# 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*

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### 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)**

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**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)**