

**TECHNICAL UNIVERSITY OF MOMBASA**  
**SCHOOL OF BUSINESS STUDIES**  
**BACHELOR OF BUSINESS ADMINISTRATION, BACHELOR OF COMMERCIAL**  
**(Y4, S1/S2)**  
**BFI 4401: REAL ESTATE FINANCE**  
**END OF SEMESTER EXAMINATIONS**  
**SERIES: MAY 2016**  
**TIME: 2 HOURS**

INSTRUCTIONS:

- This paper consists of section A and B
- Section A is Compulsory. Answer any Two questions in section B
- Mobile phones are not allowed into the examination room
- Cheating leads to disqualification
- This paper consists of Two printed pages

Q1. a) Briefly explain the following risks that may affect mortgage loans. (12marks)

- i) Default
- ii) Interest rate
- iii) Prepayment
- iv) Legislative

b) An investor has an opportunity to invest in a rental property that will provide net cash returns of ksh.500, 000 per year for three years. The investor believes that an annual return of 10% should be earned on this investment.

Required:

How much should the investor pay for the rental property? (6marks)

C) Distinguish between the following types of mortgage loans (12marks)

- i) Conventional versus High ratio mortgages
- ii) Open mortgages versus close mortgages
- iii) 10/1 ARMs versus 2-step mortgages

Q2.a) Briefly explain the appraisal process of asset value estimation. (12marks)

b) Explain the following values as used in the process of valuation of real property. (8marks)

- i) Market value
- ii) Value in use
- iii) Insurable value
- v) Investment value

Q3.a) Briefly explain the meaning of the following clauses found in a note instrument.(10marks)

- i) Loan assumability
- ii) Assignment
- iii) Release of lien by lender
- iv) Non-recourse
- v) Future advances

b) Discuss the factors to be considered when investing /acquiring income properties. (10marks)

Q4. Write brief explanation on the following terms. (10marks)

- i) Estates in possession
- ii) Estates not yet in possession
- iii) Reversion
- iv) Remainder
- v) Easement

b) Examine the benefits that investors enjoy from investment in REITS. (10marks)

Q5. a) Distinguish between primary and secondary mortgage markets. (4marks)

b) Discuss the factors that influence the value in Real estate. (16marks)