

# Reflections on Real Estate

A Quarterly Publication from Souza Realty & Development

Spring 2007

## Land... Land... Land

By Tony Souza

**O**ne big question to many of us in real estate is: what is open land worth in Northern California?

Before we can tackle that question lets talk a little about what is influencing land prices today. As with any investment, price is determined by return on the investment and expected increase in value. The return on investment (ROI) is an easy calculation: dividing the net income in dollars per acre by the percent return which satisfies your requirement will yield ROI. An example would be \$250 in rental income per acre less \$50 per acre in taxes equaling \$200 net divided by five percent would equal \$4,000 per acre. Now we get to the difficult part of the analysis: what will the property be worth in the future? If you believe that rents will increase with the rate of inflation and

that inflation will advance at the annual rate of three percent, then the value of the investment will also advance by three percent or \$120 per acre per year. If this were the only consideration, the determination of



value would be simple. Not so.

For example, the value of a rural homesite without consideration of its agriculture value could range anywhere from \$200,000 to \$1,000,000

depending on the number of homes that the parcel could support. Property values are determined by (i) the current legal zoning, (ii) whether the jurisdiction controlling land use will allow the zoning determination to occur, and (iii) whether the use can be changed.

So this being said, what is the impact on value? In order to answer that question, let's look at some other examples. A forty acre parcel can be used as a single home site. This parcel generates \$250 per acre in rent and is located in an area where lots are selling for \$500,000. The land is worth \$4,000 per acre for agriculture return and \$12,500 per acre as a home site totaling \$16,500 per acre or \$640,000 for the forty acre parcel. Now let's look at a forty acre parcel

*see Land page 2*

## Staff Notes

Lisa M. Cox has been hired by Souza Realty & Development as an executive office manager of the soon to be completed West Park Executive Suites in Tracy. She is currently helping coordinate all aspects of the project. (More information on this project shall be forthcoming in the next edition of *Reflections on Real Estate*.)

Lisa was born in 1975 in Tracy, CA. She attended Tracy area grammar

schools and graduated from Tracy High School in 1993.



Lisa M. Cox

Lisa was married in 1994 to her high school sweetheart and quickly began a family. Lisa has three very active boys and is a full time mother. While most importantly a mom, Lisa managed a local retail store for six years. Due to her sons' passion for sports Lisa and her family have

become very involved with the Tracy Raiders Youth Football Organization,

Tracy Little League and All-American Sports Academy. Lisa has volunteered countless hours to these non-profit organizations and even served as a board member for All-American Sports Academy.

In 2003, after the youngest of her children began school, Lisa studied to acquire her real estate salesperson license and for the past two years has been working as a real estate agent for Gateway Real Estate in Tracy.

# 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

see *Leasing* page 3

## Land continued

that is currently used as agriculture but is going to be annexed into the city limits and used for five homes to the acre sometime within the next five years. The value of this property is somewhere between \$50,000 and \$200,000 per acre. Why such a wide range? The answer is the certainty or lack of certainty in the amount of time to complete the change in use.

A discussion of value would not be complete without talking about the conservation buyer. A conservation buyer is an individual or agency who desires to buy land in order to retain its current use or preserve it for environmental use. These buyers clearly impact the value of land. In some markets, these agencies are willing to outbid agriculture buyers,

driving up land values. In other cases, agriculture easements are acquired adding substantial value to the land. As an example of value consideration, an agricultural land owner receives \$4,000 per acre to keep the land in an agriculture use. This means that a parcel of land that has an agriculture value of \$4,000 per acre due to the rent that it receives and \$4,000 per acre for its easement use is now worth \$8,000 per acre.

Returning to original question: what is open land worth in Northern California? Well it all depends, but probably somewhere between \$8,000 and \$200,000 per acre. The moral of the story is that the real estate land value expert is no different than the old cowboy—he's never quite sure but always has a great story to tell.

