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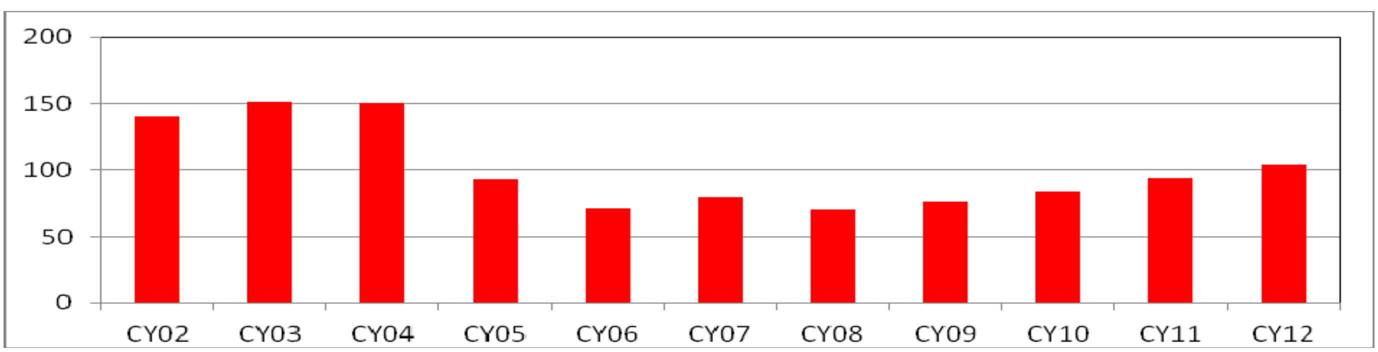
Hello, everyone … 1 January 2012

Happy New Year! Marilyn and I were well-behaved this holiday season, good time spent with family, Christmas Day in Islamorada with Upper Keys son and family, about a week in Key West with California daughter who never snapped-out of Pacific Standard Time. New Year's Eve was a nice dinner at Alonzos, trek through the crowds on Duval, then watched Sushi-being-lowered-in-the-Slipper on CNN at home! Welcome 2012. We <u>do</u> live in interesting times.

<u>Table of Contents for this issue</u>:

As you know, I track a LOT of different real estate data. For the last 10 years I've tracked "Old Town sales" of single-family homes. The 2011 data on Old Town sales may be interesting … a precursor to better days ahead. Here's a quick and easy graph of the data, hot off the presses:



When I started in real estate (2002 first full year) Old Town sales averaged about 150 per year. For the next 7 years, the average number of sales was <u>halved</u>. But in 2011, the number of Old Town sales cracked the 100-barrier again! Undeniable good sign. We are expecting 2012 to be better than the last 7 years.

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BY JACK GUTTENTAG, *professor of finance emeritus at the Wharton School of the University of Pennsylvania*, DECEMBER 12, 2011.

Q & A: Early Mortgage Payoff

Seniors close to retirement can boost return on investment

Q: Will I save money if I make my regular monthly payment early? **ANSWER**: No, paying early allows the loan servicer to earn interest on your money until the payment date. (Not true with a simple interest mortgage).

Q: What is the best time of the month to make an extra payment? **ANSWER**: If included with your regular payment before the grace period ends, the extra payment will be applied to the current balance. After the grace period, it might be applied to the current balance, or it might not be credited until the following month, depending on the servicer. Find out where the servicer's cutoff is for receiving credit in the current month.

Q: If I make a large extra payment, will my future scheduled payments be lower? **ANSWER**: On a fixed-rate loan, scheduled payments are not affected by the extra payment. The balance is paid down faster. On an adjustable-rate loan, the payments remain the same until the next rate adjustment when it is recalculated based on the new balance, new rate and original term. So unless it is offset by a rate increase, the payment will drop.

Q: Would I be better off investing excess funds rather than paying down the loan balance? ANSWER: Not very likely. Paying down the loan balance is an investment carrying a yield equal to the mortgage rate, with no default risk. There are no riskless investments today that pay a yield that even comes close.

Q: Would this apply to a high-tax-bracket borrower who deducts mortgage interest payments? ANSWER: Yes, what matters is the after-tax yield on the loan repayment relative to other investments, and the tax-rate.

Q: Isn't it better to make extra payments in the early years of a mortgage when the regular payment goes largely to interest than in later years when most of it goes to principal? ANSWER: No, the return on investment is not affected by where the mortgage is in its life cycle. While the allocation of scheduled payments between principal and interest changes over the life of the mortgage, extra payments go entirely to principal.

