

# Reflections on Real Estate

A Quarterly Publication from Souza Realty & Development

Winter 2005

## Tracy Nears Completion of General Plan

By Tim O'Donnell

In December, 2002, the Tracy City Council hired Design, Community & Environment as the lead consultant to help the city prepare its General Plan Update. Now, three years later, after soliciting public input at more than twenty city council meetings and workshops, the city's new general plan is nearing completion. A draft environmental impact report was circulated for review and the public comment period ended on November 17. City council hearings to approve the new general plan should be held in early 2006.

One of the most visible changes in the new general plan concerns the optional element on Community Character. The city council, through the

Tracy Tomorrow committee and through the public hearing process, identified the importance to residents of the look and feel of the Tracy Commu-

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nity.

The Community Character element is an attempt to provide direction on future development patterns, site

design, and construction quality for new development projects. The building blocks of community character include urban design principles, design standards, street design guidelines, landscaping, criteria for the preservation of unique or sensitive environmental features, and historic preservation.

In general, Tracy's new Community Character element incorporates modern "new urbanist" principles into the general plan. One of the most important policy goals is the encouragement of walkability within neighborhoods and within the larger community. At the same time, however, the general plan

*see General Plan page 2*

## Leasing Options Provide Many Benefits

By Mike Souza

Leasing and sales are two of the most common ways real estate is transacted. However, sometimes a lease and a sale are combined in the form of a single transaction. A lease with an option to purchase and a sale-

leaseback are two such examples.

A lease with an option to purchase can be used on most any type of real estate, and is commonly used in home sales, sales of single tenant office or commercial buildings, and can be used

for ag ground also. It is a convenient tool to use when a buyer does not have enough money for the down payment or has difficulty obtaining financing.

*see Leasing page 2*



Merry Christmas &  
Happy New Year!  
from the staff of SR&D



### *General Plan continued*

continues to recognize the importance of the automobile in the lives of Tracy residents.

Over the next twenty years, Tracy will likely experience some conflict between pedestrian and automobile goals, as citywide and regional transportation and circulation projects continue to expand to serve the commuting population of San Joaquin County. In order to alleviate some of this potential conflict, the new general plan contains ambitious land use goals designed to foster job-creating land uses in

### *Leasing continued*

As the name implies, a lease with an option to purchase is the lease of property for a set period of time, at the end of which the lessee (renter) has the option to purchase the property, usually at a predetermined price. Most times the lease payment (rent) does not apply to the purchase price, other times a percentage of the lease payment may apply.

Leases with option to purchase are commonly seen in tight real estate markets with slow sales. They can benefit a seller in that the property may not be able to sell under a conventional sale, but the lease with option to purchase provides income from the property until the property can sell. One potential disadvantage is that as a purchase price is locked in, the market value goes up during the lease term. Another disadvantage is that the lessee always has the option not to purchase, leaving the seller with the property and having to search for another buyer.

It is advantageous to the buyer in that it is a way to get into a property sooner than he might otherwise be able to, and he does not have to obtain financing.

A sale-leaseback can involve almost any type of property, however it generally involves property that is used in the seller's (lessee's) trade or business. This is a transaction in which the seller sells the property to a buyer and the buyer becomes the lessor and leases the property back to the seller who becomes the lessee.

There are both business and tax advantages which make the sale-leaseback of real

Tracy.

As the City of Tracy has grown over the last twenty years, the work force has grown increasingly skilled and well-educated. The general plan foresees the need for millions of square feet of new office buildings and manufacturing facilities to accommodate employers that want to take advantage of the skilled, educated workforce. Throughout the public hearing process, the city council heard consistently from that workforce who would jump at the chance to shorten commutes and work closer to home.

estate a valuable alternative to the more traditional method of raising funds by obtaining a mortgage. As in most real estate transactions, a knowledgeable broker and tax advisor are imperative.

A sale-leaseback can afford many business advantages by raising funds when conventional financing cannot be obtained or is not desired. Among these advantages is that a sale-leaseback provides for 100% financing of the property, it provides a means of financing a property in tight money markets, and the buyer-lessor may secure better financing terms than the seller-lessee. A sale-leaseback may improve the seller's borrowing position, it avoids loan restrictions, and avoids usury limits.

There also are some disadvantages to a sale-leaseback. The residual value of the property is lost, the flexibility of ownership is given up, and there could be a higher cost of financing.

Depending on a seller's situation, there could be some major tax advantages in this type of transaction. Deductions for rent paid by the seller-lessee might exceed the cost of the interest and depreciation if the property were not sold. Being a sale-leaseback is normally used on property which is used in the seller-lessee's trade or business, it qualifies as 1231 property. The gain or loss on the sale of 1231 property qualifies for capital gain - ordinary loss treatment. This means that a gain can be treated as a capital gain, and the loss can be treated as an ordinary loss. Of course, you must consult your CPA to discuss possible pitfalls which may be attributable to your particular situation.



*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.

