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2 April 2009

Hello, everyone …

This is the time of year that I love. March Madness in full swing. Major League Baseball about to begin. Masters golf tournament coming up. The first signs of spring. It doesn't offset the US and global economies going down the toilet, but hey, I'll take my pleasures in small doses. The Pro Beach Volleyball season kicked-off last weekend in Panama City Beach FL … where were you, bubba?

There has been activity in the local real estate market. Hard data will show that the number of closings is increasing. They tend to be lower-priced properties, and many are short-sales or foreclosures. But <u>any</u> movement is a good thing.

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

There were lots of nasty articles to choose from in the past month, starting with the outrage over AIG bonuses. You've probably seen those, too. In this newsletter, I wanted to insert something (*any*thing) with a helpful or positive spin on the situation. Almost did it! 3-out-of-4 is not bad, and the offending article is more humorous than biting. Imagine finding humor in this mess.

The multi-unit inventory grew in March … 6 departed (below), 12 entered, net +6. Several of the newbies had large enough ROI to make the *revised* best-of-the-best matrix. Six of the 12 newbies are "distressed" properties. Here are the dearly departed.

Address:	Type:	Listing Price:	Results:	Date:
2333 Fogarty	**duplex**	**$ 349,000**	**SOLD for $320,000**	**on 16 MAR 09**
517 Grinnell	**3-4 unit**	**$ 549,000**	**SOLD for $549,000**	**on 11 MAR 09**
315 William St	**3-4 unit**	**$ 999,000**	**Expired**	**on 31 MAR09**
1023 Whitehead St	**3-4 unit**	**$1,399,000**	**Expired**	**on 16 MAR 09**
912 Fleming St	**3-4 unit**	**$1,499,000**	**Cancelled**	**on 18 MAR 09**
1127 Washington St	**3-4 unit**	**$ 599,000**	**SOLD for $450,000**	**on 31MAR 09**

I've re-designed the multi-unit matrix … simplified it, I hope. Rather than a whole page full of calculations, I've reduced it to only the TOP property investments in terms of ROI, plus a recurring explanation of how the Return-On-Investment is derived. I still track <u>all</u> multi-unit properties carefully every day, but I'll report monthly on the BEST ones only.

Jim Smith, Broker Associate
Realty Executives Florida Keys

Solving the Housing Crisis

by **John Mauldin** 21 March 2009

We have about 2.4 million excess homes. It will take until 2012 to work through this inventory. If nothing is done to eliminate surplus housing, prices will continue to fall. Almost 25 million homeowners will be underwater. It would take a little over $1 trillion to reduce their mortgages to the value of their houses.

In the end there is no real solution other than time, or trillions in taxpayer money being given to homeowners, which will be very unpopular, as homeowners who were responsible would get no benefits. Waiting another 3 years for excess inventory to sell will keep the US in a no-growth economy and devastate the wealth of millions of homeowners.

There is a solution. **There are millions of foreigners throughout the world who would like to come to live in the US**. What if we changed the rules for a few years? We should allow anyone into the US who would buy a home. Their temporary visa would become permanent if they had no problems after, say, five years.

We take those who have enough capital to purchase a home outright. Likely they are educated and have skills. We would attract future citizens who invest in job-creating businesses and/or who have useful skills to assist in the recovery of the US economy. Background checks and references required. The immigrant should be able to support himself and his family. Only immediate family members allowed. 100% financing for those with advanced degrees or special skills.

(1) It would stop the slide in house prices, as demand would be significant. About one million new immigrants would buy homes and inject $200 billion into the economy. Ancillary purchases could easily be another $100 billion.

(2) Excess inventory would be worked through within a year, and possibly faster.

(3) More homeowners could refinance at lower rates, giving them more cash each month to save or spend.

The psyche of the American consumer is permanently scarred. Lower consumer spending will be a drag on growth for years. But 1 million already middle-class new immigrant families will help make up for a lot of that reduced spending.

We are on the cusp of the Baby Boomers beginning a huge wave of retirement, both in the US and elsewhere in the developed world. There is going to be a need for skilled workers to replace those Boomers, as well to provide services to the retirees. Further, the promised Social Security and Medicare expenditures are going to start increasing at a significant rate. **We are going to need immigrants to help pay for those benefits**. We will look back with some irony in 10 years when we find we are in a serious competition with other nations to attract skilled immigrants. **We should start now. The concept is … let's not waste a good crisis.**

If we do nothing, unemployment is going to rise to 10%. Home values are going to continue to fall. The economy is likely to be stagnant for a long time. I am not talking about bringing 1 million foreigners to this country. I am talking about bringing 1 million *future Americans,* who want to work hard and live the American dream. In America anyone with hard work and determination can make their own way. That is why so many want to come and that is why we can attract a new generation of affluent, self-reliant immigrants who can help us solve a problem that we created.

