

Reflections on Real Estate

A Publication by Souza Realty & Development

Summer 2013

The Secrets of Success in Property Ownership

By Jim Gwerder

The staff at SR&D has been publishing *Reflections on Real Estate* for almost 20 years. We know our readers are generally interested in the subject matter and already read and hear about many real estate issues from mainstream media. These are the very issues that we at SR&D have to be on top of in order to provide the best possible service to our clients and customers. But, in *Reflections* we strive to inform about what is happening in the world of real estate from a different perspective, or to hone in on what we hope are interesting details that we can provide due to our daily experiences in the office and the field.

Having said all that, I (along with anybody else with functional eyes and ears in California) have been following the issues surrounding the San Joaquin Delta for some time. I have also been trying to think of something new to tell our readers besides “it is a big complicated situation”. Conveyance tunnels, water rights for humans, fish rights for water, human rights, property rights, overlapping conflicting governmental structures, stacks of documentation and countless hours spent producing them, the water wars between North and South. We can truly see that whoever said “whiskey is for drinking and water is for fighting” was right. The administrative draft Environmental Impact Report released recently for the Twin Tunnels proposal must be vetted, and if the proposal moves forward there will be an effect on many Delta landowners through condemnation actions and property value changes.

While thinking on this over the past days I was reviewing some of the many agendas that I monitor from various commissions, boards and committees from the region. This is normally pretty dry work. Looking at the August meeting materials for the San Francisco Bay Delta Commission (BCDC), amongst the notice cancelling the meeting until September and the normal listing of pending administrative matters and permit applications, I was intrigued to find the following two items posted on the website for BCDC Commissioners, Alternates, Staff and the Public:

1. Little Hoover Commission Letter: The State of California Little Hoover Commission (formally known as the Milton Marks “Little Hoover” Commission on California State Government Organization and Economy), is an independent state oversight agency that was created in 1962. The Commission’s mission is to investigate state government operations and – through reports, recommendations and legislative proposals – promote efficiency, economy and improved service. The July 2013 letter to the Executive Director of the San Francisco BCDC indicates that “*the Little Hoover Commission has begun a new study examining climate change adaptation in California. As a major coastal state with trillions of dollars in infrastructure and developed property fronting the Pacific Ocean, California is*

particularly vulnerable to rising sea levels and other impacts of climate change. The state’s water and energy supplies, forested land, agriculture and wildlife are particularly vulnerable. The Commission’s study will examine the governance and legal structures necessary to effectively adapt to changing climate conditions. As part of this review, the Commission will assess appropriate frameworks to guide responses, decisions and investments during a time of uncertainty”. The letter goes on to say that the study will kick off with a public hearing at the State Capitol on August 22nd and asks the BCDC staff for any recommendations, experts, or research that would be helpful in the study.

And if that wasn’t eerie enough, I read on to the next item posted on the site:

2. Vanity Fair Article – From Coast to Toast: This is an August 2013 Vanity Fair article that talks about eroding coastline areas at Broad Beach in Malibu California and the small island of Nantucket, Massachusetts. The article describes these two spots on either side of the country as having some of the most expensive residential real estate in the nation, with some homes being abandoned and others in danger of being victims of beachfront erosion. The article quotes Tom Ford, director of maritime programs at

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the Santa Monica Bay Restoration Foundation as saying “*But we have to recognize that scientists in Rhode Island and New Jersey [and other places where there’s a lot of erosion] are talking about ‘managed retreat’*”.

Now I am starting to get really weirded out.

I moved on to the prior meeting notice to Commissioners, Alternates, Staff and Public for the July 19th BCDC meeting. Morbid curiosity had taken over, so I ignored the Administrative Matters and Permit Applications and went straight for the item called Articles about the Bay and BCDC. That item revealed a July 2013 *Rolling Stone Magazine* article called “Goodbye, Miami” which starkly portrays a south Florida in the year 2030 in the after effects of a hurricane and sea level rise. The lengthy article discusses the current problems in south Florida and Miami in particular, pointing to Miami as being an “American Atlantis” by the end of the century.

I am thinking about how potential rising sea levels could affect potential twin tunnels, when my mind begins to drift a little and...

