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1 April 2010

Hello, everyone …

Let's recap the month of March. The Final Four have been determined. We reformed health care. We survived St Patrick's Day. The spring breakers are everywhere, especially the beaches. Real estate-wise, March was a good month … lots of activity, and a few contracts were written.

Also, during March, I've been substituting for Barbara Bowers, the host of a local radio show called "Realty Reality". It's been a fun experience, playing DJ and emcee. As my guests, I've had Monica Hornyak from Chicago Title, Vicki Gordon of Barefoot Appraisals, Dan Blagriff from Centennial Bank and Roberta Mira from my own company, Realty Executives Florida Keys. One gig remaining this week, and RJ Albritton is coming on with me to talk about short-sale negotiations. Hurry back Barbara!

Table of Contents for this issue:

The last article refers to a new book by Michael Lewis, author of "Liar's Poker". It wasn't mentioned, but he is also the author of "Moneyball", the science behind applying baseball statistics. The rest of the articles are not your basic Happy Talk … 20 years for the real estate market to recover, Associations are suing banks, title defects with distressed properties, and new FEMA maps re-draw the Floodplain. No rest for the weary.

Check out the newsletter from 1 year ago, under "Southernmost Stars". At that time, the range of the lowest priced condos/townhomes was $134,900 to $162,900. Today it is $149,000 to $235,000. The range of single-family homes one year ago was $164,900 to $279,900. Today it is $169,900 to $299,000 (4 of them!). Unscientific, I suppose, but the high-end of the lowest 10 in each category has increased noticeably.

The multi-unit inventory shrank in MAR 2010 … 2 newbies came on-the-market, and 5 departed, net (-3). Of the newbies, none made it directly to the TOP matrix. These are the 5 departed:

Address:	Type:	Listing Price:	Results:	Date:
904 Eaton St	**duplex**	**$ 880,000**	**EXPIRED**	**on 10 MAR 2010**
3314 Northside #23A	**duplex**	**$ 224,000**	**SOLD for $218,000**	**on 2 MAR 2010**
3739 Duck Ave	**duplex**	**$ 319,500**	**SOLD for $305,000**	**on 5 NOV 2009**
719 Frances St	**3-4 unit**	**$ 400,000**	**SOLD for $435,000**	**on 15 MAR 2010**
1411 Truman Ave	**3-4 unit**	**$ 695,000**	**Cancelled**	**on 13 MAR 2010**

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Florida Trend

South Florida residential market won't rebound until 2030

March 10, 2010 By Alexander Britell

Moody's Economy.com predicts a 20-year wait for South Florida's housing market to fully recover.

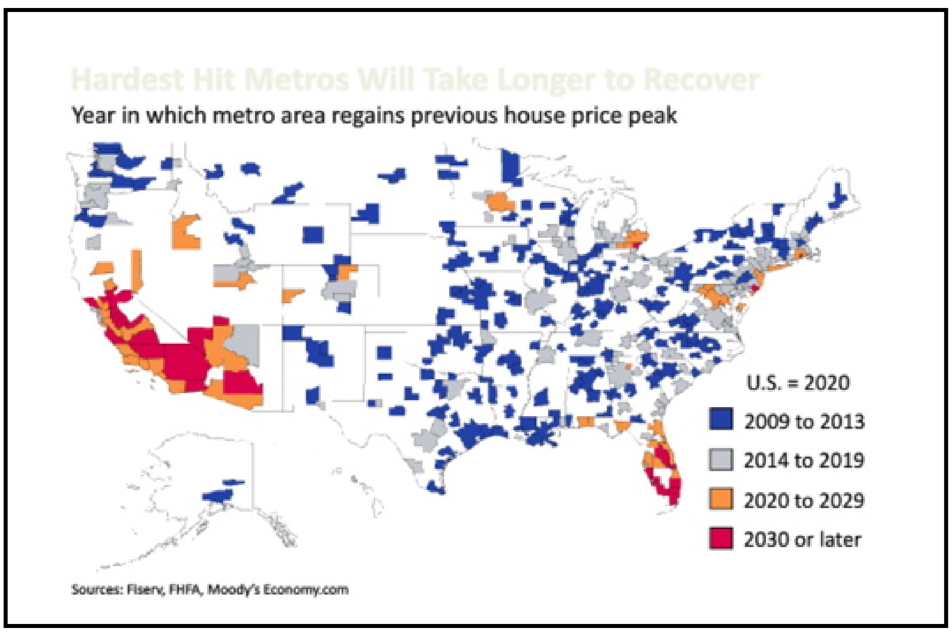
The South Florida residential real estate market will not rebound to previous highs until 2030, according to a Moody's Economy.com prediction. The forecast made something of a stir when it appeared deep in an article on community development districts in Business Week Monday (see chart on the forecast below).