I can see no downside to changing our immigration policy for a few years. We solve the housing crisis, stabilize home values, brings hundreds of billions in stimulus to the US, and with no taxpayer outlay.

The New York Times

Matters of Principal

By JOHN D. GEANAKOPLOS and SUSAN P. KONIAK 5 March 2009

An avalanche of foreclosures is coming, as many as eight million in the next several years. The plan announced by the White House concentrates on reducing interest rates, not principal, for those who owe more than their homes are worth. The plan wastes taxpayer money and won't fix the problem.

The best thing to do is to write down principal so that homeowners will have equity in their house and thus an incentive to not default again down the line. This is also best for taxpayers, who now effectively guarantee the securities linked to these mortgages because of the various deals we've made to support the banks.

There is room to make generous principal reductions because the bond markets expect so little out of foreclosures. Typically, a homeowner fights off eviction for 18 months, making no mortgage or tax payments and no repairs. Abandoned homes are often stripped and vandalized. Foreclosure and reselling expenses are so high the market expects only 25 % back on a foreclosed loan. Bondholders and banks, the ultimate beneficiaries of homeowner payments, will be better off if mortgages are modified and foreclosures stopped.

Why is writing down principal so critical to stopping foreclosures? Default rates are very sensitive to whether a homeowner has an ownership stake in his home. Every month, another 8% of homeowners who are under-water become seriously delinquent. Homeowners who are above-water become delinquent at a rate of only 1% per month. Almost all owners with real equity in their homes are finding a way to pay off their loans. It is those with homes worth less than their loans who are defaulting, but who, given equity in their homes, will find a way to pay.

If writing down principal is such a good idea, why aren't banks and servicers doing it now? Many banks are hoping instead that we taxpayers will buy out mortgages at near their original inflated value —another government bailout. Reducing principal would force them to take an immediate markdown. The servicers, meanwhile, are afraid that bondholders, their clients, will sue them.

We know there are some who will be outraged at the idea that their neighbors might get a break, while they — so much more responsible — get nothing. To these outraged folks we say, you would benefit too. It is not just your home values and your neighborhoods that will deteriorate if you insist that your underwater neighbors not get relief; it is your tax dollars and that of your children that will be needed to make up for the plummeting value of those toxic assets held by banks, which we taxpayers now guarantee and may soon own outright. It is your job that will be at stake when your neighbors can no longer afford to buy goods and services, causing more companies to cut jobs. So you need to act responsibly again, for your own sake and for the welfare and future prosperity of the entire nation.

John Geanakoplos is an economics professor at Yale. Susan Koniak is a law professor at Boston Univ.

MULTI-UNIT PROPERTIES: **1 April 2009**

address = "Short Sale" or foreclosure

DUPLEX (top 10):

			ROI:					ROI:	
823 Terry Ln:	$410K	Max	6.87%	On market 1MAR	**3314 Northside #12:**	$445K	Max	5.30%	On market 21MAR
MLS110398	NEW	Min	5.90%		MLS105322		Min	4.44%	**Reduced** 7MAR
2417 Patterson:	$365K	Max	7.35%	On market 8MAR	**1317 Sunset Dr:**	$485K	Max	7.21%	On market 1OCT
MLS110429	NEW	Min	6.61%		MLS109389		Min	6.31%	**Reduced** 6FEB
1319 2nd St:	$385K	Max	7.96%	On market 8MAR	**1319 Elizabeth St:**	$395K	Max	6.60%	On market 22SEP
MLS110430	NEW	Min	6.60%		MLS106590		Min	5.62%	**Reduced** 6AUG
1634 Johnson:	$328.5K	Max	8.06%	On market 10MAR	**2514 Staples Ave:**	$315K	Max	9.30%	On market 28FEB
MLS548158	NEW	Min	6.90%		MLS105129		Min	8.06%	**Reduced** 2MAY
921 Eaton St;	$389.9K	Max	6.40%	On market 6MAR	**3739 Duck Ave:**	$359K	Max	6.82%	On market 22AUG
MLS548121	NEW	Min	5.42%		MLS106388		Min	6.10%	**Reduced** 24JAN

