

Reflections on Real Estate

A Quarterly Publication from Souza Realty & Development

Spring 2002

West Park Professional Center Nears Completion

The 27,000 square foot Phase I of the West Park Professional Center is nearing completion at the corner of 11th Street and Tracy Boulevard in Tracy.

The project features 1,000-7,000 square foot office condominiums for sale or lease.

With the current upturn in the real estate market, the project has brought renewed excitement in the local business community and the opportunity for business owners to own their own office space.

Current occupants include Willson & Company, Fidelity National Title,

and Physiotherapy Associates.



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 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

see Leases page 2

CCCCLA ANNUAL LAND USE SYMPOSIUM SCHEDULED FOR APRIL 6TH

The Contra Costa County Citizens Land Alliance will be holding their 12th Annual Land Use Symposium on Saturday, April 6th this year. Speakers will discuss local, regional and national property rights issues, such as the Habitat Conservation Plan being formulated for east Contra Costa County and the recent reversal of critical habitat designations. The lineup includes:

- Richard Pombo, U.S. Representative, 11th District
- Donna Gerber, Contra Costa County Supervisor
- John Kopchick, Contra Costa County Community Development

Call the CCCCLA office at (925) 634-5004 for reservations and more information.

Leases continued

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.

Staff Notes

Jim Gwerder was invited by the San Joaquin County Farm Bureau to sit on a panel of land use experts and public policy specialists at a workshop regarding land trusts in January. The workshop was coordinated by the San Joaquin County Farm Bureau and the San Joaquin County Community Development Department.

Jim provided insight from a land use consulting and ranching perspective, recounting his brushes with land trust efforts in Contra Costa County and drawing on his experience gained through conservation easement negotiation.

Other experts on the panel were Holly

King of the Great Valley Center, Al Sokolow of the University of California, Katheryn Kelly of the Yolo Land Trust, and land use attorney Fred Etzel of Henn, Etzel, & Moore. A follow-up workshop was held March 12th at the San Joaquin County Farm Bureau office. The panel at that workshop featured farmers with agricultural easements in existing trusts.

The San Joaquin County Farm Bureau is to be commended for getting the issues out so that the folks most affected can make informed decisions.



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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Properties for Sale

612 WEST 11TH STREET, TRACY



Single tenant investment property: 1,146 SF leased office condo; 5-year lease; 8% cap rate; 3% annual CPI; \$326,000; Credit tenant: Physiotherapy Associates, a division of Stryker Corp. (SYK)

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)

Recent Land Sales

To the right are a random selection of land sales that have occurred since January 1, 2001 in eastern Alameda and Contra Costa Counties and the Tracy area. 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 the SR&D office.

CONTRA COSTA COUNTY	ACRES	SALE PRICE	CLOSE DATE	ALAMEDA COUNTY (cont'd)	ACRES	SALE PRICE	CLOSE DATE
2450 Concord Ave., Brentwood	19.89	342,000	1/22/02	Mines Rd.	10.00	20,000	8/25/01
12271 Marsh Creek Rd., Clayton	17.00	175,000	11/30/01	Crane Ridge, Livermore	10.00	200,000	7/25/01
1200 Delta Rd., Brentwood	10.55	415,000	11/29/01	7058 Morgan Territory Rd.	92.53	990,000	6/8/01
Morgan Territory Rd.	100.05	725,000	8/23/01	47805 Mines Rd.	60.00	115,000	5/1/01
Fertado Ln., Brentwood	5.43	240,000	7/6/01	Mendenhall Rd., Livermore	100.03	490,000	3/15/01
24885 Marsh Creek Rd., Brentwood	10.02	274,000	6/27/01	Mines Rd.	237.80	450,000	3/14/01
Bradford Island, Oakley	47.00	125,000	6/15/01	Midway Rd.	562.08	1,011,744	2/23/01
8090 Balfour Rd., Brentwood	10.00	210,000	6/11/01	I-580, Livermore	105.06	1,550,000	1/17/01
3740 Balfour Rd., Brentwood	78.26	783,000	5/21/01				
1960 Marciel Rd.	40.00	625,000	5/18/01	TRACY AREA			
11625 Morgan Territory Rd.	108.07	876,000	4/16/01	Durham Ferry Rd.	40.00	340,000	2/14/02
Orwood Rd., Knightsen	170.00	1,700,000	4/10/01	17590 W. Corral Hollow Rd.	21.49	60,000	11/2/01
8990 Marsh Creek Rd., Clayton	97.07	850,000	4/2/01	28002 S. Bird Rd.	68.93	650,000	9/28/01
Bradford Island, Oakley	15.00	65,000	3/29/01	Durham Ferry Rd.	34.85	425,000	6/21/01
1581 Diablo Rd., Danville	100.00	3,000,000	2/16/01	13150 W. Middle Rd.	19.51	878,000	5/31/01
17600 Marsh Creek Rd., Brentwood	75.63	405,000	1/26/01	17188 W. Corral Hollow Rd.	20.00	50,000	5/1/01
				35005 S. Chrisman Rd.	149.49	450,000	4/19/01
ALAMEDA COUNTY				19850 S. Corral Hollow Rd.	146.00	220,000	3/14/01
Mines Rd., Livermore	480.00	168,000	11/21/01	12201 W. Valpico Rd.	14.45	750,000	3/13/01
539 Midway Rd.	5.00	246,000	10/31/01	3165 W. Canal Blvd.	27.77	207,000	1/31/01

