

CHUKA



UNIVERSITY

## UNIVERSITY EXAMINATIONS

### SPECIAL/RESIT

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

#### BCOM 338: REAL ESTATE FINANCE

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: TUESDAY 11/8/2021

11.30 A.M. – 1.30 P.M.

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INSTRUCTIONS: Answer Question One and any other Two

#### Question One

- a) Using a diagram, clearly explain how the secondary mortgage market work and the need for development of this market (10 marks)
- b) Discuss reasons for investing in real estate as compared to other forms of investment (10 marks)
- c) A property has a projected year 1 Net Operating Income of sh 580000, the NOI is expected to grow by 10% per year for the following 4 years, then 4% per year for the subsequent 2 years and a constant rate of 5% afterward. Given a required rate of return of 15%.

Determine:

- i. The terminal cap rate
- ii. How much would the property sell for at the end of the 7<sup>th</sup> year
- iii. What is the present value of the property?
- iv. What is the current cap rate (10 marks)

#### Question Two

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- a) Describe the different forms of investing in real estate that an investor would consider (8 marks)
- b) Describe the different characteristics that affect the value of rent levels (4 marks)
- c) The following market information exists for other similar properties.

Property	Sales Price	Net Operating Income
1	405000	25000
2	355000	30000
3	225000	54000
4	176000	25000
5	350000	20000
6	525000	45000

Calculate the value of property using income approach (8 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	4,500,000
Estimated vacancy and collection loss rate	8%
Insurance	95,000
Taxes	75,000
Utilities and maintenance	8000
Depreciation	60,000
Repairs and maintenance	25,000

#### Required;

- Calculate the net operating income (4 marks)
- b) Describe the different types of mortgages that can be used for investing in real estate (10 marks)
- c) Explain the different types of rules and regulations the need for their development in the real estate market. (6 marks)

### Question Four

- a) Suppose a mortgage for sh 150,000 is obtained for 20 years. The mortgage is a fixed level payment fully amortised mortgage. The mortgage rate is 12 % per annum. Calculate the amortization schedule for the first 6 months (6 marks)
- b) Explain the different types of instruments found in the secondary mortgage market (8 marks)

c) Describe different types of tax involved in real estate

(6 marks)

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