

Reflections on Real Estate

A Quarterly Publication from Souza Realty & Development

Spring 2001

Measure A Implemented in Tracy

By Mike Souza

The Tracy City Council has adopted an implementation plan for Measure A. The implementation plan has little short-term impact, and significant long-term impact.

Tracy voters adopted Measure A in November of 2000. It cut the growth rate for residential permits from an average annual rate of 1,200 and an annual maximum of 1,500 in half. The date from which the average was calculated in the old ordinance was January 1, 1987. Measure A changed that date to January 1, 2000.

The City Council adopted implementation plan recognizes projects which were "vested" prior to the adoption of Measure A (these projects include Plan C, South MacArthur, Bank of America and Presidio). The vested projects had vested tentative maps or

development agreements prior to the effective date of Measure A. As such, these projects are vested under the laws and regulations in effect at the time that they received their vested approvals. They therefore can build 1,200 – 1,500

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units per year.

Although the vested projects can build 1,200 – 1,500 units per year, the units they are allotted will count in the average as calculated under Measure A.

There are approximately 5,000 of these vested units. This means that the vested units will be able to build 1,200 – 1,500 units for the next three to five years, after which it will take approximately seven years of no building permits to get the average down to 600.

Of course, a market downturn or the lack of available water (see related article) could slow the rate down in their own right, in which case the vested projects would last longer than three to five years. Whichever way it ends up, no projects other than those currently vested will be able to build new residential units for 10 – 12 years, unless Measure A is changed by another vote of the electorate.

There are legal challenges to Measure A and the implementation pending. We will keep you informed about these as they progress.

Tracy Explores Water Options

By Mike Souza

By all accounts, the City of Tracy is out of water for new building permits, slowing to a halt the issuance of new permits. Although this is a simple statement, it elicits a multitude of complex planning issues, and solutions.

Is the City of Tracy's water demand at or exceeding its supply? No, far from it. The City has sold excess water on

the private market for many years, and will continue to do so for the next few years. So why is there a water shortage? Because the water that is being sold is committed but not being used. It is reserved for properties that have not yet developed, but have paid for it. So, what is the problem?

The recently approved projects in Tracy (Plan C, South MacArthur,

Presidio, I-205, and Northeast Industrial) are all participating in the South County Surface Water Project (SCSWP). This project is a joint project with South San Joaquin Irrigation District (SSJID) and the cities of Lathrop, Tracy, and Manteca. Tracy's

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share of that project will deliver 10,000 acre-feet of treated Sierra water to Tracy. The aforementioned development projects have all contributed funds, either through cash payments or assessment districts to fund Tracy's share of the SCSWP. This is their water source.

There is one hitch: the water is not yet available. SSJID has certified the Environmental Impact Report (EIR) for the SCSWP. The EIR is currently being litigated by the environmental groups Delta Keepers and Sierra Club. The case is supposed to go to trial later this spring. If all goes well SCSWP can deliver water to Tracy in about three years.

In the interim, Tracy has been providing projects that are relying on SCSWP water with water from its excess capacity. Excess capacity is water Tracy had available in its system that was not committed. This excess capacity is what is running out. Tracy is now looking for ways to bolster its excess capacity supply. Remember, Tracy cannot issue a building permit on borrowed capacity because if the ultimate capacity for that building permit never materializes, Tracy will have issued a building permit using water that is reserved for someone else. Therefore, interim capacity has to be able to become permanent capacity if Tracy is going to issue a building permit utilizing the interim capacity.

Tracy is pursuing many options to further diversify and bolster its water supply. They are close to completing negotiations with neighboring irrigation districts which will yield about 10,000 acre-feet for Tracy. The approvals to use this water will take about two years. They are also working with some large development projects which are going to bring other water sources, but these sources are for those projects and are also a couple of years away. The most imminent and practical solution is the utilization of additional ground water.

Tracy currently uses about 16,000 acre-feet of water; 10,000 is surface water from the Central Valley Project, and 6,000 is ground water. Tracy has historically tracked its ground water use, and has used a safe yield of 6,700 acre-feet for the past 10 – 15 years.

Tracy spent most of last year studying its ground water basin to determine if the 6,700 acre-feet safe yield is an accurate number. The aquifer Tracy takes its ground water from is between 800 and 1,200 feet deep. It is a relatively confined aquifer, stretching from the coastal range to the San Joaquin River. There are no known instances of salt water intrusion or contamination in this aquifer. The study estimates the safe yield at 27,000 acre-feet, and that Tracy's share of that is about 9,000 acre-feet. The study notes that even through the drought the aquifer has maintained its levels and has even increased over the last few years. It also notes that the only way to truly determine the capacity is to pump water out and see if it recharges.

The Tracy City Council has authorized an environmental review of the ground water study and the recommendation to increase ground water pumping to between 7,900 and 9,000 acre-feet over the next three years. The environmental study will be brought back to Council for their review in May.

Tracy has also received a CalFed grant to pilot a groundwater injection program. This program would take treated surface water and inject it in the underground aquifer. With this system, Tracy could use the water it is currently selling and water it will eventually purchase from neighboring districts to inject and store in the ground. It would then become available to use in dry years when surface water is cut back. This would provide for very efficient management of all Tracy's water resources.

If all goes well with the environmental document, ground water pumping can be increased in May and new building permits will be back on track.



