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Hello, everyone …

1 February 2011

As I'm writing this on 1 FEB 2011, a huge winter storm is rolling across the Plains and Midwest, destined to hammer the East Coast again in a couple of days. It's supposed to be BIG, even allowing for the typical media exaggeration. And that's on top of the winter-to-remember the East Coast has already survived. Why do I mention this? I dunno. Maybe because it's 79 degrees and sunny here in the Southernmost City? Naah, couldn't be that. Traffic snarls? Nope. State income tax? Nope. Bonefish?

I ran a comprehensive multiple regression and found that the worse the weather elsewhere, the higher the asking prices for 2-bed, 2-bath 1800 Atlantic condominiums (see Neighborhood Spotlight below). Have a happy Super Bowl!

Table of Contents for this issue:

Instead of a page of ROI calculations, let me simply assure you that I still track multi-unit properties carefully every day … almost a hundred of them in Key West. But I won't bore you with the numbers in the newsletter. Instead, I'll just show you photos and stats on noteworthy multi-units … those that sold in the past month, or those with the highest ROI in my tracking system. This past month, there were 4 sales of duplexes, by itself a pretty good indication that market activity has picked-up! So, this newsletter features just those 4 sales in the 4th article. Please Email me if you want data on any *other* multi-unit property!

The first two articles offer alternatives to the housing crisis … equity-sharing and structured-foreclosures. The WILDCARD article was a surprise to me. Did you know this? If you're a landlord, you must provide IRS 1099 forms to anyone to whom you pay more than $600/year, starting this year. And another reminder for distressed sellers … Florida banks can go after other assets! The radio show is off to a good start!!

I had to raise the search-ceiling in order to find the 10 "least expensive" single-family homes in Key West. Check the Southernmost Stars. That's gotta be a good sign ☺

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The New York Times GLOBAL EDITION WITH THE International Herald Tribune

The Opinion Pages

Homeowners and Lenders Equity Sharing

By ALEX PERRIELLO 5 January 2011

THREE years after the mortgage crisis began, there are still 11 million to 15 million homeowners who owe more than their home is worth, meaning that about 25% of all mortgage holders are "underwater". As a result, foreclosures continue to mount. Many homeowners can't make their payments and are tempted to simply walk away from their debt. Meanwhile, the lenders and investors who own the loans are unwilling to work out a deal if, as is usually the case, it means losing money.

Fortunately, there is a solution. Rather than be at odds, homeowners and investors should partner in long-term equity-sharing arrangements.

Here's how it would work:

(1) A homeowner purchased a house in 2004 for $300,000 with no money down.

(2) The property is now worth $150,000 — a 50% drop in value.

(3) The lender writes a new loan for $150,000, retire the original $300,000 loan and, to make up for that loss, take a 50% deeded ownership interest in the property.

(4) The homeowner agrees to split 50% of the net proceeds of any future property sale with the lender.

(5) A buyout provision … if the homeowner ever wanted to take over the lender's share, he would simply pay the lender a predetermined amount of cash.

In most cases, however, lenders immediately sold their loans to investors and merely performed loan-servicing duties like collecting monthly payments and sending statements. The equity-sharing plan (above) would be relatively easy to put in place, **assuming the lender held the loan in its own portfolio**.

In those instances, the lender would have already made its money when the loan was originated, the proceeds from the new loan and the 50% deeded interest in the property (and the benefit from a future sale or buyout) would go to the **investor**, not the lender.

Equity-sharing would be a boon for everyone involved:

(1) Homeowners could stay in their houses and preserve their credit (if current on the new loan).

(2) The neighborhood would avoid a foreclosure, which can depress property values.

(3) The lender or investor could participate in the upside potential when the house eventually sells.

(4) **Best of all, it wouldn't cost taxpayers a dime**.

A major reason the mortgage mess has gone on so long is that homeowners, lenders and investors assume their interests are at odds. An equity-sharing arrangement would bring all three onto the same side — and help solve America's foreclosure crisis.

The New York Times | The Opinion Pages

From Struggling Owners to Stable Renters

By DAVID E. KAPELL 19 January 2011

THERE is only one explanation for why we have failed to solve the mortgage crisis. Forgiveness of mortgage loan principal is said to create a **moral hazard**, rendering it politically toxic. Homeowners continue to struggle, foreclosures continue to mount and the housing industry continues to drag down the economy.

