with a Real Estate Assessment for Licensure Candidate Guide that sets forth the grade weight values attached to the various areas of the examination as well as a content outline for the state portion of your examination. It is recommended that you use state manuals containing specific state laws available from your state licensing agency to study for the state section of your examination.

The major content areas of the examination are:

- Real Estate Law
- Ownership/Transfer
- Brokerage, Agency
- Concepts of Appraising
- Finance
- Mathematics of Real Estate
- State Laws, Rules and Regulations

(In some states mathematics is not shown as a separate section.)

Candidates have 3½ hours to take the test. Test scores are based upon the number of questions answered correctly. The passing score for each state is established by the state real estate board or commission based upon standards of competence that they deem appropriate for licensure.

The examination will test your ability to recall relevant material, your ability to apply what you have learned to real life situations, as well as your ability to analyze a problem. Questions are based upon topics that real estate salespeople or brokers actually deal with in the course of their work.

Candidates interested in real estate as a profession generally are positively motivated people. They are likely to read a question written in the negative as if a positive answer were called for. Because of this, the examination includes very few negative questions. When a negative word such as *not*, *least* or *except* is used, it will be **CAPITALIZED IN BOLD FACE TYPE**. Other words are at times capitalized in bold face type to help you avoid misreading a question.

The examination may contain case-study questions in which a block of information is given, followed by two or three related questions. However, questions stand by themselves and are not based upon previous questions. One wrong answer does not affect the score on any other question.

Questions are carefully reviewed to make certain that there are no clues to the answer that would aid a candidate who doesn't know the material. Each question is either a clear and straightforward statement that calls for one of four answers, or it is an incomplete statement (stem), with the correct answer completing the statement.

Every question has one right answer that will be clear to candidates who have prepared themselves for the examination. Wrong answers are often distractors that will either tend to confuse or seem plausible to someone who does not fully understand what is being sought. These wrong answers are likely to be:

- 1 Common misconceptions.
- 2 Common errors (if you make a common error on a mathematical computation, it is likely that one of the distractors will agree with your answer).
- 3 A carefully worded but incorrect statement that will appear plausible to an uninformed candidate.
- 4 Statements which, while true, are not really relevant to the question.

The REAL examination takes a positive approach to achieve fair measurement of a candidate's knowledge and skills. You should therefore not fear your examination. You should treat it instead as an opportunity to demonstrate the knowledge and skills you have acquired to serve others as a real estate salesperson or broker.

## STUDY AND EXAMINATION AIDS

### How To Study

Any career decision, to become a reality, requires preparation; and preparing for a career in real estate is going to take both time and dedication. While your motivation to spend the necessary time must come from within yourself, a few simple suggestions can make the hours you spend more productive.

**1. Study on a Daily Basis.** You will retain much more information if you study over many days than if you try to cram everything into a few marathon sessions. You should set aside particular blocks of time for your study. If at all possible, early mornings are preferred because you are more likely to be at your mental peak for the day. Try to avoid study periods after heavy meals or in too warm a study area, as you will find concentration very difficult.

**2. Find a Quiet Place.** Your study place should have as few distractions as possible. Studying near televisions, phones or even outside can be extremely difficult. Many students use a neighborhood library as a quiet place for study.



**3. Break Up Your Study Time.** The second straight hour of study is much less productive than the first; the third is even worse. I recommend study periods of about 45 minutes each, separated by other activities. A short walk is an excellent way to refresh yourself and aid your concentration.

**4. Use Good Study Techniques.** Before you study each section, spend no more than five minutes scanning the material. A general understanding of what you will be studying aids your retention.

**Read and Paraphrase.** As you read each paragraph, stop and close your eyes and ask yourself what you have read. By putting the material into your own words (mentally, or verbally if your study area permits it), your likelihood of retaining the information will be dramatically increased. By forcing yourself to paraphrase the material, you will avoid the likelihood of giving too light a treatment to any area.

**Reread and Paraphrase.** A second reading should involve paraphrasing of more than one paragraph. It could be of whole topic areas.

**Take the Test.** After the second reading, take the quiz at the end of the chapter as if it were an actual examination, allowing at least two hours. An answer sheet similar to the one you'll use on the actual exam is included on pages 36 and 37. You may want to remove it from the book and make copies for each of the tests. This will ensure that you are fully familiar with the use of the answer grid by the time you take the actual licensing exam.

