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Hello, everyone … 1 January 2013

The world didn't end on 21 December 2012. Quite the contrary. My wife and I experienced *accelerated evolution* by kissing goodbye to our 32-year old console TV and giving birth to a (let me get this right) 55" Samsung flat-screen, high-definition, LED electronic thingy, with the 3-D option. One more Comcast box. Two more remotes. Tossed-out a VCR and a perfectly good DVD that happened to not be "blue-ray". Those poor Mayans never saw NFL football in HD, and almost life-size. Sometime in February I will better understand how much it cost me. But for now, I'm just swooning.

Table of Contents for this issue:

Still in the dark about my internet show and the KONK Broadcasting Network. I have affirmation that there is a plan and we will be back in business … probably with big changes and a new venue. I kinda miss it!

First day of 2013! 2012 is in the recordbooks. I like wrapping-up a year's worth of real estate activity and then comparing the results (# sales, average prices, trends, etc) to draw a picture of where we seem to be going. I'll be doing that in the coming months, so stay tuned! All signs seem positive right now. There's still a LOT of *hurt* out there, but this next year should be much better than the last 5.

Didja see CNN last night … the New Year's Eve celebration in NYC? Anderson Cooper switched cameras to Key West so that everyone could see Sushi be lowered in the Slipper at midnight on Duval Street. It's becoming an annual "must see" thing. A few hours before that, the media announced a Fiscal Cliff compromise. I suppose I should be happy about that … but actually, I'm not holding my breath. There's an excellent chance that Washington DC simply kicked-the-can-down-the-road and avoided any hard decisions.

I did my part for the economy. I'm *really* liking that big new high-def, flat-screen!

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THE WALL STREET JOURNAL.

DEVELOPMENTS

Real estate news and analysis from The Wall Street Journal

Five Reasons Home Prices Have Been Rising

U.S. Edition Friday, November 30, 2012 9:01 AM EST By Nick Timiraos

Home prices had their largest gain in six years, according to Lender Processing Services. The LPS figures serve as a good reminder that it's still hard to generalize about housing. Some markets are up sharply amid big declines in both prices and the share of distressed sales, while others are still soft. Generally, though, there are at least five significant contributors to rising prices:

Housing affordability is attractive based on traditional metrics such as price-to-rent and price-to-income measures, largely because prices have fallen so far. Housing is even more affordable considering today's low mortgage rates. Many buyers judge their decision based on the monthly payment of a mortgage. The average payment on a median priced home last month, assuming a 10% down payment and not including taxes or insurance, fell to $720 at prevailing rates, down from nearly $1,270 at the end of 2005.

Household formation is revving up. The U.S. is on track to add 1 million new households this year, up from 630,000 last year and an average of 570,000 over the past five years, according to economists at Bank of America Merrill Lynch. Based on normal population growth, that rate should be closer to 1.2 million households. The upshot is some pent-up demand is being unleashed, in part because job growth has picked up.

Rents are rising. Falling mortgage rates and improving job growth didn't do much for housing last year, in part because buyers didn't have much confidence or urgency. Rising rents have changed that. Initially, they spurred more investor purchases of properties that could be rented out. More recently, they've given buyers a reason to get off the fence.

Distressed sales are down, and in many Western markets, they are down sharply over the past year. Mortgage delinquencies peaked 2½ years ago. Banks also slowed down foreclosures as a result of the robosigning scandal, and they've stepped up foreclosure alternatives, shifting short sales into a higher gear. The share of distressed sales is still high, historically speaking, but because they have fallen from their peak in many markets, prices have stabilized. Judicial foreclosure states (like Florida) that require banks to process foreclosures in courts still face large backlogs of potential foreclosures. Other states have seen large drops in the volume of outstanding bad debt.

Inventories of homes for sale have plunged. Inventories of new homes for sale are at their lowest levels in nearly 50 years as builders sharply cut back construction over the past three years. Inventories of existing homes for sale are near a 10-year low, and down by one third over the past two years. Many homeowners have held back from selling because they owe more than their homes are worth, and even those with equity don't want to accept big declines in prices. Low inventories have led to more multiple offer situations, as rising demand leads more buyers to chase after fewer properties.

This isn't to say housing is out of the recovery ward. Credit standards are tight. Millions of homeowners are in some stage of foreclosure or default, and millions of others still owe more than their homes are worth. If the economy weakens again, the housing market could relapse. But if 2012 has taught anything, it's that those headwinds haven't been enough to prevent the housing market from healing.

