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Hello, everyone … (Approx) 1 October 2010

Natives of America's Caribbean Island (that's Key West) have known for a long time that September is the year's slowest month. Oddly, it has <u>not</u> been that slow for me … and for many other Realtors I know. There are many properties on the market, and many prospects want to see them. Buyer's still have to overcome the let's-wait-and-see psychology related to the national economy and real estate stability … but there seems to be activity starting. I hope future newsletters can add confirmation to this sense.

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I consciously looked for articles this month that put a positive spin on the real estate market. Actually, they weren't too hard to find … can't deny that prices are way down, and mortgage interest rates are at lifetime lows. There's gotta be good news in there somewhere! So, for this month, I'll just ignore the *other* articles with titles like "The Angry Rich", "Let the Market Fall" and "Strategic Default Isn't Risk Free".

I can now report from experience that the military Homeowners Assistance Program (HAP) does work! I think many military homeowners might be shy about taking advantage of this benefit, but it does provide a very nice safety net for those forced to relocate and sell at a bad time. There's bureaucracy, but it's not too bad, and it's better than the alternatives … huge losses upon sale, or foreclosure. If you wear the uniform, you've earned the right.

The multi-unit inventory was very slow-moving in September and it grew by a smidgeon, adding one. It's not unusual for the real estate market to be sluggish in SEP, my favorite part of the year. Three newbies came on-the-market, and 2 veterans departed, net (+1). These are the properties that departed:

Address:	Type:	Listing Price:	Results:	Date:
1620-22 Johnson St	**Duplex**	**$485,000**	**Listing EXPIRED**	**on 8 SEP 10**
1508 Seminary St	**3-4 Unit**	**$499,000**	**SOLD for $449,000**	**on 20 SEP 10**

The top income-producing (ROI) multi-unit matrix showed no changes this past month, in spite of many price reductions and new competitors. Even the activity in the Southernmost Stars report was slow. But at least we had a great 1st Annual Brewfest and a big 38th Annual Poker Run in September. Not *everything* was slow!

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Florida Trend
The Issues, People and Ideas That Define Florida Business

Five Reasons That Things Are Going to be OKay

By Jeff Harrington, Times Staff Writer Saturday, September 11, 2010

There's no shortage of grim economic news. Yet, the level of gloom appears overstated from reality. Here are 5 signs the worst is over and we're slogging through a gradual recovery, not entering Great Recession, Part II.

1. No double-dip recession is showing: At least not yet. The economy is still extremely weak, but it is growing. Economic output is expected to grow 1.8% in the 3rd quarter and 2.1% in the 4rth. The consensus is the chance that the US economy would fall back into recession is 20%, down from 25% a month ago.

2. Mass layoffs are trending down: The number of people signing up for unemployment benefits has fallen to the lowest level in 2 months, indicating companies aren't aggressively shedding jobs again. Florida has received only one corporate layoff filing for September.

3. Productivity has been shrinking: Employers have enjoyed rising corporate profits after severe cutbacks in inventory and personnel. Economists view it as a sign employers have wrung about as much productivity as possible out of a shrunken work force and may need to start hiring again to take advantage of business opportunities and maximize their potential profits.

4. Elections are coming soon: The buildup toward a national election is often a battle of rhetorical extremes — the "summer of recovery" vs. economic Armageddon. The reality of slow, haphazard improvement can get lost in political sound bites. For months, businesses have clamored that "uncertainty" over future tax and spending policies inhibit them from hiring or ramping up production. Uncertainty should die down once midterm elections are over.

5. The unemployment rate is rising: It seems counterintuitive that this is a good thing. But the country's unemployment rose a notch to 9.6% in August mainly because the jobless who had given up were confident enough to hunt for work again. Typically, the labor pool starts swelling with re-entrants after a recession is over and employers are hiring again.

The next few months, and even weeks, should provide more clarity on whether a gradual recovery is still on track. "I think the things to watch right now are essentially *everything*," said Raymond James Financial, not looking for a quick fix.