3-4 UNIT (top 6):

			ROI:					ROI:	
1614 Dennis:	$559K	Max	9.25%	On market 20FEB	**1125 Washington:**	$764K	Max	7.56%	On market 18FEB
MLS107921		Min	8.12%	**Reduced** 16DEC	MLS107914		Min	6.52%	**Reduced** 29JAN
719 Frances St:	$500K	Max	8.78%	On market 12FEB	**2618 Fogarty:**	$695K	Max	7.84%	On market 24NOV
MLS107720		Min	7.59%	**Contract** 12FEB	MLS109707		Min	7.07%	
726-28 United St:	$614K	Max	7.99%	On market 9DEC	**811 Thomas St:**	$425K	Max	10.62%	On market 1OCT
MLS109831		Min	6.78%	**Reduced** 2FEB	MLS109377		Min	9.24%	**Reduced** 5FEB

> 4 UNITS (top 2):

			ROI:					ROI:	
1122 Simonton St:	$1.075M	Max	5.11%	On market 7MAY	**1214 Catherine:**	$699K	Max	12.62%	On market 9NOV
MLS108540		Min	3.80%	**Reduced** 2FEB	MLS109618		Min	11.48%	

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:

- 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.

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

Key-West-By-The-Sea is a gated condominium complex of 182-units on So. Roosevelt Blvd, across from Smathers Beach. The 3 main buildings are referred to as Atlantic Tower (A-Wing), Gulfstream Tower (B-Wing) and Coral Bay Gardens (C-Wing). The 11-yr history of sales is shown below, from MLS records:

	A-Wing			B-Wing			C-Wing			
	1bed	2bed	3bed	1bed	2bed	3bed	1bed	2bed	3bed	**Total**:
1998: #	1			2	2		1	2	3	
Avg $$:	$170K			$148K	$188K		$140K	$163K	$191K	11
1999: #					1		2		1	
Avg $$:					$265K		$142K		$265K	4
2000: #					3					
Avg $$:					$191K					3
2001: #				1			1		1	
Avg $$:				$172K			$137K		$245K	3
2002: #								1		
Avg $$:								$268K		1
2003: #	1	3			2			3	2	
Avg $$:	$340K	$364K			$390K			$358K	$390K	11
2004: #	1		2		4	3		1	1	
Avg $$:	$536K		$543K		$469K	$589K		$520K	$499K	12
2005: #		1						1	3	
Avg$$:		$700K						$500K	$652K	5
2006: #				1	1				1	
Avg$$:				$512K	$700K				$565K	3
2007: #	1							2	1	
Avg$$:	$315K							$318K	$375K	4
2008: #	2			2	2				2	
Avg$$:	$263K			$298K	$360K				$394K	8

Transient rentals are prohibited, and rentals in general are discouraged. Owners are long-term residents, and *they want to keep it that way*. The units are large, sturdy and popular. Many sell quietly (outside of MLS) due to owner-to-owner "insider" knowledge! In terms of sales, 2008 was better than the previous 3 years, a good sign. One sale in 2009: # 510-A … 3-beds, 2-baths, 1221 living Sqft, price $410K, another good sign.

15 units are currently on-the-market, and their asking prices are distributed as follows:

	A-Wing			B-Wing			C-Wing			
	1bed	2bed	3bed	1bed	2bed	3bed	1bed	2bed	3bed	**Total**:
# Units:	1	4	2	1	2			1	4	
Avg$$:	$325K	$524K	$622K	$228K	$347K			$275K	$437K	15

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

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REALTOR®
THE BUSINESS TOOL FOR REAL ESTATE PROFESSIONALS April 2009 REALTOR.org **Realtor Magazine**

