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Hello, everyone … 1 May 2012

Snow in New England on the 24th of April? We had a rainy Saturday one day this month, so I can sympathize! Not really. We are spoiled, I confess. Speaking of spoiled, I heard a handful of Secret Service agents will be leaving government service soon, something to do with creating alliances in Colombia. And they've asked GSA to plan their going-away party. We are doomed.

Table of Contents for this issue:

The FCIC item is the 13th Cliff-noted chapter of the Commission's report, leaving 11 more to follow. So, at a chapter-per-month, next April I'll be done! Then I'll have a pretty good summary of the financial crisis, at least from the Commission's point of view. And of course, I'll make the summary available to anyone interested … what, don't you save these newsletters?!?

The CNN Money article projects a flood of new foreclosures. I've included other articles recently that argued there would NOT be a flood. That should cover all the bases. It is the "political season" after all.

Here's a neat website: www.passwordmeter.com. Input a computer password and it will evaluate the strength of the password in providing computer security. I got lucky, and my password was rated as strong. I wonder what they would think if they knew it's the *same* password I use in all of the 362 applications that constitute my so-called life?

I'm still holding out hope that 2012 will be the best real estate market we've had in the last 5 or 6 years. January-thru-March were very good months, but April seemed to lose a little steam. Maybe it's just me. Or, maybe it was the announcement that Albertsons will be closing on 30 April. Or, maybe the real estate "recovery" is going to be a saw-tooth graph and the trend is more informative than the details. I think the worst is behind us, and the future looks bright. (Bumper sticker: "No sense being a pessimist. It probably wouldn't work anyway").

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CNNMoney
A Service of CNN, Fortune & Money

Flood of foreclosures to hit the market

By Les Christie @CNNMoney April 13, 2012

NEW YORK (CNNMoney) -- The golden age for foreclosure squatters may soon be coming to an end now that the $26 billion mortgage settlement has been approved. The settlement is expected to speed up the foreclosure process by providing stricter guidelines for the banks to follow when repossessing homes. The banks involved include Bank of America, JPMorgan Chase, Citibank, Wells Fargo and Ally Financial.

Many foreclosures have been in limbo since the fall of 2010 following the so-called robo-signing scandal, when banks allowed employees to sign off on thousands of foreclosure documents a month with little verification. Lenders hit the pause button on foreclosures for fear that anything they did would be under a microscope.

As a result, borrowers who were seriously delinquent on their loans have been able to stay in their homes for months or even years without making a single payment. Nationwide, the average time it takes to foreclose on a home is 370 days, almost twice as long as it took five years ago, according to RealtyTrac. In some states, delinquent borrowers have been squatting in their homes much longer. In Florida, the average time was 861 days, and in New York it was 1,056 days -- close to three years.

Perhaps a million foreclosures could have been pursued last year but weren't. That's all about to change. "We're going to see an increase in the speed of foreclosures and a higher number of foreclosure starts" says RealtyTrac.

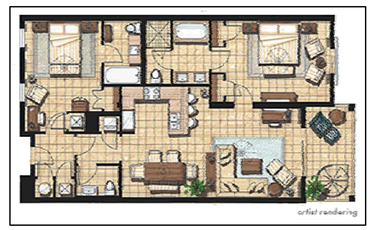
There are indications that the pace of foreclosures are already starting to pick up. While overall foreclosure activity was down during the first quarter, filings were up 10% in the 26 states where foreclosures must undergo court scrutiny. It was in these judicial states that the processing of foreclosures slowed the most following news of the robo-signing scandal. Many banks in these states stopped filing foreclosures unless they were extremely confident it would pass muster in the court. (In non-judicial states, foreclosures are reviewed by a trustee, such as a title company, less likely to parse every legal document).

"The dam will eventually burst, and everyone downstream should be prepared for that to happen -- both in terms of new foreclosure activity and new short sale activity," says RealtyTrac. The resulting flood could bring home prices down even further -- yet another impetus for the banks to clear out their foreclosure pipeline as quickly as possible.

