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Hello, everyone …

1 March 2012

Big announcement this month … I've taken on an assistant (see KONKNET article). CDR Jim Olive is another proud US Coast Guard retiree, 26 years of wearing the blue uniform, most recently at CG Sector Key West. Jim got his real estate license last month and signed-on with Realty Executives Florida Keys to launch his new career! He's a veteran of quite a few real estate transactions from the *consumer* perspective, and he's not the first family member to be in the real estate business. It's in his genes. Jim received lots of practical, nitty-gritty experience in buying his current (magnificent!) home in Key West … as he says, worth a Masters Degree in short-sales.

If this keeps up, we may have to create a Coast Guard branch of REX Florida Keys. What could we name it? Lighthouse Properties? Rescue Real Estate? Spread-'em Jack Homes (for the law enforcement-types)? Southernmost Synergy Scenario (for the HQ-types)? Send your recommendations.

Table of Contents for this issue:

In that recurring article about My Current Buyers, I don't want to mislead you … they don't ALL turn into closed transactions. I suspect my "conversion rate" statistic is not Hall of Fame caliber, but I don't know what would be. Some things are destined to NOT work out. Worst-case scenario, I still get a good education! Sometimes new buyers just pop-up out of the blue, and other times I may have been working with them for several years. If I listed them all on a big spreadsheet and tried to find a pattern, well, there wouldn't be one. It sure keeps the business interesting. You just never know! Many strikeouts and an occasional home run. Or if you prefer golf … many lost balls and an occasional dead-solid-perfect monster freaking drive.

The Gents are playing in Wilmington NC this weekend … hope to get this newsletter out before I catch the plane. We're back at CG Academy for Homecoming this year, Class of '67s 45th reunion!

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Walk Away From Your Home? What Happens?

By Chris Taylor | Reuters – Mon, Jan 30, 2012

Almost 11 million homes are now underwater. Around 3.5 million homeowners are behind in their payments and another 1.5 million homes are already in the foreclosure process. The NY Federal Reserve estimates that 3.6 million foreclosures will take place during the next few years.

Does it make sense to keep paying a massive mortgage, knowing that it might be decades before a home regains its prior value? Does it make sense to "set a pile of money on fire every month" (The New Yorker)?

Moral Quandary: People feel embarrassed about breaking a contract. No one wants to be branded a deadbeat. But *companies* default on their obligations when it makes financial sense, via the bankruptcy process. The Mortgage Bankers Association itself, ironically, arranged to short-sale of its Washington HQ.

It's not personal; it's business. So think of strategic default as a business decision, and do a cold-eyed cost-benefit analysis of whether it makes sense. It's businesslike to say that there's a contract, there are penalties for violating that contract, and sometimes it just makes financial sense to break it. Would you rather be $200,000 underwater, or would you rather have seven years of damage to your credit report? It depends whether you're finally at the point where enough is enough.

The penalties largely revolve around your credit record, which admittedly gets blown up in the near-term. For a few years you can likely forget about qualifying for a mortgage or a car loan. When lenders are ready to take a chance on you again, you'll have to pay for the privilege, with stiff interest rates due to your default history.

> **(1) Strategic Default is a last resort.** Your financial troubles could be alleviated in other ways (refinancing, government programs, short-selling, etc).
>
> **(2) Location, location, location.** Each state has its own rules and regulations regarding foreclosures. In non-recourse states (like AZ, CA, TX), a lender cannot come after you for a deficiency. In other states they can pursue the deficiency, in theory - which is why some homeowners opt to file for bankruptcy.
>
> **(3) In the meantime, save like a demon.** States like NY and FL require a judicial review. It may be years before you actually have to pack up. In the meantime, be extremely disciplined about stockpiling cash. Save as if you were still paying the mortgage. Otherwise, you'll run out of time and money, and then be in a real tough spot.
>
> **(4) Know the tax implications.** The canceled amount of a debt is considered taxable by the IRS. The Mortgage Forgiveness Debt Relief Act was drafted to spare those taxes. The legislation expires at the end of 2012.
>
> **(5) Talk to a professional.** A bankruptcy or real-estate attorney can help you through a very tricky process. The National Association of Consumer Bankruptcy Attorneys, for instance, has a searchable database of lawyers at www.nacba.org.

