

# Reflections on Real Estate

A Publication by Souza Realty & Development

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## How To Make a Million Dollars in Commercial Real Estate

by Mike Glazzy

Knowledgeable real estate investors know there are three primary ways to make money in commercial real estate: cash flow, appreciation and equity accumulation. An investment can offer one, two or all three of these. In this article I will be looking at how an investor can make money in commercial real estate through appreciation and equity accumulation and how leverage plays a large part in how much an investor can make.

On the top of Page 2 is a simple chart outlining two investment scenarios. Both incorporate a \$1,000,000 initial cash infusion by the investor, a

three percent annual asset appreciation and 10, 15 and 20 year holding periods.

Scenario I is an all cash purchase of a \$1,000,000 property. You can see that with the three percent annual appreciation, the investor stands to make more and more on his investment as the holding period grows longer. Note that the three percent appreciation equates to three percent annual increases in rents which is common in commercial leasing. It also assumes that the leases on the property are all triple net (NNN) leases in which the tenants pay all the expenses of the property.

Scenario II is a purchase of a

\$2,000,000 property with \$1,000,000 cash and a 20 year, \$1,000,000 loan at 4.25% APR. Because it's a \$2,000,000 investment, the magnitude of the appreciation is twice that of Scenario I. In addition you can see the benefit to the investor that leveraging provides. Over the years of paying down the loan, the investor is building equity in his investment such that by Year 20, the investor owns the property free and clear.

The benefit of leveraging an investment is easy to see by comparing the gains on sale between Scenarios I and

*see Investing page 2*

## News Briefs

by Jim Gwerder

### TRILINK (SR239) PROJECT

This \$14,000,000 TriLink SR239 planning discussion is still underway. The intent is to provide a better connection to move people and goods between Brentwood and Tracy. In October the Contra Costa County Aviation Advisory Committee (AAC) heard a joint presentation from the Contra Costa Transportation Authority and the Parsons Transportation Group. They indicated that the TriLink program is viewed as a series of projects to be implemented incrementally. One of these projects is a potential connector from Vasco Road to the Byron Airport. This caught the attention of the AAC since this project could benefit the Byron Airport and help boost its viability.

The San Joaquin County communi-

ty of Mountain House heard a similar presentation earlier this month. The alternatives being reviewed all go through the Mountain House area.

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Construction costs for the entire project are estimated at \$750,000,000.

The website for the TriLink SR239 Project is <http://trilink239.org/>.

### AGRICULTURAL MITIGATION FEE DISCUSSION REACHES CONTRA COSTA COUNTY

While mitigating for the loss of wildlife habitat to urban development is somewhat standard fare for California, since about 2006 there has been a slow progression of jurisdictions reviewing the concept of mitigating for the loss of farm ground.

Of the 58 counties in California, 17 of the LAFCOs (Local Agency Formation Commissions) have adopted some policy regarding mitigating the conversion of agricultural land. These policies are by no means standard and are all over the board in terms of complexity and content.

Contra Costa LAFCO began a review of this concept in the summer

*see News Briefs page 2*

## Investing continued

II. The benefit of leveraging using a 50% loan-to-value factor is more than three times greater than that of using no leverage at all. And if you leveraged at 60 or 70% LTV, the difference would be even greater.

The secret to building a significant real estate portfolio is utilizing the awesome power of leverage! With the vast array of properties and financing opportunities available to you, the options are limitless. To learn more about this exciting concept, please call us here at Souza Realty & Development.

<b>Scenario I - All cash purchase</b>			
Holding period	10 Years	15 Years	20 Years
Appreciated value	1,304,773	1,512,590	1,753,506
Cash invested	1,000,000	1,000,000	1,000,000
Gain	304,773	512,590	753,506

<b>Scenario II - 50% cash purchase</b>			
Holding period	10 Years	15 Years	20 Years
Appreciated value	2,609,546	3,025,179	3,507,012
Cash invested	1,000,000	1,000,000	1,000,000
Loan payoff	604,500	334,187	0
Gain	1,005,046	1,690,992	2,507,012

## News Briefs continued

of 2015. They are taking a measured approach in receiving comment from a wide range of stakeholders. Each LAFCO must tailor a policy for its unique area. Contra Costa County is certainly unique with its Urban Limit Lines, 65/35 Open Space/Urban Development requirement, and East Contra

Costa County Habitat Conservation Plan/Natural Communities Conservation Plan.

