Reflections on Real Estate

A Quarterly Publication from Souza Realty & Development Winter 2001

Tracy Tomorrow & Beyond

By Anthony Souza

Over the last decade, Tracy could be fairly characterized as a city that manifests vitality in its growth and development while maintaining the small-town, friendly ambiance of the past.

The Tracy Tomorrow 2000 Project was initiated by the Tracy City Council to establish citizen task forces to evaluate, make recommendations, and propose solutions to some of the challenges facing Tracy today.

This process, having been completed in midyear 2001, has prompted the city council to appoint a follow-up task force to oversee the implementation of the goals and policies as envisioned by the original Tracy Tomorrow Task Forces. Anthony Souza, CRE was appointed to this follow-up task force.

> ***The Tracy Tomorrow 2000 Project was established to evaluate, make recommendations, and propose solutions to some of the challenges facing Tracy today.***

This task force initially has reviewed the Tracy Tomorrow recommendations, the responses by the city council at its workshop, and the implementation plans of city staff.

It appears as though a major portion of the implementations will be reflected in an update of the city's Urban Growth Management Plan, also known as the Tracy General Plan. Work on this document--which maps out the city's anticipated growth in the future--is expected to start at the beginning of 2002.

Hot Topics Discussed at Conferences

By Jim Gwerder

In an effort to keep up with an ever-changing planning and regulatory environment, Jim Gwerder attended two conferences recently. Both conferences dealt with issues highly relevant to our clients in Alameda, Contra Costa, and San Joaquin Counties: *wetlands* and *habitat conservation planning*.

CLE INTERNATIONAL CALIFORNIA WETLANDS CONFERENCE

CLE International has been a provider of continuing professional education programs throughout the United States and Canada since 1983. Its seminars focus on the cutting edge of emerging legal issues of vital import to attorneys, real estate professionals,

see Topics page 2

Happy Holidays!

from the staff of SR&D

Topics continued

accountants, consultants and government enforcement agencies, and is accredited by the bar associations of the many states where its programs are presented.

The CLE wetlands conference was held in San Francisco on September 13th and 14th, and was well attended by experts on both the informing side and the learning side. Top players from the regulatory, consulting, and legal worlds gave their perspectives on issues ranging from wetlands and regulatory takings to regional wetlands conservation planning. Other program segments explored mitigation banking, current case law updates, and the interaction between the various regulations and agencies dealing with wetlands. Of particular note was a presentation by James Burling of the Pacific Legal Foundation who argued the Palazzolo case before the United States Supreme Court.

Regional planning as related to wetlands permitting was also discussed. Overall, the view was that integrating wetlands Army Corp of Engineers permits into Habitat Conservation Plans (HCPs) and Natural Communities Conservation Plans (NCCPs) is problematic but possible, and that the legislative ability to do so is evolving.

REGIONAL CONSERVATION PLANNING (NCCP/HCP) WORKSHOP

Jim also attended a two-day October workshop in Sacramento that was cosponsored by the California Department of Fish & Game, U.S. Fish and Wildlife Service, National Marine Fisheries Service, and the Western Section of the Wildlife Society.

In the two days, a flurry of experience was presented by a variety of people involved in creating regional conservation plans and maintaining preserves throughout the state and the nation. A unique insight was presented since many of the presenters had seen and shaped the evolution of these regional land use plans and their enabling ordinances.

Their goal in all that effort was to do something that should be good for species, habitat, and biodiversity while implementing state and federal Endangered Species Acts. Integrating the various agency requirements into one package is immeasurably complex, given the variance in requirements and different personalities involved. After many years of encouragement, land use planning is becoming more oriented towards conservation planning and implementing regional conservation plans. At the same time, many attempts and hours of consensus building and studies, coupled with the actual implementation of various conservation programs are only now beginning to yield the true cost of perpetual preservation and management. Focus is now moving towards the perpetual management aspect and ensuring those future costs can be met.

Some of the presenters were involved in writing Senate Bill 107, which, if passed by the state legislature, will essentially codify actions that the California Department of Fish & Game are already requiring and bringing the state requirements more in line with the federal requirements.

Much of the discussion at this conference concentrated on the fact that involvement of all stakeholders in the process is vital early on and throughout the process for successful adoption of an HCP/NCCP.