While Moody's Economy.com was under a contractual obligation not to release the specific data, it provided *The Real Deal* with data that supported a reasonably similar forecast -- a peak to trough price trajectory that tells of a long road ahead for Florida real estate. The data was provided with a forecast map, along with separate data showing a comparable recovery forecast.

The 2030 number comes from the map compiled by Fiserv, FHFA and Moody's Economy.com. The map, entitled "Harder Hit Metros Will Take Longer to Recover," predicts that Florida real estate, specifically South Florida, will not be able to regain its previous price peak until 2030 or later. With the exception of a few counties across the United States, only the Southwest -- California, Nevada and Arizona -- have regions with such dire predictions. The nationwide recovery prediction is 2020, according to the map.

Additional Moody's Economy.com data shows a comparable trajectory. Florida real estate hit its peak in the fourth quarter of 2005, when the median existing single-family price was $267,910.

JSmith Note: This is included in the newsletter, NOT because I believe it, but because I want a record of it. I think it's a dang shakey prediction! That's why it was buried in BW Monday. I expect the near-term future to prove it wrong, especially in the unique Key West "metro" area.



Redrawn FEMA maps cause abrupt changes in flood insurance costs

MINNEAPOLIS – March 22, 2010 – Across the US, thousands of property owners will soon be forced to buy flood insurance because new federal flood-risk maps suddenly put them in flood zones. The revisions have unleashed outcries as some dispute the reality of the new boundaries and the true risk of flood damage. The changes made by FEMA can cost a property owner from hundreds to thousands of dollars each year.

The manager of the 53-unit Great Northern Lofts in St. Paul is one of 4 historic buildings newly included in the map. "It's a bad thing for the building. It's like Tuesday you're not in a flood plain, and on Wednesday you are," he said. The new designation means a $10,000 yearly insurance policy spread across condo owners.

Redefining how far floodwaters reach has broad implications for property and business owners, local governments, developers and others. The maps are used to determine insurance rates, who is required to buy insurance, and to guide local governments with flood plain and development policies. That's why FEMA embarked on a $1 billion effort in 2004 to update old maps using new technology. **The maps are being updated county by county across the country**.

"There's going to be more people finding out they need flood insurance," said Minnesota Dept of Natural Resources. "Quite a few are finding out they won't need it any more, or that they're not in the flood plain."

The map revisions have been a mixed bag. Some communities have complained about inaccurate maps. Elsewhere, property owners rejoiced because the revised maps showed their properties weren't at risk and ended the need for insurance.

"A central part of our commitment to protect lives and property is to ensure that people are aware of the natural hazards and risks that exist in their communities," said FEMA. "FEMA works closely with local communities during this collaborative process to ensure that any verifiable data that will strengthen the flood maps is included and incorporated."

Flood Insurance Rate Maps (FIRMs), depict areas at various risks of flooding, with special attention on special hazard areas affected by floods that have a 1% chance every year of happening, or 100-year floods.

Floods are the most common natural disaster and have caused about $24 billion in damage across the US over the past decade. Congress established the National Flood Insurance Program in 1968 as a way to offer protection to property owners in exchange for local governments taking actions to reduce the risks of damage to property. Those actions include limiting development in flood-prone areas.

People purchase government-backed policies from private agents. Cost of insurance depends mainly on a property's potential for flooding and the amount of coverage. Homeowners who don't live in a flood plain can insure their house ($250,000) and its contents ($100,000) for an annual premium of $388. For structures in high-risk areas, the cost can go to thousands of dollars.

Structures in the 100-year flood plain with federally regulated mortgages are **required** to have flood insurance. According to FEMA, structures located in the flood plain have a 26% chance of sustaining flood damage during the term of a 30-year mortgage.

After FEMA revisions, local governments must adopt them into flood plain-management ordinances if they want to remain in the program. If they choose not to participate, then insurance is no longer available.

