

# The Co-operative University of Kenya

## END OF SEMESTER EXAMINATION DECEMBER-2018

### EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

UNIT CODE: HBF 2404

UNIT TITLE: REAL ESTATE FINANCE

**DATE: DECEMBER, 2018**

**TIME:**

#### **INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

#### **QUESTION ONE**

- (a) With the aid a diagram describe the real estate environment (5 marks)
- (b) Describe the FIVE decision makers in the real estate environment and their objectives (5 marks)
- (c) Explain the rights and duties of the landlord (5 marks)
- (d) Distinguish between mortgages and charges (5 marks)
- (e) Describe the classification of mortgages (5 marks)
- (f) Write short notes on Kenya mortgage financing agency (5 marks)

#### **QUESTION TWO**

- (a) ABC Ltd plan to acquire a property with a 5 year useful life at a cost kshs 20 million on 2<sup>nd</sup> March 2015. The property has a scrap value of Kshs 2 million. The firms has the option of borrowing the funds at 10% interest rate or leasing the plant at an annual rental charge of Kshs 5 million payable at the end of each of the 5 years that form the lease period. The lessor will pay the annual maintenance costs of the plant at Kshs 900,000 also payable at the beginning of each year. The corporation tax rate is 30%. Assume straight line depreciation methods is employed

##### **Required**

- Advice the firm on whether to leases or borrow and buy the plant (16 marks)
- (b) Distinguish between chattels and realty and provide relevant examples for each (4 marks)

#### **QUESTION THREE**

- (a) A 50,000 sq ft building income of Kshs 8M per month and net operating income of Kshs 4M per month. The building is currently 80% occupied while other similar buildings in the market are normally 70% occupied. Management fees is 3% of the income, capital reserves are on average Kshs 3 sq.ft while leasing costs are kshs 4 per sq.ft. The capitalization rate is 8%

##### **Required:**

- Compute the adjusted net operating income and the value of the building
- (b) Describe the physical rights of real estate property (4 marks)
- (c) Describe the types of leasehold properties (6 marks)
- (d) Write short notes on servitudes, encumbrances, estate and charges (44 marks)

#### **QUESTION FOUR**

- (a) A real estate investor intends to borrow a loan of Kshs 20 million to be repaid over a period of 8 years at an interest rate of 10%

**Required:** Compute the appropriate monthly loan repayments (2 marks)

- (b) A real estate investor intends to borrow a loan of sh 200 million and is required to pay shs 160,000 per month for a 10 year period  
**Required:** Compute the appropriate interest rate for the loan (4 marks)
- (c) Distinguish between floating and fixed charges (2 marks)
- (d) Write short notes on easements, right of redemption of mortgages, right to consolidate mortgages and discharge of mortgages (4 marks)
- (e) Describe the risks faced by mortgages (6 marks)
- (f) Describe the term prepayment penalty (2 marks)

#### **QUESTION FIVE**

Write short notes the following topics

- (a) Laws and regulations relating to real estate properties in Kenya (3 marks)
- (b) Recent development relating to real estate properties in Kenya (3 marks)
- (c) Financing options available for potential owners of real estate properties in Kenya (3 marks)
- (d) Factors that influence real estate properties in Kenya (3 marks)
- (e) Risks facing real estate property potential owners in Kenya (3 marks)
- (f) The mortgage market in Kenya (3 marks)
- (g) Foreclosures and their applicability in Kenya (3 marks)