CO-OPERATIVE UNIVERSITY COLLEGE OF KENYA

UNIVERSITY EXAMINATION

BACHELOR OF SCIENCE FINANCE

COURSE CODE: CMFI 2405
COURSE NAME: REAL ESTATE FINANCE AND INVESTMENT

DATE: DECEMBER 2018 TIME: 2 HOURS

Instructions: Answer Question ONE and ANY other TWO

QUESTION ONE

a. Investor Vineyard Venture Capitalist (VVC) has decided to enter into a joint venture with Suraya Limited (SL) to develop and operate an office building. The project will require an initial equity investment of Ksh.70 Million, VVC investing Ksh.65 Million and SL investing the remaining Kshs.5 Million. Each party will invest its capital and then participates in sharing year-end cashflows from operations; it is further assumed that the property will be sold at the end of year 5 and that the net proceeds from the sale will provide Kshs. 95 million to be distributed to the investors with each party expected to receive its initial investment. VVC is expected to receive an amount sufficient to earn IRR preference of 12% on its equity investment. The Joint venture partnership agreement specifies that VVC will receive a maximum of 5 percent cumulative preferred return on its Kshs.45 million in equity. SL is expected to receive a 5% non-cumulative return on its equity capital of Kshs. 5 million. Any remaining cash flow will be split 50% to each party. The year-end operating cash flow is projected as follow:

Time (Years)	Inception	1	2	3	4	5
Operating Cash flow Kshs.	-95,000,000	2,000,000	4,000,000	10,000,000	12,000,000	13,000,000
Sale Kshs.						130,000,000

i. Determine the distribution of cash flow from operation to each partner
ii. Determine total cash flow distributed to each investor
iii. Determine each investor's final IRR **(15 Marks)**

b. Mr. Biwot would like to invest in real estate; he has asked you to enlighten him on why he should proceed with his plan. Briefly discuss eight specific advantages of investing in real estate **(4 Marks)**

c. What is the advantage of the limited partnership ownership form for real estate syndications?

d. Explain the purpose of property valuation in real estate finance. (5 Marks)

e. Discuss the factors that influence value in real estate. (6 Marks)

QUESTION TWO

a. Briefly explain any five investing styles used by real estate investors. (10 Marks)

b. Write brief explanation on the following terms

i. Estates in possession. (1 marks)
ii. Estates not yet in possession. (1 marks)

iii. Fee simple estate. (1 marks)
v. Estate for years. (1 marks)

c. Discuss factors to be considered when investing/acquiring income properties.(6 Marks)

QUESTION THREE

a. Mr. Ochieng would like to take up a mortgage financing from KCB bank. Given that the mortgage period is expected to be 20 years and the loan amount is Kshs. 35 million with an interest rate of 12% per annum. Calculate the outstanding loan after the 3rdyear. (6 Marks)

b. Discuss three (3) fundamental differences between real estate project financing and corporate financing. (6 Marks)

c. You have been asked to value a building based upon "comparable properties" sold in recent years. There have been six property sales of buildings of comparable size in the surrounding area as shown below:

Property	Sale Prices Ksh 'm'	Size (sq. ft)	Gross rent Ksh 'm'
A	20	400,000	5.0
B	18	425,000	4.75
C	22	450,000	5.1
D	25	400,000	5.5
E	15	350,000	4.0
F	12	300,000	3.0

Required:

(i) Estimate the value of the building, based upon price/square foot. (4 Marks)
(ii) Estimate the value of the building, based upon price/gross rent. (4 Marks)

QUESTION FOUR

a. Describe three main approaches that are used to determine the fair market value of a real estate. [9 marks]

b. Briefly explain at least three characteristics of real estate market. (6 marks)

c. Distinguish between a Note and a Mortgage. (5 marks)

QUESTION FIVE

a. Explain the meaning of Judicial Foreclosure Procedure. What circumstances inform of trigger Judicial Foreclosure action. (6 marks)

b. Describe the standard clauses contained in most real estate financing instruments. (6 marks)

c. Assume that you have decided to take a loan in order to buy real estates. Briefly discuss four major costs that you must consider (8 marks)