Feds Pass Economic Stimulus Package

Making a surprise move, the House and Senate picked up the Economic Stimulus package and ran with it the second week of March. With huge bipartisan support, the package passed first the House then the Senate on March 6 and was signed in the Rose Garden on Saturday, March 9 by President Bush. The Economic Stimulus package is supported by the National Association of Realtors (NAR) and other NAR affiliates.

An importance part of this package

for the commercial real estate industry is the leasehold improvement provisions. Under the bill, 30 percent of the costs of leasehold improvements made between 9/11/01 and 9/11/04 may be deducted in the year the improvements are placed in service. The remaining 70 percent will be recovered over the remaining 38 years on the property. Notably, however, the so-called "close-out" provisions of current law will continue to apply. Thus, if a lease terminates before the 38-year period has elapsed, any remaining balance in the depreciation account may

be deducted in the year the property is taken out of service. A transition rule will permit the 30 percent deduction for property placed in service between 9/12/04 and 1/1/05, so long as a binding contract was in place for the property as of 9/11/04.

Lobbying by the NAR will continue to in order to reduce the overall depreciation rate permanently. However, these new leasehold improvement provisions are a positive step in the right direction.

Interest Rates

By Rich Davidson

As you can see from our interest rate table, long-term rates are starting to climb. The Federal Reserve left interest rates unchanged at its most recent meeting, while shifting to a more balanced view of economic risk. In other words, the Federal Reserve Bank is not sure whether we have turned the corner or whether we are still in a recession. Traders are interpreting the Fed's actions to mean that at some point it will begin raising interest rates. Treasuries have sold off in recent weeks, in anticipation of increasing rates. However, rates are still low enough to be very attractive for borrowers. The trend seems to be definitely upward at this time.

RECENT LOAN CLOSINGS

1. \$3,600,000 ten year fixed rate loan at 7.15% for an apartment project in Seattle.

ACTIVE REAL ESTATE CONSULTING ASSIGNMENTS

1. \$1,600,000 land loan on the peninsula.
2. \$5,000,000 equity financing for to

- be built condominium project in the East Bay.
3. \$24,000,000 construction loan for the East Bay condominium project.
4. \$3,245,000 interim loan on office building in San Jose.
5. \$2,500,000 land loan in San Francisco.
6. \$3,500,000 equity financing for to be built condominium project in Seattle.

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.

KEY INTEREST RATES & INDICES March 19, 2002

INDEX	CURRENT RATE	CHANGE FROM 11/28/01	NOTES
Bank Prime	4.75%	-0.25%	(effective 12/12/01)
1 Yr. Treasury	2.53%	+0.31%	
5 Yr. Treasury	4.65%	+0.36%	
10 Yr. Treasury	5.28%	+0.36%	
30 Yr. Treasury	5.73%	+0.37%	
LIBOR (1 Mo.)	1.90%	-0.18%	
LIBOR (6 Mo.)	2.30%	+0.17%	
LIBOR (1 Yr.)	2.93%	+0.41%	
6-Month CD	2.18%	+0.17%	
Discount Rate	1.25%	-0.25%	(effective 12/11/01)
Freddie Mac 60 day	6.89%	+0.07%	(30 year mortgage-fixed rate)



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