**KENYATTA UNIVERSITY**

**REAL ESTATE FINANCE**

**ASSIGNMENT**

**QUESTION ONE**

A factory cost Ksh 2,000,000 now. The expected gross potential income is Kshs 400,000 during the first year while vacancy and collection losses equals 10% of gross potential income. The operating expenses is 25% of effective gross income while capital expenditure equal 15% of expected gross income. Suppose an investor arranged for Kshs 1,500,000 mortgage loan which is 75% loan to value ration with an annual interest rate of 8%. The loan will be amortized over 30 years with a monthly payment of Kshs.11,250. The total upfront financing costs will equal 3.1% of the loan.  
**Required:**(i) What is the estimated net operating income. [5marks]  
(ii) What is the first year after tax cash flows. [3marks]  
(iii)Calculate the capitalization rate. [3marks]  
(iv) Equity dividend rate [2marks]  
(v) Gross income multiplier [2 marks]

**QUESTION TWO**

* + 1. Discuss the contemporary issues affecting real estate financing in Kenya. (10 Marks)

1. The Kenyan economy has experienced rapid growth of investment in real estate. This is despite the high interest rates on mortgage loans in the economy. Citing relevant examples from the Kenyan economy, suggest some of the reasons for the increased investiment in real estate and the solutions for the increased interest rates on morgages. (5 marks)