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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**The average home in Tracy
uses approximately 450
gallons of water per day
or approximately 163,000
gallons (½ acre-foot) per
year.**

Properties for Sale

BETHEL ISLAND ROAD, OAKLEY



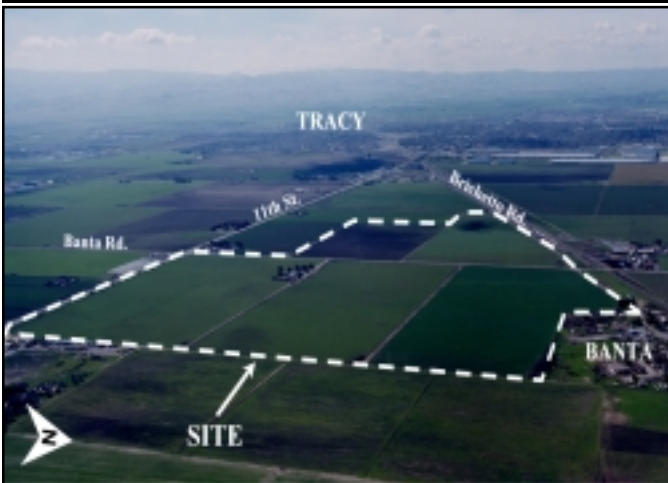
334 acres of irrigated pasture contiguous to the City of Oakley; zoned A-2; inside Contra Costa County's Urban Limit Line (development potential); \$7,000 per acre

BYRON HOT SPRINGS ROAD, BYRON



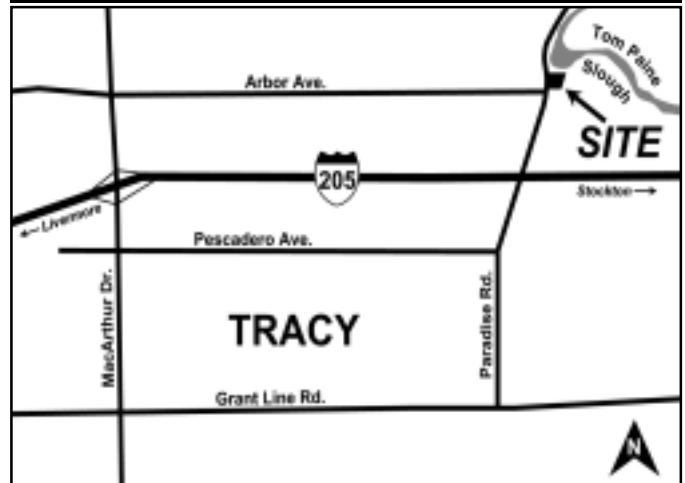
359 acres of irrigated pasture adjacent to the Byron Airport; zoned A-3 Contra Costa County; future potential for airport-related industrial uses; \$15,000 per acre

11TH STREET & BANTA ROAD, TRACY



350 acres of irrigated row crop land designated Low & Medium Density Residential in Tracy General Plan; contiguous to Tracy City Limits; AG-40 zoning; \$30,000 per acre

PARADISE ROAD, TRACY



1.62 acre parcel northeast of Tracy bordering Tom Paine Slough; suitable for potential homesite and small agricultural operation; agricultural zoning; \$125,000

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Interest Rates

By Rich Davidson

As you can see from our interest rate table, short-term rates, as well as long-term rates, have decreased substantially during the last three-month period, as they had in our last newsletter. In fact, since interest rates peaked in May 2000, they have been falling ever since. March 2001 marks the tenth month of interest rate declines. According to some economists, one reason that interest rates decline is in anticipation of economic weakness. History has also shown that, on average, periods of economic weakness are fairly short. Only time will tell.

As this is being written, the stock market has been plunging downward. Household net worth slid last year for the first time in at least 55 years, primarily due to falling stock prices. Many people feel that the stock market is still too expensive relative to earnings. This is because the earnings are falling faster than the stock prices, so price earnings ratios have actually been going up. What does all of this mean? It could mean that real estate investments are the place to be in this upcoming decade.

RECENT LOAN CLOSINGS

1. \$8,790,000 construction loan on assisted living development in the

East Bay.

2. \$3,343,500 construction/permanent loan on a self-storage facility in Lathrop.
3. \$1,250,000 equity investment for the assisted living development in the East Bay.

ACTIVE REAL ESTATE CONSULTING ASSIGNMENTS

1. \$3,300,000 permanent financing on

apartments in Seattle.

2. \$15,000,000 construction loan on for sale residential in San Francisco.
3. \$7,450,000 acquisition loan on industrial property in Santa Rosa.
4. \$1,300,000 permanent loan, 15 year fixed rate, fully amortizing loan on mixed-use project in San Francisco.
5. \$3,000,000 permanent loan, 15 year fixed rate, fully amortizing loan on mixed-use project in San Francisco.

KEY INTEREST RATES & INDICES - 4/6/01

INDEX	CURRENT RATE	CHANGE FROM 11/28/00
Bank Prime	8.00%	-1.50% (last decrease on 3/21/01)
1 Yr. Treasury	3.94%	-1.78%
5 Yr. Treasury	4.56%	-1.01%
10 Yr. Treasury	4.88%	-0.71%
30 Yr. Treasury	5.46%	-0.21%
LIBOR (1 mo.)	5.05%	-1.57%
LIBOR (6 mo.)	4.60%	-2.10%
LIBOR (1 Yr.)	4.56%	-2.11%



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