



GRE TSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2023 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCFI 405

COURSE TITLE: REAL ESTATE FINANCE

DATE: 4 AUGUST 2023

TIME: 8:00 AM - 11:00 AM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

SECTION A: COMPULSORY

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Question One

- a) Explain the factors behind the development of secondary mortgage Markets [9 Marks]
- b) Explain the meaning of the phrase “Borrower’s right to reinstate” and identify the conditions that a mortgager must meet in exercising this right [11 Marks]
- c) What is the meaning of the phrase “due-diligence” as used in real estate investment risk analysis [4 Marks]
- d) GPS Ltd. has agreed to a constant payment mortgage of \$ 25,000 payable at the rate of 12% per annum with a balloon payment of \$ 5,000. Prepare an amortization schedule for this mortgage if it has a one year maturity [11 Marks]
- e) Differentiate between “interest only” and “principle only” CMOs [5 Marks]

SECTION B: ATTEMPT ANY THREE QUESTIONS

Question Two

- a) Though there is not mandatory requirement that a mortgage contract be typed or prepared by an attorney, there are a number of things that must be included regardless of the form. Identify these minimum requirements [8 Marks]
- b) CPC Ltd. is a firm that invests in real estate and real estate related investments. The company has 10,000 outstanding publicly traded REITs whose required rate of return was 10%. In the 2021, the company recorded rental revenues amounting to sh. 36 million with operating expenses of sh. 24 million. The company’s blended capitalization rate is 12% and had a debt of sh. 52 million. In the same year, the company paid dividends at the rate of Sh. 1,800 per share and the dividend is projected to grow at 6 percent annually. Compute;
 - i. The value of the REIT using Gordon’s model [5 Marks]
 - ii. The NAV of the REIT [7 Marks]

Question Three

- a) Explain the meaning of the term “default” as used in real estate finance and identify the two common types of default [5 Mark]
- b) Explain the difference between the following:
 - i. Equity and mortgage REITs [5 Marks]
 - ii. Remainder and Reversion interest in real estate [5 Marks]
 - iii. Fixed rate and Adjustable rate mortgages [5 Marks]

Question Four

- a) Describe the securitization process as applied in secondary mortgage Markets [6 Marks]
- b) In real estate, the terms ‘title’ and ‘deed’ are commonly but erroneously used interchangeably:
 - i. Differentiate between the two terms [5 Marks]
 - ii. What are the means available to purchasers of real estate to confirm in advance the nature of the title they will acquire in a property [9 Marks]

Question Five

- a) Explain the meaning of the term “easement” as used in real estate giving an example of easement arrangement **[4 Marks]**
- b) Explain any six four of risk that real estate investments are exposed to **[10 Marks]**
- c) Sequentially trace the steps involved in real estate appraisal process **[6 Marks]**