Q: Is there a way to escape a prepayment penalty clause? ANSWER: No, the clause is there to protect the lender (or the investor, if the loan was sold). I have never seen a prepayment penalty clause voluntarily waived.

Q: Should seniors close to retirement pay off their mortgage? ANSWER: It's prudent if they have the assets, because the rate they are paying on their mortgage is higher than the return they can earn on assets having a high degree of safety. It also clears the way for a reverse mortgage in the future, should the need arise.

Q: If I have two mortgages, which do I pay down first? ANSWER: The loan with the higher rate. However, if it is fixed-rate while the lower is adjustable, consider that the adjustable rate may increase in the future.

Q: Is a biweekly payment mortgage a painless way to pay it off sooner? Answer: It requires an extra monthly payment every year, and the *lender will charge you for the privilege*. Equally effective (and free) is to increase your scheduled monthly payment by one-twelfth.

MULTI-UNITS: 1 JANUARY 2012

1311 Laird St **Duplex**

5-bedrooms, 3-baths, 2625 living sqft, lot = 5,280 sqft

Conventional sale

SOLD 1 December 2011 for **$440,000**

Asking price = $499,000

Rental income = ($4,000/mo) x (5% vacancy rate)

= $3,800/mo … or $45,600/yr

Taxes + Insurance = (2.5%) x ($440,000) = $11,000/yr

ROI = (income – expenses) ÷ (selling price)

= ($45,600 - $11,000) ÷ $440,000

= $34,600 ÷ $440,000

= **7.9%**

1401-05 Truman Ave **>4 Units**

16-bedrooms, 11-baths, 6209 living sqft, lot = 5,365 sqft

Short sale

Under Contract 8 APR 2011 listed

Asking Price = $850,000

Rental income = ($9,000/mo) x (5% vacancy rate)

= $8,550/mo … or $102,600/yr

Taxes + Insurance = (2.5%) x ($850,000) = $21,250/yr

ROI = (income – expenses) ÷ (selling price)

= ($102,600 - $21,250) ÷ $850,000

= $81,350 ÷ $850,000

= **9.6 % (if it sells at full price)**

3389 Eagle Ave **3-4 Units**

4-bedrooms, 4-baths, 1892 living sqft, lot = 6,000 sqft

Short-sale

Active 27 OCT 2011 listed

Asking price = $425,000

Rental income = ($4,200/mo) x (5% vacancy rate)

= $3,990/mo … or $47,880/yr

Taxes + Insurance = (2.5%) x ($425,000) = $10,625/yr

ROI = (income – expenses) ÷ (selling price)

= ($47,880 - $10,625) ÷ $425,000

= $37,255 ÷ $425,000

= **8.8 % (if sold at full price)**

1911 Staples Ave **3-4 Unit**

8-bedrooms, 3-baths, 1712 living sqft, lot = 5,000 sqft

Short sale

ACTIVE 21 MAY 2011 listed

Asking price = $540,240

Rental income = ($5,550/mo) x (15% vacancy rate)

= $5,273/mo … or $63,270/yr

Taxes + Insurance = (2.5%) x ($540,240) = $13,506/yr

ROI = (income – expenses) ÷ (selling price)

= ($63,270 - $13,506) ÷ $540,240

= $49,764 ÷ 540,240

= **9.2 % (if sold at full price)**

The Palm Beach Post

You Should Know This About Becoming a Landlord

JUPITER, Fla. – Dec. 6, 2011 – With prices low, many people are considering buying an investment property and becoming a landlord. There's a lot to know, plus business and common sense.

(1) The down economy means it's more difficult to find a tenant who can afford to pay first and last month's rent and a security deposit upfront.
(2) Some landlords go through 30 - 40 applicants before finding a qualified tenant.
(3) Landlords compete with foreclosed houses rented below market, forcing rents lower.
(4) Financing can be difficult, and about 70% of investment property purchases are cash.

Finding a decent tenant starts with the screening process. Credit checks and criminal background checks are a must. Small-scale landlords can find help at websites such as www.mysmartmove.com. An application should be filled out in full as part of that process.

Never be desperate for a tenant: You do not have to rent to the first person who comes along. A rental applicant can be denied for such reasons as poor credit, poor personal references, poor job reference, lack of job stability, insufficient funds to move in, criminal background and too many occupants for the size of the dwelling.