After clearing the distressed inventory, industry thinking is, the housing market would be able to get back to normal and home prices could eventually find their true value. Some industry analysts, such as Zillow, are predicting that could happen as soon as the end of the year.

Should home prices hit a bottom then stabilize, it would push many potential buyers off the fence, according to the Mortgage Bankers Association. House hunters would no longer be afraid of investing in assets that were losing money.

Key West Beachside (Marriott):



"Beachside" … a Marriott hotel with dozens of units for sale as vacation homes or investments, each with 1 or 2 transient licenses. When the owner is absent, the units may go into the hotel availability schedule, allowing the owner to earn rental income. Below is the MLS data on average sale prices:

Sale Year:	1-bed, 1.5-bath 790 sqft	2-bed, 2.5-bath 1357 sqft	3-bed, 3-bath 1586 sqft	
2007	(1) $929,000	(25) $1,255,665	(6) $1,729,333	
2008	none	(1) $ 944,000	(1) $1,649,000	*9 units canceled/expired unsold
2009	none	none	none	*13 units canceled/expired unsold
2010	(1) $405,000	none	none	*9 units canceled/expired unsold
2011	none	(2) $562,500	none	*4 units canceled/expired unsold

Check the website www.beachsidekeywest.com and click on "visit residential site". You'll find many photographs. There is a site plan and architectural plans for different size rooms. There is also a top-flight restaurant (Tavern 'N Town) and conference rooms and parking. There are 9 units currently for sale:

Unit #:	List Price:	# beds:	# baths:	Living Sqft:	Trans Lics:	Owner:
228	$699,000	2	2.5	1357	1	bank-owned
615	$629,000	2	2	1127	1	developer
611	$729,000	2	2.5	1357	2	developer
229	$749,000	2	2.5	1357	2	developer
423	$829,000	2	2.5	1357	2	developer
131	$859,000	1	2	790	1	developer
214	$899,999	2	2.5	1357	2	private
317	$995,000	2	2.5	1357	2	private
322	1,099,000	2	2.5	1357	2	developer

Note the disparity between current asking prices and recent sale prices. One bank-owned 2-bed, 2.5-bath unit is currently under contract, with an asking price of $474,500. It's clear that asking prices are *way* unreasonable, compared to the few that are selling. The developer has a Right of First Refusal.

Smithsonian Magazine May 2012

The 20 Best Small Towns in America

There are lists of the best places to get a job, retire, ski, golf and fall in love, best places lists for almost everything. We think any "best place" worth traveling to should have one quality above others: **culture**.

To help create our list, we asked a geographic information systems company to search its data bases for high concentrations of museums, historic sites, botanic gardens, resident orchestras, art galleries and other cultural assets common to big cities. But we focused on towns with populations less than 25,000, so travelers could experience what might be called enlightened good times in an unhurried, charming setting. We also tried to select towns ranging across the lower 48.

There is, we think, something encouraging about finding culture in small-town America. Fabled overseas locales, world-class metropolises—you expect to be inspired when you go there. But to have your horizon shifted in a town of 6,000 by an unheralded gem of a painting or a song belted out from a band shell on a starry summer night, that's special. It reinforces the truth that big cities and grand institutions per se don't produce creative works; individuals do. And being reminded of that is fun.

The list:

(1) Great Barrington MA
(2) Taos NM
(3) Red Bank NJ
(4) Mill Valley CA
(5) Gig Harbor WA
(6) Durango CO
(7) Butler PA
(8) Marfa TX
(9) **Naples FL**
(10) Staunton VA
(11) Brattleboro VT
(12) Princeton NJ
(13) Brunswick ME
(14) Siloam Springs AR
(15) Menomonie WI
(16) **Key West FL**
(17) Laguna Beach CA
(18) Ashland OR
(19) Beckly City WV
(20) Oxford MS

