BFIN 4102: REAL ESTATE FINANCE

BSC FINANCE – YEAR 4 SEM 1 DECEMBER 2022

TIME : 2 HRS

Instructions: Attempt question one and two others in addition

Question 1: Compulsory

a) Explain any three (3) forms of tenancies in real estate practice (6 Marks)

b) Describe three (3) forms of mortgages in real estate practice (6 Marks)

c) Describe three (3) methods commonly used in terminating leases in real estate practice (6 Marks)

d) Luthuli Estate Agents has decided to go for a diesel generating set costing Sh. 5 million. It has an economic life of 8 years at the end of which it is expected to fetch a net (post-tax) salvage value of Sh 1.5 million. The firm is considering two options:

   i. Taking the diesel generating set on lease

   ii. Buying the diesel generating set with a loan

   - If the firm chooses the lease option, the annual lease rental will be Sh 1,080,000, payable in arrears.
   - If the firm chooses the purchase option, it will take a loan of Sh 5 million at an interest of 10 percent. The loan will be amortized in equal annual installments, payable at the end of the year, over a period of 8 years.
   - The tax rate applicable to the firm us 30 per cent. Assume that straight line method of depreciation will be adopted for tax purposes and the depreciation rate is 12.5 per cent.

Required: Examine which option is financially advantageous to Luthuli Estate Agents?

(12 Marks)

Question 2

a) Describe at least three (3) property rights and attempt their limitations if any to it (12 Marks)

b) A real estate firm is participating in lease services as below;

In an ABC Company, suppose Tasha is able to negotiate a lease payment of Sh 2,000,000 per year at 10%

Required: i) What would be the NPV of the lease in this case? (4 Marks)

ii) Evaluate an attractive lease payment if tax rate is 30% (4 Marks)

Question 3

a) Distinguish between the following in real estate practice
   (i) Leasing and Hire purchase (6 Marks)
   (ii) Easements and freehold (4 Marks)
b) Describe three (3) of terminating leases in real estate concepts (6 Marks)
c) Describe two (2) methods broadly used in the valuation of real estates in practice (4 Marks)

Question 4

(a) Describe the concept of pension – backed housing loans in practice (8 Marks)
(b) Describe 3 reasons why real estate firms are recently seeking mergers in your country (6 Marks)
(c) A real estate firm is participating in a fund in the nature of a hedge fund that was established three (3) years ago and is worth 200 million. The end of year value fees for last year was 180 million. This end of year value before fees is 165 million. The fund charges 4 and 18 management fees that is paid independently of incentive fees and are calculated on end of year values.
   Required: Determine the annual fee paid this year (6 Marks)

Question 5

a) Describe at least four (4) forms of real estate investment currently in practice. (8 Marks)
b) In reference to financing of real estates, describe the following concepts;
   (i) Off-Balance sheet financing (6 Marks)
   (ii) Foreclosures in mortgage finance (6 Marks)