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**University Examinations 2015/2016**

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

BACHELOR OF COMMERCE

**BFC 3484: REAL ESTATE FINANCE**

**DATE: APRIL 2016 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Discuss five ways of mitigating housing problems in Kenya (5 marks)
2. Despite the fact that most of the Kenyan population lives in temporary structures, it is still difficult for the low and middle income earners to access the mortgage facility in the real estate market.

Required:

Describe five factors that could have led to this exclusion (5 marks)

1. Explain the maxim of *Quic Quid plantatur Solo solo oedit* as used in the law of property (3 marks)
2. Marimenti Investments LTD is a company incorporated in Kenya dealing with development of real estate. The company issued shs.100 million par value, 16% 20 year bond five years ago. The bond was issued at 2% discount and issuing cists amounted to Shs. 2 million.

The interest rates in the market have declined and refinancing possibility is being considered. A new shs.100 million par value, 12 %, fifteen year bond can be issued by the company. Issue costs and discount on issue will be 5% and 3% of the par value respectively. The discount is meant to attract investors.

The old bond can be redeemed at 10% premium and in addition, 2 months interest penalty will have to be paid on redemption The corporation tax rate is 40% and the after tax cost of debt is 7%.

**Required:**

Advice the company whether it is worthwhile to refinance the old bond. (17 marks)

**QUESTION TWO (20 MARKS)**

1. Explain the main principles of property valuation (5 marks)
2. Differentiate between a buy-down mortgage and a junior mortgage (4 marks)
3. Explain four rights of a mortgagee (4 marks)
4. Discuss the main methods applied in property valuation (4 marks)
5. Net lease and net-net- net lease (3 marks)

**QUESTION THREE (20 MARKS)**

Write explanatory notes on the following as used in real estate financing

1. Foreclosure
2. Mortgage securitization
3. Real estate Syndication
4. Leveraged lease
5. Financial leverage
6. Mortage backed bonds (MBBs) (20 marks)

**QUESTION FOUR (20 MARKS)**

1. Explain five job opportunities available in the real estate industry (5 marks)
2. Define and briefly explain the main types of real estate investment trusts (REITS) (5 marks)
3. An investor has shs 700,000 and wants to invest at 8.5% interest rate wit 30 year maturity period and a monthly payment. It is further agreed that the rate is subject to adjustment at the end of each year. The adjustment rate is 0.25% per annum.

**Required:**

What are the monthly payments for first, second and third month? (10 marks)

**QUESTION FIVE (20 MARKS)**

1. Describe five primary mortgage market makers in the real estate industry (10 marks)
2. A borrower is able to repay a proposed mortgage of Shs.100, 000 per annum for three years. The rate of interest is 10%.

**Required:**

How much will you be willing to loan to the borrower (5 marks)

1. An apartment block has gross income of shs. 120,000. The cost of this block is five times the gross income.

**Required:**

Estimate the value of this property. (5 marks)