Key West attracts plenty of Northern tourists with its tropical breezes and beaches, but the island has long been a haven for creativity. Hippies, artists, writers and chefs have sustained a vibrant, kitschy art scene for decades. Ernest Hemingway and Tennessee Williams both called Key West home at some point, and they left a lasting mark on the town. See a play or dance performance at the Tennessee Williams Theatre, or visit Ernest Hemingway's house, where his cat Snowball's six-toed descendants roam the grounds. Every July, the Hemingway Days festival celebrates the writer's birthday and the literary arts in general, drawing acclaimed and unknown authors alike to the historic district. For visual arts, the Key West Art Center's annual Old Island Days Art Festival, now in its 47th year, judges fine art from all over the country. In the past few years, outdoor sculpture has been popping up all over town as part of a public art movement helmed by Sculpture Key West, melding the natural beauty and innovative artistic spirit.

Hemingway House in Key West, FL

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 April?

Thursday #1: My guest today was **Alison Higgins**, City of Key West Sustainability Coordinator. Alison was recently hired by the City, after making herself known with Nature Conservancy and as a founder of GLEE. Her new position is one of the results of the City's Climate Action Plan. Our discussions centered on being GREEN … reduce, reuse, recycle. And how the real estate industry is very important to this effort. Wouldn't it be great if all the for-sale MLS information included some way for a prospective buyer to judge the energy-efficiency and green-ness of a property? Some areas in the US are doing it. Alison may become a regular quarterly guest on the show. She foresees many joint efforts with our Key West Association of Realtors.

Thursday #2: My guest today was **Hugh Betcha**, lazy no-good untrustworthy scoundrel. My bad. I had to cancel this show due to another important event that just couldn't be rescheduled. No kidding. Life got in the way. Being a creature of habit and a Myers-Briggs ISTJ who likes things predictable, on time, in order, no surprises … I felt terrible having to skip-out on the KONK Broadcasting Network for this Thursday. It kinda wrecks my world to do that ☹. I'll get over it, most likely. Some day. Apologies to station management and loyal listeners. Fortunately, the thing that called me away will be scored a success, which is some consolation. I'll make up for it somehow!

Thursday #3: My guest today was **Just Me**, your host for "Florida Keys Real Estate" on the KONK Broadcasting Network. Here's how I make up for it (see above). I reserve one Thursday per month to review some of the items in this real estate newsletter, or other related issues. There have been articles recently about how (on a nation-wide average) properties can be purchased in 2012 at 2002 prices. I wondered if that statistic was true for the Lower Florida Keys … so, I did computer runs through MLS to gather statistics. Guess what? Yes, it's generally true, for single-family homes. For condos and townhomes, maybe 2003 prices. The media got it right.

Thursday #4: My guest today was **Ruben Concepcion**, Owner/broker of Keys Financial Corporation. We discussed some of the many potential speedbumps and pitfalls related to getting a mortgage. How important is the Pre-Qual? How to fit the borrower to the right loan product? What goes on in underwriting? How do they analyze the borrower and the property? What's the effect of an appraisal coming in low? There are a lot of different ways to get tripped-up, and lenders are cutting no corners these days. Ruben is one of only three licensed mortgage brokers in the FL Keys!

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My Current BUYERS in the Lower Florida Keys:

May 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: I have a very cute listing in Old Town (now under contract), but it's the best example yet of why Realtors should emphasize listings … because often they generate buyers for other properties! These next three customers are related to that same listing. This couple from Texas is interested in buying now and renting that property, then using it personally later when their daughter is out of school. They visit Key West often and find the Southernmost charm to be irresistible. The weather is not hard to find enjoyable, too!

Buyer #2: A woman from New Hampshire found my listing on another national website (www.trulia.com). It's amazing how many buying-prospects do a LOT of house-hunting research on-line before ever contacting a Realtor! The world has changed. This lady has been watching the "tiny house" website/newsletter for people who are scaling back and living in little (but well-designed and charming) dwellings. She has loose US Coast Guard connections, having lived in Kittery ME for twenty years, within sight of CG Station Portsmouth Harbor and two Lighthouses.