<u>Lower Keys Real Estate Data</u>: Just the facts, Ma'am ©

The **Key West Golf Club** development is a gated community of 390 residences at MM5. 289 of the units are townhomes (T/H). The gate-within-a-gate "Sanctuary" contains 78 single-family residences (SFR). There are also 23 SFRs *outside* the Sanctuary. The following sales data is from MLS for 2000-thru-2011:

	Townhomes #	**Townhomes** AVG$$	**Sanctuary SFRs** #	**Sanctuary SFRs** AVG$$	**Outside Sanctuary SFRs** #	**Outside Sanctuary SFRs** AVG$$
2000	38	$205K	15	$397K	4	$282K
2001	49	$224K	2	$405K	2	$318K
2002	69	$253K	9	$510K	9	$428K
2003	60	$324K	5	$590K	5	$544K
2004	53	$497K	9	$778K	7	$635K
2005	17	$645K	5	$1.03M	1	$800K
2006	6	$445K	1	$900K	1	$650K
2007	14	$406K	1	$549K	1	$730K
2008	13	$333K	1	$736K	1	$555K
2009	27	$245K	1	$379K	2	$297K
2010	30	$261K	8	$455K	1	$347K
2011	**21**	**$253K**	**3**	**$422K**	**1**	**$455K**

KWGC development is a good example of how markets tend to exaggerate both the highs and lows. The appreciation run-up until 2005 was amazing, almost 20% per year. We *should* have known that kind of growth was unsustainable. So, market forces put the brakes on, and the numbers for 2006, 2007, 2008 and 2009 show the results. Many of these sales reflect seller *distress*, not necessarily market value. 68% of sales in 2009 and 2010 were short-sales or foreclosures … eleven-out-of-twenty-five (44%) in 2011.

Currently there are 27 Golf Club properties on-the-market. 11 are short-sales and 3 are bank-owned, so the distressed-ratio is a little under 50%. Using the same format as above with "<u>asking</u> prices", the breakdown of the currently listed properties follows.

2012	14	**$267K**	12	**$505K**	1	**$456K**

The complete dataset for the last 11 years' sales at KWGC is available for free … just call or Email me.

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

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Become your kid's mortgage lender

By Janice Revell February 1, 2012

FORTUNE -- Between slumping prices and low mortgage rates, it's a good time to look for real estate bargains. But thanks to tightened lending standards, legions of young would-be homebuyers aren't exactly in a position to take advantage of the opportunity. That's where their parents come in: One in three first-time buyers received either a gift or a loan from their families to help buy a home in 2011, according to the National Association of Realtors.

Such a move can provide significant financial benefits to child and parent alike. But you need to proceed carefully to maximize the tax and estate-planning advantages and avoid unpleasant family conflicts.

The most straightforward way for a parent is to simply give your child some cash. There is a limit, however, to how much money the federal government will let you give away tax-free in any one year.

(1) In 2012, a taxpayer can give $13,000 to an individual without triggering so-called gift taxes. Married couples may underwrite their child to the tune of $26,000 a year.

(2) Parents can go over the limit, but they'll have to file a gift tax return and the amount will be counted toward the total they're allowed to give away during their lifetime. (For taxpayers who die in 2012, that amount is $5.12 million, and without congressional action it drops to $1 million in 2013.)

Besides giving cash outright, you might also opt to lend money to your child -- and you can offer terms far more generous than any bank. To make sure the money is considered a loan and not a gift for tax purposes, you'll need to charge interest based on the IRS's "applicable federal rate" minimum for various loan maturities. But those rates are well below the going market levels:

(1) As of January, the minimum interest ranged anywhere from as low as 0.19% for loan terms of three years or less to 2.63% for loan maturities of over nine years.

(2) You'll have to pay income taxes on the interest earned. Still, your return will probably top what you'd otherwise get these days with a low-interest CD or money market.

A family lender also has lots of flexibility in setting payment terms. For instance, you could stipulate that your child make interest-only payments each month, then pay off the principal in a lump-sum balloon payment at the end of the loan's term. You can even forgive part of the loan's principal each year, using the $13,000 annual gift tax exclusion.

Experts stress the importance of drawing up a formal promissory note that spells out the terms. If the loan is properly structured as a mortgage and filed, the interest will be tax-deductible for your child. Having a contract also makes estate planning easier. The last thing you want to leave behind is a family squabble over a well-intentioned loan.

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KONK Life

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.KONKNET.com, every THURs noon-to-1:00 PM. What happened in January?

Thursday #1: My guest today was **Jim Olive**, US Coast Guard Commander (Ret) who is now in a career-transition mode. Guess what the new career will be? Yep, real estate! Jim has completed the State's Pre-Licensing course and will take the State exam tomorrow. We used the hour to assist any listeners who might have ideas about becoming a Realtor. Why would you want to be a Realtor? How do you get started? What can you expect? As an Independent Contractor, you are a one-person "business", responsible for your own success or failure. Good luck to Jim, sure to be a high draft choice as a prospective, professional Realtor!

