



---

# 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: AUGUST 2019**  
**TIME: 2 HOURS**  
**DATE: AUGUST,2019**

**Instructions to Candidates**

You should have the following for this examination

*-Answer Booklet, examination pass and student ID*

This paper consists of **FIVE** questions. Question One is Compulsory. Answer any other **TWO** questions.

**Do not write on the question paper**

---

**Question ONE**

a) Briefly explain the following terms as used in real estate finance.

- |                      |          |
|----------------------|----------|
| i) Freehold estate   | (2marks) |
| ii) Leasehold estate | (2marks) |
| iii) Remainder       | (2marks) |
| iv) Reversion        | (2marks) |
| v) Easement          | (2marks) |

b) An investor purchased a house by taking out a 30 -year annual payment mortgage with an interest rate of 6% per year. The annual payment on the mortgage is Ksh. 120, 000. You have just made a payment and have now decided to pay the mortgage off by repaying the outstanding balance.

Required:

What is the payoff amount if:

- |   |           |
|---|-----------|
| i. You have lived in the house for 12 years.  | (4 marks) |
| ii. You have lived in the house for 20 years.   | (4 marks) |
| iii. You have lived in the house for 12 years and you decide to pay off the mortgage immediately before the payment is due? | (4marks)  |
- c) Briefly discuss Five factors that influence the value in real estate. (8mark)

**(Total = 30 marks)**

## Question TWO

a) Briefly explain any five principles of real estate valuation. (10marks)

b) Highlight the reasons for real estate property appraisals. (10marks)

**(Total = 20 marks)**

## Question THREE

a) Describe any five provisions provided for in a mortgage instrument. (10mark)

b) Discuss the key characteristics of real estate market. (10marks)

**(Total = 20 marks)**

## Question FOUR

a. An investor borrowed Ksh. 2000,000 on 1<sup>st</sup>.January 2016. The rate of interest was fixed at 12% per annum. The loan is to be repaid semiannually over a period of four years.

Required; Prepare a loan amortization schedule over the four-year period. (15marks)

b) Briefly explain the concept of 'ownership of real property' (5marks)

**(Total = 20 marks)**

## Question FIVE

a) Describe the types of risks associated with mortgage loans. (10marks)

b) An investor makes an investment in real estate that will return 4,000,000 at the end of three years assuming the investor deserves an annual return of 15% interest on the amount invested.

Required:

Compute the amount the investor is supposed to pay today for the real estate investment.

(4marks)

d) ABC properties ltd. is a real estate investment company that has an opportunity to invest in a rental property that will provide net cash returns of ksh.600, 000 per year for three years. The company 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)

**(Total = 20 marks)**