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Hello, everyone ...

1 May 2013

Happy May Day, only one month to go before the start of the 2013 Hurricane Season. Please turn ahead to page #4 for a graphical summary of all the storms from the last season. I'm in my 17th year now in Key West and I find the Hurricane Season to be more media fascination than anything else. My wife and I evacuated once and that turned out to be a false alarm ... nice vacation, but not necessary. We've probably been through 10-12 storms, all Category 1 and none were all that bad. Hurricane Wilma's storm surge in 2005 did much damage, but we were *grateful* to be home, so we could sweep-out the 1.5" of water we had for a few minutes at the peak of the surge. Now that I've dissed Hurricane Season, blame me if this is the year of The Big One.

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I have now completed the CliffNotes summary of the Financial Crisis Inquiry Commission report: 600-something pages reduced to just-the-nuggets in 24 pages. Phew! Took two years ... like working a short-sale. I'll wrap it all up next month with the last FCIC entry. What will I do with my free time now?

Remember that statistic from last month ... that there were 23 Old Town sales in March 2013? That set a record going back as far as I have data (2001). What about April 2013, you might ask? 20 is the answer, which qualifies the 43 Old Town sales in March + April 2013 for the Key West real estate Hall of Fame. Properties are moving! Two months doesn't define a *trend*, I guess, but it is a very good sign ☺.

Looking ahead to next month, I'm excited to report that The Gents (1960s rock-n-roll, baby) will spend a week in Sarasota FL at (get this) a recording studio! A CD should emerge from this, if we are lucky. New experience for all of us old guys. I hope the Sound Techs and Engineers can work their magic! We are depending on the audio equivalent of "photo-shop". Then I figure we'll get booked at Radio City Music Hall and a nice gig at Caesar's Palace. But first an outdoor performance at Walt's Fish Market on Siesta Key on Memorial Day!

And GO! Miami Heat ☺ Pssst, LeBron ... there's this Old Town property you've gotta see!

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The Florida Housing Market Is On Fire

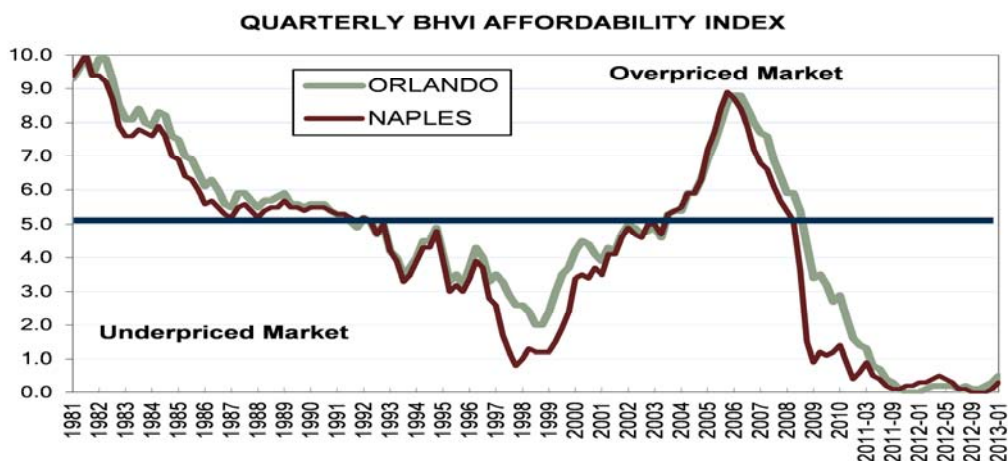
Leslie Deutch: Mar 17, 2013

The US housing recovery is one of the most exciting economic stories in the world today. However, the big macro housing reports don't fully capture how energetic the story is at the ground level.

Lesley Deutch of John Burns Real Estate Consulting reports that "Florida is on fire." Deutch listed 5 points:

- (1) **Land Prices are rising rapidly.** "In some submarkets, land and finished lot prices have now surpassed peak levels." Most builders are opting to buy raw land just to gain a position and market share.
- (2) **Home Prices are rising rapidly.** "In markets like Orlando and Naples, new home prices are increasing approximately 1%-2% per month in many communities. Lotteries are back."
- (3) **The Active Adult market is back.** "In Southwest Florida, builders are reporting a 20%-25% increase in traffic and sales over last year (which was a very good year!)."
- (4) **Foreign buyers are helping the market.** "Foreign buyers are not limited to the condos in Miami anymore. In Orlando, a large influx of foreign investors-typically paying all cash have helped the market recover and are driving up demand and prices in the region."
- (5) **Foreclosures are declining.** "Since Florida is a judicial foreclosure state, the time it takes for a foreclosure to occur is considerably longer. But the banks are slowly releasing the foreclosures, and the large number of investors in the state are buying them as quickly as possible."

