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Hello, everyone ...

1 May 2011

Enough about the Royal Wedding, back to FL Keys real estate!

The Memphis Grizzlies eliminated the San Antonio Spurs in the NBA playoffs. Memphis is my hometown, so I'm excited. But I never saw any grizzly bears when I lived there (?). Back to FL Keys real estate!

The Berkshire Hathaway annual meeting is this weekend in Omaha. Warren Buffett will have some tough questions to answer this year. It's hard to be perfect, which reminds me. Back to FL Keys real estate!

Table of Contents for this issue:

- (1) Cover letter
- (2) Article: *Keys Economic Factors Lead State*
- (3) Multi-unit highlights
- (4) **Wildcard** entry: "60 Minutes": *The Foreclosure Mess Isn't Going Away*
- (5) Financial Crisis Inquiry Commission: *Warning Signs*
- (6) KONK-AM 1500 on your radio dial!
- (7) Neighborhood Spotlight: Key West Golf Course
- (8) Southernmost Stars: 1 May 2011

No doubt you've observed that there is positive economic (and real estate) news being broadcast. The consensus seems to be that we've passed-the-bottom of The Great Recession and real estate indicators are trending up. You could be forgiven if you treated this news with suspicion, or disbelief. But optimism is a good thing, and self-fulfilling prophecies do happen.

With this newsletter, readers are 3 episodes into my summary of the Financial Crisis Inquiry Commission report. There are a total of 24 chapters in the 500+ page report. Each month I'll CliffNote a chapter and make it a part of the newsletter. Math quiz: How long will it take to complete my mission? Yes, a long time. But I'm going to stick with it ... and hope that by the time I finish, the financial crisis is no longer front-page news. It's kinda happening already. The country seems willing to give-a-pass to the white-collar crime and government negligence that brought this about. It bothers me. A lot.

But let's get back to the FL Keys real estate and optimism thing! As the "season" winds down, it appears we have had a strong spring, business-wise. Read that article on the Keys Economic Factors. That kind of hard data will make believers out of skeptics! We do have a good thing down here at the end of the road.

On the weather front, we are kinda tone-deaf to the meteorological issues happening in the rest of the country. It's not that we don't care. It's that we are blessed, and it's easy to assume it's like this everywhere.

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BY TIMOTHY O'HARA Citizen Staff  
23 April 2011

# **Keys economic factors lead state**

## **Airport records highest-ever passenger counts for March**

The Florida Keys led the state in lodging occupancy and the average daily room rate in 2010 and for the past two months this year, according to data released Friday.

**Florida Keys:** The occupancy rate averaged 70.5%. The average daily room rate was \$178. The information was provided by Smith Travel Research, which tracks data for the hotel industry and provides analysis for lodging and destination management offices.

**Miami:** A close second in both occupancy (70.2%) and average daily room rate (\$144).

**Ft Lauderdale:** 3rd in occupancy (67.3%), and **West Palm Beach** 3rd in average daily room rate (\$125).

The Keys lodging picture looks bright for the first quarter of 2011. The Keys led in occupancy and room rate in Florida for February (up 4.7%) and March (up 6.3%). Other tourism statistics are on the rise, too.

Last month was the busiest March on record at KW International Airport. Annual statistics from 2005:

2005: airport serving 618,174 passengers	Peak year
2006: airport serving 563,947 passengers	9% decrease from previous year
2007: airport serving 538,066 passengers	5% decrease from previous year
2008: airport serving 453,000 passengers	16% decrease from previous year
2009: airport serving 463,885 passengers	2% increase from previous year
2010: airport serving 566,889 passengers	22% increase from previous year

Key West Chamber of Commerce Executive Vice President attributed the Keys' success to a number of activities that tourists can enjoy in the Keys, including diving, fishing and having an active nightlife. "There's always something to do," said the Chamber. "There are not enough days in the week for people to do everything the Keys has to offer."

The Keys offer two aspects of travel that appeal to tourists -- **eco-tourism and relaxation**, said the president of the Lodging Association of the Florida Keys and Key West. The Monroe County Tourist Development Council has also done a good job creating advertising "that catches people's eyes. We have a lot going for us," said the Lodging Association.

The hotel and airport numbers are only a portion of a more economically stable outlook for Monroe County. State officials released figures last week showing **Monroe County is No. 1 in Florida for per-capita personal income, with the typical resident earning \$60,173 in 2009.**

Also, unemployment figures show **the Keys have the lowest unemployment rate in the state, at 6.6%**, according to March statistics released by the Florida Agency for Workforce Innovation.