The way around this problem is what we've already used for the American auto industry. If structured bankruptcies could save GM and Chrysler, why couldn't "structured foreclosures" save the American family and stabilize a banking system that remains dangerously undermined by bad mortgage debt?

Foreclosures and bankruptcies both are legal processes that allow primary lenders to wipe out subordinate claims and gain clear ownership of an asset, then sell it to recoup whatever value they can. However, it's one thing for a bank to take ownership of a manufacturing plant. But foreclosures take someone's home.

The borrower is evicted, leaving a neighborhood with a vacant house and a family on the street. Worse, the family has no incentive to cooperate with the bank, drawing out the process and clogging the court system. Borrowers need incentives to cooperate with lenders, just like GM and Chrysler … a **structured foreclosure**. How?

(1) The borrower would lose ownership of his home, but be allowed to remain as a tenant paying fair rent for a reasonable period after foreclosure, with the requirement that he cooperate in the foreclosure.

(2) It would be much easier to gather all the documents necessary to process the foreclosure, unclogging the sort of paperwork roadblocks that have recently encumbered the mortgage industry.

(3) Lenders would own a portfolio of income-producing property readily marketable to investors.

The process could force lenders to revalue the homes at significantly lower prices than what they have on their books. But, this is almost inevitable in the current housing market anyway, and instability in the banking sector could be resolved with additional government support. AND the plan would create a new supply of badly needed rental housing without drawing the sort of community opposition that so often accompanies proposals to build new rental properties.

But most important, structured foreclosures would bring sanity to a market still suffering from the delusions of the housing bubble. During that time, the usual house price-rent ratio became inflated, so that instead of houses being priced at 10 to 15 times their rent, they were selling for 20 times their rent or more. Under this plan, struggling homeowners can, as renters, choose to pay fair market rents for their homes instead. Over time, this will put pressure on the rest of the housing market to return to a reasonable, sustainable price-rent ratio — a trend that most economists say is critical for getting the economy moving again.

Congress has done a good job of saving big business with structured bankruptcy plans. Now it must to use the same tool to save American homeowners.

Multi-unit properties:

1630 Flagler Ave duplex

4-bedrooms, 3-baths, 1680 living sqft, lot = 3608 sqft

SOLD 24 January 2011 for **$310,000**
Asking Price $349,000
Rental income = ($3,400/mo) x (5% vacancy rate)
= $3,230/mo … or $38,760/yr
Taxes + Insurance = (2.5%) x ($310,000) = $7,750/yr
ROI = (income – expenses) ÷ (selling price)
= $31,010 ÷ $310,000
= **10.0%**

1307 Newton St duplex

2-bedrooms, 2-baths, 857 living sqft, lot = 2743 sqft

SOLD 12 January 2001 for **$250,000**
Asking price $319,000
Rental income = ($2,500/mo) x (5% vacancy rate)
= $2,375/mo … or $28,500/yr
Taxes + Insurance = (2.5%) x ($250,000) = $6,250/yr
ROI = (income – expenses) ÷ (selling price)
= $28,500 ÷ $250,000
= **11.4%**

1200 Varela St duplex

2-bedrooms, 2-baths, 1804 living sqft, lot = 2585 sqft

SOLD 26 January 2011 for **$372,500**
Asking price $375,000
Rental income = ($2,100/mo) x (5% vacancy rate)
= $1,995/mo … or $23,940/yr
Taxes + Insurance = (2.5%) x ($372,500) = $9,312/yr
ROI = (income – expenses) ÷ (selling price)
= ($23,940 - $9,312) ÷ $372,500
= **3.9%**

1223 Royal St duplex

3-bedrooms, 2-bath, 1336 living sqft, lot = 4278 sqft

SOLD 24 January 2011 for **$489,000**
Asking price $499,000
Rental income = ($4,800/mo) x (5% vacancy rate)
= $4,560/mo … or $54,720/yr
Taxes + Insurance = (2.5%) x ($489,000) = $12,225/yr
ROI = (income – expenses) ÷ (selling price)
= ($54,720 - $12,225) ÷ ($489,000)
= **8.7%**

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The IRS Needs to Know

Own a rental property? New law requires an IRS 1099 for your handyman and other vendors.

