

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN
FINANCE**

MSCF 816: REAL ESTATE FINANCE AND INVESTMENT

STREAMS:

TIME: 3 HOURS

DAY/DATE: THURSDAY 15/07/2021

2.30 P.M – 5.30 P.M

INSTRUCTION

Answer all questions

QUESTION ONE

- (a) Describe the different types of investment styles chosen by real estate investors and portfolio managers with the intent of realizing superior investment performance.

[10

marks]

- (b) A shift (originator) groups or packages together say 250 fixed rate loans of ksh 120,000 each all with the same maturity and contract rate of interest (assume 50 years at 8.25% monthly). It will next issue ksh 30 million in bonds to obtain the cash to finance the mortgages. The bonds may have a minimum denomination of ksh 30,000. The bond promises a 6.25% yield. Assume that the investor buys three bonds and that at the end of the first month the mortgagors will remit their payments. Determine the total amount to be received by the investor at the end of the first month. [8 marks]
- (c) Explain the various ways rights and interests exist in real estate. [6 marks]
- (d) An investor purchased a building for ksh 2,225,000 in January 2012, paying a down payment of 30% cash and financing the remainder with a 8 year mortgage at a rate of

12% per year. In the same year, the investor expects to receive effective gross income of ksh 905,000 from the building and it is expected to grow at 8% in the next 2 years, total operating expense for the year is ksh 120,000 which will increase annually by 1.5%. Depreciation is charged at 2.5% on reducing balance and the investor is in the 30% tax bracket.

Required:

Calculate the after tax cash flow of the building for 3 years. [8 marks]

- (e) Describe 4 characteristics of real estate that makes it unique as compared to other investment alternatives. [8 marks]

QUESTION TWO

- (a) Discuss the different types of regulated investment plans that enables people to collectively raise funds through the acquisition of interests in a union with the intention of earning income from real estate. [6 marks]
- (b) Consider a 15 year 2,205,000 level payment fully amortized with a fixed rate of 1.125% per month. Calculate the annual payment and prepare an amortization schedule for the first 5 years. [7 marks]
- (c) Royal Bamboo apartments has a projected year 1, Net operating income of 65,352, the NOI is expected to grow by 8% for the next 2 years and grow by 10.5% for the subsequent 2 years and at a constant rate of 6% afterward. Given a required rate of return of 14%.

Determine :

- (i) The terminal cap rate [1 mark]
- (ii) How much would the property sell for at the end of the 5th year. [3 marks]
- (iii) What is the property worth today. [2 marks]
- (iv) What is the current capitalization rate. [1 mark]

QUESTION THREE

(a) Investors have a wide variety of real properties to choose from, they evaluate the properties based on various risk and return characteristics and hence are able to make a decision on which property will meet their investment objective. Clearly explain how different properties are evaluated. [8 marks]

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

Property	Sales price	Net operating income
1	850,000	80,000
2	720,000	70,000
3	925,000	84,000
4	900,000	65,000
5	888,000	75,000

Calculate the value of property using income approach. [6 marks]

(c) Explain some of the factors that would affect a property’s net operating income. [6 marks]

QUESTION FOUR

(a) Kagendo has estimated the annual after tax proceeds from sale of a proposed real estate investment as shown below.

Property	Cash flow	Reversion cash flow
----------	-----------	---------------------

1	74,000	
2	66,000	
3	64,000	
4	70,000	
5	58,000	
5		2,225,000

The initial required investment in the property is ksh 1,750,000, the required rate of return of the investor is 15%.

- (i) Calculate the value of the property [3 marks]
- (ii) Calculate the net present value of the property. [1 mark]
- (iii) Calculate the approximate yield from the investment and give recommendations.

[2 marks]

(b) Discuss how control is exercised in the ownership of real estate investment.

[6

marks]

- (c) Financial institutions that are not in a position to raise funds for issuance of loans, package mortgages and sell to agencies in the market which facilitates freeing up of capital. Describe the different types of securities that can be created from the packaged mortgages. [8 marks]