If you have any questions concerning these topics please call Jim at (209) 835-8330 or e-mail him at <jgwerder@souzard.com>.

Reflections on Real Estate is published quarterly by Souza Realty & Development. SR&D is a family-run real estate firm specializing in development, development consulting, land and commercial brokerage, and land valuation.

PRESIDENT
Anthony F. Souza, CRE
tony@souzard.com

VICE PRESIDENT, DEVELOPMENT
A. Michael Souza, ALC
mike@souzard.com

CHIEF FINANCIAL OFFICER
Jerrold Z. Schluer
jzs@souzard.com

VICE PRESIDENT, CONSULTING
James A. Gwerder
jgwerder@souzard.com

LAND & COMMERCIAL BROKERAGE
Michael S. Glazzy
mglazzy@souzard.com

ADMINISTRATIVE ASSISTANT
Roseline Miller
rmiller@souzard.com

Souza Realty & Development
105 East Tenth Street
Tracy, CA 95376-4003
Tel: (209) 835-8330
Fax: (209) 832-8355
www.souzard.com

Staff Notes

Congratulations to Anthony F. Souza, CRE, President of Souza Realty & Development, for his election to the 2002 leadership team of the Counselors of Real Estate as one of three national vice-presidents.

The Counselors of Real Estate is an international group of high profile professionals including members of prominent real estate, financial, legal and accounting firms as well as leaders of government and academia who provide expert, objective advice on complex real property situations and land-related matters.

Owning Versus Leasing Makes Cents

By Mike Glazzy

If you own your own business and lease your place of business, you should consider owning rather than leasing. In most cases buying your place of business or something similar will prove financially superior to leasing.

Many people are afraid of the commitment or financial responsibility involved with the ownership of a commercial property, but with the right financing, you can own your own place of business with little or nothing down. In this article I will detail a basic lease versus purchase scenario. I will analyze the two alternatives in the accompanying chart.

CURRENT LEASE SCENARIO

As an example, consider the position of a dentist who occupies a 1,200 square foot medical office. She pays rent of $1.00 per square foot plus other building related expenses such as property taxes, insurance, utilities, and her share of the common area repairs and maintenance. For ease of analysis, let's just say her current rent is $1,200 per month. The rent is also projected to increase 1.5 percent per year over the next 25 years.

PURCHASE SCENARIO

The dentist discovers that her landlord has put her office up for sale at $150,000. Because there is no seller financing available and the doctor has little cash available for a down payment, she will have to finance the entire purchase price. Her financial advisor tells her that since she occupies more than 51 percent of the building, she qualifies for an SBA loan at 90 percent loan-to-value at an interest rate of 7.25 percent, fully amortized, over a term of 25 years. To cover the other 10 percent of the purchase price, she takes out a $15,000 personal loan at her local bank at seven percent over five years. The dentist's real estate agent also tells her that she can expect the property to appreciate on average 1.5 percent annually over the foreseeable future.

The chart below analyzes this lease versus purchase scenario. You can see how monthly cash flows will be affected by comparing the *Monthly Rent* and *Monthly Loan Payment* columns. Assuming that operating expenses would be the same under either scenario, you can see that a purchase has a higher monthly cost in the first five years. This is due to the five year personal loan for the down payment. If the doctor had enough cash for the down payment, the cost of ownership would always be less than leasing.

	<---- LEASING ---->		<---- OWNING ---->	
YEAR	MONTHLY RENT	TOTAL EQUITY (END OF YEAR)	MONTHLY LOAN PAYMENT (P&I)	TOTAL EQUITY (END OF YEAR)
1	1,200	0	1,370	6,477
2	1,218	0	1,370	13,349
3	1,236	0	1,370	20,649
4	1,255	0	1,370	28,411
5	1,274	0	1,370	36,672
6	1,293	0	1,064	41,658
7	1,312	0	1,064	46,900
8	1,332	0	1,064	52,418
9	1,352	0	1,064	58,231
10	1,372	0	1,064	64,364
11	1,393	0	1,064	70,841
12	1,414	0	1,064	77,688
13	1,435	0	1,064	84,934
14	1,456	0	1,064	92,611
15	1,478	0	1,064	100,753
16	1,500	0	1,064	109,396
17	1,523	0	1,064	118,581
18	1,546	0	1,064	128,352
19	1,569	0	1,064	138,755
20	1,592	0	1,064	149,842
21	1,616	0	1,064	161,667
22	1,640	0	1,064	174,292
23	1,665	0	1,064	187,781
24	1,690	0	1,064	202,205
25	1,715	0	1,064	217,642
TOTAL	432,908		337,679	

Another significant comparison to make is between the total rents paid out and the total equity in the building at the end of twenty-five years. Even though present value factors haven't been applied in this analysis, the fact that you have zero equity after paying out almost $433,000 in total rent is significant.