"One of the bigger factors in the recovery is simply time," said Raymond James Financial. "There was a lot of financial sector damage done and it takes time for households to improve their balance sheets, for companies to improve their balance sheets. Consumers are paying down debt and saving. And we're not seeing job destruction. The real problem is job creation … and that's going to take a while."

Housing Affordability: A Possible Good Omen

by Lawrence Yun, National Association of Realtors Chief Economist

Housing affordability could possibly reach an all-time high of near 200 in the second half of this year. That is, a household making the median income would have twice the income necessary to buy a median-priced home in America. Historically over the past 40 years, the average affordability index was 118.

The principal reason for the expected record high housing affordability index is the rock bottom mortgage rates of 4.4% on a 30-year fixed rate. Add to that modest gains in the average wage rate, which rose 3% in 2009 and is up 1.2% this year-to-date in spite of the high unemployment rate.

One of the main components of NAR's affordability index is home prices. Some markets encountered only minimal price declines while others such as Las Vegas experienced a 60% nose dive. Still, on a nationwide basis, the affordability conditions have risen to compelling levels.

However, if a sizable number of people view – rightly or wrongly – that home prices will fall further and raise the affordability levels to even higher levels, then homebuying will continue to remain soft. That will lead to a further build up of inventory and thus hold back a true price recovery. Home prices may fall, although I doubt in any meaningful way. If they do decline, there is no guarantee that affordability conditions will improve. Again, the principal reason for our current exceptionally high affordability conditions is lower mortgage rates. If prices were to fall by another 10% but mortgage rates creep up to 5.4%, then the affordability conditions could actually worsen.

As for home sales, there are far fewer people in the pipeline to buy a home in the immediate months after the tax credit expiration. Consequently, expect continuing low sales at least through autumn. But sales should slowly come back because of the high expected affordability conditions. Winter months are generally slow ones for home sales. (*JS note: just the opposite in the tropics. DEC through MAY are our best months!*)

A compelling argument can be made about the best affordability conditions, but it will be for naught if consumers lack confidence, directly impacted by the general health of the economy … which is currently weak. NAR prices show stabilizing pattern for the past 12 months. We'll still need to wait several more months to get a definitive gauge on price stabilization. As with many sectors in the economy, it is very unhealthy to be dependent on government help for a long period. Compelling affordability conditions and some job creations are a move in the right direction and we have to just allow some time for these factors to work their way into the system.

MULTI-UNIT PROPERTIES:

1 October 2010

address = "Short Sale" or foreclosure

DUPLEX (top 10):

			ROI:					ROI:	
2627 Staples Ave:	$349K	Max	8.86%	On market 17MAY	**3314 Northside #17**	$184.9K	Max	16.26%	On market 20SEP
MLS113053		Min	7.71%		MLS111626		Min	14.20%	**Contract** 12MAR
2404-07 Flagler:	$265K	Max	9.66%	On market 5JAN	**1317 Sunset Dr:**	$385K	Max	9.73%	On market 1OCT
MLS112267		Min	8.25%	**Reduced** 7APR	MLS109389		Min	8.60%	**Reduced** 6MAY
823 Terry Ln:	$250K	Max	11.87%	On market 1MAR	**800 Elizabeth St:**	$400K	Max	9.10%	On market 4MAY
MLS110398		Min	10.22%		MLS110803		Min	7.83%	**Contract** 13FEB
1319 2nd Ave:	$299K	Max	10.97%	On market 8MAR	**2007 Flagler:**	$360K	Max	11.27%	On market 8JUN
MLS110430		Min	9.92%		MLS110984		Min	10.03%	**Reduced** 29JUL
2500 Patterson:	$300K	Max	10.27%	On market 27JUL	**1203-05 1st St:**	$269K	Max	11.32%	On market
MLS109032		Min	9.02%	**Reduced** 27JUL	MLS113265		Min	9.86%	

3-4 UNIT (top 6):