Don't mark the examinations in the book; use the separate answer sheet. If you mark the answers directly on the examination you will get little benefit from the examinations for review purposes. The answers will pop out at you and you won't truly analyze the question and all the answers.

After taking the test, check your results. Don't limit your evaluation to just those questions you answered incorrectly. Understanding why a correct answer was correct is really more important than the fact that it was correct.

**Study in a Group.** Group study, when used properly, can help maintain high levels of concentration for extended periods. For it to be effective, every member of the group must have studied the material so each can contribute to the group and not hold it back. The group must also have a strong leader who can keep the session going on a straight course.

**5. Study before Class.** You should complete your study of a subject before it is covered in class. Immediately before class, spend another few minutes quickly scanning the material so it is fresh in your mind.

By coming to class already understanding the topic, you get the greatest possible benefit from your instructor. Instead of trying to learn basic facts, you can use classroom time as it is meant to be used—asking questions, clarifying difficult points and learning about changes as well as material specific to your state.

**6. Mark Your Book.** Highlighting key areas in the text will help you to recall and review particularly important points. Too much special emphasis, though, defeats the purpose of making a few points stand out.

Notes on your instructor's comments are best written in the margins. This way you have one integrated text to study. State-specific information should be handled on the separate sheets provided, with notes in the margins.

**7. Know the Vocabulary.** Write the words you are having trouble with on one side of a 3" x 5" card. On the other side include definitions. Whenever you have a few minutes free during the day, review your cards. When you feel you have mastered a term, you can discard that card.

**8. Review.** Don't limit your review to just the material you feel you are weak in or that you think the examination will emphasize. Your review should be comprehensive. A good starting point is the review examinations at the end of the book, followed by the text material. Your review process should include several readings of the complete glossary at the end of the book. It will be of great help in tying all the material together. If time permits, retake the examination in each section. Of course the same level of study must be applied to information unique to your state.

*Don't Become Discouraged.* Because of the sheer volume of new material, many students use their confusion as an excuse to drop out. You should realize that confusion is normal for the first few weeks (and sometimes months) of study. As you progress, things will come together slowly. Students often are well into the review process before they realize that they are no longer confused. When you feel that you will never understand, think of all of the people you know in real estate. The reason they succeeded is obvious. It is not because they are smarter than you are, it is because they continued to work and refused to quit.

In Chapter Five the material on site analysis and valuation, gross rent multiplier, principles of capitalization and the appraisal report is not covered in the Salesperson examination. At present it is included only in Broker examinations.

## SITTING FOR THE REAL EXAMINATION

Proper test-taking technique can make the difference between success and failure. Keep in mind that while passing is the goal, if you fail, the examination can be retaken. This is not a one-time, win-all/lose-all crisis.

It is natural to be nervous before an examination. Even though you understand that nervousness can detract from your test-taking ability, remaining calm isn't easy. Even the candidate who acts very blasé is going to have a few butterflies flitting around inside. You can help yourself by avoiding pre-examination socializing with those waiting for the doors to open. Nervousness breeds nervousness, so talking with a group of agitated people is not the way to relax.

Immediately after entering the examination room, and before instructions are given, you can help yourself to relax by doing a short breathing exercise such as taking ten deep breaths while counting to five for each of them. You will find this forced activity has a calming effect. Once you begin the examination, most of your initial apprehension will disappear. Taking a seat toward the front of the examination room, but away from the entrance, will minimize distraction.

You are allowed to bring a simple non-printing electronic calculator to the examination. It can't be programmable or make an audible tone. Make certain that your calculator has fresh batteries or you may find yourself doing long division with a pencil. Worse, you may find that you've been working with false readings. A malfunctioning calculator is not grounds for challenging exam results or for getting an extension of the time limit. Even a perfect calculator is of no use if you can't operate it correctly. If you borrow one, or buy a new one for the exam, be certain you fully understand how that particular model functions.

Listen carefully to the instructions. Failure to follow them may result in a delay in issuing your test results. Any cheating will result in your immediate dismissal from the examination and notification to the state licensing agency. Attempting to copy questions or removal of examination material constitutes cheating.

Be sure to place answers in the correct space. If you are right-handed, place the answer sheet to the right of your examination booklet. If you are left-handed, place the answer sheet to the left. In this way you won't have to risk losing your place when you pass your arm over the question. You don't want to find yourself in the panic situation of answering question 80 in space 76 on the answer sheet.

Read each question carefully to be certain you understand what is being asked. Never change the wording or assume the question means something other than it says. If a question makes an assumption, assume that to be true.