This simple analysis was done to show the benefits of owning versus leasing without taking income taxes into account. The data used was for illustrative purposes only and may not fit your exact situation. For most business owners, owning their place of business can prove quite advantageous especially with the current level of long-term interest rates. To determine your best plan of action or to learn more about the benefits of owning give us a call.

New Proposed Tax Stimulus Package

The House Ways and Means Committee, on a party line vote, reported an economic stimulus package that contains important commercial real estate provisions:

Leasehold Improvements: Costs for leasehold improvements placed in service after Sept. 11, 2001, would be permanently reduced and recovered over 15 years rather than the current 39 years.

Capital Gains: The current capital gains rate of 20 percent (10 percent for taxpayers in the 12 percent and 15 percent brackets) would be reduced to 19 percent (8 percent for lower bracket taxpayers), and would apply to any sale or exchange of a capital asset (or installment sales payments received) on or after October 12, 2001.

Capital Losses: The current $3,000 limitation on capital losses would be increased to $4,000 for 2001 and $5,000 for 2002 prior to reverting to $3,000 for 2003.

Interest Rates

By Rich Davidson

As you can see from our interest rate table, short-term rates continued to decline as the Federal Reserve lowered the discount rate to 1.5% effective November 7th. The discount rate is the charge on loans to depository institutions by the Federal Reserve Banks. Short-term rates have now dropped approximately 4.5% over the last year or so. This short-term rate drop continues to affect what banks pay on deposits, with the average 6-month CD rate down further to 2.01%.

Several members of the Federal Reserve Board believe that the economy still faces a continuing slowdown this year, but will begin to recover next year as the economy adjusts to the favorable monetary and fiscal policy conditions.

Long-term rates have also declined slightly during the last three months. However, they were down even more from our last newsletter before increasing recently. In fact, the yield on 10-year treasuries was recently above 5% for the first time in 3 months. Housing mortgage rates were up slightly, but still near the 30-year low of 6.49%. Overall, rates are still very attractive for borrowers.

KEY INTEREST RATES & INDICES

November 28, 2001

INDEX	CURRENT RATE	CHANGE FROM 8/28/01	NOTES
Bank Prime	5.00%	-1.50%	(effective 11/7/01)
1 Yr. Treasury	2.22%	-1.16%	
5 Yr. Treasury	4.29%	-0.12%	
10 Yr. Treasury	4.92%	-0.05%	
30 Yr. Treasury	5.36%	-0.12%	
LIBOR (1 Mo.)	2.08%	-1.50%	
LIBOR (6 Mo.)	2.13%	-1.40%	
LIBOR (1 Yr.)	2.52%	-1.17%	
6-Month CD	2.01%	-1.44%	
Discount Rate	1.50%	-1.50%	(effective 11/6/01)
Freddie Mac 60 day	6.82%	0.10%	(30 year mortgage-fixed ra

RECENT LOAN CLOSINGS

1. $24,000,000 construction loan on attached for sale housing on the Peninsula.
2. $5,000,000 equity financing/ mezzanine loan for housing on the mid Peninsula.
3. $2,900,000 permanent loan, 15 year fixed rate, fully amortizing loan on mixed-use project in San Francisco.

ACTIVE REAL ESTATE CONSULTING ASSIGNMENTS

1. $3,300,000 permanent financing on apartments in Seattle.
2. $1,600,000 land loan on the peninsula.
3. $9,000,000 equity financing for to be built apartment project in the East Bay.
4. $3,250,000 interim loan on office building in San Jose.

If I can be of any assistance with your real estate financing needs, please do not hesitate to call me at (650) 579-3995. My email address is <rdavidson@redcofinance.com>.

SOUZA REALTY & DEVELOPMENT

105 EAST TENTH STREET
TRACY, CALIFORNIA 95376-4003