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, 2024
TIME: 2 HOURS
DATE: DEC. 2024

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) Discuss the unique characteristics of real estate market. (8marks)

b) Explain the following terms as used in real estate finance.

- i) Foreclosure proceedings (2marks)
- ii) Nonrecourse clause (2marks)
- iii) Release of lien by lender (2marks)
- iv) Covenants of seisin and warranty (2marks)
- v) Provision for release of dower rights. (2marks)

c) 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)

Question TWO

a) Distinguish between the following types of warranty deeds.

i) General (2 marks)

ii) Sheriff"s deed (2marks)

iii) Quitclaim (2 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.

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. (10marks)

c) Highlight four reasons for real estate property appraisals. (4marks)

Question THREE

a) Discuss any four conditions that must be fulfilled by the mortgagor to have foreclosure proceedings discontinued at any time before a judgement is entered enforcing the mortgage. (8marks)

b) Describe the types of risks associated with mortgage loans. (12marks)

Question FOUR

a) An investor qualifies to obtain a mortgage loan of 5 million shillings which he needs to put up his house. The bank is willing to allow six years credit period and loan repayment to be due each year end. The current interest rate is 15%p.a.

Required:

i) Calculate the periodical repayment amount (2marks)

ii) Prepare a loan amortization schedule (10marks)

c) Briefly discuss Five factors that influence the value in real estate. (8mark)

Question FIVE

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

b) Examine the benefits that investors enjoy from investment in Real estate investment trusts. (10marks)