

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** [**info@must.ac.ke**](mailto:info@must.ac.ke)

**University Examinations 2015/2016**

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

**BFC 3481: REAL ESTATE FINANCE**

**DATE: AUGUST 2016 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Kenya housing market has over supply of low cost buildings and scarcity of high cost buildings. Discuss why or why not this statement is true. (15 marks)
2. Accessibility and not availability of finance to fund acquisition/ development of real estate is the challenge many would be purchasers face. Discuss this statement clearly enumerating factors that influence the accessibility of mortgage finance. (15 marks)

**QUESTION TWO (20 MARKS)**

1. Describe various approaches to valuation of real estate. (15 marks)
2. Joram owns an arable land suitable for production of wheat, oats, barley and other forages. Sasini Ltd proposes to lease the land form him for 10 years at an annual lease charge of sh. 32,000 payable at the end of each year. However, Joram prefers to receive a lumpsum currently of sh. 200,000. Given the discounts rate is 10%, which offer is preferable. (5 marks)

**QUESTION THREE (20 MARKS)**

1. How is the real estate market different from other markets? (12 marks)
2. Describe various players in the real estate market. (8 marks)

**QUESTION FOUR (20 MARKS)**

An investor qualifies to obtain a mortgage loan of 3 million shillings which he needs to put up his own house. The bank is willing to allow six years credit period and loan repayment to be due each year end. The current interest rate is 14% p.a.

**Required:**

1. Calculate the periodical repayment amount. (5 marks)
2. Prepare a loan amortization schedule. (15 marks)

**QUESTION FIVE (20 MARKS)**

1. An investor has a property for lease at an annual rate of sh. 100,000 for the next 6 years. At the end of useful life, the property can sell at sh. 1,000,000. Assuming the investor cost of finance is 10% , what is the current value of the expected cash flows. (10 marks)
2. Describe various risks inherent in real estate. How can each be managed by a real estate investor? (10 marks)