By John M. Compagno — 27 January 2011

If you're the owner of even a single unit of rental property, starting this year you must start tracking all vendors doing at least $600 worth of work for you. **Federal law now requires you to send them an IRS 1099 form**.

The requirement to track vendors and issue 1099 forms isn't new—it's something that larger rental property owners already must do. But last year when the federal government enacted the Small Business Jobs Act of 2010 (H.R. 5297), it expanded this requirement to all property owners, no matter how small. Even property owners who are just doing rental as a sideline—maybe as part of a family investment fund or as part of a retirement savings plan—are now considered to be "conducting a trade or business," so the 1099 reporting requirement now applies to them.

If you own a rental, that means you have a legal obligation to obtain certain information from your vendors—generally their name, address, and Social Security number or other tax identification—and to keep a record of the amount you pay them over the year. You must issue them a 1099 form to reflect the income you paid them for the year. Keep a copy.

How to Comply: Since the requirement takes effect for the 2011 tax year, you should have started tracking the payments you've made to your vendors beginning in January. After you've tracked your payments for the year, you'll send your vendors the total in the 1099 form in early 2012. There are a few exceptions to the requirement:

- **Burden:** Gathering the information and issuing the forms would create a hardship for you.
- **Duration:** The property is only a temporary rental of your own residence.
- **Income:** Your income from the rental doesn't meet minimal threshold requirements.

More guidance is forthcoming. The IRS will fill in the details on what constitutes a hardship and what's considered "minimal" income, so you'll want to verify those when they come out.

The requirement applies to all independent contractors or freelance workers that typically provide services in a rental real estate context. These include plumbers, electricians, painters, cleaning services, gardeners, landscapers, accountants, and handymen—in short, virtually all service providers to the property who don't receive a W-2 form from you and who provide at least $600 in services for the year. It's a cumulative amount, so even if a painting job costs you only $400, you need to track it and add any other charges from that vendor to see if the total comes to more than $600, which triggers the requirement.

You'll want to review your bookkeeping procedures, with your accountant if you work with one, to be confident you have a system in place to track your payments to your vendors. You'll also want to set up your tracking procedure so that you can record how you paid them: by credit card, debit card, check, or cash.

Penalties for Filing Late: The IRS will set forth the important dates for the 2011 tax year. You'll want to note those and be sure to comply, because late filing or failure to file will result in penalties up to $250.

As a general matter, you'll be able to request a 30-day extension for getting your forms to the IRS, but that won't apply to your deadline for getting the form to your vendors. Remember, your vendors will need to use those forms in preparing their tax returns.

For many owners, the new reporting requirement may come as a surprise. If you manage property for a small owner, make sure you let them know about this new rule. And if you're the owner, take note of the filing deadlines and start carefully tracking your payments to vendors.

SunSentinel.com

Fort Lauderdale
Broward County

11 January 2011

Florida Banks Can Take Other Assets in Florida in Mortgage Default

TALLAHASSEE, Fl – Worried that your bank might go after your other assets if you're late on the mortgage or lose your home to foreclosure? **It can happen in Florida**, especially if a bank sells your foreclosed house and doesn't recoup the full loan amount and if you're a big-dollar borrower.

With nearly half of all mortgages under water in South Florida, plenty of residents may wonder if their home lender can garnish their wages or suddenly lock down their deposit accounts.

Rules on tapping assets vary by state and generally depend on the terms of specific loans and accounts. Problems on typical home loans usually don't crop up before foreclosure. They tend to come after the bank sells the home and ends up short.

In Florida, banks can go to court for a "deficiency judgment" to collect the rest of the money owed on a mortgage after foreclosure. **Banks can pursue other assets with that judgment**. They can file a lien on your boat or car. But they can't "jump priority" on a loan, so the lender for that boat or car has first dibs to collect.

Florida banks usually don't target other assets after foreclosure if they don't see much to tap. Collecting on judgments is time-consuming and costly. But banks pay more attention to borrowers with multimillion-dollar homes or businesses that default on big commercial properties. The lender can check if the customer has other accounts with the same bank. Depending on the terms of those accounts, they may move to freeze, sweep, garnish or otherwise tap those accounts to collect money owed.