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There are not enough trees available for harvesting in the U.S. to fill the demand for lumber to build American homes. Canadian imports account for more than one-third of the entire lumber supply used in U.S. home building and are essential for meeting domestic housing demand.

*National Association of Home Builders  
website ([nabb.org](http://nabb.org))*

# Property For Sale



## Recent Land & Ranch Sales

Below are a sampling of land sales that have occurred since our last newsletter. Note that this information has been extracted from the Multiple Listing Service and public records and has not been verified for accuracy. If you have any questions regarding these sales, please contact our office.

| CONTRA COSTA COUNTY              |       |           | ALAMEDA COUNTY                     |       |           |
|----------------------------------|-------|-----------|------------------------------------|-------|-----------|
|                                  | ACRES | PRICE     |                                    | ACRES | PRICE     |
| Somersville Rd., Antioch         | 3.58  | 850,000   | 31924 Palomares Rd., Castro Valley | 10.27 | 420,000   |
| 71 Quail Ln., Martinez           | 5.00  | 1,000,000 | Palomares Rd., Castro Valley       | 40.00 | 1,500,000 |
| 4390 Gateway Rd., Bethel Island  | 7.36  | 450,000   | 4413 Dagnino Rd., Livermore        | 66.00 | 1,125,000 |
| 40 Bear Oaks Pl., Martinez       | 9.48  | 650,000   |                                    |       |           |
| 14101 Byron Rd., Byron           | 12.18 | 800,000   | TRACY AREA                         |       |           |
| 17601 Marsh Creek Rd., Brentwood | 26.91 | 1,645,000 | 145 E. Homestead Rd.               | 11.00 | 505,000   |
| 19296 Marsh Creek Rd., Brentwood | 36.40 | 1,600,000 | 12501 N. Empire Tract Rd.          | 15.00 | 150,000   |
| 10511 Byron Hwy, Brentwood       | 41.00 | 1,985,000 | 33801 S. Koster Rd.                | 30.96 | 580,000   |

RETURN SERVICE REQUESTED

## Interest Rates

By Rich Davidson

As you can see, short term interest rates have continued to increase. The Federal Reserve continues to increase its short term federal funds target rate, the rate member banks are charged on overnight borrowings between banks. This makes short term borrowing, such as construction financing, more expensive. This is starting to slow down certain types of short term borrowings according to banking sources. The Fed has now raised the Federal Funds rate by ¼ percent at each of its past 13 policy

meetings from June of 2004 when the rate was a 46 year low of one percent. This is a virtual repeat of the previous three month quarterly report. Many people feel there will be one or two more Fed rate increases in 2006, in order to keep the economy from overheating, before they stop.

Longer term rates as exhibited by treasury rates of 5, 10 and 30 years, trended upward as well, as have long-term home mortgage rates. However, the long term rates have still not risen as dramatically as the short term rates have. This is due, in part, to the continued instability in the Euro and the strong foreign demand for treasuries. The dollar has increased again in value against the Euro

and Yen as comments from Federal Reserve officials suggest that the Fed will continue raising interest rates despite the recent damage from the hurricanes. Rising rates support the dollar since they attract global investors who seek better returns. Again, this is similar to what we said in our last quarterly report.

The Conference Board's consumer-confidence index increased during the past month. This index is developed from a survey based upon a representative sample of 5,000 U.S. households. So consumers' outlook has improved and is more optimistic.

### RECENT LOAN CLOSINGS

1. \$6,750,000 acquisition fixed rate construction financing for assisted living community in Angels Camp, CA.

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            |              |                     |                       |
|---|--------------|---------------------|-----------------------|
| December 13, 2005                       |              |                     |                       |
| INDEX                                   | CURRENT RATE | CHANGE FROM 9/28/05 | NOTES                 |
| Bank Prime                              | 7.25%        | +0.50%              | Last change: 12/13/05 |
| 1 Yr. Treasury                          | 4.39%        | +0.39%              |                       |
| 5 Yr. Treasury                          | 4.43%        | +0.31%              |                       |
| 10 Yr. Treasury                         | 4.53%        | +0.24%              |                       |
| 30 Yr. Treasury                         | 4.73%        | +0.17%              |                       |
| LIBOR (1 Mo.)                           | 4.37%        | +0.53%              |                       |
| LIBOR (6 Mo.)                           | 4.67%        | +0.49%              |                       |
| LIBOR (1 Yr.)                           | 4.86%        | +0.49%              |                       |
| 6-Month CD                              | 4.63%        | +0.48%              |                       |
| Freddie Mac 60 day                      | 6.08%        | +0.33%              | 30 year fixed rate    |
| 12 Month Treasury Average               | 3.478%       | +0.459%             | T average             |
| 11 <sup>th</sup> District Cost of Funds | 3.074%       | +0.317%             | Fund Cost             |
| Consumer Price Index                    | 199.2 (Oct.) |                     | Up 4.3% from year ago |
| Federal Funds Rate                      | 4.25%        | +0.50%              | Last change: 12/13/05 |
| Consumer Confidence Index               | 98.9 (Nov.)  |                     | Up from 85.2 in Oct.  |