

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 338: REAL ESTATE FINANCE

STREAMS:BCOM,BCOP

TIME: 2 HOURS

DAY/DATE: TUESDAY 17/04/2018

11.30 A.M – 1.30 P.M

INSTRUCTION:

- **Answer question one and any two question**

1. (a) Describe real estate finance. [2marks]
(b) Highlight the characteristics affecting the value of rent. [3marks]
(c) Abedgeno has obtained a mortgage loan from a financial institution that has the following information. The loan principal amount is ksh 3,099,200 and in the first month Abednego paid interest of ksh 38,740. The interest is paid on a monthly basis.

Required :

Prepared a loan amortization schedule for the first 5 months. [10marks]

(d) A real estate property has the following information. The property is worth ksh 2,000,000 and 75% of the property was financed by a mortgage at a yearly rate of 12%. The mortgage is a constant payment mortgage with an annual payment of ksh 416,088 per year. The net operating income from the property in year is ksh 800,000.

The Net Operating Income growth rate is 5% per year. Depreciation is on straight line method and the amount is ksh 20,000.

The terminal value of the property is ksh 3,000,000.

The required rate of return is 14%

The tax rate is 30%

Required :

- (i) Calculate the cash flows of the property. [10marks]
 - (ii) Calculate the net present value of property . [5marks]
- 2.
- (a) Describe the reason why lending institutions provides loans that are lower than the value of property. [3marks]
 - (b) Explain some of the features of real estate as an investable class. [8marks]
 - (c) Differentiate a mortgage pass through security with a mortgage backed bond. [3marks]
 - (d) Explain the different types of real estate markets. [6marks]
- 3.
- (a) Describe the features of mortgage backed securities. [6marks]
 - (b) The real estate market is cyclical in nature , with the aid of a diagram describe what this means. [6marks]
 - (c) Describe the different ways of investing in real estate. [8marks]
- 4.
- (a) Explain the different types of taxes on real estate property. [6marks]
 - (b) Describe the different types of financing for the purchase of real estate. [8marks]
 - (c) Discuss the real estate demand and supply indicators. [6marks]
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