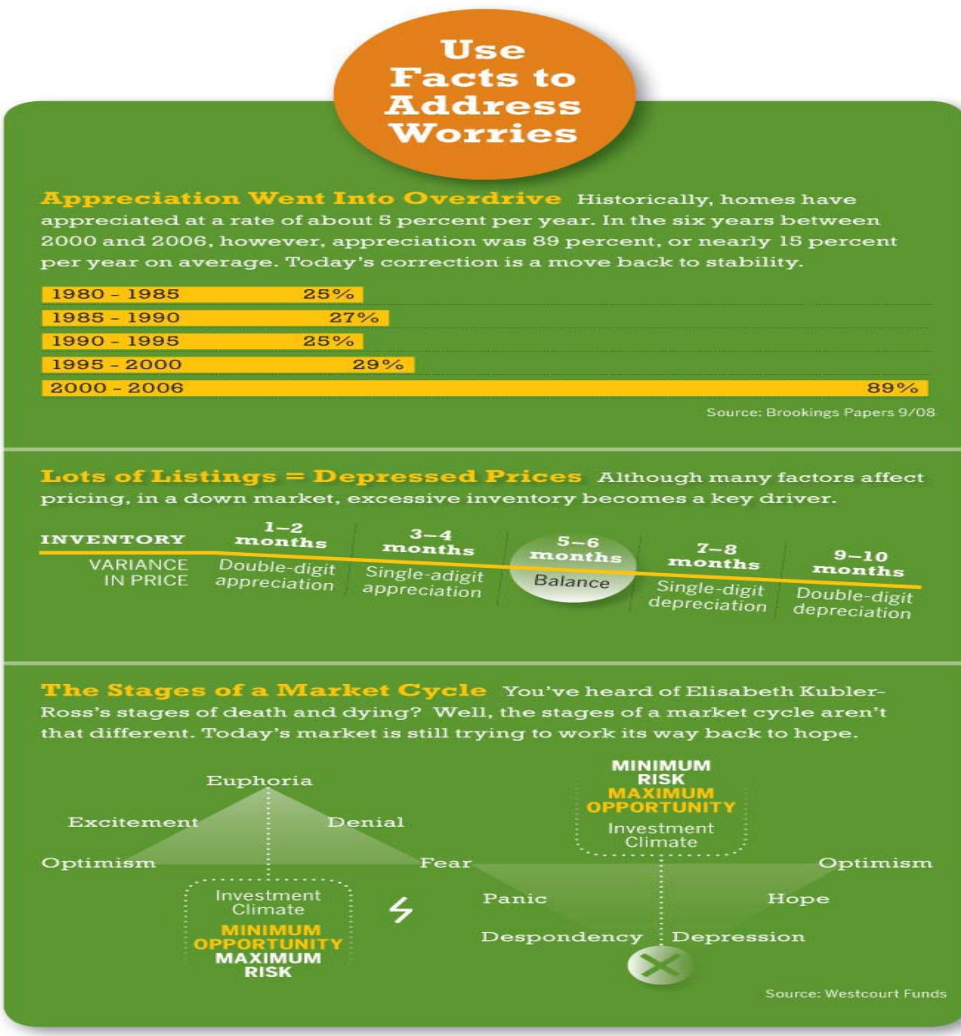
People view real estate brokers as information providers. Here are insights to the questions being asked today.

1. Why are the prices dropping? Because of the market boom. Look at the appreciation of median home value over 5-year increments since 1980 (see chart). Values appreciated 26.5% on average from 1980 to 2000. In the next 6 years, average appreciation was 89%. Prices are now adjusting to that unsustainable growth. The market is not on the decline … it is moving toward stability and healthier markets in the future.

2. How do I determine prices? Months' supply of inventory is a great guideline. A balanced market has 5-6 months of inventory. If 100 houses sell a month, there should be 500 – 600 on the market. Also, pricing is directly connected to average income. The national average sales price of a home is 2.5 times the average household income. From 2004 to 06, that ratio rose to 4 times the average income. We're now getting much closer to the 2.5 ratio.

3. Why should I buy now? Any investment follows a predictable cycle with 9 stages (see chart). The point of maximum risk for any investment is during the euphoria stage. The point of maximum *opportunity* is at the lowest point, between despondency and depression. That's exactly where we are in many real estate markets today.

4. Is homeownership a good way to build wealth? Home values appreciate 4.5% annually on average. Most buyers try to put as little cash down as possible, and that cash determines their return on equity. The total return on the cash they initially invested could be astronomical. Real estate isn't just a good investment; it's a great investment.



The New York Times

The Grievance Committee

By GAIL COLLINS **March 19, 2009**

Angry. So very, very **angry**. Unable to speak due to **mega-anger** washing over every pore and fiber of my being. **Anger** is in.