Thoroughly read the Florida Landlord Tenant Law (FL Statutes Chapter 83) and give a copy to the tenant. It states what the landlord's responsibilities are. Understanding the law can help avoid disputes.

Lawyer review: A written lease is essential. Standard leases are available for free at sites such as www.mrlandlord.com or can be purchased at office supply stores. Have an attorney review the lease form and modify it specifically for your property.

The lease needs to state what might seem obvious, like the term of the lease, when the rent is due and how much the rent is. But they also should include sections on:

(1) Late rent, security deposits and how many people are allowed to live on the premises.
(2) Pets … state that no pets of any kind are allowed, including visiting pets.
(3) Parking … be specific, state that the tenant must park in his or her assigned space.

Don't simply state that the premises must be left clean and undamaged in order for the tenant to receive his damage deposit back after he moves out. Landlords may require tenants to comply with a number of conditions, such as having the carpet professionally cleaned and cleaning the entire home, including the range, oven, refrigerator, bathrooms, closets, cabinets, windows, carpet and balcony, etc.

Landlording is a business: Experts say it's not for the softhearted. No matter how ironclad the lease is, there are people who move in and never pay rent. They are called "Professional Tenants". And they can still walk out on you, anytime.

Landlords must stay on-top of the property. When rent is past due, Florida law requires landlords to give tenants three days' notice that they must pay the rent or move. If the rent is not paid after three days, excluding weekends and legal holidays, then the landlord can begin legal action to evict the tenant.

Hello, everyone … This will be a recurring article each month, intended to convey meaningful information from my “Florida Keys Real Estate” internet show on www.KONKAM.com, every THURs noon-to-1:00 PM. What happened in December?

Thursday #1: My guest was **Erica Mikula**, owner of Erica’s Pool Service. As a business indirectly affected by the real estate industry, Erica’s workload has *not* correlated that well with the real estate downturn. Her volume of accounts is up. She has felt the national economic downturn in other ways … like clients being slow or unable to pay bills. But life is still good! Erica emphasizes GREEN … energy conservation and environmental sensitivity. There are savings to be had by doing the Green-thing with pools and solar.

Thursday #2: My guest was **Stan Rzad**, Compliance Director at Keys Energy. But for today’s show, Stan was a *regular homeowner* in the Lower Florida Keys, a person picked at random to be quizzed on-air. It was a man-on-the-street type interview … what does the normal homeowner think and feel about the local real estate markets? Stan, it turns out, is very up-to-date as a real estate consumer, owning a primary residence and a rental property … very conversant about home values, distressed properties and re-financing. MORE, actually, than I would have thought the general population was aware! We *want* educated consumers!

Thursday #3: My guest was **Doug Bradshaw**, Senior Project Manager at the City of Key West, LRA/Truman Waterfront Development. Doug is the expert on the City’s efforts to develop the 33 acres acquired from the US Navy adjacent to Key West Harbor. After 11 years, things are starting to move! A design team has been hired to blueprint the “Concept Plan”. When will the first shovel pierce the ground? Doug thinks one year from today! I promised to have him back on the show in one year … I’ll bring the champagne!

Thursday #4: My guest was **Just Me**, your host at www.konkam.com for “Florida Keys Real Estate”. Material from my newsletter provided most of the subject matter, plus recommendations for a book I just finished: “All the Devils are Here” by Brittany McClean, good history of the financial crisis. And another book I’m reading now called “The Black Swan” about rare events in life. Lots of ways to view this … unexpected events can occur, or expected events could *not* occur, and they may help or hurt. The author says most of the advancements and breakthroughs in world history were not planned, they were accidents. Plan on it.

Thursday #5: My guest was **Jolly O. Delf**. It was Christmas week, and we enjoyed the holidays. Studio closed. That’s OK, since December had 5 Thursdays, anyway, and they got their pound-of-flesh from me ☺. See ya next year!

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My Current BUYERS in the Lower Florida Keys:

January 2012

These are a sample of 5 buyers I am currently working with, in no particular order … what they are searching for, what their concerns are, what issues must be overcome, etc. Some of this may resonate with <u>you</u>, too! It will be a challenge to highlight 5 <u>new</u> buyers each month … but, let's see how it goes. By my calculations, the present inventory of buyers will be exhausted in a few short months, so I'll need a steady pipeline of newbies to replenish the inventory and keep this column going. Anyway, if you are a seller (or know someone who is), maybe one of these buyers would be a good match! I hope you find this interesting, even with identities withheld. If you <u>are</u> one of my buyer-prospects, surely you will recognize yourself!

