

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

THARAKA CAMPUS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
OF COMMERCE

BCOM 338: REAL ESTATE FINANCE

STREAMS: BCOM Y3S2

TIME: 2 HOURS

DAY/DATE: FRIDAY 8/08/2019

1.30 A.M - 1.30 P.M.

INSTRUCTIONS

- Answer Question **ONE (COMPULSORY)** and any other **TWO** questions.
- Do not write anything on the Question Paper

QUESTION ONE

- (a) Discuss the characteristics of mortgage backed securities. [3 Marks]
- (b) An investor is considering to purchase a rental building and wants to determine its cost and net operating income. She had gathered information that replacing a similar building would cost Kshs.8,000,000, the value of the space on which the building is built costs Kshs.4,000,000, the gross rental income amounts to Kshs.3,000,000, the estimated vacancy costs are 4%, insurance would cost Kshs.200,000, mortgage payment is Kshs.30,000, utilities and maintenance would account for Kshs.150,000 and depreciation would amount to Kshs.70,000.

Required:

- (i) Calculate the net operating income. [6 Marks]
- (ii) Calculate the value of the building. [6 Marks]
- (c) Explain four reasons why an investor should consider investing in real estate. [8 Marks]
- (d) Financial institutions play a key intermediation role in real estate financing. Discuss the functions performed by financial institutions in financing real estate in Kenya. [7 Marks]

QUESTION TWO

Despite the fact that most of the Kenyan population live in semi permanent and temporary structures, it is still difficult for low and middle income earners to access the mortgage facility in the real estate market.

Required:

- (i) Discuss the factors that have led to this exclusion. [10 Marks]
- (ii) Explain types of risks that affect mortgage loan. [10 Marks]

QUESTION THREE

- (a) An investor in real estate has several alternatives to consider that would lead to maximized returns. State and explain these different alternatives. [8 Marks]
- (b) Patel real estate enterprise want to determine the prevailing vacancy rate in the market. The information gathered shows that 120M units are currently unoccupied but out of those units 20M have been declared risky and unfit for occupancy but are available in the market. The total stock of space has been estimated as 500M units.

Required:

- (i) Determine the vacancy rate. [4 Marks]
- (ii) If the natural vacancy rate is 30%. Comment about the market. [2 Marks]
- (c) Describe the various types of mortgage instruments. [6 Marks]

QUESTION FOUR

(a) A property has NOI of Kshs.26,000 and the following information is the market concerning similar properties

	Sales price '000'	NOI (Net Operating Income)
1	670	70
2	730	75
2	625	65
3	705	77
4	780	80

Required:

- (i) Value f the property. [6 Marks]
 - (b) Explain the different types of real estate market systems. [6 Marks]
 - (c) Describe the different types of taxes involved in real estate. [4 Marks]
 - (d) Explain the economic characteristics of real estate. [4 Marks]
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