			ROI:					ROI:	
1403 4th St:	$419K	Max	10.22%	On market 22FEB	**1614 Dennis:**	$524K	Max	10.03%	On market 20FEB
MLS112562		Min	9.40%		MLS107921		Min	8.83%	**Reduced** 5MAR
904 Truman Ave:	$325K	Max	11.23%	On market 28SEP	**1130 Elgin Ln:**	$399K	Max	11.16%	On market 5JAN
MLS111640		Min	9.56%		MLS111405		Min	10.00%	**Reduced** 5APR
2618 Fogarty:	$670K	Max	8.23%	On market 24NOV	**327 Margaret St:**	$499K	Max	11.16%	On market 8JAN
MLS109707		Min	7.43%	**Reduced** 24DEC	MLS110031		Min	9.40%	**Reduced** 19MAY

> 4 UNITS (top 2):

			ROI:					ROI:	
1301 Truman Ave:	$1.5M	Max	13.38%	On market 18JUN	**1214 Catherine:**	$549K	Max	16.76%	On market 9NOV
MLS111056		Min	11.45%		MLS111893		Min	15.31%	**Reduced** 10MAY

Sample ROI calculation:

123 Blue Street duplex: on market 4/1/09, asking $750,000, MLS# 555666

Unit #1 is 2-beds, 2-baths — Max rent = $1,350/mo; Min rent = $1,300/mo

Unit #2 is 1-bed, 1-bath — Max rent = $1,050/mo; Min rent = $ 995/mo

Max income Unit #1: (12)x($1,350)x(0.95) = $15,390
Min income Unit #1: (12)x($1,050)x(0.95) = $11,970
Max income Unit #2: (12)x($1,300)x(0.95) = $14,820
Min income Unit #2: (12)x($ 995)x(0.95) = $11,343

Vacancy rate: 5%
Max sell price = 96% of ask price
Min sell price = 92% of ask price
Taxes + insur = 2.5% of sell price

Max expenses = (0.025)x(0.96)x(sell price) = $18,000
Min expenses = (0.025)x(0.92)x(sell price) = $17,250

$$\text{Max ROI} = \frac{\text{(MaxIncome - MinExpenses)}}{\text{Min Sell Price}} = \frac{27{,}360 - 17{,}250}{690{,}000} = 1.47\%$$

$$\text{Min ROI} = \frac{\text{(MinIncome - MaxExpenses)}}{\text{Max Sell Price}} = \frac{26{,}163 - 18{,}000}{720{,}000} = 1.13\%$$

Reported like this:

123 Blue Street:	$750K	Max	1.47%	On market 1APR
MLS555666	NEW	Min	1.13%	

Assumptions made in the analysis:

(1) Rental income is taken from MLS or estimated for comparable properties
(2) The following data is NOT factored-into the ROI calculations:
- Financing (assumed cash purchase)
- Maintenance expenses
- Utilities (assumed paid by tenant)
- Property management fees
- Tax benefits to owner of investment property
- Potential for appreciation

If you would like to see ROI calculations using a different set of assumptions, please contact me and I'll re-run the analysis.

This analysis is based on many assumptions and approximations. ROI estimates are believed to be reasonable, but they are not guaranteed. Prospective buyers may use this as a guide and arrive at their own determination.

The New York Times

By KARL E. CASE September 1, 2010

A Dream House After All

Recent sales imply that the American dream is dead, down 25% from a year ago. The housing market is a catastrophe, and it may take years for our economy to recover. But a little perspective is in order.

Anyone who believed that home prices never fall has learned a tough lesson. The Case-Shiller Price Indexes suggest that since the peak, home prices have fallen 29%. The effect on household wealth has been huge. The decline in wealth has substantially reduced consumption, stifling the economy.

Some think the "American Dream" is owning property that appreciates 30% a year, a vehicle for paying bills. But those kinds of dreams have become nightmares. Depressing, yes — but the end of the dream? Not exactly.

Buying a house now makes sense. There is *return* on a home-ownership investment.