Thursday #2: My guest today was **Dominique Barrera**, President of the Key West Association of Realtors and an agent with Preferred Properties in Key West. Dominique is 3 months into her tour-of-duty as KWAR President, and she had been on the show in SEP 2011 as President-Elect. The big things happening in real estate locally are (a) market has picked-up noticeably, (b) possible transition to a new MLS vendor this summer, and (c) technology is increasing faster than the KWAR bureaucracy can keep up with it. A new and startling statistic … it's been reported that virtually all buyers begin their property search on-line! Having an educated consumer streamlines everyone's job and minimizes the chance of error. And it certainly helps the buyer converge quickly on the right home, at the right price and terms in the shortest possible time.

Thursday #3: My guest today was **Ruben Concepcion**, President/CEO of Keys Financial Services. Ruben is a wizard on all things financial, and he keeps close tabs on US economy happenings, and he can translate those things to the trickle-down impact in the Lower Keys. The FED promises to keep short-term interest rates low until 2014. What does that mean? The States just completed a $26Billion dollar settlement with the 5 largest banks on flawed foreclosures … who gets that money? What about all the other banks? What about Fannie Mae and Freddie Mack, who own 62+% of all mortgage loans? So many questions, so little time.

Thursday #4: My guest today was **Just Me**, your host noon-to-1:00 PM on the KONK Broadcasting Network. No planned guest today, so a relaxed scenario, Key West style. There was a rumor that, buried deep into ObamaCare, was legislation that established a 3.8% tax on all real estate transactions. Fear not, go to the website www.snopes.com for Rumor Control. It is MediCare legislation, starting in 2013, applying only to "high earners" and only to capital gain above IRS exclusions ($250K single, $500K married). It is estimated to affect less than 5% of the population. Another bullet dodged, phew!

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My Current BUYERS in the Lower Florida Keys:

February 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 you, too! It will be a challenge to highlight 5 new 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 are one of my buyer-prospects, surely you will recognize yourself!

Buyer #1: A couple visiting from Asheville, NC saw my sign outside a Key West listing, but the property was already under contract. They contacted me again when they spotted another house in Cudjoe Gardens that looked interesting. And then … and then … we saw a half-dozen properties! But we couldn't find exactly the right one. So, I'm on the lookout for a nice 3-bedroom, waterfront property under $700,000 and a nice pool could be the feature that locks-in the deal! They are able to fly down at a moment's notice from NC if-and-when strong candidates surface.

Buyer #2: A Key Haven neighbor and I have been in casual contact for about ten years on the subject of real estate and property values. A property next-door to him has fallen on hard times, and he asked me to let him know if/when it came on-the-market. It finally did, one thing led to another, and although he elected not to purchase that property, we may be doing business in the near future. At least, I hope so! He owns several properties in the Keys, nearing retirement and wants to rearrange his affairs so that he is not tied-down to day-to-day property management.

Buyer #3: I've been in touch with a gentleman from New Jersey who is very interested in relocating to Key West. He visited Key West last year and we saw several properties at the Key West Golf Club Development. He was a restaurant owner in NJ during the recent Great Recession, now recovering from the rough business experience. Wounded credit, and finding a lender will be a challenge … but there's always seller financing and rent-to-own. Note to myself: there will be more and more buyers in this situation until the economy rights itself and more time passes.

Buyer #4: Via our "lead generation" website and software, I've been in touch with a prospective buyer who has visited Key West often, most recently in association with the annual Literary Seminar. Key West seems to be a strong magnet for authors! Her time horizon for purchasing is about a year … but considering the time it takes to locate a property, and the time it takes for some properties to close, and her interest in restoring and remodeling, it's not too early to begin now! We haven't talked details yet, but I'm thinking Old Town, historic, peaceful and private!

Buyer #5: A professional couple that I've profiled previously is actually looking for two properties … one that I covered earlier, and a 2^{nd} investment property, multi-unit residential, with strong financials in Key West. They are checking the internet daily, as am I, for new possibilities. Many articles are being written about the robust rental market and how landlords are envisioning rosy futures. They're "running the numbers" on several properties that I know of … and searching for more. They seem determined to buy, if we can find the right property and right financial opportunities.

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6 Tips for Selling in Today's Market

Buying immediately after relocating may not be best financial move

BY DIAN HYMER FEBRUARY 13, 2012.