KEY WEST multi-unit properties: On market and recent sales. 1 January 2013

	List Price:				$-per-Unit:	
DUPLEXES:						
701 Elizabeth St:	$ 995,000	ROI	**2.48%**	duplex	$ 497,500	
1612 Bertha St:	$ 410,000	ROI	**8.23%**	duplex	$ 212,500	
~~**814 Whitehead St:**~~	~~$ 535,000~~	~~ROI~~	~~**4.91%**~~	~~duplex~~	~~$ 267,500~~	Expired unsold 10/31/12
~~**1321 South St:**~~	~~$ 675,000~~	~~ROI~~	~~**3.74%**~~	~~duplex~~	~~$ 337,500~~	Expired unsold 11/28/12
914 Frances St:	$ 795,000	ROI	**2.49%**	duplex	$ 397,500	
1409 5th St:	$ 350,000	ROI	**9.54%**	duplex	**$ 175,000**	**SOLD 12/20/12 for $350,000**
1914 Seidenberg Ave:	$ 304,900	ROI	**6.06%**	duplex	**$ 152,450**	
809 Fleming St:	$ 649,000	ROI	**7.05%**	duplex	$ 324,500	
316 Amelia St:	$ 509,000	ROI	**4.32%**	duplex	$ 254,500	short-sale
2007 Flagler Ave:	$ 402,000	ROI	**9.83%**	duplex	$ 201,000	
513 Olivia St:	$ 695,000	ROI	**5.08%**	duplex	$ 347,500	**SOLD 12/28/12 for $655,000**
2514 Staples Ave:	$ 595,000	ROI	**5.21%**	duplex	$ 297,500	
~~**1106 Pearl St:**~~	~~$ 435,000~~	~~ROI~~	~~**4.91%**~~	~~duplex~~	~~$ 217,500~~	Expired unsold 12/1/12
1100 Angela St:	$ 1,190,000	ROI	**2.55%**	duplex	$ 595,000	
903-05 Catherine St:	$ 339,000	ROI	**5.54%**	duplex	**$ 169,500**	
1022 Grinnell St:	$ 398,000	ROI	**6.68%**	duplex	**$ 199,000**	
3 UNITS:						
1022 Washington St:	$ 849,000	ROI	**8.01%**	3-units	$ 283,000	**SOLD 12/31/12 for $849,000**
717 Fort St:	$ 400,000	ROI	**6.33%**	3-units	**$ 133,333**	
1614 Dennis St:	$ 649,000	ROI	**7.62%**	3-units	$ 216,333	
1821 Harris Ave:	$ 847,900	ROI	**6.71%**	3-units	$ 282,633	
~~**307 Elizabeth St:**~~	~~$ 879,000~~	~~ROI~~	~~**5.25%**~~	~~3-units~~	~~$ 293,000~~	Expired unsold 11/8
611 William St:	$ 1,499,000	ROI	**1.05%**	3-units	$ 499,667	
4 UNITS:						
1023 Whitehead St:	$ 850,000	ROI	**11.79%**	4-units	$ 218,750	
1119-23 Simonton:	$ 1,500,000	ROI	**2.79%**	4-units	$ 375,000	
530 William St:	$ 1,645,000	ROI	**10.36%**	4-units	$ 411,250	
Greater than 4 UNITS:						
400 Simonton St:	$ 1,599,000	ROI	**2.61%**	6-units	$ 266,500	
1301 Truman Ave:	$ 925,000	ROI	**10.36%**	8-units	**$ 115,625**	

SALES:

1409 5th St **SOLD** for **$350,000**

513 Olivia St **SOLD** for **$655,000**

1022 Washington **SOLD** for **$849,00**

By Tara-Nicholle Nelson
December 12, 2012 3:34 PM

7 Places Your 2013 Down Payment Might be Hiding

Minimum downpayments are from 3.5% (FHA) to 20%. Find down payment money hidden-in-plain-sight:

1. Your budget's biggest line items. Take your top 10 monthly expenses … there's always a couple to slash significantly or totally do without, push-come-to-shove. Home buying is one of those PCTS-type situations. Don't scoff before you give it a chance. I have seen buyers do this exercise and decide to:

- move home or to a cheaper place to eliminate or reduce rent
- go from two cars to one to eliminate a car payment
- cancel cable or switch cell phone servicers to get rid of a hundred bucks or more every month

2. Your bad habits. Let's don't fool ourselves. Because these are often compulsive, they can cost much, much more over time than you have any idea you're actually spending. You've got to stop:

- Smoking
- Drinking so much
- Eating out so much … and eating so much junk
- Impulse shopping

3. Your stuff. Selling stuff you don't use is a relatively painless way to make more money to go toward your down payment. If you're really serious about home buying, put everything on the table.