MULTI-UNIT PROPERTIES:

1 April 2010

address = "Short Sale" or foreclosure

DUPLEX (top 10):			ROI:						ROI:		
1119 Catherine St:	$449.9K	Max	8.24%	On market	26JAN	**3314 Northside #17**	$219.9K	Max	13.28%	On market	20SEP
MLS112405		Min	7.27%			MLS111626		Min	11.54%	**Contract**	12MAR
2404-07 Flagler:	$275K	Max	9.22%	On market	5JAN	**1317 Sunset Dr:**	$385K	Max	9.73%	On market	1OCT
MLS112267		Min	7.86%	**Reduced**	6MAR	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
2226 Patterson:	$450K	Max	9.07%	On market	5APR	**1907-09 Patterson:**	$299K	Max	11.59%	On market	7NOV
MLS110648		Min	8.06%	**Reduced**	19NOV	MLS109613		Min	10.21%	**Reduced**	28MAR

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:**	$410K	Max	10.80%	On market	5JAN
MLS111640		Min	9.56%			MLS111405		Min	9.66%	**Contract**	5FEB
2618 Fogarty:	$670K	Max	8.23%	On market	24NOV	**915Pohalski:**	$399K	Max	8.37%	On market	27AUG
MLS109707		Min	7.43%	**Reduced**	24DEC	MLS111404		Min	7.22%	**Reduced**	1AUG

> 4 UNITS (top 2):			ROI:						ROI:		
1301 Truman Ave:	$1.5M	Max	13.38%	On market	18JUN	**1214 Catherine:**	$649K	Max	13.79%	On market	9NOV
MLS111056		Min	11.45%			MLS111893		Min	12.56%	**Reduced**	24APR

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.

BUYER BEWARE: Title Defects Plague Foreclosures & Short Sales

by George Mantor, February 17, 2010

Agents involved in foreclosures and short sales may need to disclose the possibility of title defects associated with these lender-controlled sales. Unlawful foreclosures may be invalidated. Buyers of these properties may have clouded titles. The implications are enormous for title companies, bankruptcy attorneys, real estate agents, those facing foreclosure, and those who have lost their homes. We are headed for an explosion of litigation in this area.

Public chain of title to real property was thought to be essential and required by law, until Wall Street saw the money making potential in Credit Derivatives, packages of debts (car loans, student loans, credit card debts, mortgage loans, etc).

But, to bundle mortgages from every county in the US would mean sending someone to every county recorder's office (often) and paying multiple recording fees. Solution? **Stop recording** the assignments in public and track them on an electronic system the major lenders would operate. Say hello to Mortgage Electronic Registration Systems (MERS). It saved them a fortune. But, as with many new ideas, there are unintended consequences coming to light as states enforce basic property rights.

Massachusetts: (Oct 14, 2009) "A mortgage is a conveyance of land. There must be evidence that the note was assigned, and who the current holder might be. These issues lie at the heart of the protections given to homeowners and borrowers".

Kansas: (Aug 28, 2009) Supreme Court said MERS is a "straw man" and not a party of interest with the right to foreclose. "The practical effect of splitting the deed of trust from the promissory note is to make it impossible for the note-holder to foreclose."

California: (Oct 21, 2008) "The debt is the principal thing, the mortgage an accessory," the Supreme Court reasoned. "A mortgage can have no separate existence. Assigning the note carries the mortgage with it. Assigning the latter alone is a nullity."

Nevada: (Aug 19, 2008) "There is no evidence that the note is enforceable. To the contrary, the note has been sold, and the named nominee no longer has any interest in the note."

Arkansas: (Mar 19, 2009) MERS is not the beneficiary under the deed of trust. It did not receive payments on the underlying debt.

It is hard to disagree. The foreclosing entity didn't loan the money, the original note was sold, the location of the note is unknown, and it isn't even clear what would happen to the proceeds of the eventual sale of the property to a new owner.

Many homes have been unlawfully foreclosed by entities not entitled to anything. The former owners of these homes have rights that will need to be addressed. People who applied for mortgage modifications and received them may have gotten approval from a bank employee with no authority to change the underlying terms of the securities in the pools.

Many people bought these homes and have potential future claims. If there is a cloud on title, the new owner is at risk of being unable to sell or encumber the property. If the foreclosure was unlawful, the borrower is entitled to their property. There is a very real possibility that the true holder of the actual note, once sorted out, could come forward with the actual note.

For those in foreclosure, seeking loan modifications, potential buyers of short sales and foreclosures and those acting in a fiduciary capacity on their behalf, you may soon be demanding, "**Show me the note.**"

The Miami Herald Real Estate News

Desperate Associations find way to get overdue fees

Reverse foreclosures help associations collect needed overdue maintenance fees

BY RACHAEL LEE COLEMAN 7 MARCH 2010

Condominium and homeowners associations have found a novel way to squeeze money from units that don't pay what they owe. **Reverse foreclosures** force banks to pay association maintenance fees when unit owners don't.

