



GRETSA UNIVERSITY - THIKA

**UNIVERSITY EXAMINATIONS
MAY - AUGUST 2023 SEMESTER**

DIPLOMA IN FINANCE/REAL ESTATE MANAGEMENT

COURSE CODE: DBF1 018

COURSE TITLE: PRINCIPLES OF REAL ESTATE FINANCE

DATE: 31 JULY 2023

TIME:3:00 PM – 6:00 PM

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

QUESTION ONE

- a) Explain the following principles of valuation
- i. Principle of conformity
 - ii. Principle of substitution
 - iii. Principle of highest and best use
 - iv. Principle of supply and demand
 - v. Principle of progression **[15 Marks]**
- b) Describe the sales comparison approach of appraising properties and state three merits and two demerits of this approach **[10 Marks]**
- c) Explain three purposes of appraisal reports **[6 Marks]**
- d) Explain with the aid of a diagram the meaning of inflation based mortgage design **[4 Marks]**
- e) In relation to property tax lien explain:
- i. what taxes are included in the property tax lien **[3 Marks]**
 - ii. what happens to the tax lien if the property changes hands **[2 Marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO

- a) State and explain five monetary policy instruments used by the central bank to regulate interest rate, inflation rate, exchange rate and the quantity of money in the economy **[15 Marks]**
- b) If a real estate investment provides kshs. 480,000 a year in net operating income and similar properties have been sold based on 5% cap rates. Required: calculate the cost/the value of the subject property **[5 Marks]**

QUESTION THREE

- a) Define the term appraisal and briefly explain the four items which should be included in the appraisal report **[8 Marks]**
- b) State and explain the four forces influencing value **[8 Marks]**
- c) Distinguish between sweat equity and hold back funds **[4 Marks]**

QUESTION FOUR

- a) i. Peter has acquired some property expected to generate kshs.1,200,000. He falls in the 35% tax bracket and incurs depreciation of kshs.250,000. If the profit is before tax and the required rate of return is 16%. What is the value of the property if it is a freehold **[5 Marks]**
- ii. What would be the value if the cash flows are growing at an annual rate of 8% **[2 Marks]**
- b) State and explain any six participants in the real estate business **[9 Marks]**
- c) Distinguish between commercial real estate investment and industrial real estate investment **[4 Marks]**

QUESTION FIVE

a) Explain the following terms as used in real estate appraisals

- i.** Value in use
- ii.** Liquidation value
- iii.** Insurable value

[6 Marks]

b) Describe the cost approach of real estate valuation

[5 Marks]

c) Explain the following types of quality of construction:

- i.** Good quality
- ii.** Fair quality
- iii.** Average quality

[6 Marks]

d) Highlight any three rights of a mortgagor

[3 Marks]