- Cars, motorcycles, furniture and antiques
- Electronics, CDs and even books (think: TVs, computers, old smart phones, etc.)
- Rent rooms on Airbnb and VRBO. Rent extra seats in your car on sites like Getaround and Zimride!

4. Your skills and time. Spend your off-time leveraging your skills or personal hobbies to bring in extra cash. A friend recently sent her circle-of-friends an email detailing (a) what she was selling and (b) what projects she was willing to do to - she earned thousands in less than a month. Can you help people you know with their small business projects, like research, bookkeeping or office organizing? Check out TaskRabbit!

5. Your loved ones. Some folks are fortunate to have loved ones who would love nothing more than to help you have a home of your own. If you have someone who has mentioned their interest in giving you this gift, express your gratitude and let them know. If your home buying plans are timed alongside your wedding plans, graduation or new baby, consider opening a down payment registry, so well-wishers can funnel their gift funds right into your real estate savings. Ever heard of the FHA Bridal Registry program?

6. Your employer. Some offer down payment and other forms of mortgage assistance. In particular, universities and governmental agencies that employ first responders required to live locally often have housing assistance. Touch base with your HR department to find out whether there are any relocation benefits available.

7. Your city, county or state. Many offer their own downpayment assistance programs, which are generally available to folks falling into one or more of the following categories:

- first-time buyers (people who haven't owned a home in the area in the last 3 years)
- buyers in low- or moderate-income brackets
- those buying homes in a particular part of town.

<u>My Current BUYERS in the Lower Florida Keys:</u>

January 2013

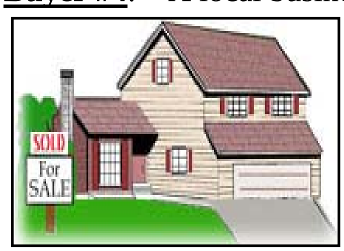
These are a sample of 5 buyers I am currently working with, in no particular order … what they are searching for, what their concerns are, what issues must be overcome, etc. Some of this may resonate with <u>you</u>, too! It will be a challenge to highlight 5 <u>new</u> buyers each month … but, let's 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 buyer from 2012 is so happy with his Key West purchase (fixer-upper, investment property) that he may take a similar plunge again in 2013, if he can work things out with his mortgage lender. It's hard not to like the buying-climate, if you can swing the financing … historic low rates, bargain prices, hidden values out there, pendulum beginning to arc the other way, steady rental income, etc. So, I'll be scouting the market for nice values in the lower price ranges, handyman-type work OK (even a little more heavy-duty), good locations, etc.

<u>Buyer #2</u>: I was contacted by a professional couple who I may have met years ago (?) … but mostly it was a workplace acquaintance of my wife's, plus a little military connection. Before they moved away a half-dozen years ago, they bought and renovated and sold a pretty Conch house in The Meadows. That exact house is *back* on-the-market now, and they have dreams about re-acquiring the property! Their earlier experience with Key West living has proved irresistible … and now they are thinking vacation home and eventual retirement home!

<u>Buyer #3</u>: A Canadian couple have been snow-birding in Key West for several winters, loving it more and more each season. We are acquainted through church (One Island Family, southernmost UU Congregation). They are here for 2 months, and they are exploring the possibilities of owning a little piece of the Lower Florida Keys. During the month of January, we will be seeing several candidate properties … 2-bed, 2-bath minimum, easy maintenance, turn-key, waterfront would be nice but not a showstopper. Looking for the best bargain available!

<u>Buyer #4</u>: A local businessman, friend and Rotarian is interested in teaming-up with an out-of-state relative on the purchase of an income-producing apartment house or multi-unit property. We've looked at two so far, with an eye towards income potential and condition. Target properties would be under $1M with minimal maintenance or owner-attention required. Location is important, and the island of Key West has a nice cachet! The rental market is strong and rates are going up. It would stand to reason that investors would lead the recovery wave in real estate!



