

# Reflections on Real Estate

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## Power Line Project is Abandoned

by Mike Glazzy

A plan to build 600 miles of power lines from Lassen County through the San Joaquin Valley has been abandoned after key investors pulled out of the project.

The Transmission Agency of Northern California (TANC)--a consortium of cities and agencies that spearheaded the project--determined it could no longer continue its plans to construct new transmission lines without the financial backing of the Sacramento Municipal Utilities District. The utilities district decided to withdraw its support of the \$1.5 billion project.

The Turlock and Modesto irrigation districts followed the Sacramento district's lead and withdrew their support as

well. Together, the three districts would have paid 70 percent of the project costs.

The project's stated goals were to



increase the region's power-grid capacity, improve reliability and help move power generated by future clean energy projects in the remote northeast corner

of California to power-hungry urban areas.

TANC still agrees with the assessment of state energy regulators that California needs more power lines to carry renewable energy and meet goals for greenhouse gas reduction. Planners believed the canceled project would have helped the state meet those goals and ease congestion along California's energy "highway".

But the project elicited strong criticism from the beginning. Environmentalists and area landowners worried that the 150-foot high towers and power lines would endanger wildlife and reduce property values.

## 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 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

*see Leasing page 2*

*Leasing continued*

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 sellers 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.

## As a Buyer of Real Estate When Do You Call For HELP?

You're driving down the road and you see a "Property for Sale" sign and you would like to know more about it. That's the time you give us a call. Remember, THE SELLER PAYS THE COMMISSION. We have the knowledge and expertise to guide you through the purchasing

process.

You should always have your own representative looking out for your best interest. And remember: THE SELLER PAYS THE COMMISSION. We receive our remuneration from the commission split with the listing broker.

## Land Wanted for Solar Projects

A Bay Area solar company is looking for parcels of land to lease for solar power generation. The parcels need to be:

- 50 acres or more
- Flat, and
- Near an electrical substation or power lines

Please call our office at 209-835-8330 for further information.

## Recent Land & Ranch Sales

Below are a sampling of land sales that have occurred since our last newsletter. 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 our office.

ALAMEDA CO.			CONTRA COSTA CO.		
AC.	PRICE		AC.	PRICE	
3001 W. Ruby Hill Dr., Pleasanton	3.45	1,500,000	1951 Joseph Dr., Moraga	14.45	1,500,000
14511 Christensen Rd., Livermore	144.37	1,100,000	2651 Finley Rd., Pleasanton	25.78	2,250,000
CONTRA COSTA CO.			TRACY AREA		
AC.	PRICE		AC.	PRICE	
10 Vista Del Valle, Lafayette	5.33	467,500	Lehman Rd.	14.89	356,000
155 Eagle Ln., Brentwood	5.54	887,500	34090 S. Bird Rd.	41.91	675,000
973 Hunsaker Cyn Rd., Lafayette	6.74	212,500			
1651 Peters Ranch Rd., Danville	7.01	1,000,000			



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More than 2,100 homes were foreclosed during June as Stanislaus, San Joaquin and Merced county homeowners defaulted on nearly \$643 million in mortgages.

About 43,000 homes have been foreclosed in the three counties since September 2006, costing lenders nearly \$16 billion in unpaid loans.

*ForeclosureRadar*

# Project Entitlement Bill Signed by Governor

On July 15, 2009, Governor Arnold Schwarzenegger signed into law AB 333 granting an immediate and automatic 24-month extension to active tentative subdivision and parcel maps.

The bill, sponsored by the California Building Industry Association and the California Major Builders Council and authored by Assembly Member Felipe Fuentes (D-Los Angeles), allows project applicants to continue to move forward through the entitlement process and maintain project viability so that when the economic conditions begin to turn around homebuilders will be poised to respond to renewed housing demand.

Importantly, AB 333 was signed on the date that last year's 12-month extension, SB 1185 (Lowenthal), expired. The legislative intent behind having AB 333 signed by July 15, was to ensure a consistent and seamless connection between the 2008 and 2009 legislative enactments.

The classes of maps benefitted by AB 333 are standard tentative maps, vesting tentative maps and parcel maps that are active and did not expire before July 15, 2009. Not covered by the new law

are maps that have achieved final map status.