(1) "Net imputed rent from owner-occupied housing": This is included as national income by the Commerce Dept, the equivalent of a 6% return on your investment. When Enron went belly up, shareholders got nothing. When the housing market drops, owners still have a house, and the benefit is tax-free.

(2) Capital gains: Gains may be excluded from taxation for most homeowners.

(3) Mortgage interest deduction: Rates are about as low as they can get, and prices are down by 30%.

Do the math. In 2006, the payment on a $300,000 house with 20% down and a rate of 6.6% = **$1,533**. Today that house would sell for $213,000 and with 20% down at 4.2%, monthly payment = **$833**.

Until about 2 months ago, buyers understood and the market was turning. What killed the momentum? The 1st-time buyer credit expired. But most importantly, the steady drip of economic bad news sapped the confidence of buyers, sellers and lenders. There is no understating the importance of confidence in this industry. Real estate sales are a very personal, emotional decision. And emotions can change on a dime.

In a given year, the number of completed sales is about 4-to-5% of the housing stock. It doesn't take a large mood change to impact the overall direction of the market.

This financial crisis has highlighted that we live in a Catch-22 world: **the housing market drives the economy, and the economy drives the housing market**. But housing has never been a better bargain, and sooner or later buyers will regain faith, inventories will shrink to reasonable levels, prices will rise and we'll even start building again. The American dream is not dead — it's just taking a well-deserved rest.

Karl E. Case is a professor emeritus of economics at Wellesley and co-creator of Standard & Poor's Case-Shiller housing index.

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The New York Times

Underwater Mortgages Can Float the Economy

By GLENN HUBBARD and CHRIS MAYER September 18, 20

It might be possible to invigorate the economy in a way that won't require another costly stimulus package. Most homeowners should have refinanced their loans by now to take advantage of low rates. Yet, it's not happening because of declines in house prices, falling incomes and banks' wariness of making loans. We propose a new program through which the federal government would direct the mortgage guarantors (FNMA, Freddie Mac, GNMA, VA, FHA) to make it far easier and quicker for owners to refinance.

The agencies should promise eligible borrowers refinancing with minimal paperwork. Servicers would receive a fixed fee for each re-fi, rolled into the mortgage to eliminate costs to taxpayers. The new mortgage would be at today's prevailing rate of 4.3% (15% decline in monthly mortgage payment). This would be the equivalent of a 26-year tax cut of more than 4% of income, if the family spends 30% of income on housing.

There are about 37 million outstanding mortgages guaranteed by the government. This proposal would save homeowners, most of them middle class, about $50 billion a year in mortgage payments. We believe a well-designed program could produce even bigger reductions. This rate reduction would likely lead to a substantial increase in spending for households that have been hurt by the recession. This program would have the substantial added benefit of reducing the endless stream of fire sales of previously foreclosed houses. Stabilizing house prices gives all homeowners increased confidence in the economic value of their house.

What would the government have to do to make the program work? Issue new mortgage-backed securities, exactly what happens now when borrowers refinance. For most homeowners, the Treasury could start today. Would it increase the federal budget deficit? **No**. If we can lower mortgage payments for struggling homeowners, it will reduce future foreclosures on federally backed loans, providing savings to taxpayers.

THE program's minimal costs would be rolled into the loan principal. 2nd lien-holders should allow such refinancings, because they reduce payments on the 1st mortgage and lower default risk on the 2nd.

For 2 years now, the Federal Reserve has been cutting interest rates and loosening the money supply, which would ordinarily lower the cost of owning a home enough that buying is more attractive than renting. Yet tight credit is preventing the market from functioning. The government — which is already finances 19 out of 20 new mortgages — needs to help struggling homeowners get more manageable monthly payments. Is there a better approach to help bring the economy back?

Glenn Hubbard, former chairman of the Council of Economic Advisers, is dean of the Columbia Business School, where Chris Mayer is a senior vice dean.

REALTOR®

THE BUSINESS TOOL FOR REAL ESTATE PROFESSIONALS

Homeownership is a fundamental part of the American dream.

