

Reflections on Real Estate

A Triennial Publication from Souza Realty & Development

Fall 2010

SR&D Enters the Renewable Energy Business

by Mike Souza

It was the late 1970's. Jimmy Carter was President, and he wanted the US to produce more energy from our renewable resources. A number of tax incentives were put in place to spur development of renewable energy sources such as solar and wind.



Industrial application of Dyocore Solaire windmills

Having spent the better part of his life up to that point working the family cattle ranch in the Altamont Pass, Tony Souza knew his family's properties were in a very windy spot. Sensing an opportunity, he educated himself on the emerging wind industry and sought

out the best developers and equipment. Over the next ten years, Tony was instrumental in bringing two top European wind companies with state of the art wind technology to the Altamont Pass, as well as top domestic wind companies. Tony became an expert in the representation of landowners in wind lease negotiation, and was involved in the installation of 100 MW over 10,000 acres over the past 30 years. Some of the original 30 year leases have been renewed and the original wind-farms have been re-powered with more modern equipment.

The Souza family recently sold their last windfarm, so although Tony still represents landowners in wind lease negotiations, he no longer owns any land with windmills on it. But alas, Tony could not stay away from the wind for long!

Souza Realty & Development is entering into the renewable energy business by working with Solar Point to offer an electricity generating windmill

system that will work on residential, commercial, office and retail property. The exciting piece is that due to rebates offered by the California Energy Commission for ratepayers within PG&E, the system can be purchased and installed for NO NET COST to the purchaser.

Using average wind speeds in western San Joaquin County, the six turbine



Agricultural application of Dyocore Solaire windmills

system can produce enough electricity to save \$1,500 - \$3,000 annually on

see Windmills page 2

Are Capital Gain Taxes Increasing in 2011?

by James Callejas

Because of the difficult economic times and significant changes in Congress from the recent elections, capital gain taxes could stay the same or go up on January 1, 2011. Since our crystal ball isn't working properly, let's just focus on what will go into effect in 2011 if Congress does nothing between now and then.

Effective January 1, 2011, the capital gain rate will increase from 15% to

20%. Although this is only an increase of 5%, the federal long term capital gain rate is only one of usually three taxes when a property is sold. In addition to the capital gain rate, a seller in a taxable sale will pay a 25% depreciation recapture tax and state taxes (in 41 of 50 states) ranging from 1% to 11%. Accordingly, as a result of the increase, a seller's total tax will increase from about 25% to 30% to about 30% to

35%.

To illustrate, let's compare a taxable sale in 2010 with that of 2011. Ted Taxpayer purchased an office building for \$1,500,000 many years ago and now plans to sell it for \$3,000,000. Over the years, Ted performed \$200,000 of capital improvements and took straight-line depreciation deduc-

see Capital Gains page 2

Windmills continued

your energy bill. Each machine has a rotor diameter of 56", and is about the size of a typical ceiling fan. They can be roof mounted or pole mounted for remote locations. They are perfect for rural residential, commercial buildings, and for agricultural uses such as remote pumps and processing facilities.

Solar Point will process all the paperwork with the California Energy Commission (CEC), and upon reservation of the rebate the purchaser will pay a \$1,500 deposit. Solar Point and SR&D will coordinate all permitting, installation, hook-up, and rebate processing. Upon receipt of the rebate, the \$1,500 deposit will be refunded

to the purchaser.

The CEC rebate program ends in April 2011, and the rebates are allocated on a first-come, first-served basis. We are expecting a very high demand, so please contact us so we can start the rebate process immediately and you can start saving on your energy bills as soon as possible. Unfortunately, we are limited to PG&E ratepayers in San Joaquin, Alameda, Santa Clara, and Santa Cruz Counties. One system can be installed per electric meter per parcel. Please see the special insert in our newsletter to find out more information or call Lisa Cox at Souza Realty & Development Renewables Division, (209) 229-7765 to reserve your FREE system TODAY!

Capital Gains continued

tions totaling \$600,000. We will also assume that Ted's property is located in a state with a 10% tax rate.

If Ted sells in 2010, he will pay federal taxes on the gain of \$1,700,000 in the amount of \$315,000. In addition, he will pay state taxes of \$170,000. In summary, a sale in 2010 will result in Ted paying \$485,000 in federal and state taxes. If the sale occurs in 2011, Ted will pay \$55,000 more in federal taxes due to the 5% increase in the capital gain rate.

Many tax advisors have counseled their clients to sell in 2010 because of the anticipated rate increase, even if they plan to keep investing in real estate. This logic

is flawed because they still pay taxes of \$485,000 if they sell in 2010. This means that they would need to buy property that is undervalued by \$485,000 or wait for their new investment to appreciate by that much just to break even!

The payment of taxes with regard to investment property is essentially optional; an investor does not have to wait until the tax rate is lowest to save on taxes. As long as an investor fully reinvests in like-kind property, section 1031 allows them to defer taxes indefinitely.

James Callejas is an Assistant Vice President and Account Executive with Investment Property Exchange Services, Inc.

