



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. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

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

b) A small commercial building has a contract rent of Ksh. 276, 500 annually and suffers vacancy/collection losses of 5%. Expenses include: Real property taxes Ksh.22,300, Utilities Ksh.8,500, Roof reserve Ksh.15,000, Insurance Ksh.11,000, Maintenance Ksh.20,000, Management Ksh.20,000, Repainting and fixture reserve Ksh. 5,000.

The subjects' rental rates vacancy and collection losses and operating expenses are within market norms for similar properties. Based on the 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. (14marks)

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) 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)
- b) Discuss any 4 job opportunities that generally exist in the Real Estate Industry. (4marks)
- c) Justify the need for property management in the current real estate industry. (10marks)

Question THREE

- 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)
- b) Briefly explain any three methods of property valuation (9 marks)
- c) Discuss the factors to be considered when investing /acquiring income properties. (6marks)

Question FOUR

- a) Explain the following values as used in the process of valuation of real property.
 - i) Market value (2marks)
 - ii) Value in use (2marks)
 - iii) Insurable value (2marks)
 - i) Investment value (2marks)
- b) Discuss the factors that influence the value in Real estate. (12marks)

Question FIVE

- a) 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.
 - i)What will be the monthly payment? (2marks)
 - ii)What will be the balance of the loan at the end of year 7? (4marks)
 - iii)What will be the balance of the loan at the end of year 3? (4marks)
- b) Examine the benefits that investors enjoy from investment in REITS. (10marks)