<u>Buyer #5</u>: I've been in contact with a couple for the past year (roughly) via this newsletter. We first corresponded when I had a pretty little Old Town condo for sale at a killer price! That deal came-and-went *very* quickly, but we remained in contact. In December they emailed an inquiry about another Old Town condo that just came on the market in the $350,000 range. I know they are serious buyers! I'll be looking for a nice property for these folks. Come on down!

THE WALL STREET JOURNAL. WSJ.com ONLINE

By CONOR DOUGHERTY, NICK TIMIRAOS, NEIL SHAH

27 November 2012

Now, Homes Fuel Economy

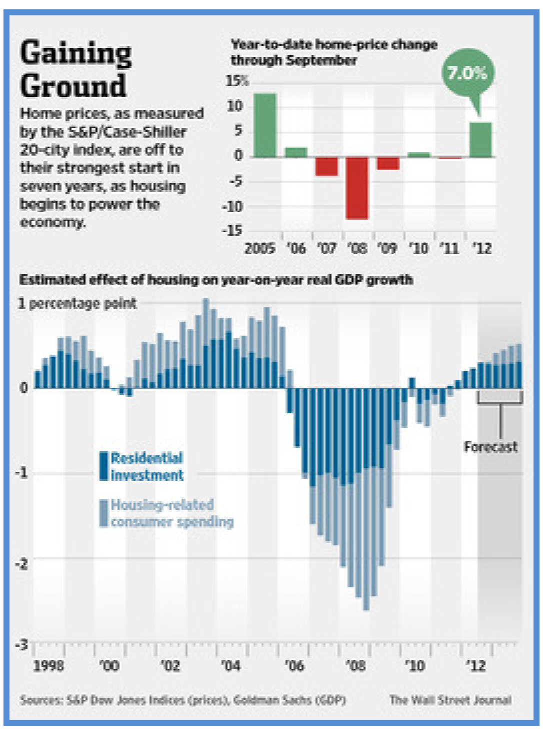
The housing market, which plunged the economy into recession 5 years ago and was a persistent drag on the recovery, is now a key economic driver at a time when other sectors are slowing.

(1) Economists project GDP growth will slow in the final 3 months of the year.
(2) Business has slowed investment spending.
(3) Defense spending also is expected to slow.

While GDP, business and Defense spending pillars weaken, the housing market is giving the economy its biggest lift since the real-estate boom. Home prices rose 3.6% in September from a year ago, according to the Case-Shiller Index. Prices are up 7% through the first nine months of 2012, the strongest rise since 2005, a trajectory to beat even the most optimistic forecasts from earlier this year. The gains also are broad-based.

The housing turnaround has been a boon for real-estate brokers and home builders. Retailers have seen a new stream of customers ready to upgrade. Investors are spending at hardware stores to renovate homes. Banks have posted record mortgage profits amid high refinance volumes and stronger demand for new loans. Homeowners feel better about their finances, making them more likely to spend and more comfortable about debt. New home-equity lines of credit are projected to grow by 22% this year to $77 billion, a 3-yr high.

While rising prices now are driving the housing market forward, that couldn't have happened without a painful cycle of losses. Lower prices and rock-bottom interest rates have boosted affordability. Rising rents and an uptick in household formation have ignited demand, which has pushed inventories of homes for sale to their lowest level in a decade. The upshot: More buyers are chasing fewer homes, pushing up prices.



By Les Christie @CNNMoney December 24, 2012

Clock ticking on mortgage tax break for struggling homeowners

A tax break that has saved struggling homeowners from paying thousands of dollars to the IRS is just days away from expiring. If the **Mortgage Forgiveness Debt Relief Act of 2007** does not get extended by Congress by the end of the year, homeowners will have to start paying income taxes on the portion of their mortgage that is forgiven in a foreclosure, short sale or principal reduction.

That means if someone owes $150,000 on their home and it sells for $100,000 in a foreclosure auction, they could owe taxes on the remaining $50,000. For someone in the 25% tax bracket, that would mean paying $12,500 in taxes on the foreclosure. Similar taxes would apply in short sales and principal reductions. So far, though, very little has been done to extend the act as politicians continue to butt heads over the fiscal cliff.