The website for this effort at Contra Costa LAFCO can be found at <http://contracostalafco.org/Ag-and-Open-Space-Preservation.htm>.

Give Jim Gwerder a call at 209-835-8330 ext. 14 if you have any questions about these two items.

## Recent Land & Ranch Sales

ALAMEDA CO.	AC.	PRICE
20 Storybook Ln., Livermore	8.48	475,000
29524 Palomares Rd., Castro Vly	10.10	1,500,000
Dublin Blvd., Dublin	12.23	4,000,000
7600 Hawthorn Ave., Livermore	12.75	3,332,500
6930 Sunnyslope Ave., Castro Vly	12.82	1,125,000
41262 Vargas Rd., Fremont	17.74	1,071,000
Edinburgh Dr., Livermore	24.73	525,000
7100 Tesla Rd., Livermore	30.39	1,400,000
10069 Tesla Rd., Livermore	99.01	1,250,000
6861 Tassajara Rd., Pleasanton	225.15	99,500,000
CONTRA COSTA CO.	AC.	PRICE
295 Las Quebradas Ln., Alamo	4.78	1,417,000
Bragdon Way, Clayton	6.42	295,000
Propeller Ln., Knightsen	8.55	335,000
Camino Diablo, Byron	10.00	300,000
8030 Balfour Rd., Brentwood	10.01	280,000
1950 Arabian Ln., Brentwood	10.49	810,000
277 Hemme Ave., Alamo	10.50	2,000,000
5870 Bruce Dr., Danville	11.00	3,362,500
8494 Byron Hwy, Byron	11.03	675,000
Aspen Rd., Oakley	11.71	170,000
2600 Sunset Rd., Brentwood	13.00	950,000
3100 Buchanan Rd., Antioch	13.64	7,100,000
4100 Knightsen Ave., Oakley	13.80	650,000
1631 Arabian Ln., Brentwood	14.13	460,000
1401 Dutch Mill Dr., Danville	14.25	3,775,000

CONTRA COSTA CO.	AC.	PRICE
4940 Morgan Terr. Rd., Clayton	14.79	887,000
285 Lark Ln., Alamo	16.46	648,500
2600 Finley Rd., San Ramon	20.26	2,450,000
Larch Ave., Moraga	23.58	449,000
6301 Chadbourne Rd., Brentwood	80.00	1,350,000
Sellers Ave., Oakley	119.87	12,200,000
SAN JOAQUIN CO.	AC.	PRICE
32932 S. MacArthur Dr., Tracy	6.98	525,000
32491 S. Chrisman Rd., Tracy	7.65	725,000
29700 S. Ahern Rd., Tracy	9.49	1,210,000
28557 S. Lehman Rd., Tracy	10.00	880,000
450 E. Durham Ferry Rd., Tracy	18.00	665,000
27240 Hansen Rd., Tracy	20.70	425,500
31101 Kasson Rd., Tracy	40.00	400,000
9022 S. Roberts Rd., Stockton	50.61	765,000
19200 S. Lammers Rd., Tracy	66.76	1,121,500
15550 W. Grant Line Rd., Tracy	79.60	1,433,000
35035 S. Corral Hollow Rd., Tracy	80.00	504,000
12800 S. Lammers Rd., Tracy	96.25	1,500,000
19298 S. Alder Ave., Tracy	97.67	1,000,000
28601 S. Corral Hollow Rd., Tracy	115.47	3,225,000
SANTA CLARA CO.	AC.	PRICE
5771 Felter Rd., San Jose	14.99	300,000
San Antonio Valley Rd., San Jose	700.00	1,500,000
STANISLAUS CO.	AC.	PRICE
Del Puerto Canyon Rd., Patterson	12,995	11,250,000



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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In 1980, fewer than 10,000 San Joaquin County residents commuted outside the County for work and more workers were commuting into the County than out. In the ensuing three decades the number of out-commuters has increased to more than 65,000 and the total daily inflow and outflow of workers has grown in excess of 100,000.