Read every answer before marking your answer sheet. If you are not certain of the answer, eliminate what you believe to be the wrong answers and take a guess from the others. An informed candidate should be able to eliminate at least one answer and possibly two. An uninformed candidate will find all four answers very plausible.

Answer every question as you come to it. Never leave a question unanswered with the intention of returning to it, or you may forget about it. A pure guess gives you a 25 percent chance; leaving the question unanswered gives you none. Whenever you do take a guess, indicate it with a check mark in the question booklet. After you complete the rest of the examination, you can return to the ones you guessed at.

Before you work out any mathematics question, make a mental estimate of the answer and write it down. If your computed answer differs significantly, there is a good chance that you made an error in computation. Just because your computed answer agrees exactly with an answer given does not mean it is correct. The wrong answers are answers that will result if a common mistake is made. Common errors include:

- 1 Reversing the dividend and divisor.
- 2 Failure to carry the mathematics to the final step.
- 3 Failure to convert inches to feet, square feet to square yards, cubic feet to cubic yards, etc.
- 4 Misplacing a decimal point.

Should you find yourself spending an inordinate amount of time on a math question, take a guess and come back to it when you are finished with the rest of the examination. In that way you will be able to work on the problem without the mental pressure of an unfinished examination.

You have  $3\frac{1}{2}$  hours to complete the examination. Even though others around you are leaving, you must fight the urge to leave. Staying longer can mean more points for you.

First complete any math questions you guessed at, then go to those questions where you were uncertain of the answer. Then start from the beginning and go through the entire examination.

Never change an answer for change's sake. If you discovered that you misread a question or that a later question has jogged your memory so you now understand what is sought, then you should change the answer, being careful to erase the wrong answer fully.

For the purpose of the examination, assume:

- There are 30 days in every month.
- There are 360 days in a year.
- There are 43,560 square feet per acre.
- The seller is responsible for charges up to and including the day of settlement.
- Numbers in your final answer may be rounded off (where applicable) to the nearest whole number.

When you take the examination in this book, use these techniques. Take every examination as if you were taking a state examination, using these techniques. They just could mean the extra points that are needed.

# **TWO**

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## **Real Estate Law**

### **CONTRACTS**

A contract is an agreement enforceable by law.

#### **Valid Contracts**

Contracts that meet all legal requirements are valid and enforceable by either party to the agreement. Four requirements must be met to have a valid contract including:

**1. Competent Parties** Contracting parties must have both mental and legal capacity to enter into a contract. Persons adjudged insane cannot contract as they lack mental capacity. Generally, minors may contract only for necessities. The legal age is set by state law. In some states emancipated minors, such as those who are married, can contract. The right of prisoners to contract is governed by individual state laws. These rights generally are restricted.

**2. Mutual Agreement** To have a valid contract there must be a meeting of the minds (mutuality). This is normally evidenced by an offer and acceptance. A unilateral mistake (mistake on the part of one party only) will not allow that person to get out of a contract, but a mutual mistake of fact or impossibility of performance makes the contract unenforceable.

**3. Consideration** In order for a promise to be binding on one party to an agreement, the other party must have given or promised something of value. An unsupported promise really would be a promise to make a gift and it generally would be unenforceable because of lack of consideration. Consideration does not have to be fair, although grossly inadequate consideration could be evidence of fraud or undue influence.

**4. Legal Purpose** To be enforceable a contract must be for a legal purpose. A contract made for an unlawful purpose is an illegal contract and generally would be void and unenforceable by either party.

#### **Statute of Frauds**

In old England, real estate was considered the basis of all wealth. Real estate transactions were considered so important that the Statute of Frauds (really a statute to prevent fraudulent proof) required every contract dealing in real estate to be in writing. Every state has a Statute of Frauds that requires the writing to show a definite agreement and to be signed by the person who is to be held to the agreement.

State statutes of fraud usually require that the following be in writing:

- all agreements for the sale of real estate;
- any lease for more than one year;
- contracts that by their terms cannot be fully performed within one year of entering into the agreement;
- promises to pay the debt of another;
- promises made in contemplation of marriage, and
- personal property contracts for \$500 or more.

Because of the Statute of Frauds, real estate contracts have a fifth requirement: they must be in writing.

### Void Contracts

Contracts that fail to meet one or more contractual requirements are void and unenforceable by either party to the agreement.