There's another risk for smaller borrowers later. Banks may sell their deficiency judgments to a collection agency. The judgments are valid for up to 20 years. That leaves an agency focused on collections ample time to come after you for the balance still due.

It's important to deal with mortgage problems upfront. If borrowers can do short-sales or negotiate with the bank – rather than have a financial time-bomb ticking over their heads for years – they'll be much better off. And be sure to get any settlement reached with the bank in writing.

No matter what, some types of assets are **off-the-table** when banks look to collect money due on homes.

(1) *Some* states **don't let** banks go after an individual's assets after a home is seized and sold.

(2) Social Security checks, veterans' benefits and some railroad retirement payments, among others, cannot be garnisheed at any time to cover a mortgage.

(3) Even with a deficiency judgment, Florida law specifies 11 items that cannot be garnished to pay court orders, including unemployment benefits and disability checks. Banks have sometimes garnished funds that are electronically deposited into a customer's account, unaware the money came from exempt sources.

Sun Sentinel, Fort Lauderdale, Fla., McClatchy-Tribune Information Services.

Hello, everyone …

This will be a recurring article each month, as promised. It's intended to convey meaningful information from my "Florida Keys Real Estate" radio show on KONK-AM 1500, every Thursday noon-to-1:00 PM. We are just getting started, and I haven't settled into a routine just yet. But, here goes … what happened in January?

Show #1: My guest was **Bob Cardenas**, current President of the Key West Association of Realtors and managing broker for Sun Leisure Realty (Sunset Key) and Tradewinds International, catering to high-profile clients worldwide. We talked about forecasts for 2011. The hour we spent together will be transcripted and excerpted for inclusion in the first edition of KONK Life, the station's newpaper publication.

Show #2: My guest was, ah, just **me**. I commandeered the hour to tell the listening audience what to expect on the show. We have a few rules … like, no "infomercials", just topics of interest to listeners, presumed to be real estate consumers (buyers, sellers, any others whose lives or livelihoods are impacted by real estate). I'll attempt to have a guest each week, and I'll draw from these general categories:

- (a) 1st Thursday … real estate INDUSTRY (lenders, appraisers, title searchers, surveyors, etc.)
- (b) 2nd Thursday … real estate MARKET (stats, residential, commercial, rentals, short-sales, etc.)
- (c) 3rd Thursday … Key West ASSOCIATION of Realtors (staff, brokers, top producers, issues, etc.)
- (d) 4th Thursday … Local GOVERNMENTs (City, County, taxes, HARC, regulations, codes, etc.)
- (e) 5th Thursday … WILDCARD four times in 2011 (long list of prospect personalities and issues.)

Show #3: My guest was **Dawn Thornburgh**. She is the owner/broker of Beach Club Brokers. We talked about the Realtor's Code of Ethics. Dawn and I have worked together in the past on the Association's *Professional Standards* Committee, and I know of her strong support of the Code and professionalism. It's nice that in a small town like Key West, the national Code of Ethics becomes self-regulating … we all know each other, character and reputation are everything, and bad actors tend to fall away. Good for the public!

Show #4: My guest was **Peter E. Batty**, not to be confused with his father, a veteran Realtor (and Deacon!) Peter H. Batty. The younger Batty is busy these days as owner of ICAMCO, an organization that manages many condominium complexes in Key West. That's in addition to real estate sales, rental properties and a Title Company. There's a LOT involved with "CAM" … Community Association Management. It *should* be on the list of things to check on before purchasing a property! And why aren't ALL "Condo Docs" available on-line?