## MULTI-UNITS: 1 MAY 2011

1214 Catherine St > 4 Unit



7-bedrooms, 7-baths, 2675 living sqft, lot = 3,682 sqft

**Conventional sale**

**SOLD** 26 April 2011 for \$505,000

Asking price = **\$517,500**

Rental income = (\$6,500/mo) x (5% vacancy rate)  
= \$6,175/mo ... or \$74,100/yr

Taxes + Insurance = (2.5%) x (\$505,000) = \$12,625/yr

ROI = (income - expenses) ÷ (selling price)

= (\$74,100 - \$12,625) ÷ \$517,500

= \$61,475 ÷ \$505,000

= **12.2 %**

1620-22 Johnson St duplex



4-bedrooms, 2-baths, 1456 living sqft, lot = 7,216 sqft

**Conventional sale**

**SOLD** 15 April 2011 for **\$350,000**

Asking price \$379,000

Rental income = (\$1,800/mo) x (5% vacancy rate)  
= \$1,710/mo ... or \$20,520/yr

Taxes + Insurance = (2.5%) x (\$350,000) = \$8,750/yr

ROI = (income - expenses) ÷ (selling price)

= (\$20,520 - \$8,750) ÷ \$350,000

= \$11,770 ÷ \$350,000

= **3.4 %**

800 Elizabeth St duplex



8-bedrooms, 3.5-baths, 2218 living sqft, lot = 2020 sqft

**Short-sale**

**SOLD** 15 April 2011 for **\$335,000**

Asking price = \$320,000

Rental income = (\$3,300/mo) x (5% vacancy rate)  
= \$3,135/mo ... or \$37,620/yr

Taxes + Insurance = (2.5%) x (\$335,000) = \$8,375/yr

ROI = (income - expenses) ÷ (selling price)

= (\$37,620 - \$8,375) ÷ \$335,000

= \$29,245 ÷ \$335,000

= **8.7 %**

2405-07 Flagler Ave duplex



4-bedrooms, 2-baths, 1479 living sqft, lot = 6,047 sqft

**Short-sale**

**LISTING CANCELLED** 15 April 2011

Asking price = \$265,000

Rental income = (\$2,500/mo) x (5% vacancy rate)  
= \$2,375/mo ... or \$28,500/yr

Taxes + Insurance = (2.5%) x (\$265,000) = \$6,625/yr

ROI = (income - expenses) ÷ (selling price)

= (\$28,500 - \$6,625) ÷ \$265,000

= \$21,875 ÷ \$265,000

= **8.3 %** if sold at full price



## The foreclosure mess isn't going away

By Zachary Roth 4 April 2011

Big banks cut corners on paperwork over the last few years in order to speed struggling homeowners into foreclosure. A "60 Minutes" report offers fresh anecdotal reporting on the irresponsible -- and potentially fraudulent -- banks' practices.



Banks profit by processing a vast number of homes into foreclosure as quickly as possible. But many of the mortgages at issue were bundled and sold from one Wall Street investor to another during the housing boom, with scant attention paid to the actual underlying ownership documents. As the foreclosures unwind in a slew of court proceedings nationwide, many banks have produced dubiously rendered legal documents that seek to shore up the ownership paperwork. In some cases, financial institutions paid an army of "robo-signers"—office workers who forged signatures on mortgage documents that were then used to initiate foreclosures.

(JSmith edit: You can watch the full 14-minute report here ... thanx, Birch!)  
<http://www.cbsnews.com/video/watch/?id=7361572n&tag=related;photovideo>

"60 Minutes" talked to one former robo-signer, a man paid to sign the name "Linda Green" thousands of times over the course of an average workday on mortgage documents.

**60 Mins:** *"When you came in to Docx on your first day, what did they tell you your job was gonna be?"*

**Robo-signer:** *"They told me that I was gonna be signing documents using someone else's name".*

**60 Mins:** *"Did you think there was something strange about that in the beginning?"*

**Robo-signer:** *Yeah, it was strange. But they told us repeatedly that everything was above board and legal."*

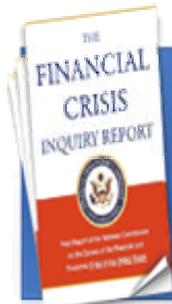
The Robo-signer told "60 Minutes" that he had no previous experience in banking, in legal documents, and that there were no job requirements. Asked if he understood these documents, "Not really" . . . . He signed mortgage documents as "Linda Green", at least 350 an hour. **He alone did 4,000 a day.**

There was an actual Linda Green, a former shipping clerk for an auto parts store who was also hired on as a robo-signer at Docx. **Green is named as a vice president for 20 different banks in different mortgage documents, all bearing strikingly different renditions of her signature.** The company selected her name because it was short and easy to sign rapidly on the doctored ownership documents.

