THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

MAY – JULY 2016 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CFI 424: REAL ESTATE FINANCE

Date: JULY 2016	**Duration: 2 Hours**
INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions	

Q1. a) Mrs. Msupa is contemplating the purchase of a building at Upper Hill Nairobi to be used as offices for her Msupra Cosmetics Ltd Company at a cost of 10 million from Llloyd Real Estate Development Company. The developer has provided a sample sales agreement after reading through the document she sought clarification from you on the legal implication of the following terms

i Freehold estate **(2 marks)**
ii Fore closure **(2 marks)**
iii Reversion **(2 marks)**
iv Remainder **(2 marks)**
v Easement **(2 marks)**

b) Mr. Juma a real estate investor inends to buy an apartment for $ 300,000 in Runda. He wants to accumulate this through deposits and interests put in 6 years fund. Assume he will earn 10% interest per year on those deposits. How much should each annual payment be? **(4 marks)**

c) Assume you take out a 30 year fixed rate mortgage of $200,000 and an annual interest rate of 6.75%. Payments will be made monthly find

i The monthly interest payment of the loan. **(2 marks)**
ii The principal payment in the first payment **(2 marks)**
iii Prepare a loan amortization schedule for the first 6 months. **(6 marks)**

d) Describe a lease and sale lease back financing of income generating properties. **(6 marks)**

Q2. a) Explain FIVE investments risk characteristics peculiar to real estate that make it riskier than investing in government securities. **(10 marks)**

b) A developer plans to start constructions of a building in one year if at that point rent level make construction feasible. The building will cost $800,000 to construct. During the first year after costruction there is a 50% chance that net operating income will be $130,000 and 50% chance that net operating income will be $70,000. In either case NO 1 is expected to increase at 2% per year after the first year. How much should the developer be willing to pay for the land if she wants a 12% return. **(5 marks)**

c) Mr. Mutua bought a $100,000 property and made a mortgage loan for 5 years ago of $80,000 at 10% interest for term of 25 years. Due to price appreciation the market value of property has risen over the past five years to $ 115,000 Determine the amount of cash equity required by the buyer to assume sellers loan. **(5 marks)**

Q3. Explain the meaning of the following terms as used in real estate secondary markets

a) Mortgage backed bond **(4 marks)**
b) Mortgage pass through securities **(4 marks)**
c) Mortgage pay through bonds **(4 marks)**
d) Collaterised mortgage obligations **(4 marks)**
e) Real estate investment trust **(4 marks)**

Q4. a) Differentiate between shared equity mortgage and shared appreciation mortgage. **(6 marks)**

b) ABC Bank has title to 3,000 square foot three bedroom situated on one quarter acre of land. The bank acquired the property at a ration for the loan balance owed by a previous owner and has added this property to its real estate ownership list. He has indicated that the asking price for the property is $ 200,000. GMI investors is considering purchase of this property an estimate of costs associated with the acquisition and expenses of owning the property for period of one year is as follows

Phase A: Acquisition fees, legal and inspection fee $10,500
Phase B: Renovation costs $39,200
Phase C: Sale phase and broker commission $ 6,000

Assume that GMI investors acquires the property for $ 200,000 how much must the property sell for in order for ABC to acquire a 20% return on the investment during this one year period? **(6 marks)**

c) Explain the meaning of income capitalization technique as used in real estate valuation. **(3 marks)**

d) Despite the fact that most of Kenyan population live in temporary structures. It is still difficult for low and middle income earners to access the mortgage facilities real estate market. State FIVE factors that could have led to this exclusion. **(5 marks)**

END