...all of the sudden it is 1996. I am at my father’s house, on the ranch I grew up in the southern part of the San Joaquin Delta. This is where I spent summer days

exploring the riverbanks and evenings watching the sun go down over Mount Diablo. But in 1996, there was flooding at my Dad’s property, and he was valiantly running a pump 24 hours a day from a little aluminum fishing boat to keep the water from rising above the floorboards in the house. One day the camera crews from the closest television station were driving down the road, and Dad, after days of inhaling pump fumes and lacking sleep, found it quite appropriate to wave at the camera and yell “waterfront property for sale!”

Although that declaration made in a moment of delirium gave us something to laugh about at the time, Dad, like everyone else who has grown up in and around agriculture, knows about the power of nature. He knows about water and where it goes. Arguably the flooding at his property in 1996 would have been avoided had two government agencies (one federal, one state) been able to agree on reasonable improvements to the local levee system. He has also seen government regulation on his agricultural operation expand beyond his imagination. In the 1930’s, his father bought the ranch with the knowledge that there was ample water available to farm it. Today, the landowner-farmers in the area need the expertise of attorneys to properly report water usage in order to continue to assert the right to that water.

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Reflections on Real Estate is a publication 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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Recent Land & Ranch Sales

ALAMEDA CO.			CONTRA COSTA CO.		
AC.	PRICE		AC.	PRICE	
3678 Foothill Rd., Pleasanton	5.86	1,372,000	Buchanan Rd., Antioch	13.64	1,750,000
Collier Canyon Rd., Livermore	11.17	105,000	5900 Sellers Ave., Oakley	16.70	700,000
5700 Greenville Rd., Livermore	23.61	1,745,000	55 Claremont Ave., Orinda	18.00	850,000
Bellina Canyon Rd., Castro Valley	62.36	700,000	1001 Victorine Rd., Livermore	23.92	1,030,000
Santos Ranch Rd., Pleasanton	70.00	2,620,000	14350 Marsh Creek Rd., Clayton	51.14	691,000
CONTRA COSTA CO.			CONTRA COSTA CO.		
AC.	PRICE		AC.	PRICE	
82 Overhill Rd., Orinda	3.30	390,000	Byron Hwy, Byron	108.88	500,000
2480 Oakley Rd., Oakley	4.60	295,000	Bollinger Cyn Rd., San Ramon	124.11	930,000
1693 Taylor Rd., Bethel Island	5.00	140,000	SANTA CLARA CO.		
Monticello Rd., Lafayette	7.69	775,000	Del Puerto Cyn Rd.	80.00	65,000
2551 Bartels Dr., Knightsen	9.00	210,000	17000 Del Puerto Cyn Rd.	163.00	185,000
57 Pastor Ln., Knightsen	10.00	690,000	32005 San Antonio Vly Rd.	580.00	450,000
1830 Delta Rd., Knightsen	10.00	650,000	TRACY AREA		
Sunset Rd., Brentwood	10.62	395,000	31124 Highway 33	5.00	510,000
Propeller Ln., Knightsen	10.82	320,100	6712 W. Linne Rd.	6.10	400,000
760 Minnesota Ave., Brentwood	11.57	820,000	14771 W. Bethany Rd.	17.49	335,000
5575 Old School Rd., Danville	12.00	1,525,000	32523 S. Chrisman Rd.	66.05	900,500
Hunsaker Cyn Rd., Lafayette	13.50	2,050,000	23216 Kasson Rd.	104.19	1,160,500
			12661 Finck Rd.	744.28	5,207,260

An email received from Bill Robertson, SR&D client and seller of the 1,368 ac. Robertson Ranch property mentioned in an article in our Spring 2013 newsletter:

*Anthony and Jim:
Wonderful article! Had you shown me a draft of this six months ago, I would have been a buyer rather than a seller. Your enthusiasm is infectious and confirms Souza’s success in ranch land sales. Congratulations to you and all at Souza and to EBRPD (East Bay Regional Park District) for making this a win-win transaction.
Regards, Bill*

Available Properties



2,520 - 7,600 Sq. Ft. LIGHT INDUSTRIAL SUITES
MACARTHUR DRIVE, TRACY
\$0.60-0.70/Sq. Ft. NNN
SUITABLE FOR AUTOMOTIVE, DISTRIBUTION & MORE



