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**University Examinations 2014/2015**

FOURTH YEAR, SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBC 2246: REAL ESTATE FINANCE**

**DATE: DECEMBER 2014 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE**

1. A borrower is able to repay a proposed mortgage at kshs. 1,500,000 per annum for three years. The rate of interest is 10%. How much should a financial institution be willing to lead to the borrower (5 marks)
2. Define the term real estate (2 marks)
3. Define and briefly explain the main types of REITS (3 marks)
4. Siraya ltd is a company incorporated in Kenya, dealing with real estate finance. The company issued a kshs. 1B per value, 16%, 20 years bond five years ago. The bond was issued at 1% discount and issuing costs were kshs. 10 million with a drop in the market rates, a refinancing is being contemplated. A new kshs. 1B per valve, 10%, 15 years bond can be issued by the skhs. 5m each. The old bond can be issued by the firm. Issued cost and discount on issue are both expected to be kshs. 5m each. The oold bond can be redeemed at 10% premium; the computation tax rate is 30% and the after tax cost of debt is 5%.

Advice the firm whether it should refinance its bond (12 marks)

1. Differentiate between housing bonds and mortgage (4 marks)
2. List four rights of a mortgage (4 marks)

**QUESTION TWO**

1. A bank issues a kshs. 10,000,000 mortgage with a 20 years tenure. The initial rate of interest 10% per annum and it is subject to a 0.2% annual adjustment. A repayment is on a monthly basis. What are the monthly payments of the 2nd, 4th, 6th , and 8th years.

 (10 marks)

1. Define hire primary mortgage market makers in the real estate industry (10 marks)

**QUESTION THREE**

1. Explain the main types of investments available in the real estate industry (5 marks)
2. What is a mortgage secondary market (2 marks)
3. Explain five roles of a mortgage secondary market (5 marks)
4. Despite the low penetration in the mortgage market, it is still difficult for the low and middle income carries to access mortgage financing. Explain this paradox (3 marks)
5. An office block has a gross income of kshs. 20,000,000 p.a. The cost of this block is five time the gross income. Estimate valve of this property (5 marks)

**QUESTION FOUR**

Write explanatory marks of the following as used in real estate finance; (20 marks)

1. Senior mortgages
2. Foreclosure
3. Housing bubble
4. Leveraged buy out
5. Subprime mortgage
6. Housing starts
7. Net lease
8. Financial leverage
9. Real estate syndication
10. Mortgage securitization

**QUESTION FIVE**

1. Explain the main principles of property. (12 marks)
2. Discuss some of the factors taken into account when making a build/purchase decision in real estate (8 marks)