**Strathmore**
UNIVERSITY

**STRATHMORE UNIVERSITY BUSINESS SCHOOL**
**BACHELOR OF FINANCIAL SERVICES**
**END OF SEMESTER EXAMINATION**
**AMS 3102: REAL ESTATE AND PROJECT FINANCE**

**DATE:** Monday, 1st August 2022          **TIME:** 2 hours

INSTRUCTIONS

1) **Answer question one and any other two questions**

2) **Question one is compulsory and carries 30 marks**

3) **All other questions carry 20 marks each**

**Question One**

| | | |
|---|---|---|
| (i) | Define Real Estate giving examples | (2 marks) |
| (ii) | Explain the term estate | (2 marks) |
| (iii) | Real estate can be classified under three groups, namely Economic characteristics, Physical characteristics and Investable assets. Discuss the characteristics in each group | (10 marks) |
| (iv) | You have an opportunity to buy a Ksh 5500 monthly annuity for 7 years. Calculate the maximum amount you will sacrifice for it if the required rate of return is 15% per year. | (3 marks) |
| (v) | Differentiate between the following terms | |
| | a. Estate in possession and estate not in possession | (2 marks) |
| | b. Freehold estate and Leasehold estate | (2 marks) |
| | c. Free simple estate and life estate | (2 marks) |
| | d. A mortgage and a promissory note | (2 marks) |
| (vi) | Discuss any five contents of a promissory note | (5 marks) |

**(TOTAL 30 MARKS)**

**Question Two**

(i) A mortgage for Ksh 6.5 million is made to an individual for home buying. The loan is expected to be repaid in 15 years on a monthly instalment. The real interest rate is 7.5% while the risk premium and Inflation rate is 4% and 5% respectively.
   a. Calculate the monthly repayment in the invent there is no inflation.
   (3 marks)
   b. Calculate the monthly repayments when inflation is taken into consideration (3 marks)
   c. Explain the effect of inflation on the loan (2 marks)

(ii) Explain tilt effect (2 marks)

(iii) Consumer Price Index CPI, can be used to adjust mortgage interest rates. Discus the three main problems of using CPI (3 marks)

(iv) A loan of ksh 4,500,000 borrowed for 10 years at 5%. The interest rate is adjustable after every one year based on the Consumer price index. If the CPI is 6% after year 1,
   a. Calculate the monthly repayment for year 1 (3 marks)
   b. What is the loan balance after year one? (2 marks)
   c. Calculate the loan repayments for year two (2 marks)

**(TOTAL 20 MARKS)**

**Question Three**

(i) Discuss the contents/requirements of a mortgage (6 marks)
(ii) Explain assumption of mortgage (3 marks)
(iii) Explain a foreclosure (2 marks)
(iv) Explain two types of foreclosure (4 marks)
(v) Explain the alternatives to a foreclosure (5 marks)

**(TOTAL 20 MARKS)**

**Question four**

(i) Discuss the main factors that influence interest rate on mortgages (5 marks)
(ii) Describe the two types of estates not yet in possession (4 marks)
(iii) Differentiate between an interest on property and an easement (3 marks)
(iv) Discuss the factors that are likely to influence real estate prices (8 marks)

**(TOTAL 20 MARKS)**

**Question Five**

(i) Compare between adjustable-rate mortgages and fixed rate mortgages (6 marks)
(ii) Explain a composite rate of interest distinguishing from a teaser rate (4 marks)

(iii)    A mortgage loan has the following information

        Loan Amount = Sh 5,500,000

        Starting Rate = 9%

        Term = 15 Years

        Adjustment Interval = 1 Year

        The loan also has an interest rate cap : 2.5 % Annual Rate Cap

Required:

(a) Compute the monthly payments for year 1         (3 marks)

(b) Compute the loan balance at the end of year.         (3 marks)

(c) Explain the effect of the annual cap rate if composite rate rise to 13% (2 marks)

(d) What will be the effect if a payment cap of Ksh 3000 per month is introduced         (2 marks)

**(TOTAL 20 MARKS)**