Some homeowners have been waiting for years for a better housing market and a good time to sell. Is it better to wait a few more years and see if you can realize a higher sale price, or sell now and move on with your life?

The **motivation** for selling is a key factor. Are you commuting to work several hours a day and the commute is killing you? Are your children grown and your home is now too big, in addition to being a burden to maintain? Is your home too small? Have you taken a job out of the area? Can you no longer afford to own your home? Or do you no longer want to pay the price it costs to own your home?

(1) First, you need to find out the probable sale price of your home and access the state of the current home-sale market in your area. You also need to know what you can do to maximize the salability of your home. Then you should consider where you'll live next and how much that will cost.

(2) Find an experienced real estate agent who specializes in your area. Friends whose opinion you trust are the best source of agent referrals. Meet with your agent at your home and ask for a comparative market analysis. This will give you information about what homes like yours have been selling for in the current market.

(3) You'll also want to know how long you can expect it to take to sell your home. How many homes like yours have sold recently? Are homes like yours in high demand? Or, is it located in a less desirable area that could mean a longer marketing time and, perhaps, a lower price than you were expecting?

(4) Homes that sell today are priced right for the market and are in move-in condition. Ask your agent to walk through your home with you and point out what should be done to make your home marketable.

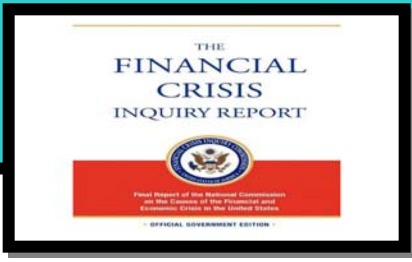
(5) You want to make cost-effective improvements. If the kitchen and bathrooms are outdated, consider a cosmetic redo. Update paint, hardware, light fixtures and floor coverings, if necessary. Don't do a complete remodel unless you plan to stay in your home for years; otherwise, you won't recoup your investment.

(6) Sell first and rent if necessary until you find the right home to buy … the most prudent approach to making a move from one home to another. By selling first, you will know exactly how much money you have to apply to a new home. Today's housing market is volatile. A dip in the market could shave tens of thousands of dollars, or more, off your selling price.

The other benefit of renting before buying is that you're under no pressure to buy the first listing you see. Interest rates are low and are expected to stay low through 2012. Prices are also low and aren't expected to move up much for the next several years.

Financial Crisis Inquiry Commission

post #11



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.

****

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 **All-In**:

US Housing prices jumped 152% between 1997 and the peak in 2006. In the latter stages, housing prices had never risen so far, so fast. It would be catastrophically downhill from there … but the Mortgage Machine kept churning well into 2007, indifferent to falling prices and deteriorating lending standards.

Warnings were not heeded. At many institutions, in-house auditors were fired or marginalized for bringing bad news to the top. Economists were reluctant to identify the bubble, claiming to be *agnostic* on housing, unwilling to risk their reputations or spook markets by alleging a bubble without the support of sound economic theory.

Declining lending standards and the obscene profits being produced by the Mortgage Machine created an environment ripe for fraud. In 80% of cases, the FBI says fraud involves industry insiders. "Silent Seconds" involve collusion between buyer and loan officer disguising the existence of a 2^{nd} mortgage. "Straw Buyers" allow their names and credit scores to be used (for a fee). Lax or practically non-existent government oversight created what criminologists label "crime-facilitative environments". In 2005, two-thirds of the loans being created were originated by mortgage brokers who were not subject to any federal standard or oversight.

In theory, every participant along the securitization pipeline should have had an interest in the quality of underlying mortgages. Seven Deadly Frictions were identified along the pipeline where one party knew vastly more than the other, and could (and did) take advantage. At each point, the privileged player had no stake in whether or not the loan was paid back.

Where were the regulators? They relied extensively on the banks' own internal risk management systems. The relied on the mistaken belief that "markets will always self-correct." The atmosphere at the FED was anti-regulation. The FED believed that if it simply put out guidance, the banks would get the message. Some institutions blatantly switched regulators in search of more lenient treatment.

Conclusions:

(1) Mortgage securitization firms failed to perform due diligence on their purchases.
(2) Potential investors were not informed, or were misled, about the poor quality in these securities.
(3) SEC failed to enforce disclosure requirements, thereby failing in its mission to protect investors.
(4) The Federal Reserve failed to recognize the danger posed by the housing bubble and refused to take timely action to constrain its growth.
(5) Lax regulation and collapsing lending standards created conditions ripe for fraud.