By Vicki L. Cox Golder October 2010

Many of you have expressed alarm about the swirl of negative stories around homeownership.

► Time magazine tells us that "homeownership has let us down."

► Robert J. Samuelson, the Washington Post and Newsweek columnist, says, "The relentless promotion of homeownership as the embodiment of the American dream has outlived its usefulness."

► Fortune magazine writes about the "rise of the renting class."

It's natural that we're seeing such articles during these uncertain economic times, and it would be simplistic to dismiss these writers out of hand. If you read beyond their opening salvos, you find comments that can't be argued with … too many Americans got in over their heads, buying a home they couldn't afford or using their home equity to fund a lifestyle they couldn't sustain. Others fell victim to predatory lending practices or recessionary job cuts.

Where I part ways with these writers is in their implicit or explicit diminishment of the value of homeownership. Homeownership has long been a fundamental part of the American dream, and it will continue to be so long after today's economic troubles are behind us.

The desire for a home is the dream of people everywhere. To have a home of your own is to have a place of safety and security for ourselves and our children, a place to celebrate our traditions and welcome friends.

I'm also deeply concerned about the way these articles chip away at our nation's longstanding policy of encouraging home buying through incentives such as the mortgage interest deduction.

Research has consistently shown the long-term benefits of homeownership to our communities and the country. The NATIONAL ASSOCIATION OF REALTORS® recently released a review of academic studies pertaining to homeownership. Those studies show, among other things, a positive correlation with self-esteem, educational achievement, civic participation, and crime prevention.

We have made progress getting our story across. Articles and editorials in USA Today, The New York Times, the San Francisco Chronicle, and the Pittsburgh Post-Gazette have presented the long-term benefits of owning.

Certainly, there are many people who are suffering because housing took such a sharp downward turn. As REALTORS®, we need to do everything in our power to help. We need to join together in creating a vision for a new American dream—one that emphasizes responsible, long-term homeownership as means of achieving social and financial well-being.

Vicki L. Cox Golder 2010 President, National Association of Realtors

Southernmost Stars: 1 October 2010 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:
419 United #3	**$160,000**	**1**	**1**	**343**	**467**	**Short-sale**
1012 Truman Ave #202	**$161,900**	2	2	1017	**159**	Foreclosure
3075 Flagler Ave #25	**$170,000**	**2**	**2**	**1008**	**169**	**Short-sale**
3312 Northside #704	$175,000	2	1	856	204	Conventional
1016 Howe St #3	**$177,000**	1	1	254	**697**	Conventional
3312 Northside #613	$185,000	2	1	736	251	Conventional
3930 S. Roosevelt #210W	**$197,500**	2	2	804	**246**	Conventional
3930 S. Roosevelt #212N	$199,000	2	2	750	265	Short-sale
3930 S. Roosevelt #414W	$205,000	2	2	805	255	Short-sale
13 Seaside South	**$215,900**	**2**	**2.5**	**825**	**262**	**Foreclosure**

Missing from last month: 1207-09 William St … listing cancelled
3675 Seaside #139 … under contract
919 Packer St … under contract

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
323 Angela St	$135,000	3	1	840	161	part-interest conventional
2824 Seidenberg Ave	**$222,700**	**3**	**2**	**1743**	**128**	**Foreclosure**
2412 Seidenberg Ave	$225,000	2	1	730	341	Short-sale
3005 Flagler Ave	$234,900	3	1	1403	167	Foreclosure
901 Packer St	$249,000	2	1	852	292	Conventional
901 Catherine St	**$249,000**	3	1	690	399	Conventional
713 Galveston Ln	$269,000	2	1	672	424	Conventl, needs renov
2307 Patterson Ave	$270,000	2	1	864	313	Short-sale
3327 Donald Ave	$279,000	3	2	1248	224	Conventional
315 Virginia St	$289,000	2	1	846	342	Short-sale

Missing from last month: 1908 Staples Ave … SOLD for $210,000

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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