Buyer #3: A marina-owner from Baltimore MD also found my listing on the same website (www.trulia.com) and he is interested in a vacation home in Key West. As a marina-owner, he has precious little free time for himself and family, and he wants to be able to make complete "escapes" from work periodically. Chilling in Key West sounds like a very attractive option for him and his wife. He is VERY strong financially, and I'm sure he will be able to find a suitable property. A marina-owner may be the best person possible to appreciate the FL Keys, fishing capital of the US!

Buyer #4: Here's an odd one, and a very unfortunate story. A run-down home centrally located in Old Town Key West was renovated extensively by its owners. It was exquisite, and marketed as a multi-million dollar home. But the timing was off, the market sank, and the home languished, now vacant. It's now bank-owned and the former owners are in bankruptcy, leaving the house in legal limbo. Another Realtor's buyers have wanted to buy the home for 2 years now, but there's no one to receive an offer. We are going straight to the bankruptcy trustee!

Buyer #5: I've been in touch with a Midwest couple for several years, assisting them in their search for a nice Key West vacation property. At one time over 2 years ago, we had a contract on a 2-bed, 2-bath condo with a transient license in the low $200K-range. But the deal fell apart when the developer exercised his Right of First Refusal and bought-back the unit himself. Fortunately I was able to get them reimbursed for their expenses in travel, inspection and appraisal … which was a long and tortuous adventure. And we are still looking for that bargain Southernmost getaway.

The New York Times

The Opinion Pages

27 February 2012

Not What Paul Volcker Had in Mind

The Volcker rule is a crucial provision of the Dodd-Frank financial reform law. It is supposed to stop banks from doing the sort of risky trading that was one of the big causes of the financial meltdown.

The banks hate the rule because less speculation means less profit and lower bonuses for traders and bank executives. Since it was signed into law in mid-2010, banks have pressed Congress and regulators to weaken it. In late 2011, regulators issued proposed rules that are ambiguously worded and lack the teeth to rein in the banks. Paul Volcker and other reformers have rightly urged significant changes before the rule becomes final in mid-July. Regulators need to listen. Here are important changes that must be included:

(1) SPECIFICITY: The law prohibits banks from "proprietary trading" — securities' transactions where the profits and losses are sustained by the bank, not its customers. Taxpayers should not be on the hook for speculation that mainly enriches traders and bank executives. Certain forms of nonproprietary trading are allowed, including "market making," where banks can buy and sell securities, but only for the purpose of facilitating transactions for clients. The proposed regulations fail to adequately distinguish between the two types of trades. This could allow banks to engage in proprietary trades under the guise of market-making.

Banks would be barred from amassing complex securities for resale later at a higher price. The regulations must also clearly limit the pay of bank market makers to spreads, fees and commissions … not a share of profits. Otherwise, traders have strong incentives to engage in prohibited, high-risk trades. Regulations should impose additional leverage and liquidity requirements on banks that engage in permissible securities trading.

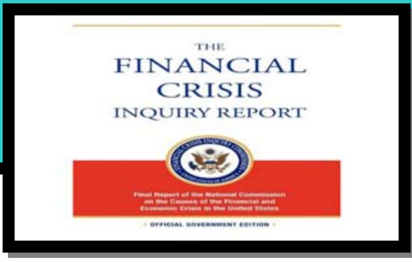
(2) RISK: Regulations advise banks to avoid short-term trading. But they fail to specifically ban things like the high-frequency trading, implicated in the infamous flash crash of 2010. Regulations can be read as allowing proprietary trading that is longer term in nature, including high-risk arbitrage trades that attempt to profit on price differences among similar assets. The regs could create a loophole for such banned activity.

(3) PENALTIES: The proposed regulations lack clear, stiff penalties, beyond threats that banks found to be engaged in proprietary trading will be forced to stop. They also need to clearly define and punish conflicts of interest that arise when banks cross the line into proprietary trading while at the same time purporting to serve as a middleman for clients.

