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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR FOUR**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 411**

**COURSE TITLE: REAL ESTATE FINANCE**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 01/04/2021 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of THREE (3) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Discuss five (5) factors that affect real estate finance in Kenya. (5 marks)
2. Outline the participants of real estate finance (5 marks)
3. Consider a mortgage loan of sh. 100,000 at an interest rate of 10% payable annually for eight years. Prepare the loan amortization schedule for
4. Fully amortizing CPM loan. (5 marks)
5. Partially amortizing CPM mortgage loan if the desired balance at the end of the eight years is sh. 60,000. (5 marks)
6. Interest only CPM mortgage loan. (5 marks)
7. Negative amortizing CPM mortgage loan if the desired balance at end of eight years is sh. 80,000. (5 marks)

**QUESTION TWO**

1. Briefly explain 4 approaches of property valuation used in real estate finance. (6 marks)
2. Consider a loan of sh. 60,000 with a 30 years’ term, originating fee of 3%, interest of 4% (i+p) payable at the begging of every year based on the CPI.

**Required:**

1. Calculate the net cash disbursed. (4 marks)
2. Calculate monthly repayments (5 marks)
3. Calculate the effective interest rate. (5 marks)

**QUESTION THREE**

1. Briefly highlight four (4) classifications of mortgage loans. (4 marks)
2. Consider a loan of sh. 60,000 with a term of 30 years. We assume that the ARM interest rate will be adjusted annually. Hence the first adjustment will occur at the beginning of the second year. At the time the composite rate will be determined by the index of one year Kenya treasury security, plus 2% margin. we assume that the index of one year Kenya treasury securities takes on a pattern of 10, 13, 15, and 10% for the next four years based on the forward rates in existence at the time each ARM is originated, and the monthly payment interest rate adjustments are made annually

**Required**

1. Determine the payment adjustments, loan balances and expected yields for an ARM with no caps. (8 marks)
2. Determine the payment adjustments, loan balances and expected yields for an ARM with caps. (8 marks)

**QUESTION FOUR**

1. Clearly explain five (5) measures of investment performance based on cash flow projections. (10 marks)
2. With reference to real estate finance clearly defines the term foreclosure. And explain five alternatives for foreclosure. (10 marks)

**QUESTION FIVE**

1. Explain the characteristics of real estate market. (5 marks)
2. A retail mall contains 2 million sq. ft of space of which 1.2 million is rentable area and 800,000 is common area. Total GAM expenses are sh. 3 million and anchor tenant occupy 500,000 sq ft. the owner of the rentable foot for CAM charges on a combined total of 700,000 sq ft.

**Required.**

Compute the CAM charged for in-line tenants. (5 marks)

1. Assume you are considering the purchase of an urban office building with an estimated gross annual income of sh. 2,500,000. Further assume that the average gross income multiplier of several comparable urban office building is 2.7 times.

**Required**

Compute the value of the subject property using the gross multiplier technique. (5 marks)

1. The following is a ten year forecast of BMG apartments, the NOI will stabilize at a rate of 2% in year 9 and thereafter. The required rate of return is 12%

**Required**

1. Compute the present value of the BMG apartments (5 marks)