UNIVERSITY OF EMBU

2017/2018 ACADEMIC YEAR

SECOND SEMESTER EXAMINATIONS

THIRD YEAR EXAMINATION FOR THE DEGREES OF BACHELOR OF COMMERCE

DFI 403: REAL ESTATE FINANCING

DATE: APRIL 4, 2018   TIME: 8:30 AM – 10:30 AM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

a) Discuss the various forms of Real Estate   (6 marks)

b) Discuss three characteristics of Real Estate.   (6 marks)

c) Real Estate as an "investable class" is dubbed unique compared to other investment alternatives. Evaluate this statement in relation to non-economic and non-physical characteristics of Real Estate.   (6 marks)

d) Outline three major physical characteristics of land.   (6 marks)

e) What is the future value of shs . 50,000,000 million deposited for 4 years at an interest rate of 10%, if compounded:

    i)   Semi-annually   (2 marks)

    ii)   Quarterly   (2 marks)

    iii)   Monthly   (2 marks)

QUESTION TWO (20 MARKS)

a) Discuss various types of Mortgages. (6 marks)

b) A business tycoon is considering investing in a real estate property which yields a net operating income (NoI) of Kshs. 150,000 for 3 years (in year 1, 2 & 3). Starting in the 4th year, the NoI is expected to grow at 8% per year. After year 6, the NoI is still expected to grow at 8%. The Investor intends to sell the property after the 5th Year at Market Value. The market required rate of return is 12%.

    i)   Determine the terminal cap rate (cap rate associated with year 6). (4 marks)

    ii)   Calculate the value of the property (after) at the end of year 5. (4 marks)

    iii)   Determine the worth of the property today (3 marks)

    iv)   Determine the current cap rate? (3 marks)

QUESTION THREE (20 MARKS)

a) Advice a potential investor why he should prefer investing in Real Estate compared to other investments. (10 marks)

b) The following information was presented to candidate during an examination.

	NoI	Sales Price
A	16,250	182,500
B	15,400	167,600
C	19,200	198,430
D	17,930	189,750

Assuming the Properties Income is 18,480, calculate

    i)   Market Capitalisation Rate

    ii)   Market Value (v) of the property. (10 marks)

QUESTION FOUR (20 MARKS)

a) Discuss three valuation approaches for Real Estate. (6 marks)

b) A tenant of a small flat has agreed to purchase it in 5 years' time when a deposit of $ 25,000 will be required. How much should be invested each year if the rate of interest of

5.25% from a 5 year fixed Interest bond underwritten by the government.

(6 marks)

c) An investor pays Kshs. 20,000 per month into a real estate investment that promises to pay an annual rate of interest at 8% compounded monthly. If the Investor makes consecutive monthly payments for 5 years. What is the future value at the end of 5 years?

(8 marks)

QUESTION FIVE (20 MARKS)

a) Discuss the various Mortgage Backed Securities. (12 marks)

b) Discuss the various taxes under Real Estate property. (8 marks)