

Reflections on Real Estate

A Publication by Souza Realty & Development

Spring 2014

Byron Airport Studies Continue

by Jim Gwerder

In October 1994 Contra Costa County opened Byron Airport to the public. The process of site selection, acquisition and development came after studies in the late 1970's/early 1980's pointed out the need for one or more airports in the county to relieve the aircraft parking and operational pressures on Buchanan Field Airport in Concord.

The Byron Airport lands consist of 1,307 acres with 814 acres designated for wildlife habitat man-

agement. A 2005 Airport Master Plan (AMP) calls for an additional 96.7 acres of development on the airport land.

In order to further the short term and ultimate future development of the airport as per the AMP, the county commissioned the recently completed

(November 2013) Byron Airport Infrastructure Study. The \$75,000 study was paid for by a community benefit fund created with a donation from Mariposa Energy¹ and funding from the Federal Aviation Administration.

The infrastructure study first characterized the current conditions for potable water, fire protection and sanitary sewer. Then the study looked at a few alternatives including bringing sewer and water

from Discovery Bay. A proposed alignment of the pipelines for this alternative was contiguous with the historic Byron Hot Springs property.

The alternatives costs were estimated and recommendations made by the consultant. They are summarized as

follows for the ultimate future development of the Byron Airport:

FIRE PROTECTION

Continue to use the existing fire protection system with extended distribution piping and fire hydrants for the near term and long term development areas defined in the AMP.

SANITARY SEWER

To "...explore the construction of an on-site wastewater treatment plant to handle sanitary sewer flows generated from airport development." It is also recommended that "the package wastewater treatment plant be installed for the required full build-out capacity during the near-term development plan, unless it is expected that the long-term development would be delayed indefinitely..."

DOMESTIC WATER

To "...explore construction of a package water treatment plant to treat

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Byron Airport

Understanding Commercial Leases Part 1

by Mike Glazzy

Many prospective tenants become confused when they are quoted lease rates for commercial properties. To some it seems like landlords and brokers are speaking a foreign language. What does triple-net mean? What is an expense stop? What are common area or CAM charges? What is a modified gross lease? What is a base year? All of these terms

impact the rate that is quoted. Thus comparing different leases requires an understanding of these terms and the different types of lease being quoted.

There are generally four basic types of leases: Gross, Full Service, Modified Gross and Triple Net. There are of course variations of these but they are built from one of these basic forms. With guidance from his broker, each

landlord decides which type of lease he believes best fits his specific needs. The tenant's attorney and/or broker need to understand the differences and communicate them to the tenant. A rate of \$1.50 per square foot definitely does not mean the same thing under each lease.

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Tracy State of the City Address

The citizens of Tracy heard some exciting news from Mayor Brent Ives at his recent State of the City Address. Ives announced that potential deals were in the works to bring two major companies to town and locate them in the giant Cordes Ranch business park.

The 1,783-acre development south of Interstate 205 on the city's west side is being touted as California's largest business park and is anticipated to include 28 million square feet of industrial space and create approximately 28,000 jobs at full build-out.

The two companies include a Fortune 500 medical-device manufacturer and a Fortune 100 global transportation provider

with a combined need for up to 900 jobs.

With 70 percent of Tracy's working population commuting out-of-town every day to their jobs, Ives has made job growth—especially high-tech job growth—within the city of utmost importance during his tenure.

The mayor said that as long as Tracy keeps focused on dealing successfully with the industrial boom that is gaining momentum, it will benefit from more jobs and finances that can help improve quality of life in Tracy. Already, he said, Tracy gained 3,000 new jobs last year. That includes the 1,000 new jobs at the Amazon Fulfillment Center that opened in October and is planning to increase in size by 20 percent.

Leases continued

Estate, I will focus on the Gross and Triple Net leases. In the next edition of *Reflections*, I will talk about the Full Service and Modified Gross leases.

The Gross lease is the simplest lease form. In this format the tenant simply pays a stated amount each month. This rate covers all the basic expenses that the landlord would normally incur including property taxes, insurance and common area maintenance (CAM charges) such as landscape maintenance and building repairs and maintenance. The landlord takes

care of all these aforementioned expenses, and except for annual cost-of-living adjustments, the rate does not change. Any increase in the cost of these items is simply absorbed by the landlord. However, most landlords are not willing to take the risk of inflating costs. Gross leases are therefore usually for short time periods where inflation and escalating costs are not a factor.

