



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

**SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT**

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE (FINANCE OPTION)

BAC414: REAL ESTATE FINANCE

DATE:

TIME:

INSTRUCTIONS

Answer question one and any other two questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Explain the general advantages of adopting the fully amortizing constant mortgage loans(CPM) over the constant amortization mortgage loan (CAM) (6 marks)
- b) James Makonde makes a fully amortized CPM mortgage loan for ksh. 1,000, 000 at 12 percent interest for 25 years.
- i) What will the monthly payment on the loan (indicate the interest amount and the principal amount). (6 marks)
- ii) What would the initial six payments be with CAM (10 marks)
- c) A general warranty deed is the most commonly used deed in real estate transactions and the most desirable type of deed from the buyer's perspective.
Explain the most significant covenants that are generally contained in such a deed. (8 marks)

QUESTION TWO (20 MARKS)

- a) What is the purpose and effect of each of the following mortgage clauses;
- i) Acceleration clause
 - ii) Prepayment clause
 - iii) Due on sale clause
 - iv) Joint and several liability clause (12 marks)
- b) An investor can make an investment in a real estate development and receive an expected cash return of ksh. 300,000 after eight years. Based on a careful study of other investment alternatives, he believes that a 12 percent annual return compounded monthly is a reasonable return to earn on this investment.
- Determine how much he should pay for it now. (8 marks)

QUESTION THREE (20 MARKS)

- a) How can a mechanic's lien achieve priority over first mortgages which were recorded prior in time to the mechanic's lien? (4 marks)
- b) Explain three general ways in which a buyer has assurance that a title of a parcel of land is good and marketable. (6 marks)
- c) An investor pays ksh. 200,000 per month into a real estate investment which promises to pay an annual rate of 8 percent compounded monthly, If he makes consecutive monthly payment for five years, what will be the future value at the end of five years? (10 marks)

QUESTION FOUR (20 MARKS)

- a) Explain the legal effects of title theory and lien theory on title when a property is mortgaged. (8 marks)
- b) Identify six participants in real estate business, and explain their contributions to the business. (12 marks)

QUESTION FIVE (20 MARKS)

- a) A owns a building at Mango city avenue which has been vacant for many years. A leases the building to B on a long-term fixed-rate lease for \$3,000 per month. B does not record his lease or any memorandum thereof. Before B moves in, General Motors announces that it is building a manufacturing plant next door. A then signs a lease with C, who is willing to pay \$9,000 per month to lease the same building. C has no notice of A's prior lease with B.

Explain who is entitled to occupancy, and what the other aggrieved party will do.

(8 marks)

- b) In order to apply simple supply and demand analysis to real estate markets, a number of modifications need to be made to standard microeconomic assumptions and procedures. In particular, the unique characteristics of the real estate market must be accommodated.

Explain six such characteristics.

(12 marks)