<u>Buyer #1</u>: A professional couple from Pennsylvania visit Key West frequently, and they were in town for the Key West Sprint Triathlon (a "destination" race). When they mentioned to a friend from my church that they might like to look at property to purchase, ta da! A referral, for which I'm very grateful. They love the Bahama Village area, especially Chapman Lane … 2 or 3 bedrooms, 2 baths, approx $500,000 price-goal. A fine sample is rumored to be coming on the market soon ☺. Most important is privacy and quiet. Fixer-upper might be OK, but turnkey best.

<u>Buyer #2</u>: I've done a few sales with VA financing, and I think that piece of information has made its way through military networks, and I received a referral from a VA mortgage financing organization. The buyer is a US Coast Guardsman (woman, actually) recently assigned to Key West. The top feature she is seeking is waterfront access to the open water for her boat. She wants to limit the search to $250,000 which will be a challenge, but there are nice waterfront properties up the Keys for reasonable prices. Did I mention she was US Coast Guard?

<u>Buyer #3</u>: I have an out-of-area customer interested in a particular property, located via internet, in Big Coppitt at the end of one of the Porpoise Point streets … the <u>very</u> end, with water on three sides, 270-degrees. However, the property is rented and it is <u>very</u> difficult to show, because of agreements between the owner, living out of the country, and the tenant. The customer is planning a trip to Key West, hoping to see it … under a $million, with a view to die for. We will likely see other waterfront properties, too!

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<u>Buyer #4</u>: A professional couple from Rockville MD have owned a Key West condo previously, and used it as a vacation property. Now they'd like a single-family home instead, to put to the same use. They are actively looking from afar (and on the internet). They made a substantial offer on a very nice short-sale listing of mine, but lost the bid by *just* a milliscrump! They are undaunted and determined to purchase. I hope I can find them a perfect property … the DC-area wintertime and traffic will probably help! Although it dipped into the 60s this morning in KW, brrr …

<u>Buyer #5</u>: A working couple from the Washington DC area visited Key West for the first time and decided on-the-spot that they wanted to purchase a vacation home here. I was connected with them through a mutual acquaintance, another referral. I like those! 2-beds, 2-baths, Mid-town or Old Town, in a price range of about $250,000. They do exist! The husband is associated with Boeing, and he believes he can continue that work remotely from Key West … just needs technology and an airport close by. And we have those! So, more Washington DC refugees … it helped that on the day we met, it was 79 degrees and sunny here. Compared to there ☺

By Les Christie @CNNMoney December 28, 2011

Foreclosure Free Ride: 3 Years, No Payments

NEW YORK (CNNMoney) -- Delinquent borrowers facing foreclosure are learning that they can stay in their homes for years, as long as they're willing to put up a fight. How?

(1) Challenge the bank's actions
(2) Wait to file paperwork right up until the deadline
(3) Request the lender dig up original paperwork
(4) In some extreme cases, declare bankruptcy

Nationwide, the average time it takes to process a foreclosure -- from the first missed payment to the final foreclosure auction -- is 674 days. In Florida the process averages **1,027 days**. In DC 1,053 days.

While some borrowers are looking for ways get their homes back, many aren't paying a dime. Nearly 40% of homeowners in default have not made a payment in at least two years.

Ironically, the banks have given delinquent borrowers the ammunition they need to delay the foreclosure process. During the "robo-signing" scandal in 2010, it was revealed that bank employees signed paperwork attesting to facts they had no personal knowledge of. Now, borrowers are routinely challenging that paperwork.

Sometimes just asking the bank to produce the paperwork that shows it is the legal holder of the mortgage note can stall repossession. Since mortgages are often transferred electronically, the paperwork often is misplaced. Many cases have been dismissed (without prejudice) though the lender can try again -- if it finds the paperwork.

In some of the more extreme cases, borrowers will file for bankruptcy in order to block a foreclosure. In these instances, courts order creditors to cease their collection activities immediately. Home auctions can be postponed as the bankruptcy plays out, which can take months.

The ensuing delays are further harming the housing market. People who stay in homes undergoing foreclosure for years often don't maintain the properties, causing blight and lowering property values in the surrounding neighborhoods.