<u>MULTI-UNITS</u>: 1 MARCH 2012

405 William St **Duplex**

4-bedrooms, 3-baths, 1982 living sqft, lot = 4,422 sqft
Conventional sale
SOLD 1 February 2012 for **$925,000**
Asking price = $985,000
Rental income = ($3,900/mo) x (5% vacancy rate)
= $3,705/mo … or $44,460/yr
Taxes + Insurance = (2.5%) x ($925,000) = $23,125/yr
ROI = (income – expenses) ÷ (selling price)
= ($44,460 - $23,125) ÷ $925,000
= $21,335 ÷ $925,000
= **2.3% probably bought for use as single unit (?)**

507 Frances St **3-4 Units**

4-bedrooms, 3-baths, 2197 living sqft, lot = 1,891 sqft
Short sale
SOLD 10 February 2012 for **$405,000**
Asking Price = $499,000
Rental income = ($4,150/mo) x (5% vacancy rate)
= $3943/mo … or $47,310/yr
Taxes + Insurance = (2.5%) x ($405,000) = $10,125/yr
ROI = (income – expenses) ÷ (selling price)
= ($47,310 - $10,125) ÷ $405,000
= $37,185 ÷ $405,000
= **9.2 %**

1301 Truman Ave **>4 Units**

8-bedrooms, 8-baths, 3378 living sqft, lot = 6,246 sqft
Conventional sale
Active 20 January 2012 listed for **$999,000**

Rental income = ($12,500/mo) x (5% vacancy rate)
= $11,875/mo … or $142,500/yr
Taxes + Insurance = (2.5%) x ($999,000) = $24,975/yr
ROI = (income – expenses) ÷ (selling price)
= ($142,500 - $24,975) ÷ $999,000
= $117,525 ÷ $999,000
= **11.8 % (if sold at full price)**

2333 Fogarty Ave **Duplex**

3-bedrooms, 2-baths, 1578 living sqft, lot = 7,800 sqft
Conventional sale
ACTIVE 2 January 2012 listed for **$369,000**

Rental income = ($3,200/mo) x (15% vacancy rate)
= $3,040/mo … or $36,480/yr
Taxes + Insurance = (2.5%) x ($369,000) = $9,225/yr
ROI = (income – expenses) ÷ (selling price)
= ($36,480 - $9,225) ÷ $369,000
= $27,255 ÷ 369,000
= **7.4 % (if sold at full price)**

Southernmost Stars: **1 March 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:
1830 Fogarty #4	**$129,500**	1	1	388	**334**	Affordable Housing
1830 Fogarty #7	**$149,000**	1	1	572	**261**	Affordable Housing
1830 Fogarty #6	$149,000	1	1	598	249	Affordable Housing
3312 Northside #204	$160,000	2	1	736	217	Conventional
3312 Northside #515	$169,000	2	1	800	211	Conventional
3029 N Roosevelt #2	**$169,900**	**2**	**2**	**800**	**212**	**Affordable Housing**
3312 N Roosevelt #616	$175,000	2	2	831	211	Conventional
3317 Eagle Ave	$176,600	3	2	1032	171	Foreclosure
3312 Northside #702	**$179,000**	**2**	**2**	**831**	**215**	**Conventional**
2601 S Roosevelt #207-A	**$189,900**	**1**	**1**	**754**	**252**	**Foreclosure**

Missing from last month: 416 Petronia #3 … SOLD for $130,000
3075 Flagler Ave #20 … under contract

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

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
1701 Johnson #1	$249,000	2	1	850	293	Conventional
1209 Margaret St	$259,000	3	1	864	300	Conventional
1208 Florida St	$264,500	3	2	948	279	Short-sale
1218-Rear Packer	$279,000	2	1	578	483	Conventional
1512 18th Terrace	$300,000	3	2	1492	201	Conventionl (needs renov)
1617 Catherine St	**$310,000**	**3**	**1**	**1301**	**238**	**Conventional**
2625 Flagler Ave	**$319,000**	**2**	**1**	**817**	**390**	**Conventional**
2929 Patterson Ave	$319,000	3	1.5	1447	220	Conventional
1121 Watson St	**$325,000**	**1**	**1**	**420**	**774**	**Short-sale**
1305 20th St	**$325,000**	**3**	**2**	**1003**	**324**	**Short-sale**

Missing from last month: 1313 8th St … under contract
2116 Fogarty Ave … SOLD for $170,000
829 Baptist Lane … under contract
1230 5th St … under contract

When the new entries (**blue**) tend to be coming in at the bottom of the charts, it means they are replacing lower priced units that went under contract or sold. The bottom-10 inventory is getting more expensive!

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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