

# Reflections on Real Estate

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Summer 2004

## Environmental Impacts on Private Property

By Tony Souza

*This article was written about ten years ago. I feel it is worth reprinting because the only difference is that today we have an active market in land conservation easements and fee simple sales which range in price from approximately \$2,300 to \$25,000 per acre (see table below).*

In this era of environmental awareness the thought that you may own land with an endangered species, wetlands or any type of environmental amenity sends a chilling fear down your spine: the fear that the land value you have spent so many years building may be lost. But is this really the case? May you instead now own a special property with special value that your neighbor doesn't have?

In order to mitigate the impacts of their projects, land developers, cities, counties, the State, and the U.S. Government are required to purchase lands to replace natural habitat that is destroyed as a result of the project. The lands that are best suited to provide mitigation are those lands which have the greatest environmental amenities.

In order for a project to be allowed to proceed, it is quite common that a project must provide species and habitat mitigation by purchasing lands to replace lost habitat, reconstructing wetlands, or enhancing habitat on other lands. Recent examples of this type of mitigation include the requirement of Safeway stores to purchase 640 acres of grazing land for kit fox habitat so they could build their 1.1 million square foot warehouse, and the requirement of Contra Costa County to re-establish a

wetland in a new location due to the removal of a stock pond on lands which they plan to develop as a general aviation airport. The important issue is that the lands necessary for the mitigation are desirable and valuable because they possess the right environmental amenities.

How do you determine the value of these mitigation lands which are in private ownership? Normally, a comparable sales analysis would be performed comparing the subject property to recent sales of similar properties. The problem lies in that transactions such as the Safeway stores purchase are few and far between. As more transactions occur, the value attributable to those lands which have environmental amenity value will become determinable with less effort.

In order to determine the value of an environmentally sensitive property, we approach the valuation much like we would that of an improved property. We use comparable sales to determine the base value of the land, and then we add the value of the improvement. The unique attribute

of environmentally sensitive property is that each environmental feature adds an increment of value. For example, a property that is solely habitat for kit fox is more valuable than property with no environmental amenities, but is not as valuable as a property with kit fox habitat and a wetland. The property with both kit fox habitat and a wetland could mitigate two impacts, therefore being more valuable than a property which could mitigate only one.

This concept is much like valuing improvements, such as buildings. The valuation is based on the quality of the improvement, or environmental amenity.

Although in the past there has been an inclination to reduce value in properties with environmental amenities because of their restricted development potential and perhaps even decreased agricultural use, I would expect that a market is currently in the making which will have the result of turning that unique special little corner of your property into the most valuable corner, not the least valuable.



Alameda Whipsnake



San Joaquin Kit Fox

BUYER/ PROPERTY LOCATION	SALE DATE	PRICE	ACRES	PRICE/ ACRE
Trust for Public Lands, Brentwood	9/1/00	13,500,000	3,942.00	3,425
CA Dept. of Water Resources, Oakley	11/11/03	28,000,000	1,166.00	24,014
East Bay Regional Park Dist., Pleasanton	12/02	1,500,000	654.00	2,294
Muir Heritage Land Trust, Martinez	3/31/04	792,500	158.50	5,000
Koco, LLC, Alameda County	4/4/03	895,000	144.37	6,199
Wildlands, Inc., Byron	3/29/00	600,000	120.00	5,000
Alameda County	Listing	590,000	118.00	5,000
Alameda County	Listing	1,275,000	85.00	15,000
Muir Heritage Land Trust, Martinez	12/4/01	480,000	80.00	6,000
Brookfield Homes, Byron	7/04	209,150	41.83	5,000
K & E Properties, Inc., Byron	6/23/00	200,000	10.03	19,940

# Rural Residential Financing

By Steven Mizuno

Rural residential properties are no longer solely owned by full time farmers or ranchers. An increasing number of agriculturally zoned properties are being purchased by corporate professionals or hobby farmers. These “part-time” farmers typically buy these properties with an existing residence or with the intention to build their primary residence.

Since these properties may sometimes be large agricultural parcels, and may be considered income producing, obtaining permanent financing may be a challenge as they may no longer be considered eligible for conventional secondary mortgage market financing. Exceptions may be made for some small acreage properties, typically ten acres or less, that have no identified income capabilities and if an appropriate valuation (80% LTV or less) can be derived from the single family residence alone. If the property can meet these parameters, the property may be eligible for conventional secondary mortgage market financing.

Fortunately, given the increasing demand for permanent financing for rural

residential properties that may not be eligible for conventional secondary mortgage market underwriting, there is a mortgage loan purchase program to provide residential mortgage loan lenders making loans on rural residential properties access to the secondary mortgage market through the Federal Agricultural Mortgage Corporation (“Farmer Mac”). This secondary mortgage market source has enabled lending

institutions such as Service 1<sup>st</sup> Bank to underwrite mortgage financing for large acreage, agriculturally zoned properties with a residence that previously may not have been eligible for a conventional secondary mortgage market loan. Some of the eligibility requirements are shown in the table below.

If you would like more details on this Farmer Mac loan program offered through Service 1<sup>st</sup> Bank, please contact Steven M. Mizuno to discuss your options for conventional financing on agriculturally zoned residential property. He can be reached at (209) 820-7924 or by email at [smizuno@service1stbank.com](mailto:smizuno@service1stbank.com).

## ELIGIBILITY

- Property must be a single family, detached primary or secondary residence.
- Property must be 5 acres to 100 acres; a portion of which must be capable of agricultural production.
- The value of the home should represent at least 35% of the total appraised value of the property.
- Additional requirements for full-time farmers.