Then there are the court costs that lenders bear. These costs will eventually be borne by home buyers as lenders increase their borrowing fees to cover the increased risk.

National Community Reinvestment Coalition (NCRC), a community activism group, disputes the contention that owners are gaming the system for free rent and hurting the housing market. "Most people do everything in their power to maintain these homes," says NCRC. "They take in relatives, get second jobs and even rent out rooms."

What really needs to be done, says NCRC, is for lenders to work harder to find solutions that allow delinquent borrowers who can afford to make reasonable mortgage payments to keep their homes.

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Short On Real Estate Down Payment? Use Your IRA

Real Estate Tax Talk

BY STEPHEN FISHMAN DECEMBER 8, 2011

Loan qualification standards in effect today are stricter compared to times past, and borrowers are often required to put down at least 20% of the purchase price to obtain a home loan. There are lots of people who would like to purchase a home in these times of low interest rates but can't come up with the down payment.

Fortunately, first-time homebuyers who have IRAs (individual retirement accounts) may have more money available for a down payment than they realize. Ordinarily, the money in an IRA can't be withdrawn before age 59.5 without incurring a 10% income tax penalty. However, there is a **special exemption for first-time homebuyers**. They can withdraw up to $10,000 in IRA funds to purchase a first home without paying the penalty. A married couple can each withdraw $10,000, giving a total of $20,000.

Are taxes due on the withdrawal? Whenever money is withdrawn from a traditional IRA, it must be reported as income and regular income tax paid on it. This applies to withdrawals for buying a first home. However, this rule does not apply to Roth IRAs. Like traditional IRAs, Roth IRAs are tax deferred. Unlike traditional IRAs, however, contributions to Roth IRAs are not tax deductible. Instead, withdrawals are tax free after age 59.5.

So long as the Roth IRA has been in existence for at least five years, withdrawals up to $10,000 for a first-time home purchase are completely tax free -- neither income tax nor a penalty tax need be paid. However, if the Roth IRA is less than 5 years old, income taxes may have to be paid on the withdrawal, but no penalty tax.

Who is a first-time homebuyer? The good news is that a person can qualify as a first-time homebuyer for these purposes even if he or she has owned homes in the past. For IRA purposes, you're a first-time homebuyer so long as you, or your spouse, did not own a principal residence at any time during the previous two years. The two years are measured from the time the new home is acquired. This is the date a binding sales contract is signed or building or rebuilding has begun.

What can the money be used for? The IRA withdrawal can be used to:

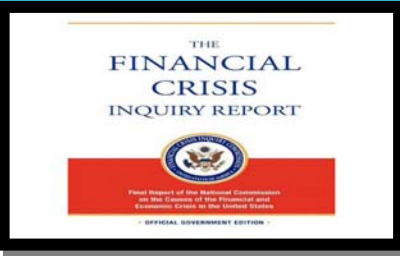
(1) Help pay for any costs involved in buying, building, or rebuilding a home.
(2) Pay reasonable settlement, financing, or other closing costs.

Moreover, the money can be given to a child, grandchild, parent, or other ancestor to buy a first home so long as that individual qualifies under the rules.

The money must be used to pay these costs within 120 days after it is withdrawn from the IRA account. If the home purchase is canceled or delayed, no taxes will be due as long as the money is put back into the account within 120 days of its withdrawal.

Financial Crisis Inquiry Commission

post # 9



The Financial Inquiry Commission spent more than a year examining the causes of the financial crisis. It held 19 days of public hearings, interviewed more than 700 witnesses and reviewed millions of pages of documents.

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Parts I and II of the FCIC report were "Setting the Stage". This begins Part III called "The Boom and Bust" with six Chapters: Credit Expansion, the Mortgage Machine, CDOs, All-In, Madness and the Bust. This post covers **The Mortgage Machine**:

By 2005, the GSEs Fannie Mae and Freddie Mac monopolized the securitization of "conforming" mortgage loans. Wall Street focused on the higher-yield loans that GSEs could *not* purchase … jumbo loans, subprime loans (borrowers with weak credit) and "Alt-A" loans (strong credit but other risks like low downpayment, marginal income, poor job security, etc).

Investors hungered for securities backed by the higher-yield (subprime) mortgages which became the raw material for the securitization process. It was an irresistible profit opportunity for the US financial system. There was an ocean of money flowing in from overseas investors seeking higher-yield.