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Lower Keys Real Estate Data: Just the facts, M'aam ©

1800 Atlantic Blvd is a very popular condominium complex located on the Atlantic shoreline next to Smathers Beach. These condominiums experienced dramatic appreciation through 2005. Since then the real estate downturn is reflected in # units sold and sales prices. 2010 showed a turnaround in # units sold and there is hope that the average selling price might rise in 2011. There are a few over-sized condos in the complex, but the following is 13 years of sales data relating to the "standard" unit with 2-bedrooms, 2-bathrooms and 1357 living squarefeet.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
# Sold:	17	10	7	14	23	13	11	14	7	3	7	5	13
Avg $:	**$230K**	**$270K**	**$334K**	**$319K**	**$391K**	**$515K**	**$757K**	**$825K**	**$740K**	**$600K**	**$449K**	**$433K**	**$413K**
High:	$330K	$387K	$440K	$470K	$625K	$749K	$990K	$950K	$1.2M	$750K	$665K	$650K	$575K
Low:	$173K	$213K	$275K	$230K	$290K	$365K	$635K	$720K	$550K	$525K	$350K	$250K	$275K

1800 Atlantic Blvd has not been immune from the overall economic recession, and many of the recent sales have been distressed properties … short-sales or foreclosures.

(1) Of the 5 sales in 2009, three were distressed (short-sale) properties.
(2) Of the 13 sales in 2010, five were distressed … three short-sales and two foreclosures.

Currently, at the start of 2011, there are 23 condo units on-the-market for sale. Only three of the current inventory are distressed, a good sign. More than half (12, actually!) also include a transient license, a very attractive feature for buyers of investment property. The range of asking prices:

(1) $300K-to-$896K for a 2-bed, 2-bath, 1357 sqft *standard* unit without a transient license
(2) $1,595,000 for a 3-bed, 2-bath, 2000 sqft for an *expanded* unit with a transient license

The analysis is not quite apples-to-apples. There is still quite a bit of variance in the selling prices, explained somewhat by the following factors:

(a) Units are on different floors (1 through 4)
(b) Units are in different wings (A, B and C) of the horseshoe-shaped complex
(c) Units may have different views … interior (courtyard), or exterior
(d) Units may or may not have ocean views
(e) Units may or may not have transient licenses
(f) Units may have different living squarefeet … the standard B-Wing units, for example, are larger than the standard A or C-Wing units. And the B-Wing units, without a central corridor, have a view out the front and the back!

If you want the facts, you should be talking to ***Realty Executives Keys***. No BS.

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Southernmost Stars: **1 February 2011** 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 #208	**$149,000**	**2**	**1**	**831**	**179**	**Conventional**
3312 Northside #104	**$158,500**	**2**	**1**	**736**	**215**	**Foreclosure**
716 Emma St #2	$175,000	1	1	400	438	Foreclosure
3312 Northside #704	$175,000	2	1	856	204	Conventional
3201 Flagler #610	**$178,000**	**2**	**1**	**700**	**254**	**Conventional**
3312 Northside #111	**$179,000**	**2**	**1**	**792**	**226**	**Conventional**
3312 Northside #613	$185,000	2	1	736	251	Conventional
3930 S. Roosevelt #210W	$197,500	2	2	804	246	Conventional
3314 Northside #114	**$210,000**	**2**	**2**	**1046**	**201**	**Short-sale**
3930 S Roosevelt #E110	**$215,000**	**2**	**2**	**807**	**266**	**Conventional**

Missing fm January: 3075 Flagler #25 … under contract; 3930 S Roosevelt #103W … under contract; 3305 Eagle Ave … Listing expired; 419 United #3 … Listing expired; 524 Margaret #101 … under contract; 3675 Seaside #342 …. 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
313 Catherine St (rear)	**$189,900**	1	1	224	**848**	Conventional
1133 Von Phister	**$265,000**	2	1	678	**391**	Short-sale
1705 Bertha St	**$289,900**	**4**	**2**	**1410**	**206**	**Foreclosure**
2914 Patterson St	**$295,000**	**3**	**1**	**1008**	**293**	**Conventional**
2012 Roosevelt Dr	$290,000	3	2	1515	191	Conventional
2009 Seidenberg Ave	$299,000	3	3	1214	246	Short-sale
1202 George St	**$310,000**	**4**	**3**	**1720**	**180**	**Short-sale**
1209 Margaret St	**$319,000**	**3**	**1**	**864**	**369**	**Conventional**
804 Truman Ave	**$319,000**	**2**	**1**	**768**	**415**	**Conventional**

Missing fm January: 2307 Patterson Ave … under contract; 315 Virginia St … under contract; 713 Galveston Ln … under contract; 1128 Olivia St … under contract; 2819 Seidenberg Ave … Listing cancelled

The ceilings for the Top-10 Least Expensive are moving up … a good sign!

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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