TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BCOM/BBA

BFI4401: REAL ESTATE FINANCE

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2016

TIME: 2HOURS

DATE: Pick Date Dec 2016

Instructions to Candidates
You should have the following for this examination
-*Answer Booklet, examination pass and student ID*
This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.
Do not write on the question paper.

Question ONE

a) Given the following owner's income and expense estimates for an apartment property, formulate a reconstructed operating statement. The building consists of 10 units that could rent for $550 per month each.

Owner's Income Statement

Rental income (last year)	$60,600
Less: Expenses	
Power	$2,200
Heat	1,700
Janitor	4,600
Water	3,700
Maintenance	4,800

Reserves for replacement	2,800	
Management	3,000	
Depreciation	5,000	
Mortgage payments	6,300	34,100
Net income		$26,500

Estimating vacancy and collection losses at 5 percent of potential gross income, reconstruct the operating statement to obtain an estimate of NOI. Remember, there may be items in the owner's statement that should not be included in the reconstructed operating statement. Using the NOI and a R_o of 11.0 percent, calculate the property's indicated market value. Round your answer to the nearest $500.   (14 marks)

   a)   Discuss any 5 types of risks that need to be analyzed during real estate financing decisions. (10 marks)
    b) Discuss the 3 commonly applied Real estate appraisal methods.   (6marks)

Question TWO

   a)   Assume the following:

   Loan Amount: $100,000

   Interest rate: 10 percent annually

   Term: 15 years, monthly payments

         i)   What is the monthly payment?   (4marks)
         ii)   What will be the loan balance at the end of nine years?   (4marks)

   b)   Real estate assets and markets are unique when compared to other assets or markets. Discuss the primary ways that real estate markets are different from the markets for other asset that trade in well-developed public markets.   (6marks)

   c)   Discuss any 4 job opportunities that generally exist in the Real Estate Industry.   (6marks)

Question THREE

   a)   Define the term real estate and discuss the two general classifications of estates with an example in each category.   (4marks)

b) An investor has identified a suitable residential house which he wants to purchase using a fixed interest rate mortgage for duration of 25 years. Considering a constant payment mortgage (CPM) and constant amortizing mortgage (CAM) loan is made for ksh.1million at a rate of 6% fixed for 25 years.

Calculate the payments and balances at the end of one year assuming:

i) Fully amortizing Constant payment mortgage (CPM) loan.   (5marks)
ii) Constant amortizing mortgage (CAM) loan.   (5marks)
iii) Discuss the advantages and disadvantages of each of the above   loan repayment structures mentioned in (bi) and (bii) above.   (6marks)

Question FOUR

a) Describe due diligence and evaluate the key areas an investor should review when considering the acquisition of a real estate property.   (20marks)

Question FIVE

a) Justify the need for property management in the current real estate industry. (10marks)
b) An investor has an opportunity to invest in a rental property that will provide net cash returns of ksh.4 million per year for three years. The investor believes that annual return of 10 % should be earned on this investment.
   i)   How much should the investor pay for the rental property?   (4marks)
   ii)   Suppose the investor is able to get ksh.9million at the end of three years how much should the investor pay?   (3marks)
c) Distinguish between a reminder and a reversion.   (3marks)