



MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2023/2024 ACADEMIC YEAR

FOURTH YEAR FIRST SEMESTER

SCHOOL OF BUSINESS & ECONOMICS

BACHELOR OF COMMERCE

COURSE CODE: BCM 4117

COURSE TITLE: REAL ESTATE FINANCE.

DATE: 7/12/2023

TIME: 0830-1030 HRS

INSTRUCTIONS TO CANDIDATES

Answer question **ONE** and any other **TWO** questions

This paper consists of 4 printed pages. Please turn over

QUESTION ONE

- a. Discuss **four** challenges faced by banks as new entrants in the provision of mortgage finance. **(6 Marks)**
- b. Simon Meso decided to sell one of his income producing properties in January 2023. He decided to use a direct capitalization approach and a discounted cash flow approach to set the asking price for the property. The property information is provided below:

Property information

Capitalization rate	13%
Mortgage	none
Commissions	none

<u>Year</u>	<u>Net Operating Income (Sh. 000)</u>
2023	43,300
2024	45,725
2025	43,271
2026	50,945

Required:

- i. Estimate the property's current value using the direct capitalization method. **(4 Marks)**
- ii. Discuss two shortcomings of the underlying assumptions and methodology of the direct capitalization approach. **(4 Marks)**
- iii. Calculate a discounted cash flow valuation of the property given that the property is sold at the end of year 2026. **(6 Marks)**

QUESTION TWO

- a. Samson Kakuju wishes to make an investment of Sh. 100,000 to pay school fees for his children. He will make the deposit at the end of every year. Determine the future value of a Sh. 100,000 investment made at the end of every year for 5 years assuming the required rate of return is 12% compounded annually. **(8 Marks)**
- b. Analyse **two** risk factors associated with real estate investment. **(2 Marks)**
- c. Explain **five** characteristics of real estate as an alternative investment class. **(5 Marks)**

QUESTION THREE

- a. Discuss any three management decisions that are of importance to real estate finance managers. **(5 Marks)**
- b. Simon Mwenda borrowed Sh. 1,000,000 on 1 March 2022 from Kena Commercial Bank repayable semi-annually over a three year period. The interest rate on the loan was 10% per annum. You required to prepare a loan repayment schedule over the three year period. **(8 Marks)**
- c. In the context of mortgage loans, explain two factors that affect prepayments. **(2 Marks)**

QUESTION FOUR

The following information relates to a certain office building in Naro town and which Kangaroo Financial Services (KFS) is considering for valuation.

	Sh. "000"
Gross potential rental income	700,000
Insurance and taxes	52,000
Utilities	36,000
Repairs and maintenance	46,000
Depreciation	80,000
Interest on proposed financing	36000

Additional information:

- i. Vacancy and collection losses is estimated at 4%
- ii. Recently, there have been two office buildings sold in the same are
 - a) The first building had a net operating income of sh. 1,000,000 and was sold for Sh. 8,000,000
 - b) The second building had a net operating income of sh. 450,000 and was sold for sh.3,200,000

Required;

- i. The net operating income (NOI) for the office building. **(6 Marks)**
- ii. The appraised price of the office building using the income approach. **(4 Marks)**
- iii. Discuss any other two methods that are used to determine the net worth of real estates. **(5 Marks)**

/END/