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.

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a) A small commercial building has a contract rent of Ksh. 276, 500 annually and suffers vacancy/collection losses of 5%. Expenses include:

	KSH.
Real property taxes	22, 300
Utilities	8, 500
Roof reserve	15, 000
Insurance	11, 000
Maintenance	20, 000
Management	20, 000
Repainting and fixture reserve	5, 000

The subjects' rental rates vacancy and collection losses and operating expenses are within market norms for similar properties. The appraiser also finds that similar properties have overall rates ranging from 8.75% to 9.37%.Based on this market data the appraiser selects an indicated overall rate for the subject property of 9%. Using the Income Approach, compute the indicated market value of the property.

(14mark

b) Elaborate on the following types of Constant Payment Mortgage (CPM) loans in relation to accrued interest and payments.
   i)   Fully amortizing
   ii)   Partially amortizing
   iii) Interest only
   iv)   Negative amortizing   (8marks)

c. Briefly explain the following provisions of a mortgage

   i.   Charges and liens
   ii.   Subordination
   iii. Borrowers right to reinstate
   iv.   Hazard insurance   (8marks)

Question TWO

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 3 years. The investor believes that annual return of 10% should be earned on this investment. How much should the investor pay for the rental property?   (5marks)

An investor purchased a property with an equity investment of Ksh.100, 000 and a Ksh.800, 000 mortgage. She has held the property for five years, and the mortgage now has a balance of Ksh.750, 000. The market value of her property is estimated to be Ksh. 950,000. What is her present equity investment?

(4marks

b. Highlight any five principles of property valuation   (5 marks)
c. Describe the unique characteristics of real estate market.   (6marks)

Question THREE

a. Briefly explain the factors that influence the value of real estate property.   (8 marks)

b. When you purchased your house, you took out a 30 year annual payment mortgage with an interest rate of 6% per year. The annual payment on the mortgage is sh 120,000. You have just made a payment and have now decided to pay the mortgage off by repaying the outstanding balance. What is the payoff amount if:

   i.   You have lived in the house for 12 years (so there are 18 years left on the mortgage)?
                                                                                 (4 marks)

ii. You have lived in the house for 20 years (so there are 10 years left on the mortgage)?

(4 marks)

iii. You have lived in the house for 12 years (so there are18 years left on the mortgage) and you decide to pay off the mortgage immediately before the payment is due?

(4marks)

Question FOUR

a. Briefly explain the concept of "ownership of property" (8 marks)

b. Illustrate with relevant examples the two general classification of estate (8 marks)

c. Distinguish the following terms as used in real estate investment.

i. Reversion and remainder
ii. General warranty deed and quit claim deed. (4marks)

Question FIVE

Assume the annual interest rate on a ksh.500, 000 7-year balloon mortgage is 6 percent. Payments will be made monthly based on a 30-year amortization schedule.

a. What will be the monthly payment? (2marks)
b. What will be the balance of the loan at the end of year 7? (3marks)
c. What will be the balance of the loan at the end of year 3? (3marks)
d. Assume that interest rates have fallen to 4.5% at the end of year 3. If the remaining mortgage balance at the end of year 3 is refinanced at the 4.5 percent annual rate, what would be the new monthly payment assuming a 27-year amortization schedule?
(4marks)
e. What is the difference in the old 6 percent monthly payment and the new 4.5 percent payment?
(4marks)
f. What will be the remaining mortgage balance on the new 4.5 percent loan at the end of year 7 (four years after refinancing)? (4marks)