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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR FOUR**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 411**

**COURSE TITLE: REAL ESTATE FINANCE**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 19/08/2021 TIME: 3.00-5.00 PM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of FOUR (4) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Discuss the **two** general classifications of real estates (5 marks)
2. Highlight **four (4)** categories of constant payment mortgage loans. (5 marks)
3. Highlight four (4) classifications of mortgage loans (4 marks)
4. Consider a mortgage loan of sh. 100,000 with a 30 years term, originating fee of 3%, interest of 4% (i+p) payable at the begging of every year based on the CPI.

**Required:**

1. Calculate the net cash disbursed. (3 marks)
2. Calculate monthly repayments (5 marks)
3. Calculate the effective interest rate. (8 marks)

**QUESTION TWO**

1. Discuss **five (5)** sources of real estate finances In Kenya (5 marks)
2. Consider a loan of sh. 80,000 with a term of 30 years. We assume that the ARM interest’s rate will be adjusted annually. Hence the first adjustment will occur at the beginning of the second year at that time the composite rate will be determined by the index of one year Kenya treasury securities plus 2% margin. If we assume that one year Kenya Treasury securities takes on a pattern of 12%, 15%, 17% and 12% for the next four years based on the forward rates in existence at the time each ARM is originated and the monthly payment interest rate adjustments are made annually. Assuming no caps or limitations on payments or interest rates and the initial rate is 10%.

**Required:**

Compute the monthly payments (PMT) and Loan balances for the four years (15 marks)

**QUESTION THREE**

1. Outline five factors to consider when choosing the source of finance (5 marks)
2. Outline five important mortgage clauses (5 marks)
3. Distinguish between remainder and reversion (5marks)
4. Describe the different types of risk in real estate (5 marks)

**QUESTION FOUR**

1. List and explain the different types of property classification (5 marks)
2. A retail mall contains 2 million sq. ft of space of which 1.2 million is rentable area and 800,000 is common area. Total CAM expenses are sh. 3 million and in-line tenant occupies 500,000 sq ft. The owner has negotiated with anchor tenant that they will pay Sh 2 of the rentable foot for CAM charges on a combined total of 700,000 sq ft.

**Required**

Compute the CAM charged for in-line tenants. (5 marks)

1. Assume you are considering the purchase of an urban office building with an estimated gross annual income of sh. 5,500,000. Further assume that the average gross income multiplier of several comparable urban office building is 3.5 times.

**Required**

Compute the value of the subject property using the gross multiplier technique (5 marks)

1. List and explain the general contents of a lease agreement (5 marks)

**QUESTION FIVE**

1. Explain **two types** of trusts in real estate investment trusts (REITs) (5 marks)
2. Highlight **five** ways in which a real estate investment trust (REIT) can grow income and increase funds from operations (FFO), thus securing its dividend and making dividend increases possible. (5 marks)
3. Mideastern America Property Trust stock is currently trading at 75 per share, making its current market value worth 375 million. The dividend paid was 4 per share and is expected to grow by 5% forever. The cost of capital is 10.5%. The Trusts trades at an FFO multiple of 14. the capitalization rate of comparable REITs is 8.75%

**Mideastern America Property Trust Mideastern America Property Trust**

**Income Statement Financial statement**

Net Revenue 70,000,000 **Assets**

Operating expenses 30,000,000 Cash 500,000

Depreciation and amortization 15,000,000 Rent Receivables 1,500,000

General expenses 4,000,000 Property Cost 170,000,000

Management expenses 1,000,000 **Total Assets 172,000,000**

**Income from operations 20,000,000** Short terms Liabilities2,000,000

Interest expense 6,400,000 Mortgage 80,000,000

**Net income 13,600,000** Equity 90,000,000

**Total Liability 172,000,000**

**Required:**

1. Compute EPS (2 marks)
2. Net Operating Income (NOI) per share (2 marks)
3. Funds from operations (FFO) per share (2 marks)
4. Value of the Trusts using
5. Gordon dividends discount model (2 marks)
6. FFO multiple (1 marks)
7. Net asset value (NAV) method (1 marks)