**All 50 state attorneys general are currently conducting investigations into the foreclosure mess,** including cases that involve forged documents like these. Shelia Bair, head of the FDIC, said the banks should have to pay billions to set up a compensation fund for those who are being forced to accept foreclosure without proper documentation.

# Financial Crisis Inquiry Commission

post #3



GET the REPORT

The Financial Crisis 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.

\*\*\*\*

Many finance executives and top public officials testified that they were blindsided by the crisis, describing it as a mystifying turn of events. However, there were warning signs that should have been noticed.

▶ Home prices in many areas skyrocketed. Prices increased by 2.5 times in Sacramento, Bakersfield, Miami and Key West in just 5 years (*yes, we were called-out specifically in the FCIC report!*).

▶ Thanks to the Fed's low interest rates, home refinancings went from \$460B in 2000 to \$2.8 trillion in 2003 ... equity was withdrawn and consumption flourished despite stagnant wages. US household mortgage debt rose from 2001 to 2007 as much as it had in the previous 200+ year history of the country.

▶ On the surface it looked like prosperity, but underneath something was wrong. Global investors clamored for securities built on American real estate, seemingly a safe bet. Wall Street figured out a way.

▶ Bond salesman earned multi-millions packaging and selling new kinds of loans, offered by new kinds of lenders, into new kinds of investments deemed safe but riddled with complex and hidden risk.

▶ The financial system became vulnerable and interconnected in ways not understood by the Captains of Finance or the system's public stewards.

▶ Trillions of dollars were bet on the belief that housing prices would always rise and borrowers would seldom default. Shaky loans were bundled into investments that looked hi-yield and lo-risk.

*Like cheap sangria ... a lot of cheap ingredients were repackaged  
and sold at a premium. It might taste good for a while,  
but then you get headaches later, and you have no idea what's really inside.*

▶ Mortgage loans were "securitized" ... packaged, sliced, repackaged, insured and sold via high demand as incomprehensibly complicated debt securities. Even the worst loans could find a buyer.

▶ More loan sales meant higher profits for everyone in the chain. There was no incentive to worry about the quality of the loans, only the volume of loan sales ... as if the risk had been magically removed.

▶ The Wall Street investment products earned BIG fees upfront while risking much larger losses in the future. A new term was coined: IBGYBG ... "I'll be gone, you'll be gone" before the shit hits the fan.

In Washington, four intertwined issues made it difficult to acknowledge the looming threat:

(1) Efforts to boost homeownership had broad political support.

(2) The real estate boom was generating a LOT of cash on Wall Street and creating a LOT of jobs in the housing industry when other economic sectors were performing drearily.

(3) Top officials and regulators were loath to challenge the profitable and powerful financial industry.

(4) Policy-makers believed that even if the housing market tanked, the broader financial system and economy would hold up.

In 2005, the real estate market began to weaken. Home sales began to drop. Mortgage delinquencies began to rise. By the end of 2007, most sub-prime lenders had failed or been acquired. Risk had not been diversified across the financial system, as had been thought ... it was concentrated at the largest financial firms.

The crisis that befell the US in 2008 had been years in the making. And much of it was public knowledge.



Live on the Internet:  
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Hello, everyone ...

This will be a recurring article each month, intended to convey meaningful information from my “Florida Keys Real Estate” radio show on KONK-AM, every THURs noon-to-1:00 PM. What happened in April?

Thursday #1: My guest was **Vicki Gordon**, owner of Barefoot Appraisal ... in spirit only. Due to an early morning root canal, our former Fantasy Fest Queen was unable to make it. She said she was feeling “loopy”. Heck, that’s why I wanted her on the show! Rather than complain about the sorry state of the economy, I was looking forward to some loopiness. So, we (meaning I) talked in general about the appraisal business and covered some of the topics in my last real estate newsletter. Vicki will re-appear on a near-future show!

Thursday #2: My guest was **Susan Miller**, Operations Director for the KW and Lower Keys Habitat for Humanity office. Habitat provides affordable housing for upwards of 50 families currently, a combination of owning and renting. We talked about Bayside Landing (the Habitat flagship project at the moment), funding for Habitat projects, sweat equity, their RE-Store and their motto which I like: A Hand UP, Not a Hand OUT. Susan got very excited when I mentioned that the US Navy announced it is selling Peary Court (157 townhome units, formerly military housing) ... and although I’m jammed-up for time, I would be pleased to be their Realtor for the purchase!! I figure (\$300/Sqft) x (1800 Sqft) x (157 units) is about \$85 million. Beyond Habitat’s budget, I’m afraid. I’ll seek other ways to enjoy a Florida Keys retirement!

