



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business and Social Studies

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN
BACHELOR OF COMMERCE

BFI 4401: REAL ESTATE FINANCE

END OF SEMESTER EXAMINATIONS

SERIES: DECEMBER 2014

TIME: 2 HOURS

INSTRUCTIONS:

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Two printed pages

QUESTION 1 (Compulsory)

- a) Distinguish between the following terms as used in real estate finance:
 - i) Estates in possession and estates not in possession. **(4 marks)**
 - ii) A freehold estate and leasehold estate. **(4 marks)**
 - iii) A fee simple estate and life estate. **(3 marks)**
 - iv) Estate for years and estate from year to year. **(3 marks)**
- b) Evaluate the unique characteristics of the real estate market. **(10 marks)**
- c) Highlight any **THREE** sources of real estate finance. **(6 marks)**

QUESTION 2

- a) An investor has an opportunity to invest in a rental property that will provide net cash returns of sh. 400,000 per year for three years. The investor believes that an annual return of 10% should be earned on this investment. How much should the investor pay for the rental property? **(5 marks)**
- b) Discuss any **FIVE** types of risks associated with real estate investments. **(15 marks)**

QUESTION 3

- a) Define the term due diligence. **(2 marks)**
- b) Examine at least **SIX** areas an investor should review when considering the acquisition of a property. **(18 marks)**

QUESTION 4

- a) Explain the following terms as used in a real estate appraisal:
- i) Market value **(2 marks)**
 - ii) Value-in-use **(2 marks)**
 - iii) Investment value **(2 marks)**
 - iv) Liquidation value **(2 marks)**
 - v) Insurable value **(2 marks)**
- b) Explain the advantages and disadvantages of mortgage as a source of finance. **(10 marks)**

QUESTION 5

- a) Briefly explain any **FOUR** motivations for investing in income properties. **(8 marks)**
- b) Discuss the factors that determine demand and supply for housing. **(12 marks)**