### Voidable Contracts

Voidable contracts are valid unless voided. Only one party—the innocent party to the transaction—can void the agreement or elect to be bound by it. Among the factors that may make contracts voidable are:

**Duress or Menace** Contracts entered into under force or threat of force may be voided by the injured party.

**Fraud** Contracts entered into because of fraud may be voided by the injured party.

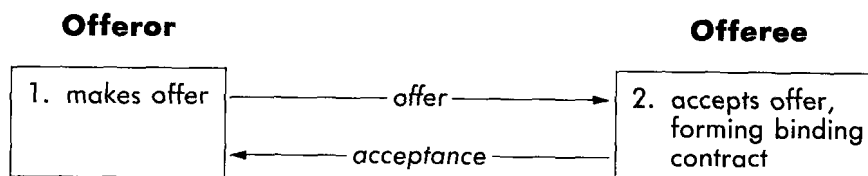
**Undue Influence** A party who enters into an unfair contract with another when not acting under his or her own free will because of the relationship with the other party (client/attorney, doctor/patient, father/child, etc.) can void the agreement.

**Minor Status** A person generally has a reasonable period after reaching the contractual age to void contracts entered into as a minor.

### The Offer and Acceptance

An offer expresses a willingness on the part of an offeror to enter into a particular agreement. An offer is not a contract until it is accepted by the offeree. Unless the offer specifies a particular period of time for acceptance, it is considered to be held open for acceptance for a reasonable period of time.

#### Offer Accepted



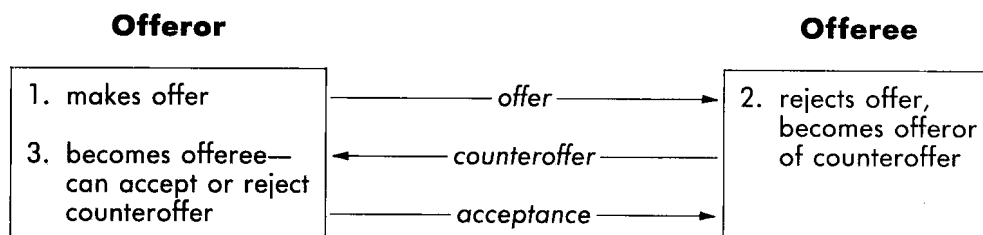
If the offer fails to specify the form for acceptance, the offer may be accepted in any reasonable manner. Under the Statute of Frauds, offers and acceptances for real estate transactions must be in writing. Acceptance does not take place until the offeror is notified of the acceptance, usually by delivery of a copy of the accepted offer to the offeror. The act of mailing an acceptance generally is considered notification.

**Revocation of Offer** An offeror generally can withdraw or revoke an offer any time prior to its acceptance. Since actual notice is required to revoke an offer, a mailed revocation does not become effective until it is received. Mailing constitutes acceptance, but receipt generally is necessary for revocation.

**Death of Offeror** The death of the offeror or offeree *prior* to acceptance immediately voids the offer. The death of the offeror or offeree *after acceptance* generally has no effect on the agreement, which becomes binding on the estates of the deceased parties. If, however, a contract called for the personal services of one of the parties to the contract, then the death of that party would terminate the agreement.

**Counteroffer** An acceptance that varies from the original offer with a new or changed requirement is customarily regarded as a counteroffer. A counteroffer is really a rejection of the original offer and the original offeree now becomes an offeror with a new offer. The original offeror (now the offeree) can either accept the new offer and form a binding contract, or reject it. Once an offer is rejected it is considered dead. Any later acceptance is merely a new offer.

### Counteroffer Made

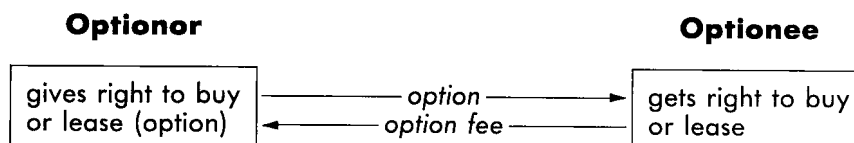


### Option

An option is a contract that gives one party (the optionee) the right to make a contract during the period of the option if he or she wishes to do so. (An option keeps an offer open for acceptance.) Ordinarily an optionor will give an optionee the right to purchase or lease a property during a stated period of time at an agreed price.

To create a valid option, the optionee must have given the optionor something of value as consideration to keep the offer open. An option cannot be revoked by the optionor once it is given. It is an irrevocable offer.