The Volcker rule is not as complicated as banks claim. What is complicated is standing up to the banks, who are determined to do everything they can to preserve their high profits, no matter the risk.

Financial Crisis Inquiry Commission

post #13



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.

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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 **The Bust**:

Securitization, in theory, was supposed to distribute risk efficiently among investors. The theory proved to be wrong. Much of the risk was taken up by a small number of big (supposedly super-safe) companies.

In 2007, ratings agencies were forced to downgrade mortgage-backed securities, then CDOs, because of increasing delinquencies and defaults. Alarmed investors sent prices plummeting. Banks wrote-down the value of their holdings by tens of billions of dollars. The sub-prime market was gone, and the CDO market ground to a halt. MBSs and CDOs couldn't be accurately valued, creating solvency questions.

One of the first signs of the housing crash was an upswing in early payment defaults. In the early part of the decade, 90+ day mortgage loan delinquencies were about 1%. By 2009, it was almost 10%.

After the crisis unfolded, those with the greatest exposure to toxic securities began to closely examine the representations and warranties made by originators and security-issuers … that the mortgages met stated guidelines. They found significant deficiencies. The holders had the right to require the seller to buy-back the loans. Investors began to panic, leading to the near-failure of large financial institutions across the system.

At the end of 2009, sub-prime losses were about $300 billion, small in relation to the $14 trillion US economy, but with a disproportionate impact. Fed Chairman Bernanke said:

"The stock market goes up and down each day more than the entire value of sub-prime mortgages. What created the contagion was that the mortgages were entangled in these huge securitized pools. What I did not recognize was the extent to which the system had flaws and weaknesses that were going to amplify the initial shock from sub-prime and make it into a much bigger crisis."

Commission conclusions: The collapse of the housing bubble began the chain of events leading to the crisis. High leverage and inadequate capital made many financial institutions extraordinarily vulnerable to the real estate market downturn. Investment banks had leverage ratios of up to 40-to-1, meaning $1 in capital for every $40 in assets. Even more, when considering off-balance sheet "window dressing" (Citigroup, AIG).

Fannie Mae and Freddie Mac (GSEs) had ratios of up to 75-to-1. They were contributors, but not the cause, of the financial crisis. They followed, rather than led, the Wall Street firms. The delinquency rates on loans they purchased or guaranteed were significantly less than those purchased and securitized by Wall Street.

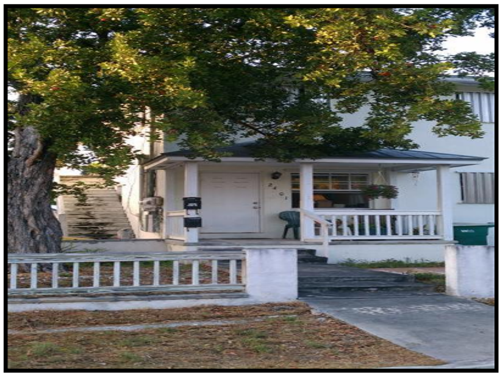
The Community Reinvestment Act (CRA), which requires banks to lend in the area where they draw deposits, was not a significant factor in sub-prime lending. But it provided good public relations cover for bad lending.

MULTI-UNITS: 1 MAY 2012

2932 Patterson Ave **Duplex**

5-bedrooms, 3.5-baths, 2716 living sqft, lot = 7,724 sqft
Short sale
SOLD 17 April 2012 for **$415,000**
Asking price = $425,000
Rental income = ($3,900/mo) x (5% vacancy rate)
= $3,705/mo … or $44,460/yr
Taxes + Insurance = (2.5%) x ($415,000) = $10,375/yr
ROI = (income – expenses) ÷ (selling price)
= ($44,460 - $10.375) ÷ $415,000
= $34,085 ÷ $415,000
= **8.2%**