Despite all of the current excitement, Deutch believes prices can go much higher as affordability continues to be very favorable to buyers. Despite the rise in home and land prices, it is still affordable to buy a home in Florida thanks to very low mortgage rates. In Orlando and Naples, two markets experiencing strong home price appreciation, home affordability is still excellent. The chart below shows our Burns Affordability Index (BHVI), which indicates that monthly payments in Orlando and Naples, as a percentage of median income, are the lowest they have been in the last 32 years.



JSmith note: The Florida Keys might as well *not* be a part of the State of Florida, especially when economic statistics are broadcast. We are not part of anyone's MSA (Metropolitan Statistical Area). Too small. Too different. Too independent. And that's very OK with the local citizenry, most of whom I think are in the Witness Protection Program or refugees from cold northern climates. But seriously ... no one wants to re-create the housing bubble of just a few years ago. Headlines like "Florida Housing Market is on Fire" send shivers up my spine. We are doing well, but let's don't go crazy. Again.

KEY WEST multi-unit properties: On-market and recent sales. **1 MAY 2013**

List Price:

\$-per-Unit: (blue = under \$200K ea)

DUPLEXES:

<u>1304-08 Duncan St:</u>	\$ 799,000	ROI 3.63%	duplex	\$ 399,500	
<u>1612 Bertha St:</u>	\$ 410,000	ROI 8.23%	duplex	\$ 212,500	
<u>914 Frances St:</u>	\$ 795,000	ROI 2.49%	duplex	\$ 397,500	Short-sale
<u>1112 Virginia St:</u>	\$425,000	ROI 2.89%	duplex	\$ 212,500	Under contract 4/6/13
<u>316 Amelia St:</u>	\$ 509,000	ROI 4.32%	duplex	\$ 254,500	Short-sale
<u>421 United St:</u>	\$ 725,000	ROI 3.65%	duplex	\$ 362,500	
<u>3409 Eagle Ave:</u>	\$ 469,000	ROI 7.01%	duplex	\$ 234,500	Price reduced
<u>1309 Elizabeth St:</u>	\$ 389,900	ROI 8.78%	duplex	\$ 194,950	Under contract 4/5/13
<u>1321 South St:</u>	\$ 750,000	ROI 3.12%	duplex	\$ 375,000	Cancelled 4/28/13
<u>815 Eisenhower Dr:</u>	\$ 1,395,000	ROI 2.12%	duplex	\$ 697,500	
<u>2514 Staples Ave:</u>	\$ 595,000	ROI 5.21%	duplex	\$ 297,500	
<u>1100 Angela St:</u>	\$ 1,190,000	ROI 2.55%	duplex	\$ 595,000	

3 UNITS:

<u>717 Fort St:</u>	\$ 389,888	ROI 6.33%	3-units	\$ 129,963	
<u>1614 Dennis St:</u>	\$ 649,000	ROI 7.62%	3-units	\$ 216,333	
<u>622 Grinnell St:</u>	\$ 1,200,000	ROI 2.35%	3-units	\$ 400,000	
<u>1821 Harris Ave:</u>	\$ 799,000	ROI 7.27%	3-units	\$ 266,333	Price reduced
<u>611 William St:</u>	\$ 1,399,000	ROI 1.31%	3-units	\$ 466,333	

4 UNITS:

<u>1023 Whitehead St:</u>	\$ 850,000	ROI 11.79%	4-units	\$ 218,750	Temporarily off market
<u>1119-23 Simonton:</u>	\$ 1,500,000	ROI 2.79%	4-units	\$ 375,000	
<u>530 William St:</u>	\$ 1,645,000	ROI 10.36%	4-units	\$ 411,250	

Greater than 4 UNITS:

<u>400 Simonton St:</u>	\$ 1,599,000	ROI 2.61%	6-units	\$ 266,500	
<u>1301 Truman Ave:</u>	\$ 925,000	ROI 10.36%	8-units	\$ 115,625	
<u>2503 Harris Ave:</u>	\$ 950,000	ROI 8.59%	5-units	\$ 190,000	

SALES: recent or imminent



1011 Truman Ave
SOLD 4/30/13 for **\$600,000**

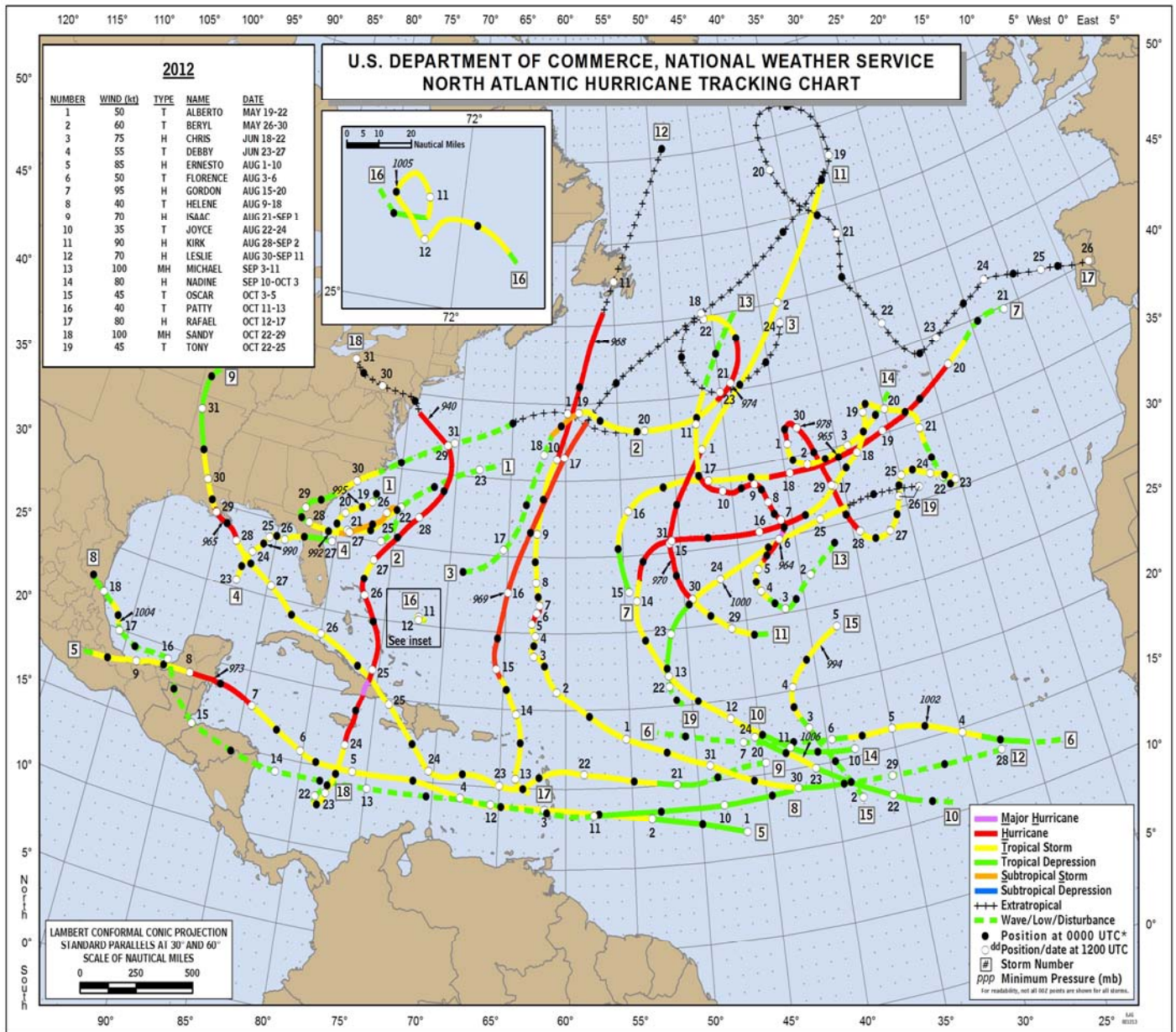


2007 Flagler Ave
SOLD 4/5/13 for **\$350,000**



701 Elizabeth St
CONTRACT 4/26/13, list **\$955,000**

How was Hurricane Season 2012? Once again, the data confirms “moderate” activity, although little was seen or felt in Key West. There are many Hurricane “spaghetti” tracks way out in the mid-Atlantic. It might be my imagination, but *typical* hurricanes track smoothly ... first to the west upon being born, then at some point turn NW then N then dissipate. But in 2012, there seem to be many tracks that meander all over, even doubling-back on themselves. Top billing in 2012 goes to Hurricane Sandy, I would say. She stayed east of Key West as an infant, no impact here. But holy cow, she became a terror as she progressed northward, then slammed NJ and NY.



