

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 338: REAL ESTATE FINANCE

STREAMS: ODEL

TIME: 2 HOURS

DAY/DATE: THURSDAY 13/04/2023

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS

- Answer question one and any other two questions

QUESTION ONE

- a) Difference between traditional debt securities and mortgage relate securities (4 marks)
- b) A firm's Net Operating Income (NOI) is Ksh.25,000 and has the following market information for other similar properties.

	Sales price	NOI
1	825,000	70,000
2	800,000	80,000
3	625,000	65,000
4	705,000	76,000

Required: Calculate.

- i. The market capitalization rate (4 marks)
- ii. The value of the property (3 marks)
- c) Explain four different types of taxes involved in real estate (8 marks)
- d) State three characteristics of mortgage backed securities (3 marks)
- e) Describe four types of mortgage (8 marks)

QUESTION TWO

- 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) An investor is considering to purchase a rental building containing 4,500 square feet. Market rent for this type of space is 22.00 per square foot. Miscellaneous income of sh.3,000. Vacancy rate 4% and collection loss rate is 1.5%. operating expenses from the reconstruction operating statement are sh.30,500 and the reserve for replacement is sh.5,000.

Required:

- i. Determine the Net Operating Income (NOI) (6 marks)
- ii. Value of the building (6 marks)

QUESTION THREE

- a) Jackson real estate enterprise want to determine the prevailing vacancy rate in the market. The information gathered show that 100M units are currently unoccupied but out of those units 20M have been declared risky and until for occupancy but are available in the market. The total stock of space is estimated as 500M units.

Required:

- i. Determine the vacancy rate (5 marks)
- ii. If the natural vacancy rate is 30%. Comment about the market (3 marks)
- b) Explain the economic characteristics of real estate (4 marks)
- c) Explain the importance of investing in real estate (8 marks)

QUESTION FOUR

- a) Explain the three major components of real estate (6 marks)
- b) Discuss the real estate demand indicators (6 marks)
- c) Suppose a mortgage of Ksh 500, 000 is obtained for 20 years. The mortgage is a level fixed rate full amortized with a rate of 12% per month.

Required:

- i. Calculate the monthly payment (3 marks)
 - ii. Prepare an amortization schedule for the first 5 months (5 marks)
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