Thursday #3: My guest was **Terri Wilson**, from Preferred Properties and on the Board of the Key West Association of Realtors. Also, **Darlene Thomas**, from Realty Executives FL Keys and a KWAR Board member. The topic was the various fundraising efforts KWAR is conducting to benefit FIRM, so that FIRM can keep the pressure on Tallahassee with respect to windstorm insurance rates. We spent a good deal of time discussing why FIRM is very important to homeowners and prospective buyers (and businesses). Citizens Property Insurance Corporation better watch out!

Thursday #4: My guest was **Chris Holland**, owner and operator of Ibis Bay, the former Blue Lagoon, on North Roosevelt Blvd. Chris is an entrepreneur and businessman, with a special talent for marketing and advertising. He is a real estate developer who keeps an eye on the big picture and local opportunities. He loves *market* analysis ... segmentation, differentiation, capturing the customer, etc. Much of his marketing methodology can be applied to Key West far beyond hotels, restaurants, water sports, etc. What does make Key West so special!?

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## **Lower Keys Real Estate Data: 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-2010:

	<u>Townhomes</u>		<u>Sanctuary SFRs</u>		<u>Outside Sanctuary SFRs</u>	
	#	AVG\$\$	#	AVG\$\$	#	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

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 ... two out of every three! So far in 2011, with 8 sales in the books, the ratio has improved ... one out of two.

Currently there are 35 Golf Course properties on-the-market. 11 are short-sales and 2 are bank-owned, so the distressed-ratio is even better! Using the same format as above with "asking prices", the breakdown of the currently listed properties follows. Improvement!! KWGC development has turned-the-corner.

2011	24	\$279K	8	\$591K	3	\$626K
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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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**Southernmost Stars:**     **1 May 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:
<b>1830 Fogarty #3</b>	<b>\$125,000</b>	<b>1</b>	<b>1</b>	<b>411</b>	<b>304</b>	<b>*Affordable housing</b>
3312 Northside #104	<b>\$129,900</b>	2	1	736	<b>176</b>	Foreclosure
<b>1830 Fogarty #6</b>	<b>\$139,000</b>	<b>1</b>	<b>1</b>	<b>598</b>	<b>232</b>	<b>*Affordable housing</b>
3312 Northside #208	\$149,000	2	1	831	179	Conventional
3312 Northside #204	\$149,000	2	1	736	202	Conventional
<b>3201 Pearl St</b>	<b>\$165,000</b>	<b>2</b>	<b>1.5</b>	<b>1032</b>	<b>160</b>	<b>Short-sale</b>
<b>1830 Fogarty #5</b>	<b>\$169,000</b>	<b>2</b>	<b>1</b>	<b>598</b>	<b>282</b>	<b>*Affordable housing</b>
24 Merganser	\$170,900	2	1	780	219	Foreclosure
3312 Northside #111	\$179,000	2	1	792	226	Conventional
2521 Fogarty Ave #1	\$185,000	3	2	1308	141	Short-sale

*Missing from April:*     3201 Flagler #610 ... under contract  
                                   3312 Northside #613 ... replaced by less expensive new entrant  
                                   3930 S. Roosevelt Blvd #W306 ... replaced by less expensive new entrant  
                                   3930 S. Roosevelt Blvd #N212 ... replaced by less expensive new entrant

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

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	\$/Sqft:	Other:
1133 Von Phister	\$265,000	2	1	678	391	Short-sale
1209 Margaret St	\$275,000	3	1	864	318	Conventional
1321 20 <sup>th</sup> St	\$279,900	2	1	836	335	Conventional
<b>730 Windsor Ln</b>	<b>\$299,000</b>	<b>2</b>	<b>2</b>	<b>972</b>	<b>308</b>	<b>Conventional</b>
2009 Seidenberg Ave	\$299,000	3	3	1214	246	Short-sale
1312 William St	\$299,000	3	3	864	346	Short-sale
<b>3 Hutchinson (rear)</b>	<b>\$309,000</b>	<b>4</b>	<b>2</b>	<b>1304</b>	<b>237</b>	<b>Conventional</b>
<b>2323 Staples Ave</b>	<b>\$314,500</b>	<b>3</b>	<b>2</b>	<b>1414</b>	<b>222</b>	<b>Short-sale</b>
1121 Watson St #2	<b>\$299,000</b>	1	1	420	<b>712</b>	Short-sale
804 Truman Ave	\$319,000	2	1	768	415	Conventional

*Missing from April:*     323 Angela St ... reclassified "Miscellaneous Property Rights"  
                                   1705 Bertha St ... under contract  
                                   1016 James St ... under contract

Unlike several previous months, the ceilings for the Top-10 Least Expensive moved down, a statistical anomaly! The additional "affordable" units changed the calculus in the first section.

*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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