Congress may return to the act after the other fiscal cliff issues are resolved, but by then the housing market will have taken a hit. It can be done retroactively, but the lag time will have a chilling effect on homeowners considering a short-sale. Most short sellers will not follow through on sales to closing without debt forgiveness in place. Instead they'll fight foreclosure, prolonging the housing crisis.

Some in Congress doesn't see debt forgiveness passing unless it's part of a larger fiscal cliff deal. The Senate Finance Committee estimated the cost of a one-year extension at $1.3 billion.

Even if Congress allowed the mortgage debt forgiveness to expire, not all borrowers who lose their home to foreclosure, sell their home in a short sale or have their principal reduced will take a tax hit. If the debt is discharged in a bankruptcy, no tax is due. And anyone who is insolvent -- meaning they have more debt than assets -- at the time the debt was forgiven would not have to pay the tax. And in some states like California, certain borrowers are protected against paying the tax because of the way the state treats foreclosures.

PHOTO: THINKSTOCK

All The Devils Are Here

The Hidden History of the Financial Crisis

By Bethany McLean and Joe Nocera

(Penguin Group, New York City, 2010)

This is one of the best books I've read (so far) about the financial crisis … from start to finish, and it is a great reference for WHO worked for WHAT company or the US Government WHEN, and WHAT was their claim-to-fame. It's a complicated story and the authors did an amazing job of putting it all together in one book.

The title? I discovered later where that came from … William Shakespeare, *The Tempest*.

"Hell is empty, and all the devils are here."

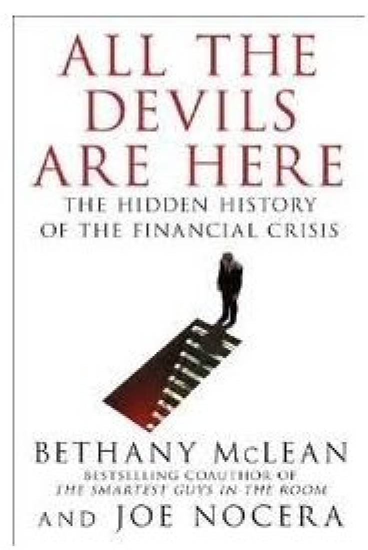
Greed, corruption, blind ambition, hyper-competitiveness, incompetence, dishonesty, inattention, deregulation, strange alliances, cluelessness, market share, etc … you name it. There's a certain safety in believing that all those devils are contained in hell. It's a shocker to discover they had escaped and convened in the Financial Sector.

The fundamental hidden assumption that drove the financial collapse was the notion that home prices would continue to rise indefinitely. Feeding this assumption was a host of enabling "devils". It became an orgy of self-deception and created a cycle that could not be turned-around or turned-off.

Wall Street believed that Fannie Mae and Freddie Mac's implicit government guarantee gave them great competitive advantage in mortgage markets. Fannie always felt that its competitors and government critics were out to kill it. But Wall Street realized it was never going to dislodge the GSEs from their dominant position as the securitizers of traditional mortgages. To circumvent the GSEs and keep all the profit for itself, Wall Street had to find some other mortgage product to securitize. Something that Fannie and Freddie couldn't touch. Subprime.

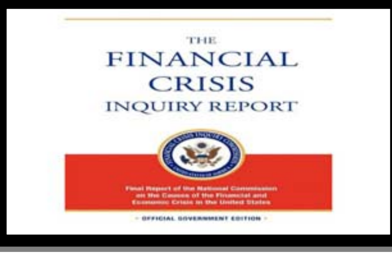
This book manages to cover all the important financial aspects of the crisis. If you read one book to understand the crisis, read this one.

JSmith note: Bethany McLean and Joe Nocera are well-known and respected financial authors. McLean wrote *The Smartest Guys in the Room* about the meteoric rise and fall of Enron Corporation, and she was intimately involved in the making of the documentary movie of the same name. She worked for Goldman Sachs for three years and wrote for *Fortune* for thirteen years. Joe Nocera is a columnist for the *New York Times* and he spent ten years writing for *Fortune*.



Financial Crisis Inquiry Commission

post #21



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, II and III of the FCIC report have been covered previously. This begins Part IV called "The Unraveling" with nine Chapters focusing on early 2007 through the full-blown crisis of September 2008. This post covers events of September of 2008: **<u>The Bailout of AIG</u>**:

In the 2nd week of September 2008, AIG had $9 billion in cash. But its liabilities were much larger:

(a) It had to fund $1.4B of its own commercial paper because conventional lenders wanted no part.
(b) Another $3.2B of commercial paper was coming due in another week.
(c) Repo lenders, holding $9.7B in collateral, were becoming skittish about the value of the collateral.
(d) Potential credit rating downgrades would trigger $10B-to-$15B in new collateral calls.
(e) Approx $75B in mortgage-related securities had declined in value to $59B.