It's a way for associations to stick it to banks -- who they are convinced have been sticking it to them since the real estate meltdown began. When an owner stops paying the mortgage, the bank files a notice of foreclosure to safeguard its stake. After that, some banks deliberately delay the process of taking back the property because they are in no rush to have upside-down properties on their books..

Delaying foreclosure can be a nightmare for Associations. When people stop paying the mortgage, they invariably stop paying their maintenance fees. As long as a foreclosure is in limbo -- and the process can take years if a bank wants to slow things down -- unpaid maintenance fees pile up. This forces a reduction in general maintenance, driving down property values even more, and leaving vacancies and vandalism.

Under a **reverse foreclosure**, the Association files its own foreclosure notice and takes title, which is its right. The Association can't sell because of the bank's lien. But the Association can renounce its claim on the property in court and ask the judge to give the title back to the bank. **Then the bank has to pay the fees**.

It's a hardball tactic, but reverse foreclosures could become very popular, very quickly. In a recent survey, Associations reported that half of their units were 2+ months behind in paying maintenance fees.

Although a reverse foreclosure sticks a bank with a property it doesn't want, Florida law gives the lender a break. Banks cannot be forced to pay more than 12 months of past-due Association fees or 1% of the overall mortgage amount, whichever is less (6 months for condos). The remainder is written off as bad debt by the association. Because of the cap there is no incentive for banks to foreclose in a timely fashion.

Community Advocacy Network has another slant … Associations should recoup their losses by renting out units they take by foreclosure. “If you already own it, control it," CAN said. “You don't need to pay lawyers."

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Related article (same Miami Herald, same author … 7 March 2010):

Blanket receivership: Another way to get overdue fees paid

Reverse foreclosure isn't the only new weapon for condo associations mired in debt and despair because of unpaid fees. Another is **blanket receivership**, pioneered last year. Blanket receivership permits the systematic seizure of rents paid by tenants occupying units whose absentee owners have stopped paying maintenance fees.

Before last year, condo associations assumed they had to file individual lawsuits whenever they wanted to attach rent money on individual delinquent units. Blanket receiverships allow for the appointment of a court-approved representative to scoop up all of that rent money and hand it to the association. No need for individual lawsuits.

The New York Times

Investors Who Foresaw the Meltdown

THE BIG SHORT: Inside the Doomsday Machine by Michael Lewis 3/15/2010

The global financial crisis of 2008 was triggered by a crazy, man-made money machine, built on flawed mathematical models that most financial executives did not really understand themselves. Greedy and heedless, Wall Street firms turned subprime mortgages into toxic financial products that they made a fortune reselling. They were enabled by the very ratings agencies that were supposed to police risk.

The clear and present danger was NOT foreseen by the chief executives of America's premier banks. It was NOT foreseen by government regulators, by Treasury officials or by the Fed. It was foreseen, however, by a handful of investors, who were aghast at the madness they saw on the Street and who used their prescience to make a fortune off the financial system's calamitous meltdown. Some of their stories are told by Michael Lewis in "**The Big Short**."

Mr. Lewis is the author of "Liar's Poker," that now classic portrait of 1980s Wall Street. His entertaining new book opens a small window on the calamities by recounting the stories of some savvy renegades who cashed in on their conviction that the system was rotten. In doing so, the reader is put in the position of rooting for people who, while smarter or more farsighted than those who helped bring about catastrophe in the first place, were nonetheless trying to make money (who saw a rare *opportunity*, as one put it) by betting against the health of our financial system.

Steve Eisman … became convinced that the industry called "consumer finance" existed to rip people off. He performed credit analysis on mortgages and realized he could make a fortune by shorting the worst of the worst.

Michael Burry … became convinced that lending standards had declined so alarmingly that he could make money by shorting subprime mortgage bonds. By the end of 2007 he profited more than $720 million.

Jamie Mai and Charlie Ledley … in 2003 with a garage hedge fund and $110,000 believed markets were predisposed to underestimate the likelihood of dramatic change. They sought out whatever was believed to be least likely to happen, and bet on it happening. By 2008, their fund had netted $80 million.

Mr. Lewis draws lively portraits of the characters in his story. All were oddballs or outsiders, impervious to groupthink and conventional wisdom. Each of them "told you something about the state of the financial system, in the same way that people who survive a plane crash told you something about the accident."

The roots of the meltdown can be found in the 1980s of "Liar's Poker," when complex financial products were developed. These financial instruments grew increasingly opaque and complex to help obscure the fact that they were built around increasingly suspect loans. Wall Street firms were able "to hide the risk by complicating it" and by getting the rating agencies to give triple-A ratings to bonds that were far lower in quality. How? Wall Street firms knew how to game the system and get rating agencies (eager to collect big fees for their services) to ineptly rate dangerous bonds. Most evaluation models were based on rising house prices and the subprime mortgage machine was able to dupe itself.

