

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD DEGREE OF BACHELOR OF
COMMERCE**

BCOM 338: REAL ESTATE FINANCE

STREAMS: BCOM (ODEL)

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 21/07/2021

5.00 P.M. – 7.00 P.M.

INSTRUCTIONS:

- Answer question one and any other two

QUESTION ONE

- (a) Describe the various indicators that communicate the levels of supply and demand in the real estate market. (10 marks)
- (b) Real estate has various unique characteristics that make investors to be drawn to this form of investment unlike other investments. Discuss these characteristics. (10 marks)
- (c) The use of real estate has spillover effects and can distort the private land use decisions. The spillover effects provide a justification for limits on how private property owners can use their real estate. In view of this statement, explain the rules and regulations of investing in real estate. (10 marks)

QUESTION TWO

- (a) Using a diagram, clearly explain how the real estate market is cyclical in nature. (10 marks)
- (b) Describe 2 characteristics of mortgage backed securities. (2 marks)

(c) An investor is considering invest in a property B that has gross potential income of 120,000. The vacancy losses is 15% of gross potential income and is expected to have expenses of mortgage interest 6000, depreciation of sh 12000 and utilities of 8000 and repairs of 20000.

(i) Calculate the net operating income of the property. (3 marks)

(ii) The following market information exists for other similar properties.

| Property | Sales price | Net operation income |
|----------|-------------|----------------------|
| 1 | 500,000 | 30,000 |
| 2 | 455,000 | 20,000 |
| 3 | 122,000 | 44,000 |
| 4 | 305,000 | 45,000 |
| 5 | 280,000 | 35,000 |

Calculate the value of property B using income approach and with the market information above.

(5

marks)

QUESTION THREE

(a) An investor is considering the purchase of an office building and has part of his analysis to calculate Net Operating Income. The information on the building is as follows:

| | |
|--|-----------|
| Gross potential rental income | 4,000,000 |
| Estimated vacancy and collection loss rate | 10% |
| Insurance | 85,000 |
| Taxes | 125,000 |
| Utilities and maintenance | 150,000 |
| Depreciation | 50,000 |

Required;

Calculate the net operating income (4 marks)

(b) Describe the different types of mortgage that can be used to finance the purchase of real estate. (8 marks)

(c) Explain the need for the development of the secondary mortgage market and how it works. (8 marks)

QUESTION FOUR

(a) Suppose a mortgage for sh 250,000 is obtained for 20 years. The mortgage is a level payment fixed rate fully amortized mortgage. The mortgage rate is 15% per annum.

Calculate the amortization schedule for the first 6 years. (6 marks)

(b) Explain the following types of mortgage securities (6 marks)

Collateralized mortgage obligation

Mortgage Pass through securities

Mortgage pay through bonds

(c) Describe the different types of real estate market systems that exist in the world today.

(6 marks)

(d) Describe the advantages of using debt in financing of real estate. (2 marks)

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