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.	AC.	PRICE	CONTRA COSTA CO.	AC.	PRICE
6930 Sunnyslope Ave., Castro Vly	12.82	700,000	3333 Hamlin Rd., Lafayette	19.82	675,000
417 E. Vineyard Ave., Livermore	19.41	2,335,000	5530 Alhambra Vly Rd., Martinez	19.93	400,000
727 Kalthoff Cmn, Livermore	19.49	1,100,000	200 Summit Ranch Rd., Alamo	25.00	3,100,000
6800 Mill Creek Rd., Fremont	28.90	1,288,000	401 Cummings Skyway, Martinez	71.46	1,000,000
15000 Altamont Pass Rd., Livermore	139.83	1,293,500	Byron Hot Springs Rd., Byron	96.04	1,025,000
Jess Ranch Rd., Livermore	433.68	4,450,000	Armstrong Rd., Byron	1,021.34	5,300,400
Mendenhall Rd., Livermore	1,845.45	1,500,000			
CONTRA COSTA CO.	AC.	PRICE	TRACY AREA	AC.	PRICE
4235 Briones Vly Rd., Brentwood	5.00	280,000	3780 W. Linne Rd.	10.00	180,000
1830 Delta Rd., Knightsen	9.94	590,000	W. Bethany Rd.	11.00	125,000
117 Secluded Pl., Lafayette	13.38	350,000	19130 S. Tom Paine Ave.	32.98	285,000
5560 Alhambra Vly Rd., Martinez	15.41	585,000	29373 S. Chrisman Rd.	41.68	1,315,000
SANTA CLARA CO.	AC.	PRICE			
1091 Pereira Rd., Martinez	16.54	1,199,000	San Antonio Valley Rd.	632.76	325,000



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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U.S. Transportation Secretary Ray LaHood announced in November that California will receive \$902 million in federal funds to help build its high speed rail system linking the north state to the south. Of that money, \$715 million is planned for the San Joaquin Valley, where the fastest leg of the trip is planned. The high speed rail system includes routes from San Francisco to Los Angeles and San Diego via the southern San Joaquin Valley; a route from Merced to Sacramento and a regional route over the Altamont Pass.
San Joaquin Council of Governments

Available Properties



±6.5 ACRES FOR SALE OR LEASE
SHERIDAN ROAD @ I-680, SUNOL
FOR SALE @\$1,200,000 OR FOR LEASE @\$10,000/MONTH
±1,200' OF FRONTAGE & EXCELLENT EXPOSURE ALONG I-680



2235 SF & 2743 SF MEDICAL/OFFICE SUITES FOR SALE OR LEASE
632 W. 11TH ST. SUITE 109 & 652 W. 11TH ST. SUITE 125, TRACY
FOR LEASE @\$1.00/SQ. FT. NNN; CALL FOR SALE PRICES
EXCELLENT OWNER/USER OPPORTUNITY; NEAR DOWNTOWN TRACY



±161 ACRES FOR SALE/DIVISIBLE TO TWO ±80 ACRE LOTS
PATTERSON PASS ROAD, ALAMEDA COUNTY
\$800,000 PER LOT
SUITABLE FOR A HOMESITE, PROJECT MITIGATION, OR CONSERVATION



±1,368 ACRES FOR SALE
PALOMARES ROAD, SUNOL
\$8,900,000
SUITABLE FOR PROJECT MITIGATION, CONSERVATION, AND MORE



±188 ACRES FOR SALE
13636 CHRISTENSEN ROAD, BYRON
\$2,500,000
FORMER HOG FARM & CATTLE RANCH; INCLUDES MANY IMPROVEMENTS



±6,500 SQ. FT. STANDALONE BUILDING FOR LEASE
1129 W. 11TH STREET, TRACY
\$1.00/SQ. FT. NNN
EXCELLENT EXPOSURE; INCLUDES RETAIL/OFFICE & WAREHOUSE SPACE

SPECIALIZING IN

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

RETURN SERVICE REQUESTED

Interest Rates

By Rich Davidson

For the past three months, short term rates have remained very low, while longer term rates have started to increase. Consumer confidence continues to increase, along with the Dow Jones Industrial Average and gold prices. The DJIA has shown a dramatic increase in the last three months. The index was down 4% for the year in August, and is now up 8% for the year. Gold has had a steady increase in its value against the dollar, increasing 20% during the last year. Investors recently appear to be selling US government debt as optimism spreads that the global economy will be able to sustain an economic recovery. The last time 10 year Treasury rates were at 3% was in July.

On an international basis, there is concern over the euro zone's debt picture. Borrowing costs for most of the countries in the euro zone are increasing, even for Germany, as investors

see increasing risks. Certain countries including Spain, Italy and Portugal are pushing for action from the European Central Bank (ECB) in order to prevent the crisis from spreading further, according to the Wall Street Journal. These countries want the ECB to increase its purchases of their sovereign bonds to help offset recent speculative attacks and to calm the bond markets. However, there is opposition in Germany, the European Union's strongest economy, to ECB bond buying. As such, Germany will be using its leverage to push through controversial overhauls. These overhauls may include forcing holders of government bonds to take losses in the event of a bailout

of an insolvent country.

As individual countries are facing increasing borrowing costs, they are also taking actions to raise funds. For example, Spain is considering privatizing their top two airports, as well as cancelling certain long term unemployment benefits. They are also considering selling a 30% stake in their national lottery.

KEY INTEREST RATES & INDICES
December 1, 2010

INDEX	CURRENT RATE	CHANGE FROM 3/26/10	NOTES
Bank Prime	3.25%	None	
1 Yr. Treasury	0.28%	+0.03%	
5 Yr. Treasury	1.64%	+0.31%	
10 Yr. Treasury	2.97%	+0.50%	
30 Yr. Treasury	4.24%	+0.72%	
LIBOR (1 Mo.)	0.25%	-0.06%	
LIBOR (6 Mo.)	0.45%	-0.22%	
LIBOR (1 Yr.)	0.76%	-0.28%	
Freddie Mac 60 day	4.64%	+0.15%	30 year fixed rate
12 Month Treasury Average	0.33%	-0.04%	T average
11th District Cost of Funds	1.66%	-0.14%	Fund Cost
Consumer Price Index	218.71 (Oct)		+2.59 from year ago
Federal Funds Rate	0.25%	None	
Dow Jones Industrial Avg.	11,256		+7.9% YTD Change
Consumer Confidence Index	54.1 (Nov)		Improved