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University Examinations 2024/2025

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN FINANCE

BFS 3401: REAL ESTATE FINANCE

DATE: JANUARY 2025   **TIME:2 HOURS**

INSTRUCTIONS: *Answer question **one** and any other **two** questions*

QUESTION ONE (30 MARKS)

a) Explain the legal rights a mortgage lender has in relation to real estate ownership if the borrower defaults on the loan   (5mks)

b) Differentiate between freehold and leasehold property ownership indicating the legal implications of each type of ownership   (5mks)

c) Explain challenges might the real estate market face in adapting to future trends   (5mks)

d) Discuss the main objectives of taxation in the real estate market? Explain how each objective is achieved   (5mks)

e) You are considering purchasing an office building for Kshs 2,500,000. You expect the potential gross income (PGI) in the first year of operations to be Kshs 450,000; vacancy and

collection losses to be 9 percent of PGI; and operating expenses and capital expenditures to be 42 percent of effective gross income (EGI).

Required to Calculate:

i. the estimated Net operating income   (3mks)

ii. the implied first year overall capitalization rate   (3mks)

iii. the effective gross income multiplier   (2mks)

iv. Operating expense ratio (including CAPX)   (2mks)

QUESTION TWO (20 MARKS)

a) Prepare a mortgage schedule for a loan of Kshs200,000 at a fixed interest rate of 5% per year over a 15-year term.   (6mks)

b) Discuss how zoning regulations can impact real estate valuation.   (6mks)

c) Explain adverse possession, and what are the legal conditions required to claim ownership under this doctrine   (8mks)

QUESTION THREE (20 MARKS)

a)   Describe the process of transfering property ownership through sale. Include the legal steps involved from the contract to closing.   (10mks)

b)   Explain the role of environmental regulations in the real estate market, and how do they impact property development?   (5mks)

c) A commercial property has a projected Net Operating Income (NOI) of KES 1,200,000. If the market cap rate for similar properties is 9%, calculate the estimated value of the property. (5mks)

QUESTION FOUR (20 MARKS)

a) A nursery school building with a total area of 60m2 is 12 yrs old and need to be valued for sale. The estimated economic life is 90 yrs. It stands on an area of land measuring 5 ha. Vacant land in the same area has been selling at 1.1m per ha. Current construction cost for similar building average 80,000 per sqm. Estimate the value using cost approach. (6mks)

b) By use of example, explain How technology influence the real estate market (8mks)

c) A property has a projected cash flow of KES 500,000 per year for the next 5 years, and a terminal value of KES 3,000,000 at the end of year 5. If the required return (discount rate) is 10%, calculate the present value of the property (6mks)

QUESTION FIVE (20 MARKS)

a) Discuss the key factors that influence the real estate market environment. (8mks)

b) Explain the Location Theory and its significance in real estate. (6mks)

c) A property has a projected cash flow of KES 500,000 per year for the next 5 years, and a terminal value of KES 3,000,000 at the end of year 5. If the required retun (discount rate) is 10%, calculate the present value of the property (6mks)