San Joaquin Council of Governments

# Available Properties



**±7,800 Sq. Ft. COMMERCIAL BUILDING FOR SALE**  
**5925 FAIR OAKS BOULEVARD, CARMICHAEL**  
**\$780,000**  
**POTENTIAL FOR SEVEN UNITS; SUITABLE FOR RETAIL OR OFFICE**



**±2,800 Sq. Ft. OF COMMERCIAL SPACE FOR LEASE**  
**336 W. GRANT LINE ROAD, TRACY**  
**\$1.30/SQ. FT. NNN**  
**SUITABLE FOR RETAIL OR OFFICE**



**±158 ACRES OF RANCH LAND FOR SALE**  
**16980 TESLA ROAD, LIVERMORE**  
**\$495,000**  
**ACROSS THE STREET FROM CARNEGIE SVRA; IN WILLIAMSON ACT**



**±5,525 Sq. Ft. INDUSTRIAL FACILITY FOR SALE**  
**5491 WEST F STREET, TRACY**  
**\$495,000**  
**INCLUDES 1,150 Sq. Ft. OFFICE; LOT SIZE: ±1.28 ACRES**



**±344 ACRES OF RANCH LAND FOR SALE**  
**MORGAN TERRITORY ROAD, LIVERMORE**  
**\$2,400,000**  
**SUITABLE FOR AG, MITIGATION OR PRESERVATION; IN WILLIAMSON ACT**



**2,520 & 5,040 Sq. Ft. LIGHT INDUSTRIAL SUITES**  
**MACARTHUR DRIVE, TRACY**  
**\$0.60/SQ. FT. NNN**  
**SUITABLE FOR AUTOMOTIVE, DISTRIBUTION, RECREATION & MORE**

**SPECIALIZING IN**

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

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

## Interest Rates

By Rich Davidson

The recent big news that the Fed finally raised the Federal funds rate which is the overnight target rate for lending between banks. This ends a period of seven years with near-zero rates. Interestingly, long term rates moved downward in the several days after the increase. This demonstrates that the buying and selling of treasuries on the worldwide \$12.8 trillion dollar Treasury market dictates the movement of long term rates. There is continued demand from the world's investors for the treasuries because of soft global growth and a deepening commodity bust.

What does all of this mean for real estate borrowers? I think continued low rates and increased lending allocations. 12 of our 14 correspondent

lenders are planning increased real estate lending allocations in 2016. They all continue to show active interest in making new loans and there remains 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. They typically price their loans

over the corresponding US Treasury and typically lock the rate at application. Our correspondent CMBS lenders remain very active as well and they are pricing over the 10 year Swaps. However, the continued volatility in the global markets as well as concern from B piece buyers continues to cause a widening in the spreads they are currently quoting.

Please call if I can be of any assistance or answer any questions.

### RECENT CLOSINGS

- San Jose Retail \$2,500,000
- East Bay Industrial \$4,225,000
- San Francisco Mixed Use \$2,000,000
- San Francisco Apartments \$5,000,000

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### KEY INTEREST RATES & INDICES December 18, 2015

INDEX	CURRENT RATE	5 MONTH CHANGE	NOTES
Bank Prime	3.50%	+0.25%	
1 Yr. Treasury	0.67%	+0.30%	
5 Yr. Treasury	1.67%	+0.14%	
10 Yr. Treasury	2.19%	+0.04%	
30 Yr. Treasury	2.90%	+0.09%	
LIBOR (1 Mo.)	0.24%	+0.05%	
LIBOR (6 Mo.)	0.66%	+0.17%	
LIBOR (1 Yr.)	0.98%	+0.15%	
Mortgage WSJ	3.96%	+0.01%	30 year fixed rate
Jumbo WSJ	4.47%	+0.10%	
12 Month Treasury Average	0.29%	+0.09%	T average
11th District Cost of Funds	0.65%	-0.01%	Fund Cost
Federal Funds Rate	0.50%	+0.25%	
Dow Jones Industrial Avg.	17,129	-3.9% YTD	
Gold \$/oz	1,066	-9.94% YTD	
Euro	\$1.09	\$ up 11% YTD	
Crude Oil \$/barrel	34.73	-35% YTD	