The Triple Net lease is almost the reverse of the Gross lease. There is a quoted base rent but, in addition, the tenant is responsible for all the costs incurred for the opera-

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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	
10011 Tesla Rd., Livermore	10.00	1,930,000	3535 Springhill Rd., Lafayette	16.14	660,000
Arroyo Rd., Livermore	13.19	350,000	Sellers Ave., Brentwood	18.49	2,000,000
8500 Crane Ridge Rd., Livermore	20.02	1,300,000	11350 Byron Hwy, Brentwood	18.59	650,000
41798 Vargas Rd., Fremont	21.94	1,350,000	Augusta Dr., Orinda	20.46	250,000
3530 Welch Creek Rd., Sunol	22.59	1,175,000	Sellers Ave., Brentwood	37.43	1,000,000
37789 Palomares Rd., Castro Vly	22.78	1,200,000	3731 Concord Ave., Brentwood	49.30	1,000,000
1600 Valley Ave., Pleasanton	26.73	38,213,500	Sellers Ave., Brentwood	50.25	1,750,000
5781 Fallon Rd., Livermore	35.96	5,103,000	Marsh Creek Rd., Brentwood	70.00	2,180,000
Fraga Rd., Castro Valley	56.98	1,000,000	4571 Orwood Rd., Brentwood	90.00	1,165,000
Vargas Rd., Fremont	76.87	749,000	Empire Mine Rd., Antioch	236.00	8,300,000
			Orwood Rd., Knightsen	451.76	2,735,000
CONTRA COSTA CO.			SANTA CLARA CO.		
AC.	PRICE		AC.	PRICE	
Minnesota Ave., Brentwood	3.03	410,000	San Antonio Valley Rd.	15.00	125,000
7590 Lone Tree Way, Brentwood	4.68	1,210,000	San Antonio Valley Rd.	80.00	121,000
1900 Peters Ranch Rd., Danville	5.34	1,600,000	San Antonio Valley Rd.	277.20	186,500
109 Camelia Ln., Lafayette	8.65	550,000			
8060 Balfour Rd., Brentwood	10.01	275,000	TRACY AREA		
7650 Lone Tree Way, Brentwood	11.50	2,875,000	8235 W. Schulte Rd.	34.21	855,500
1537 Taylor Rd., Bethel Island	12.77	205,000	Bird Rd.	70.22	878,000
Marsh Creek Rd., Brentwood	13.40	449,000	Bird Rd.	104.95	920,000

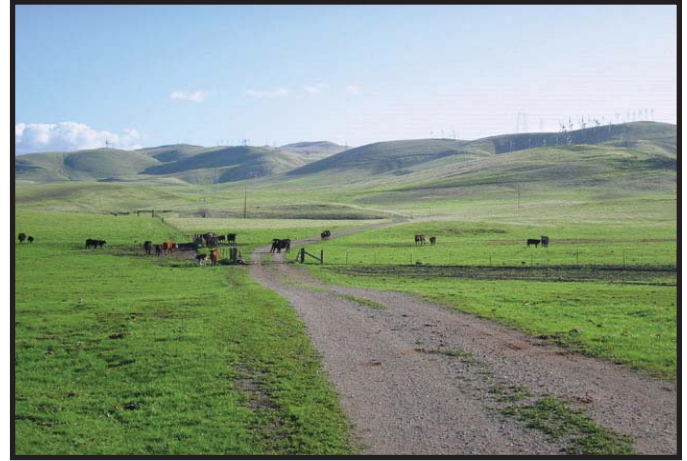
In January 2009, 69.5 percent of all homes sold in California were distressed, which includes short sales and real estate-owned (REOs) properties. Five years later, that figure has shrunk to 15.6 percent. More specifically, REOs comprised 60 percent of all sales in January 2009, while short sales made up 9.1 percent of all sales but rose to as high as 25.6 percent in January 2012. Short sales currently make up 9.2 percent of all sales.

California Association of Realtors®

Available Properties



±645.95 ACRES OF IRRIGATED FARMLAND FOR SALE
8831 BYRON HIGHWAY, BRENTWOOD
\$10,000 PER ACRE
INCLUDES FARMHOUSE



TWO ±80 ACRE PARCELS FOR SALE
PATTERSON PASS ROAD, ALAMEDA COUNTY
\$7,000 PER ACRE
SUITABLE FOR HOMESITES, AG USES, HABITAT CONSERVATION & MORE

Leases continued

tion of the premises. The tenant pays the property taxes, the cost of the landlord's insurance premiums and CAM charges (together known as "Triple Net Expenses") as they come due. Triple Net Expenses can also include such things as pest control services, trash disposal, reserves for future maintenance and repairs, and management fees.

Under the Triple Net Lease, the tenant has all the responsibilities of ownership with none of the advantages.

