

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 336/338: REAL ESTATE FINANCE

STREAMS:

TIME: 2 HOURS

DAY/DATE: THURSDAY 26/07/2018

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS:

- Answer question one and any other two.

QUESTION ONE

- (b) An investor is considering the purchases 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	2,500,000
Estimated vacancy and collection loss rate	5%
Insurance	100000
Taxes	80000
Utilities and maintenance	220000
Depreciation	50000

Calculate the net operating income. (5 marks)

Give 5 characteristics of real estate investment. (10 marks)

You are considering to invest in a real property that has a net operating income of Sh 120,000 for 2 years at the end of the second year the Net operating income is expected to grow by 5% indefinitely. The investor intends to sell the property after four years at market value. The risk free is 4% and the risk premium is 6%

Determine the terminal cap rate
How much would the property sell for after four years
What is the property worth today
What is the current capitalization rate (15 marks)

QUESTION TWO

Describe the real estate supply and demand variables indicators. (8 marks)

Describe 2 different types of rent. (4 marks)

Real estate investment gives the owner some form of control over the investment. Discuss. (4 marks)

Explain the determinants of value and risk affecting office building as a form of real property. (4 marks)

QUESTION THREE

Suppose a mortgage for Sh. 120,000 is obtained for 15 years. The mortgage is a level payment fixed rate fully amortised mortgage. The mortgage rate is 10.5% per annum. Calculate the amortization schedule for the first 6 months. (6 marks)

An investor in real estate has several alternatives to consider that would lead to maximized returns. State and explain the different alternatives of investing in real estate. (8 marks)

Describe 3 types of mortgage backed securities. (6 marks)

QUESTION FOUR

Describe the different types of mortgages that can be used for investing in real estate. (8 marks)

Explain the need for the development of secondary mortgage market. (4 marks)

Describe how the secondary mortgage market works. (8 marks)