CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE AND BACHELOR OF CO-OPERATIVE MANAGEMENT

BCOM 338: REAL ESTATE FINANCE

STREAMS: BCOP, BCOM   **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 07/07/2021   **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS:
- **Answer question one and any other two questions**

QUESTION ONE

(a) The local government of many countries have plans for various land uses. This regulation helps to control development of real properties in a particular area. Apart from this function describe 4 reasons for existence of this regulation.   (8 marks)

(b) As a result of the high cost of trading real estate, longer holding periods are common and speculative trading is rarer than for stocks. In view of this statement describe the various costs involved in trading of real estate.   (10 marks)

(c) The persistent mismatch of supply and demand for capital in financing purchase of real properties faced by financial institutions created the need for alternative means for freeing capital. Describe how financial institutions were able to close this gap. (8 marks)

(d) A property has a projected year 1, NOI of sh. 500,000, the NOI is expected to be the same for the next 2 years and grow by 5% for the subsequent 1 year and a constant rate of 6% afterward. Given a required rate of return of 12%.
Determine:
   (i) The terminal cap rate
   (ii) How much would the property sell for at the end of the 5th year.   (4 marks)

QUESTION TWO

(a) A real appraiser trying to determine the value of a small retail centre containing 4,500 square feet. There are three leasable spaces in the building, and at present two of the spaces are leased. You have determined the following information:

Market rent for this type of space is sh22.50 per square foot.

The owner has sh.3,000 per year in miscellaneous income.

The vacancy rate is 5% and collection loss is 1% of effective gross income

Operating expenses from the reconstructed operating statement are sh. 30,500.

The reserve for replacements is Sh.5,000

Determine the Net Operating Income (NOI) for the subject property. (6 marks)

(b) Explain how credit enhancement is created in mortgage backed security. (6 marks)

(c) Explain the different types of taxes that are imposed on real estate properties. (8 marks)

QUESTION THREE

(a) The demand for real estate changes overtime, there are times of no demand or excess demand. This causes certain implications on properties. Using a diagram describe this nature of real estate. (8 marks)

(b) Consider a 20 year, 1,500,000 level payment fully amortized loan with a fixed rate of 1.5% p.m. Calculate the annual payment and prepare an amortization schedule for the first 6 years. (8 marks)

(c) Distinguish office property and rental property based on various dimensions. (4 marks)

QUESTION FOUR

(a) Clearly explain how real estate can be used for purpose of gaining entrepreneurial profits.

(6 marks)

(b) The following information was collected from other real properties trading in the market. An investor wants to determine the value of a property whose income is sh. 32000.

Property	NOI	Sales Price
A	18,000	192,000
B	21,000	252,000
C	17,500	315,000
D	22,000	189,000

Required:

- Determine the value of the property under income approach. (4 marks)

(c) Explain the different types of securities issued to help raise finance in the secondary mortgage market. (10 marks)

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