This concept is best understood if the property has only one tenant. But, often the tenant's space is part of a larger multi-tenant facility and the Triple Net Expenses need to be shared by all the tenants. In this situation, the landlord pays for the Triple Net Expenses as they come due but each tenant pays in advance for his estimated share of the expenses based upon the percentage of the property the tenant occupies. The landlord will estimate the Triple Net Expenses at the beginning of the lease

and will bill the tenant for 1/12th of annual amount with the monthly rent. At the end of each year the landlord will compare the actual expenses with the estimated expenses. If the landlord has spent more than estimated, the tenant will receive a bill for the difference which is to be paid immediately. If the landlord has spent less than estimated, the tenant will receive a credit for the difference.

Byron continued

water from BBID (Byron Bethany Irrigation District) for potable water uses." This would require construction of an 8" pipeline from the airport heading southwest to BBID's pump station on the California Aqueduct.

According to staff at the Contra Costa County Department of Conservation and Community Development Division, the next steps are to update the P1 Zoning District and to undertake a General Plan amendment. The interest of both planning and airport staff is in aligning the 2005 AMP with the General Plan and zoning regarding regulation of the expanded aviation related uses. Also they are looking to update General Plan

policies with an expanded list of uses for the Byron Airport that conform to Federal Aviation Administration descriptions of uses that are at a General Aviation airport without commercial passenger service.

County staff hopes to bring a scope of this additional work to the Board of Supervisor's Airport Committee in June. Funding for the General Plan and zoning work is anticipated

to come from the Mariposa Energy Project Community Benefits Fund.

¹The Mariposa Energy Project Community Benefits Fund (Mariposa Community Benefit Fund) was established to enhance and support the Byron Airport. The Mariposa Energy Project (MEP) is a 200-megawatt natural gas power plant in far northeastern Alameda County, near the confluence of Alameda, Contra Costa and San Joaquin Counties. SR&D worked



Mariposa Energy Project

as part of a multidisciplinary team to achieve the siting and licensing of MEP.

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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

It sounds like a broken record, but rates still remain very low. Five and ten year treasury rates have traded in a relative narrow range since last summer. It is a good time to be a borrower. 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 ten years and longer. Current ten year rates for them are at spreads from 110 to 240 over.

Our correspondent CMBS lenders remain very active and are providing interest only loans again for up to the entire ten year term.

DETERMINING IF CMBS IS A FIT FOR YOU

Commercial Mortgage Backed Securities (CMBS) lenders operate differently from the portfolio lenders such as life insurance companies, banks and credit unions. CMBS lenders "securitize" their loans by packaging them with other loans, creating bonds and selling those securities on Wall Street.

Portfolio lenders typically hold their loans to maturity on their books. With CMBS lenders, additional documentation is often required to satisfy the needs of the Credit Rating Agencies rating these bonds. After coming to almost a virtual halt during the credit crisis, CMBS lenders are very active once again.

To determine if a CMBS loan is right for you, consider the following points:

1. You are trying to obtain maximum leverage, to 75% LTV.
2. You are looking for a Non-Recourse loan with no personal guarantees.
3. Interest only financing is of interest to you.
4. Your property is in a secondary or tertiary market. (Of course CMBS lenders will also lend on properties in primary markets.)
5. You are looking to cash out your trapped equity.
6. You may require mezzanine financing up to

80-85% LTV.

About one-third of our business right now is with CMBS. We have a variety of established relationships, some of which we provide servicing for. CMBS lenders do merit serious consideration these days.

Richard E. Davidson, Director
Barry S. Slatt Mortgage Company
Tel 650-342-6755 x 214

KEY INTEREST RATES & INDICES April 2, 2014

INDEX	CURRENT RATE	4 MONTH CHANGE	NOTES
Bank Prime	3.25%	None	
1 Yr. Treasury	0.12%	-0.01%	
5 Yr. Treasury	1.80%	+0.25%	
10 Yr. Treasury	2.82%	-0.07%	
30 Yr. Treasury	3.65%	-0.25%	
LIBOR (1 Mo.)	0.15%	-0.02%	
LIBOR (6 Mo.)	0.33%	-0.02%	
LIBOR (1 Yr.)	0.56%	-0.02%	
Freddie Mac 60 day	4.49%	-0.08%	30 year fixed rate
12 Month Treasury Average	0.12%	-0.01%	T average
11th District Cost of Funds	0.71%	-0.25%	Fund Cost
Consumer Price Index	234.781 (Feb)	+2.62	52 weeks
Federal Funds Rate	0.25%	None	
Dow Jones Industrial Avg.	16,573		-0.02% YTD
Consumer Confidence Index	82.3 (Feb)		Increased
Gold \$/oz	\$1,290		+7.37% YTD