I’ve resisted doing this in past newsletters, but I hafta tell you about this! I don’t presume to know how you define “value”. It depends on many subjective factors, in the eye of the beholder. But this property rings my bell as a BEST BUY. Here’s the story:

On 19 March 2010, **49 Seaside South Court** sold for $610,000. It was bank-owned.

Groundfloor 1st Floor 2nd Floor 3rd Floor

Location: Eastern end of the island of Key West, Atlantic ocean view (overlooking the old “Houseboat Row”)
Structure: 4 floors, poured concrete, personal elevator, private roofdeck, commanding views, impact windows
4 bedrooms, 4 full bathrooms … 2,892 living squarefeet

There are 15 townhomes just like this one, built at the height of the local market. Most were sold in pre-construction, and the developer retained several. Although it takes some interpretation, I’m fairly confident about what I can conclude from tax records:

3 units sold for $2,500,000 each … late 2006, early 2007
6 units sold for $1,875,000 each … early-to-mid 2007
5 units were owned by the developer, with loans ranging from $1,500,000 to $1,675,000
1 unit sold as a resale in 2008 for $1,400,000

Many of these townhomes are likely in distress … but that’s financial only. Structurally, they are fortresses-like strong, never been lived in, huge and beautiful. I’m familiar with these units because in 2007 my real estate company was hired to market these properties as “fractionals”. I spent a lot of time showing one that was exquisitely furnished by the developer (I think it was Unit #46). At the time, the market value of that unit was estimated at about $2,700,000. The old website that marketed the townhomes is still working, so check-out these properties at www.thekeywestclub.com. Great photos. Sadly, the “fractional” idea did not grow legs, and the units did not sell. The market turned south. Now the developer and owners are s-t-r-e-t-c-h-e-d terribly. “Misfortune” depends on where you sit, and for some it is an opportunity. Personally, I can’t believe that these new townhomes of nearly 3,000 sqft (and once nearly $3M) might be purchased for as little as $610,000. It’s gotta be the steal of the decade.

Unit # 50, also bank-owned, is listed for sale at $720,000 right now.
Unit # 51 was also listed for sale at $950,000, but the listing expired last month.
Stay tuned. You heard it here first. I’m just saying …

Southernmost Stars: **1 April 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:
1016 Howe St #4	$149,000	1	1	144	1035	Short-sale
1012 Truman Ave #103	$149,900	2	1	750	200	Foreclosure
3223 Harriet Ave	**$150,000**	**2**	**2**	**1032**	**145**	**Foreclosure**
1207-09 William #1	**$155,000**	2	1	560	**277**	Short-sale
419 United #3	**$160,000**	**1**	**1**	**343**	**466**	**Short-sale**
416 Petronia #3	$175,000	1	1	409	428	Foreclosure
112 Golf Club Dr	$192,500	2	1.5	780	247	Short-sale
3229 Flagler #204	$210,000	2	2	763	275	Conventional
1445 S Roosevelt #412	$225,000	1	1	666	338	Conventional
3655 Seaside #226	$235,000	2	2	772	304	Conventional

Missing from last month's report:

3930 S Roosevelt #313W … under contract
1223 2nd St … under contract

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
3321 Eagle Ave	**$169,900**	**3**	**1.5**	**1136**	**150**	**Foreclosure**
221 Petronia St	$225,000	3	2	1155	195	Short-sale
728 Windsor	$260,000	2	1	654	413	Conventional sale
2307 Patterson Ave	$270,000	2	3	864	313	Conventional sale
1107 Thomas St	$225,000	2	1	1102	248	Short-sale
2405-07 Flagler Ave	**$275,000**	4	2	1479	**186**	Short-sale (duplex)
1907-09 Patterson Ave	**$299,000**	**4**	**2**	**1500**	**199**	**Conventional sale**
825-rear Southard St	**$299,000**	**2**	**1**	**720**	**415**	**Conventional sale**
2400 Fogarty Ave	**$299,000**	**2**	**1**	**838**	**357**	**Short-sale**
19 Whistling Duck	**$299,000**	**3**	**2**	**1060**	**282**	**Short-sale**

Missing from last month:

3312 Eagle Ave … cancelled
2420 Patterson Ave … expired
323 Angela St … under contract
3231 Harriet Ave … under contract
3314 Northside #17 … 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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