



The Co-operative University College of Kenya
(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

END OF SEMESTER EXAMINATION APRIL-2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE
(YR I SEM II)

UNIT CODE: HBF 2405

UNIT TITLE: REAL ESTATE FINANCE

DATE: 29TH APRIL, 2016

TIME: 9.00 A.M. – 11. 00 A.M.

INSTRUCTIONS:

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

QUESTION ONE

- (a) Differentiate between the following terms as used in real estate finance: (10 marks)
- Securitization and syndication
 - Special purpose vehicle and Structured Real Estate Financing
 - Capital structuring
- (b) Briefly explain any FIVE items that frequently appear in structured real estate loan? (10 marks)
- (c) Identify the Determinants of mortgage interest rates when pricing and structuring mortgage loans. (10 marks)

QUESTION TWO

- (a) A fully amortizing mortgage loan is made for sh.100,000 at 6% interest for 30 years. Determine payments for the following periods if interest is accrued. (8 marks)
- Monthly
 - Quarterly
- (b) A pension fund is making an investment of sh.10,000 today and expects to receive sh.1,600 at the end of each month for the next five years. At the end of the fifth year, the capital investment of sh.100,000 will be returned. What is the internal rate of return compounded annually on this investment? (6 marks)
- (c) Briefly highlight any SIX items included in the term sheet during transaction loan agreement. (6 marks)

QUESTION THREE

- (a) A partially amortizing mortgage is made for sh.60,000 for a term of 10 years. The borrower and the lender agree that a balance of sh.20,000 will remain and repaid as a lump sum at that time:
- If the interest rate is 7% what must monthly payments be over the 10 years period? (4 marks)

- ii. If the borrower chooses to repay the loan after 5 years instead of at the end of year 10, what must the loan balance be? (4 marks)
- (b) Discuss the motivations for investing in income properties, why do we invest in properties? (6 marks)
- (c) Discuss the determinants demand for housing units in Kariakor Nairobi Kenya. (6 marks)

QUESTION FOUR

- (a) An ARM for sh.100,000 is made at a time when the expected start rate is 5%. The loan will be made with a teaser rate of 2% for the first year, after which the rate will be reset. The loan is fully amortizing, has a maturity of 25 years and payments will e made monthly. (10 marks)
 - i. What will be payments during the first year?
 - ii. Assuming that the reset rate is 6% at the beginning of the year (BOY)2, what will the payments be?
 - iii. By what percentage will monthly payments increase?
- (b) Identify the investment styles used by real estate investors while approaching investors while approaching investment strategies. (10 marks)

QUESTION FIVE

- (a) With the help of diagram explain the adjustment of housing units with respect to either an increase or decrease of the below factors (10 marks)
 - i. Depreciation
 - ii. Increase in demand
 - iii. Costs
- (b) Discuss the organizations that are legally mandated to offer mortgage loans to customers in Kenya (10 marks)