On Friday 12 September, AIG went to the NY Fed and reported that they would be out of liquidity in 10 days. They asked for an emergency loan. They expected a credit rating downgrade that week, which would worsen the situation. The NY Fed noted that the AIG position was "worse than Lehman Brothers". AIG's risk exposure was concentrated in the 12 largest international banks across a wide array of activities, meaning there could be significant counter-party losses in the event of AIG's failure.

On Monday, 15 September, Lehman Brothers declared bankruptcy and all three rating agencies downgraded AIG, triggering $32B in collateral calls. AIG's stock plummeted to $12.14, a fraction of its all-time high of $145.84. The NY Fed had hoped for a private-sector solution from a syndicate of big banks, but instead sentiment turned to protecting themselves.

On Tuesday, 16 September, AIG was unable to access the commercial paper market. The NY Fed said that the size, name and market presence of AIG raise questions about potential worldwide contagion, if AIG should become impaired. The Fed Board voted to bail-out AIG, as it had done for Bear Stearns. The Fed loaned $85B which turned out to be insufficient … the total grew to $182B of taxpayer money.

The Office of Thrift Supervision (OTS) acknowledged failure to oversee AIG. A former OTS Director said:

"… we had no clue what AIG's Credit Default Swap liability was, and we were never sure what authority OTS had over AIG. OTS never understood AIG and thus couldn't regulate it. To think that OTS could regulate AIG was totally impractical and unrealistic, like a gnat on an elephant."

<u>The Commission concludes</u>: AIG failed because of its enormous sales of Credit Default Swaps without collateral, without setting aside capital reserves and without hedging its exposure. OTS failed to supervise.

The US government decided AIG was too-big-to-fail. Without the bailout, AIG's collapse could have brought down its counterparties, causing cascading losses and collapses throughout the global financial system.

Southernmost Stars: **1 January 2013** 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 #501	**$100,000**	**efficiency**		**408**	**245**	**Foreclosure**
3029 N Roosevelt #48	**$139,900**	**2**	**1.5**	**800**	**175**	**Foreclosure**
3312 Northside #104	**$159,000**	**2**	**1**	**736**	**216**	**Conventional**
3930 N Roosevelt #314S	$169,950	2	2	804	211	Foreclosure
508 Louisa St #1	$179,000	1	1	214	836	Affordable Housing
1624 Bertha	$195,000	2	1	681	286	Conventional
1016 Howe St	**$195,000**	**efficiency**		**110**	**1773**	**Transient license!**
1207-09 William #3	**$199,000**	3	2.5	1183	**168**	Foreclosure
3655 Seaside #126	$224,000	2	2	800	280	Foreclosure
2521 Fogarty #2	**$230,000**	**2**	**1**	**667**	**345**	**Conventional**

Missing from last month: 1830 Fogarty #2 … under contract 3312 Northside #709 … under contract
3930 S Roosevelt #105W … replaced by less expensive property
58 Merganser Dr … replaced by less expensive property
3625 Seaside #25309 … replaced by less expensive property

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
1200 6th St	$245,000	2	1	740	331	Conventional
1209 Margaret St	$249,900	3	1	864	289	Conventional (cash only)
1218 Rear-Packer	$280,000	2	1	596	470	Conventional
2008 Patterson Ave	$289,000	3	1.5	850	341	Short-sale
3355 Donald Ave	$299,000	2	2	1008	297	Conventional
900 Thomas St	$329,000	2	1	700	470	Conventional
2010 Seidenberg	**$339,000**	**2**	**1**	**1230**	**276**	**Short-sale**
411 Virginia St	$339,000	3	3	1652	211	Conventional
104 Geraldine St	$349,000	3	2	1370	255	Conventional
718 Thomas St	**$349,900**	**2**	**2**	**855**	**409**	**Conventional**

Missing from last month: 2016 Patterson Ave … listing expired unsold
2509 Harris Ave … under contract

40% of last month's STARS have changed status! Prices up, availability down. That's a very good sign! Yes, there is a $100,000 condominium for sale in Key West.

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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