Mortgage originators needed to keep feeding the mortgage machine to satisfy Wall Street, eventually with riskier, aggressive products bringing higher yields for investors but greater risks for borrowers ... option-ARMs, piggyback loans, high LTV loans, Liar's loans, No Doc loans, etc. Underwriting standards weakened. The companies in the subprime and Alt-A mortgage origination business were betting-the-farm that home prices would never stop rising, the only scenario that would keep the mortgage machine humming.

The definition of a good loan changed from "one that pays" to "one that could be sold". Mortgage originators competed fiercely for profit margin and market share. The risk in these mortgage loans grew steadily.

For years, some states had tried to regulate the mortgage business, especially to clamp down on predatory lending. Federal regulators (Office of the Comptroller of the Currency and Office of Thrift Supervision) resisted the states' efforts and issued rules saying that federal law preempted state predatory lending laws. The Fed was doing little to protect consumers and the financial system from the effects of predatory lending, and the OCC and OTS were actively engaged in a campaign to thwart state efforts to avert the coming crisis.

Wall Street was very hungry for mortgage loans … the riskier the better, because of the higher yields. And after all, the risk could be almost eliminated via complicated mathematical modeling and the purchase of insurance. The rating agencies (paid by the securitization companies) were willing to provide AAA-ratings on mortgage-backed securities they weren't equipped to understand.

Rating agencies were essential to the smooth-functioning of the mortgage-backed securities market, but the process involved many conflicts. They were unregulated. Courts ruled that ratings were only an "opinion" and should not be relied on … even as huge investors (pension funds, university endowments, governments) relied solely on them. Of all mortgage-backed securities rated Triple-A in 2006 by Moody's, 73% were downgraded to junk in 2008. The consequences would reverberate throughout the financial system.

Southernmost Stars: **1 January 2012** The least expensive properties currently on the market on the island of Key West. Changes from last month are in **blue**!

Ten least expensive Condos or Townhomes in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
3312 Northside #303	$114,900	1	1	528	218	Foreclosure
1830 Fogarty #4	$125,000	1	1	388	322	Affordable Housing
1830 Fogarty #7	$144,000	1	1	572	252	Affordable Housing
1830 Fogarty #6	$149,000	1	1	598	249	Affordable Housing
416 Petronia St #3	$168,000	1	1	409	411	Foreclosure
3920 N Roosevelt #412N	**$169,900**	**2**	**2**	**800**	**212**	**Foreclosure**
3029 N Roosevelt #2	**$169,999**	**2**	**1.5**	**800**	**213**	**Affordable Housing**
3312 N Roosevelt #616	**$175,000**	**2**	**2**	**831**	**211**	**Conventional**
3312 N Roosevelt #111	**$179,000**	**2**	**2**	**952**	**188**	**Conventional**
3075 Flagler Ave #20	**$189,900**	**2**	**2**	**1008**	**188**	**Short-sale**

Missing from last month:
3312 Northside #204 … under contract
3312 Northside #208 … under contract
3312 Northside #613 … SOLD
408 Petronia A … under contract
408 Petronia B … under contract

Ten least expensive **Single-Family Residences** in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
213 Truman #A	$205,000	1	1	500	410	Foreclosure
1209 Margaret St	$259,000	3	1	864	300	Conventional
1208 Florida St	$264,500	3	2	948	279	Short-sale
1701 Johnson #1	$269,000	2	1	850	317	Conventional
2116 Fogarty Ave	$269,000	2	1	838	321	Conventional
1218-Rear Packer	$279,000	2	1	578	483	Conventional
829 Baptist Ln	$299,000	1	1	414	722	Conventional
1512 18th Terrace	**$300,000**	**3**	**2**	**1492**	**201**	**Conventionl (needs renov)**
1230 5th Street	**$315,300**	**5**	**4**	**2573**	**123**	**Foreclosure (needs renov)**
2929 Patterson Ave	**$334,000**	**3**	**1.5**	**1447**	**231**	**Conventional**

Missing from last month:
215 Truman #B … SOLD
1605 Duncan St … SOLD
2021 Harris Ave … under contract

There may be a signal in this noise. Note that ALL the new properties making both lists were *higher* priced than ALL of the old properties remaining on both lists. I don't think I've seen that before. Maybe coincidence, or maybe not …

Least expensive does not necessarily mean *best value*. That is determined subjectively by factoring-in other variables like appreciation potential, amenities, special features, location, condition, age, style, appeal, etc.

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