CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS
ODEL

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 338: REAL ESTATE FINANCE

STREAMS: **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 4/12/2019   **2.30 P.M – 4.30 P.M**

INSTRUCTIONS
Answer question one and any other two questions

QUESTION ONE

(a) One of the projects all investor can channel funds into is real estate as it is tangible and there is sure returns. As an investor explain 5 various ways to invest in real estate.

[10 marks]

(b) Find the value of a property whose net operating income (NOI) is ksh 30,000 and has the following market information for other similar properties.

	Sales price	NOI
1	850,000	65,000
2	750,000	100,000
3	625,000	87,000
4	550,000	90,000

Required :

(i)   The market capitalization rate.   [3 marks]

(ii)   Calculate the value of the property.   [3 marks]

(c) In real estate there are various forms of financing that exist. Describe the various types or sources of financing that exist.   [8 marks]

(d) Explain how the secondary mortgage market works.   [6 marks]

QUESTION TWO

(a) Describe the different types of tax that are charged on real estate properties. [8 marks]

(b) Suva realtors has the following information from one of their properties.

Gross potential rental income	3,000,000
Vacancy losses	10%
Insurance	55,000
Utilities and maintenance	70,000
Parking space	5,000
Repairs	20,000

Required: Calculate

The Net Operating Income from the property.   [2 marks]

(c) Clearly discuss the different characteristics of real estate that makes it a preferred investment.   [10 marks]

QUESTION THREE

(a) Suppose a mortgage of ksh 150,000 is obtained for 10 years. The mortgage is a level, fixed rate full amortized. The rate is 10.5% per annum. Calculate the amortization schedule for the first 5 years.   [5 marks]

(b) In a real estate market, there exists various indicators of demand and supply. Describe these indicators.   [10 marks]

(c) Determine the reasons for establishment of a secondary mortgage market. [4 marks]

QUESTION FOUR

(a) Using a diagram, discuss how the real estate cycle works and the industry is cyclical in nature.   [10 marks]

(b) Differentiate real estate investment trusts and real estate limited partnerships.

         [5 marks]

(c) An owner of office property expects to receive cash flows as follows; 180,000, 220,000, 252,000, 128,000 and 280,000. Determine the present value of the office property at a discount rate of 15% if the property costs skh 2,000,000 now. Advise the investor on whether or not to invest.   [5 marks]