Another requirement of AB 333 is the map in question must be one that (absent the statutory extension) would expire by January 1, 2012. Subsection (d) of newly added Government Code

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*The bill allows project applicants to continue to move forward through the entitlement process and maintain project viability so that when the economic conditions begin to turn around homebuilders will be poised to respond to renewed housing demand.*

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section 66452.22 provides clarity on how to determine if a map "expires" before January 1, 2012.

Pursuant to this subsection, only discretionary extensions approved on or before "the date that the act that added this section became effective" (July 15, 2009) can be counted. This provision is intended to guard against a

city or county attempting to avoid the 24-month extension mandated by AB 333 by granting a discretionary extension after the fact (i.e. subsequent to July 15, 2009) and then claim that the map in question will expire in January of 2012. The same reasoning applies to maps that are extended as phased finals.

The extension required by AB 333 is in "addition to" any other extension granted so, for example, if an active and unexpired tentative or parcel map had six months of life remaining on July 15, 2009, it now has two years and six months of life left.

The bill also provides that ancillary approvals such as permits, any legislative administrative or other approval, by a state agency only, are also automatically extended for two years. Permits issued by local agencies in connection with tentative or parcel maps are not automatically extended, unless the relevant permits are in connection with subdivision maps for planned unit developments (see Government Code 66452.12).

The newly enacted AB 333, which is now in effect, can be found at Chapter 18 of the Statutes of 2009.

## Available Properties



±1,146 Sq. Ft. MEDICAL/OFFICE SUITE  
612 W. 11TH ST. SUITE 109  
TRACY, CA  
\$1.50/Sq. Ft. NNN



±1,864 Sq. Ft. MEDICAL OFFICE BUILDING  
1521 BESSIE AVE.  
TRACY, CA  
\$1.00/Sq. Ft. NNN

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- Industrial
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- Valuation

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## Interest Rates

By Rich Davidson

Short term rates have continued to decline over the last several months.

The United States government's efforts to keep short term rates low are working. Longer term rates have been creeping upward, but they are still low. I found an interesting government study that shows the history of the 10 year treasury rate going back to 1962: [http://www.federalreserve.gov/releases/h15/data/Annual/H15\\_TCM-NOM\\_Y10.txt](http://www.federalreserve.gov/releases/h15/data/Annual/H15_TCM-NOM_Y10.txt)

This schedule shows that the average 10 year treasury rate was 3.66% in 2008, the lowest in the 46 year study. In 1981, the highest average rate was 13.92, a full 1000 basis points higher than the current rate. This schedule is fascinating and demonstrates that rates are still at their lowest historical levels.

Are we in an inflationary period today or are we starting to see deflation? That is a key question today.

### INFLATION

Many feel that the Fed is risking

up if the Fed does not stop its monetary stimulus in time. Fortunately, demand for treasuries from foreign investors remains high. This is important because foreign investors purchase more than half of the treasury market.

### KEY INTEREST RATES & INDICES July 23, 2009

INDEX	CUR- RENT RATE	CHANGE FROM 4/9/09	NOTES
Bank Prime	3.25%	None	
1 Yr. Treasury	0.49%	-0.11%	
5 Yr. Treasury	2.60%	+0.70%	
10 Yr. Treasury	3.72%	+0.76%	
30 Yr. Treasury	4.58%	+0.82%	
LIBOR (1 Mo.)	0.31%	-0.19%	
LIBOR (6 Mo.)	1.11%	-0.63%	
LIBOR (1 Yr.)	1.61%	-0.36%	
Freddie Mac 60 day	5.38%	+0.22%	30 year fixed rate
12 Month Treasury Average	1.05%	-0.39%	T average
11th District Cost of Funds	1.83%	-0.17%	Fund Cost
Consumer Price Index	215.69 (Jun)		-3.12 from year ago
Federal Funds Rate	0.25%	None	
Dow Jones Industrial Avg.	9,069		+3.3% YTD
Consumer Confidence Index	49.3 (Jun)		Improvement

runaway inflation by pumping so much liquidity into the financial markets. Investors worry that yields on treasuries may rise sharply when the economy turns

### DEFLATION

Recently there is a concern that deflation is a bigger threat. Japan is forecasting two years of price declines. China's consumer price index was down 1.1% from one year ago. India's prices have also been slipping into negative territory. In the European 16-nation Euro region, prices fell 0.1% in June from last year, the first such drop on record. As US demand has collapsed, it has helped to spread this deflationary price declines around the world.

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](mailto:rdavidson@redcofinance.com).