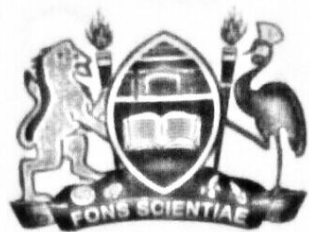


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UNIVERSITY

UNIVERSITY EXAMINATIONS

**THIRD YEAR EXAMINATION FOR THE AWARD OF THE
DEGREE OF BACHELOR OF COMMERCE/BUSINESS AND
ADMINISTRATION**

**SECOND SEMESTER 2016/2017
(JANUARY - APRIL, 2017)**

BCOM 336: REAL ESTATE FINANCE

STREAM: Y3S2

TIME: 2 HOURS

DAY: MONDAY, 9:00-11:00 AM

DATE: 15/05/2017

INSTRUCTIONS

- 1. Do not write anything on this question Paper.**
- 2. Answer question ONE (compulsory) and any other THREE questions.**

QUESTION ONE

- (a) In relation to legal consideration in real estate explain the following terms:
- | | |
|-----------------------|-----------|
| (i) Freehold estate | [2 marks] |
| (ii) Leasehold estate | [2 marks] |
| (iii) Real estate | [2 marks] |
- (b) You have been hired by Frank Knight properties and posted in risk department. The company wishes to purchase real property (land) to construct residential houses. You have been asked to undertake due diligence on the land. Explain ten check list that you will address in the report.
- [20marks]

QUESTION TWO

A lender is considering what terms to allow on a loan. Current market terms are 9 per cent interest for 25 years and the borrower. John, has requested a loan of sh. 1,000,000. The lender believes that extra credit analysis and careful loan control will have to be exercised because John has never borrowed such a large sum before. In addition, the lender expects that market rates will move upwards very soon, perhaps even before the loan is closed. To be on the safe side, the lender decides to extend to John a constant payment mortgage loan commitment of sh. 950,000 at 9 per cent interest for 25 years, however the lender wants to charge a loan origination fee to make the mortgage loan yield 10 per cent.

- (i) What origination fee should the lender charge? [5marks]
- (ii) What fee should be charged if it is expected the loan will be repaid after 10 years. [5 marks]
- (b) Foreclosure is an expensive exercise to both mortgage and mortgagor. In most cases of default the parties resort to "work out". Explain **five** "work out" alternatives. [5 marks]

QUESTION THREE

- (a) A borrower obtains a fully amortized constant payment mortgage loan for 125,000,000 at 11 per cent interest for 20 years
 - (i) What will be the monthly payment on loan? [3 marks]
 - (ii) What would the initial five payments be with a constant amortization mortgage loan? [5 marks]
- (b) Explain the underwriting process in real estate finance. [7 marks]

QUESTION FOUR

- (a) John Wanyama can deposit sh. 5000 at the end of each six month period for the next 12 years and earn interest at an annual rate of 8.5% compounded semi annually.
- (i) What will the value of Investment be after 12 years. [2 marks]
- (ii) If deposits were made at the beginning of each period, what would be the value of investment after 12 years? [2 marks]
- (b) Securities X and Y have the following characteristics.:

Security X		Security Y	
Return	Probability	Return	Probability
30%	0.10	-20%	0.05
20%	0.20	10%	0.25
10%	0.40	20%	0.30
5%	0.20	30%	0.30
-10%	0.1	40%	0.10

- (i) Calculate the expected return and standard deviation of return for each security. [5 marks]
- (ii) Calculate the expected return and standard deviation of the return for portfolio of X and Y, combined with equal weights [6 marks]

QUESTION FIVE

Explain the three approaches the appraisers use when estimating value of real property. [15 marks]