

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF COMMERCE**

BCOM 338: REAL ESTATE FINANCE AND INVESTMENT

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: THURSDAY 09/08/2018

11.30 AM – 1.30 PM

INSTRUCTIONS:

Attempt Question One and any other Two Questions

Question One

- (a) Real estate is a class of alternative investments which comprise groups of investments with risk and return characteristics that differ markedly from those of equity and bond investments. Briefly explain any four characteristics of real estate that distinguish it from equity and bond investments. [6 marks]
- (b) Differentiate the meaning of the following terms as frequently used in real estate finance.
- (i) A fee simple estate and a life estate [2 marks]
 - (ii) Investment – REIT and Development REIT [2 marks]
 - (iii) Freehold Tenure and Lease Hold Tenure [2 marks]
 - (iv) Estate from Year to Year and Estate for Years [2 marks]
- (c) Using a well labeled diagram, describe the real estate market cycle . [6 marks]
- (d) An apartment building produces an annual net income of shs. 500,000. Three highly, singular and competitive apartment buildings within two blocks of the subject property offering essentially the same services and improvements as the subject have sold in the past month. Sales and net operating income are as follows:

Comparable Sales	Selling price 'shs'	Net operating income 'shs'
1	1,260,000	120,000
2	1,500,000	140,000
3	1,580,000	150,000

Required:

Estimate the value of the subject property. [6 marks]

(e) Mortgages are governed by either lien theory or title theory. Explain. [4 marks]

Question Two

- (a) Using examples, distinguish functional depreciation/deterioration and physical depreciation as applied in concept of real estate valuation. [4 marks]
- (b) Describe the following investments strategies that investors may adopt in real estate industry
- (i) Arbitrage investing [2 marks]
- (ii) Turnaround strategy. [2 marks]
- (c) A mortgage loan in the amount of sh. 100,000 is made at 12 percent interest for 20 years. Payments are to be monthly in each part of this problem.

Required:

The amortization schedule for the first 2 months and monthly payments to be made if:

- (i) It is a partially amortizing loan and a balloon payment of sh. 50,000 is scheduled at the end of year 20. [4 marks]
- (ii) It is a non-amortizing or "interest only," loan. [2 marks]
- (iii) It is negative amortizing loan and the loan balance will be sh. 150,000 at the end of year 20. [4 marks]

Question Three

- (a) A building has the following features:
- | | |
|------------------|-------------------------|
| Building size | 50,000 square feet |
| Replacement cost | sh. 750 per square foot |
| Actual age | 10 years |

Effective age	12 years
Total economic life	20 years
Economic obsolescence	sh 4 million
Land market value	sh. 9 million

Required:

- Estimate the property value [5 marks]
- (b) Describe any three main categories of taxes applicable for property. [6 marks]
- (c) Briefly explain any four factors that influence the supply of space market as considered by investors and appraisers when undertaking a market analysis. [4 marks]
- (d) Briefly explain any two main forms of limitations that may exist in respect of property rights. [4 marks]

Question Four

- (a) Leaders and investors are concerned about various risks undertaken when making loans and investments. Briefly describe any four risks affecting mortgage loans. [6 marks]
- (b) A realtor is considering investing in a real estate property which yields a net operating income of sh. 250 million in the first, second and third years. Starting in year 4 and thereafter, the net operating income is expected to grow at a 5% real rate per year. The realtor plans on holding the property for exactly 5 years the realtor will sell the property at the market value. The market required rate of return is 11%.

Required:

- (i) How much would the property sell for at the end of year 5? [4 marks]
- (ii) The current value of the property. [6 marks]
- (c) Describe the concept of property zoning and highlight the objectives it is meant to achieve. [4 marks]
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