## 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			ACRES	PRICE	ALAMEDA COUNTY			ACRES	PRICE
Knightsen Ave., Knightsen	10.00	900,000	3466 Foothill Rd., Pleasanton	5.00	1,736,000				
1499 Sunset Rd., Brentwood	10.00	1,375,000	7498 Sheridan Rd., Sunol	8.21	955,000				
Bixler Rd., Discovery Bay	10.83	963,000	9635 Dublin Cyn Rd., Castro Valley	10.09	650,000				
2409 Camino Diablo	11.50	899,500	8875 Dublin Cyn Rd., Castro Valley	34.21	680,000				
Brentwood Blvd., Brentwood	19.21	2,044,500	Mines Rd., Livermore	40.00	210,000				
4835 Tranquility Bay	20.38	625,000	18450 Mines Rd., Livermore	55.98	125,000				
4571 Orwood Rd., Knightsen	40.71	1,500,000	Lupin Way, Livermore	80.00	1,350,000				
Old School Rd., San Ramon	80.00	5,000,000	24700 Mines Rd., Livermore	82.60	570,000				
			3737 Cross Rd., Livermore	160.00	900,000				
TRACY AREA			ACRES	PRICE	Crow Canyon Rd., Castro Valley	275.88	475,000		
27945 S. Chrisman Rd.	5.00	555,000	14680 Mines Rd., Livermore	436.40	3,000,000				
26955 S. Hansen Rd.	7.79	1,650,000							
Canal Blvd.	10.00	525,000	STANISLAUS COUNTY			ACRES	PRICE		
153 W. Homestead Rd	11.06	520,000	Del Puerto Canyon Rd.	38.48	101,000				
29043 S. Lehman Rd.	40.07	900,000	Del Puerto Canyon Rd.	274.19	600,000				
33000 S. Bevis Rd.	42.54	907,500	Hwy 5, Patterson	400.00	800,000				



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

### VICE PRESIDENT, DEVELOPMENT

A. Michael Souza, CRE, ALC

### CHIEF FINANCIAL OFFICER

Jerrold Z. Schluer

### VICE PRESIDENT, CONSULTING

James A. Gwerder

### PROJECT MANAGER, LAND PLANNING & DEVELOPMENT

John P. Palmer

### LAND & COMMERCIAL BROKERAGE

Michael S. Glazzy

### SALES & LEASING ASSOCIATE

Lisa M. Cox

### ADMINISTRATIVE ASSISTANT

Roseline Miller

©2007

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

The percentage of households that could afford to buy an entry-level home in California stood at 25 percent in the fourth quarter of 2006, compared with 27 percent for the same period a year ago, according to C.A.R.'s First-time Buyer Housing Affordability Index (FTB-HAI).

California Association of Realtors®



### *Leasing continued*

the down payment or has difficulty obtaining financing.

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 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.

## **Property For Sale**

*For information on this property and our other listings, please visit our website at [souzard.com](http://souzard.com)*

**±103 Acres**  
**10625 MORGAN TERRITORY ROAD**  
**CONTRA COSTA COUNTY**  
**\$1,695,000**



**SPECIALIZING IN**

- Farms & Ranches
- Transitional Land
- Commercial
- Industrial
- Development
- Consulting
- Valuation

RETURN SERVICE REQUESTED

## Interest Rates

By Rich Davidson

The stock market is posting strong gains the week of through March 21st as observers believe that the Federal Reserve is beginning to indicate they are no longer biased toward higher interest rates. Rates have remained fairly steady over the last four months but professionals now believe that the Federal Reserve will start to lower short term interest rates this summer or fall. We shall see!

Inflation still remains the predominant policy concern of the Federal Reserve but it appears that officials see a risk of further economic slowdown in the months ahead, which will, in turn, reduce the inflation pressure. In the big scheme of things,

long term rates are still relatively low.

### RECENT LOAN CLOSINGS

1. \$14,769,231 Sale of Existing Apartment project in North Bay.
2. \$3,800,000 Refinance of Storage Facility and Vehicle Storage at

3. \$23,192,000 Construction loan for 99 residential condominium units south of Market Street, San Francisco.

### ACTIVE REAL ESTATE CONSULTING ASSIGNMENTS

1. \$3,250,000 refinance land loan in South Bay
2. \$3,000,000 interim loan secured by partnership interest
3. \$14,300,000 refinance apartment/condominium development in San Francisco

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).

7.25% fixed for 10 years in Mid Peninsula.

7.25% fixed for 10 years in Mid Peninsula.

KEY INTEREST RATES & INDICES			
March 20, 2007			
INDEX	CURRENT RATE	CHANGE FROM 11/29/06	NOTES
Bank Prime	8.25%	unchanged	
1 Yr. Treasury	4.89%	+0.02%	
5 Yr. Treasury	4.43%	-0.08%	
10 Yr. Treasury	4.50%	-0.02%	
30 Yr. Treasury	4.70%	+0.09%	
LIBOR (1 Mo.)	5.32%	-0.03%	
LIBOR (6 Mo.)	5.34%	-0.01%	
LIBOR (1 Yr.)	5.24%	unchanged	
6-Month CD	5.39%	+0.06%	
Freddie Mac 60 day	5.95%	-0.02%	30 year fixed rate
12 Month Treasury Average	5.014%	+0.19%	T average
11 <sup>th</sup> District Cost of Funds	4.392%	+0.10%	Fund Cost
Consumer Price Index	203.5 (Feb.)		Up 2.4% from year ago
Federal Funds Rate	5.25%	unchanged	
Dow Jones Industrial Avg.	12,288		-1.4% YTD
Consumer Confidence Index	112.5 (Feb.)		Five year high