### Option



## Contract Types

**Bilateral Contracts** Promises made in exchange for promises are bilateral contracts. Sales agreements generally are bilateral—a promise to buy is given for a promise to sell.

**Unilateral Contracts** Promises made in exchange for an act are unilateral contracts. The acceptance of the offer is not in the form of another promise, but in the form of the act. For example, assume a broker promised to pay a salesperson a bonus of \$50 for each listing of a four-bedroom house. If the salesperson obtained a four-bedroom house listing, the salesperson would be entitled to the bonus. While the salesperson was not obligated to perform, his or her performance of an act made the acceptance.

**Executed Contract** An executed contract is one that has been fully performed.

**Executory Contract** An executory contract has yet to be performed.

**Express Contract** An express contract is one that has been specifically agreed to, either verbally or in writing. Since the Statute of Frauds requires real estate contracts to be in writing, they are express contracts.

**Implied Contracts** Implied contracts are understood because of the actions of the parties, although a specific agreement is not stated. In requesting a carpenter to make repairs, you might make no agreement as to pay; it is implied, however, that you will pay a fair price for the services received.

## Remedies for Breach of Contract

**Specific Performance** Because every parcel of real estate is unique, money damages are not always adequate. The courts can require that a seller convey property as originally agreed to. Courts generally will not grant specific performance where the consideration is not considered adequate.

**Compensatory Damages** Money awarded by the court to the injured party to compensate for the loss suffered is called compensatory damages.

**Punitive or Exemplary Damages** Courts may award punitive or exemplary damages beyond compensatory damages to punish or make an example of a party that made a willful and/or outrageous breach of an agreement.

**Nominal Damages** Token amounts awarded when the breach does not result in an actual dollar loss are called nominal damages.

**Liquidated Damages** Liquidated damages are breach-of-contract compensation agreed upon by the parties at the time of their agreement. Construction contracts often have a daily liquidated damage amount when a job is not completed on time, and purchase contracts customarily provide for the forfeiture of a buyer's earnest money deposit in the event of a buyer's breach. If liquidated damages are set too high, the courts might determine they are actually penalties, which are unenforceable.



**Reformation** An action to correct a mistake in an agreement or deed is called reformation. It amends an agreement to conform to the original intention.

**Rescission** A party can use a breach by the other party as the basis for rescinding the contract.

**Restitution** Restitution is the return of consideration when a contract is rescinded.

**Waiver** A party to a contract can waive a contractual breach by the other party and elect still to be bound by the contract. A buyer might waive the seller's failure to correct some defect and insist upon closing. Waiver leaves the parties as they are. Rescission puts them back the way they were.

**Accord and Satisfaction** Accord and satisfaction occur when a party agrees to accept less than the contracted amount when the other party disputes the amount that is owing. This is common in construction contracts where a party alleges that the work was not performed as agreed upon.

**Novation** A substitution of a new contract for an old one is called novation. The parties to a novation agree to cancel the old contract in favor of the new agreement, as when a buyer and a builder make a contract for a different model home than originally chosen and named in a contract. It also is considered a novation where parties agree to the substitution of a new party for one of the original parties to the contract and fully release the original party from all obligations under the agreement.

**Statute of Limitations and Laches** State statutes provide for the period of time during which legal action must be brought. The statute of limitations starts on the date an obligation is due; if no payment is made or legal action taken during the prescribed period, then the right to enforce the agreement is lost. Under the doctrine of laches, the court may refuse to grant relief to a party whose failure to bring action within a reasonable time has worked to the detriment of the other party. As an example, if a property owner knew that a planned neighboring structure would encroach slightly upon his or her property, the courts would be reluctant to require removal if the property owner waited until the structure was completed to demand the removal. The property owner's delay in bringing action would have worked to the detriment of the other party so that it would not be equitable now to grant the relief sought.

The statute of limitations is based upon statute; laches is a court doctrine based on equity.

**Estoppel** Parties can be prevented (estopped) from raising defenses if their words or actions have caused another party to act to its own detriment. If Bob allowed Sue to make improvements to a property based on his verbal contract to sell and then backed out, Bob would likely be estopped from defending his breach of contract on the ground that it was not in writing as required by the Statute of Frauds.

### Unenforceable Contracts

In addition to void contracts that are unenforceable and voidable contracts that can be enforced by only one party to the contract, the Statute of Limitations, laches and estoppel all serve to make otherwise valid contracts unenforceable.