I am extremely **angry** at Tim Geithner for being such a baby that he couldn't scare AIG quants into forgoing their bonuses. We need a SecTreas so terrifying that if you were stuck in an elevator alone with him, you would just automatically hand over your wallet. Somebody as weird and tirade-prone as Hank Paulson. Although when he had Geithner's job we **hated** him. **Hated, hated, hated**.

Hate those bankers. However, Jimmy Stewart seemed nice in that movie about Christmas. Geithner claims nobody warned him that this bonus scandal was coming. Doesn't he have any assistants? Is there nobody in the world of finance who wants to a top-level Treasury job if it means letting the White House accountants go over their tax returns? Geithner is walking around listening to the hallways echo, like the only kid at boarding school who didn't get invited home for Christmas. I **hate** everybody in the world of finance. Also accountants, since it's tax time.

I'm totally **angry** at Congress for trying to pretend that they're angrier than I am. The head of AIG, was hauled in front of the House Financial Services Subcommittee where everybody was extremely eager to express their **outrage** about the $165 million in bonuses for employees in AIG's financial (Credit Swaps R Us) division.

What about Barack Obama? Why doesn't he sound **angrier**? Doesn't he understand that his job right now is to be The Great Venter? Sure, he keeps *saying* he's **mad**. But you can tell that he secretly thinks it's crazy to obsess about $165 million in bonuses in a company that's still got $1.6 trillion in toxic assets to unravel. He said, "I don't want to quell that **anger**. I want to channel our **anger** in a constructive way." Well, constructively channeled **anger** doesn't really count. It's like diet pizza.

If John McCain were president we'd be getting **outrage** 24x7. McCain would be so **angry** he'd have a coronary or invade a new country. The NY Post would be headlining "Calm Down, Mr. President".

I want to see some *real* **outrage**. But we <u>voted</u> for "No Drama" Obama. I **hate** it when we make irrational, contradictory demands of our president.

Southernmost Stars: **1 April 2009** 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:	$/Sqft:	Other:
3312 Northside #210	**$ 99,000**	**0**	**1**	**441**	**224**	**Conventional sale**
3312 Northside #216	**$120,000**	2	2	896	178	Short-sale
3312 Northside Dr #408	**$135,900**	2	1	631	234	Conventional sale
3221 Harriett	**$147,900**	**2**	**2**	**1136**	**130**	**Conventional sale**
1500 Seminary #1-c	**$159,000**	**2**	**1**	**640**	**248**	**Short-sale**
3218 Harriett	**$160,900**	**2**	**1**	**1032**	**156**	**Conventional**
3675 Seaside #431	**$163,900**	**2**	**2**	**772**	**212**	**Foreclosure**
3311 Pearl St	**$164,900**	**2**	**2**	**1136**	**145**	**Foreclosure**
3211 Pearl St	**$175,000**	**2**	**2**	**1032**	**170**	**Conventional**
3314 Northside #141	**$175,900**	**2**	**2**	**1046**	**168**	**Conventional**

As promised last month, I've removed all properties that are under contract. Eight are missing from March:

- 3312 Northside #714 … SOLD for $130,000 on 3/11/09
- 1205 Virginia St #2 and #3 … under contract
- 3930 So. Roosevelt #W-401 … under contract
- 3930 So. Roosevelt #W-303 … under contract
- 3211 Eagle Ave … under contract
- 3225 Flagler #403 … under contract
- 3312 Northside #411 … under contract

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
3221 Harriet Ave	**$147,900**	2	2	1136	145	Foreclosure
1222 Florida St	**$219,000**	**1**	**1**	**805**	**272**	**Foreclosure**
3425 Flagler Ave	**$269,000**	**2**	**2**	**1200**	**224**	**Short-sale**
213-Rear Truman Ave	**$279,000**	**1**	**1**	**484**	**576**	**Short-sale**
215-Rear Truman Ave	**$279,000**	**1**	**1**	**561**	**497**	**Short-sale**
527 Bahama St	$240,000	3	2	744	323	Short-sale
1222-Rear Grinnell St	$249,000	2	1	690	361	Short-sale
1401 5th St	$250,000	2	1	942	265	unknown
2302 Seidenberg Ave	$250,000	2	1	640	391	unknown
1922 Patterson Ave	$279,000	3	1	720	388	Short-sale

Four are missing from last month:

- 3210 Eagle Ave … under contract
- 2310 Seidenberg Ave … under contract
- 3041 Flagler Ave … under contract
- 2625 Flagler Ave … under contract

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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