±34 ACRES OF IRRIGATED FARMLAND FOR SALE
18540 S. TRACY BLVD., TRACY
\$485,000
CURRENTLY PLANTED TO ALFALFA; NAGLEE BURK IRRIGATION DISTRICT



±646 ACRES OF IRRIGATED FARMLAND FOR SALE
8831 BYRON HIGHWAY, BRENTWOOD
\$6,459,500
INCLUDES THREE BEDROOM FARMHOUSE; RIPARIAN RIGHTS



NET-LEASED OFFICE INVESTMENT
672 W. 11TH STREET, TRACY
\$2,200,000
7.50% CAP RATE; TEN YEAR LEASE WITH ANNUAL INCREASES

Secrets continued

What does all of this boil down to? Here is what I have learned about successful property ownership and what I would like to share with you today: Whether you are working that property yourself (pulling calves, irrigating alfalfa, running a factory) or collecting a rent check, **OWNING PROPERTY IS NOT A PASSIVE EXERCISE!** Property owners must keep eyes and ears open and be ready to respond appropriately.

At Souza Realty & Development, we make it our business to keep our eyes and ears open. We bring this knowledge along with years of expertise to each and every transaction and assignment for our clients and customers. If you need help with any of your real estate related issues- **GIVE US A CALL!**



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We are converting our newsletter to an electronic-only format. Please send an email to mglazzy@souzard.com or call (209) 835-8330 to continue receiving it by email. Thank you!

Interest Rates

By Rich Davidson

Ten year treasury rates hit a low for 2013 on May 1st at 1.66%. On June 1st they had increased to 2.16% and then on August 1st they had increased to 2.74%, their high for the year to date and 108 basis points above their low in just 2 months. Currently they are at 2.57%. This dramatic uptick was triggered by the bond market's perception that the Federal Reserve is going slow down its purchases of mortgage backed securities known as Quantitative Easing (QE). Started in November 2008, QE1 entailed the purchase by the Fed of \$1.7 trillion in mortgage backed securities. In November of 2010, the Fed announced a second round of quantitative easing, this time purchasing \$600 billion of US Treasuries. A third round of quantitative easing (QE3) began in September 2012 with the Fed buying both mortgage backed securities and US Treasuries. Then on June 19th, 2013 Ben Bernanke announced the

“tapering” of some of the Fed’s policies. 10 year US Treasury rates had already climbed to 2.33% and continued to climb into August. The stock market, as measured by the Dow Jones Industrial Average declined 659 points between June 19th and June 24th, a decline of 4.3%.

Currently, the 10 year Treasury rate has settled back to 2.57% and the stock market has posted gains as the Fed and Bernanke have tried to explain their position in more detail to the nervous bond market. However, if you look at rates in a 30 year historical context, they are still dramatically low. All of our lenders continue to show active interest in making new loans and there is still a lot of liquidity in the lending market. Our correspondent life insurance companies remain quite active and are best suited to fixed rate deals for 10 years and longer.

Our correspondent CMBS lenders remain very active and are providing interest only loans again for up to the entire 10 year term. Banks are also very aggressive. Please call if I can be of any assistance or answer any questions.

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KEY INTEREST RATES & INDICES
August 9, 2013

INDEX	CURRENT RATE	4 MONTH CHANGE	NOTES
Bank Prime	3.25%	None	
1 Yr. Treasury	0.11%	-0.02%	
5 Yr. Treasury	1.36%	+0.67%	
10 Yr. Treasury	2.57%	+0.79%	
30 Yr. Treasury	3.63%	+0.69%	
LIBOR (1 Mo.)	0.19%	-0.01%	
LIBOR (6 Mo.)	0.40%	-0.04%	
LIBOR (1 Yr.)	0.67%	-0.06%	
Freddie Mac 60 day	4.46%	+0.71%	30 year fixed rate
12 Month Treasury Average	0.15%	-0.02%	T average
11th District Cost of Funds	0.95%	-0.05%	Fund Cost
Consumer Price Index	233.504(Feb)	+4.03	52 weeks
Federal Funds Rate	0.25%	None	
Dow Jones Industrial Avg.	15,426		+18% YTD
Consumer Confidence Index	80.3 (Jul)		Increased