2401 Patterson Ave **Duplex**

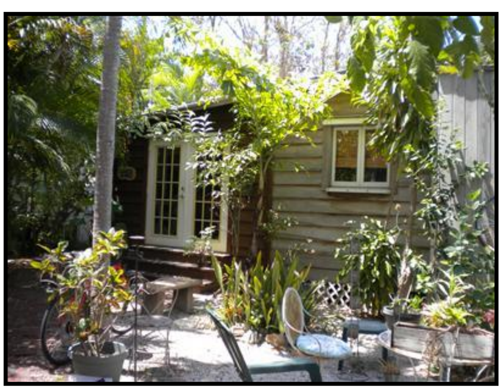


4-bedrooms, 3-baths, 1824 living sqft, lot = 4,741 sqft
Conventional sale
SOLD 23 April 2012 for **$325,200**
Asking Price = $324,900
Rental income = ($2,900/mo) x (5% vacancy rate)
= $2,755/mo … or $33,060/yr
Taxes + Insurance = (2.5%) x ($325,200) = $8,130/yr
ROI = (income – expenses) ÷ (selling price)
= ($33,060 - $8,130) ÷ $325,200
= $24,930 ÷ $325,200
= **7.7 %**

1217 Packer Ave **Duplex**

5-bedrooms, 5-baths, 2500 living sqft, lot = 6,701 sqft
Conventional sale
SOLD 7 June 2011 for **$652,000**
Asking price = $699,000
Rental income = ($4,250/mo) x (5% vacancy rate)
= $4,038/mo … or $48,450/yr
Taxes + Insurance = (2.5%) x ($652,000) = $16,300/yr
ROI = (income – expenses) ÷ (selling price)
= ($48,450 - $16,300) ÷ $652,000
= $32,150 ÷ $652,000
= **4.9 %**

226 Julia St **3-4 Units**



3-bedrooms, 3-baths, 2452 living sqft, lot = 5,133 sqft
Short sale
Contingent Listed for **$487,500**

Rental income = ($4,500/mo) x (5% vacancy rate)
= $4,275/mo … or $51,300/yr
Taxes + Insurance = (2.5%) x ($487,500) = $12,188/yr
ROI = (income – expenses) ÷ (selling price)
= ($51,300 - $12,188) ÷ $487,500
= $39,112 ÷ 487,500
= **8.0 %**

Southernmost Stars: **1 May 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:
3317 Eagle Ave	**$119,000**	3	2	1032	**115**	Foreclosure
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	**$158,000**	2	1	736	**215**	Conventional
3312 Northside #702	**$167,000**	2	2	831	**201**	Conventional
3312 Northside #515	$169,000	2	1	800	211	Conventional
3312 N Roosevelt #616	$175,000	2	2	831	211	Conventional
3930 S Roosevelt #402W	**$175,000**	**3**	**2**	**1070**	**164**	**Short-sale**
3314 Northside #33	**$184,000**	**2**	**2.5**	**1100**	**167**	**Short-sale**
3231 Harriet Ave	**$199,000**	**2**	**1.5**	**1032**	**193**	**Short-sale**

Missing from last month: 3312 Northside #305 … under contract
3312 Northside #308 … under contract
3312 Northside #515 … under contract

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

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
1611 Bertha St	**$251,400**	**3**	**2**	**1214**	**207**	**Foreclosure**
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
1730 Bahama Dr	**$284,200**	3	2	2187	**130**	Foreclosure
1121 Watson St #2	$299,000	1	1	420	712	Short-sale
2008 Patterson Ave	$299,000	3	1.5	850	352	Short-sale
1617 Catherine St	**$299,000**	3	1	1301	**230**	Conventional
813-Rear Eaton St	**$315,000**	**2**	**2**	**812**	**388**	**Short-sale**
2625 Flagler Ave	$319,000	2	1	817	390	Conventional

Missing from last month: 1701 Johnson St … under contract
1305 20th St … under contract

As you can see, 5 of last month's 20 least expensive homes went under contract during the month of April. That's 25% of the Southernmost Stars inventory. Things are moving!

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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