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## Recent Land & Ranch Sales

CONTRA COSTA COUNTY	ACRES	PRICE	ALAMEDA COUNTY	ACRES	PRICE
4761 Live Oak Ave., Oakley	5.92	675,000	3444 Little Valley Rd., Sunol	11.99	850,000
Bollinger Canyon Rd., San Ramon	6.80	369,000	Greenville Rd., Livermore	16.83	1,150,000
Vasco Rd., Byron	10.00	160,000	32075 Palomares Rd., Castro Valley	21.67	727,000
1792 Chestnut St., Brentwood	10.12	420,000	7901 Dublin Canyon Rd., Castro Valley	80.83	1,800,000
Brownstone Rd., Oakley	10.91	218,000	9290 S. Flynn Rd., Livermore	100.96	1,450,000
250 Concord Ave., Brentwood	12.89	488,000	3949 Mines Rd., Livermore	152.99	1,700,000
25230 Marsh Creek Rd., Brentwood	25.59	695,000			
Byer Rd., Byron	29.11	627,000			
13980 Marsh Creek Rd., Clayton	38.86	1,225,000			
Bethel Island Rd., Oakley	40.74	850,000			
Byer Rd., Byron	44.00	616,000			
4490 Morgan Territory Rd., Clayton	49.10	790,000			
Franklin Canyon Rd., Martinez	131.65	800,000			
13245 Byron Hwy, Brentwood	147.35	4,000,000			
Franklin Canyon Rd., Martinez	158.50	792,500			
			TRACY AREA	ACRES	PRICE
			26666 S. Hansen Rd.	10.00	320,000
			26788 S. Hansen Rd.	23.83	385,000
			25401 S. Lammers Rd.	32.88	1,265,000

Contra Costa County's top five crops, by value, (2002 data in millions) are:

- (1) Bedding Plants—\$26.1
- (2) Cattle & Calves—\$15.1
- (3) Sweet Corn—\$9.6
- (4) Milk/Wool/Eggs—\$6.64
- (5) Grapes—\$6.61

*Contra Costa County Farm Bureau website*



# Properties For Sale

## VASCO ROAD, BYRON



190 ac., 232 ac., and 617 ac. parcels available; suitable for cattle grazing, wind energy production, or habitat and species conservation; \$7,000-\$10,000 per acre.

## CHRISMAN ROAD, TRACY



1 ac. rural homesite southwest of Tracy near the Tracy Golf & Country Club; easy access to the Bay Area from I-580; \$295,000.

## MINES ROAD, SANTA CLARA COUNTY



751 ac. historic mining property located on Red Mountain; property is suitable for hunting and other recreational uses; \$700,000.

## MINES ROAD, SANTA CLARA COUNTY



27 ac. flat to rolling parcel suitable as a homesite and/or recreational property; a creek traverses the property creating a large yearround pond; \$345,000.

## MINES ROAD, LIVERMORE



40 ac. parcel suitable for hunting and other recreational uses; approximately 12.6 miles south of Livermore; \$225,000.

## MINES ROAD, SANTA CLARA COUNTY



640 ac. hunting property near the Alameda County line; includes two trailers, a cabin, three generators, a bulldozer, and two water tanks; \$975,000.

RETURN SERVICE REQUESTED

## Interest Rates

By Rich Davidson

As you can see by the higher interest rates, both long term and short term interest rates increased in the second quarter. However, they were higher earlier in the quarter and they have declined somewhat recently, perhaps to reflect less market concern of a tighter monetary policy.

It is interesting to note that the one rate that continues to decline is the 11<sup>th</sup> District Cost of Funds. The 11<sup>th</sup> District Cost of Funds Index is the weighted average of the cost of borrowings (funds) to member banking institutions of the Federal Home Loan Bank of San Francisco (the 11<sup>th</sup> District). The index rate tends to lag market interest rate adjustments and is relatively stable because institutions borrow money for varying terms and do not pay market rates for all of their funds. For example,

institutions most commonly borrow from depositors in the form of certificates of deposit (CDs). The terms on CDs vary from several days to several years and the interest rates paid were determined at the time of the deposit.

The Federal Reserve raised the discount rate by 25 points on June 30<sup>th</sup> to 2.25%. The CPI index was up 3.3% from one year ago, indicating more inflationary pressure than we have seen during the last year. However the still relatively low interest rates continue to have a positive effect on residential real estate values in all of California, with record prices seen.

There still seems to be more money for lenders to lend than there are loans to be made by the lenders. As a result, there is aggressive competition for good loans by the lenders. This is leading to multiple quotes on permanent mortgage financings,

with concessions often offered in the interest rate and/or loan fee. Construction lenders also are fighting each other for well underwrit-

ten loans.

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](mailto:rdavidson@redcofinance.com).

### KEY INTEREST RATES & INDICES

July 22, 2004

INDEX	CURRENT RATE	CHANGE FROM 4/1/04	NOTES
Bank Prime	4.25%	+0.25%	Last change: 7/1/04
1 Yr. Treasury	2.04%	+0.85%	
5 Yr. Treasury	3.69%	+0.85%	
10 Yr. Treasury	4.46%	+0.58%	
30 Yr. Treasury	5.19%	+0.39%	
LIBOR (1 Mo.)	1.45%	+0.36%	
LIBOR (6 Mo.)	1.93%	+0.77%	
LIBOR (1 Yr.)	2.39%	+1.05%	
6-Month CD	1.83%	+0.74%	
Freddie Mac 60 day	5.80%	+0.49%	30 year fixed rate
12 Month Treasury Average	1.381%	+0.152%	T average
11 <sup>th</sup> District Cost of Funds	1.708%	-0.133%	Fund Cost
Consumer Price Index	189.7		Up 3.3% from a year ago