This chart is available in greater resolution at www.nhc.noaa.gov, then click on Hurricane History “Seasons Archive”. Compare with other years!

The chart above shows the answer to a favorite trivia question, ever since I was stationed in the Republic of Panama in 1990. If you draw a line straight up from the Caribbean-side of the Panama Canal, which US state do you hit first?? Well, that would be the longitude line approximately 79.9W. As you can barely see, longitude 80W just skims by Miami, Florida (but doesn’t touch!) and intersects the US in **South Carolina**!

So, if Cuba wasn’t in the way, ships would head straight SOUTH from Miami to enter the Panama Canal. My brain had thought the Panama Canal was much farther west ☺ until I went there. At latitude 9N, Panama has never had a hurricane! They have a heckuva rainy season, however, roughly corresponding to Hurricane Season.

My Current BUYERS in the Lower Florida Keys:

May 2013

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 had a listing last year that did not sell, but I found a young couple willing to participate in a rent-to-own process. Half of their rent payments would be applied to the selling price of the home after one year, if they decided to buy it. It appears they will not be buying the property, moving back home to Arkansas instead. **BUT** they have an acquaintance who is very interested in making the purchase. So this story may have a happy ending for everyone involved, if all the pieces come together. Strange, but there is no way in MLS to indicate that a rent-to-own situation exists during the rental period.



Buyer #2: I've been doing this newsletter since 2003, and I now have about 435 email "subscribers". I must confess that I sometimes hear from a reader whose name or email address I don't recognize. Yes, I know, that's why god (or Bill Gates) invented *contact management systems*. Old School, I guess. I heard from a reader and checked out a multi-unit property for him ... turned out to be an illegal multi-unit. So, that goose-chase went nowhere. But now we are in close contact again and, who knows, maybe the collaboration-via-newsletter will produce a transaction.



Buyer #3: My office pays for a lead-generation software company to produce buyer-prospects from internet searches for properties. It has worked for me once before, plus there have been other close-calls. I received a contact from the system who has vacationed often in Key West, and he now is thinking that he'd like to look into an Old Town purchase. The software tells me his internet searching indicates an interest in an Old Town property in the \$600K vicinity. We have now made actual (vs cyber) contact, and it appears a new client and possible purchase are on the horizon!



Buyer #4: A young serviceman (USAF) called me about a small condo I have listed for sale. He has just reported-in to JIATF-South from Providence RI and expects to be here for 3 years, possibly more, in the narco-trafficking business ... but on the side of the law! He's interested in using his VA home loan guaranty on a property in Old Town or Casa Marina District no higher than about \$400,000. Single-family home or condo OK. My small condo (his *first* look at a KW property) is a possibility ... he'll have a better feel with a few more showings under his belt.



Buyer #5: An ad I placed in *The Real Estate Book* generated a call from a woman from Massachusetts, a former real estate broker in Boston. Currently, she is a nurse working 3-4 days a week in Key West providing in-home care, and commuting back to mainland FL afterwards. She owns several properties outside of KW and has experience with renovations and is not afraid of handy-man specials. She's looking for a property under \$200,000 to add to her collection! There's a Las Salinas condo unit that needs work, and it might just be the right one!



Bull by The Horns

Fighting to Save Main Street from Wall Street and Wall Street from Itself

By Sheila Bair

(Free Press, Simon & Schuster, New York, NY 2012)

From 2006 to 2011, Sheila Bair was the Chairman of the Federal Deposit Insurance Corporation (FDIC). She is widely acknowledged as one of the first people to identify and assess the subprime crisis, and she was an active participant in trying to repair the damage to the US economy from the financial crisis of 2008 ... with Paulson, Bernanke and Geithner.

She was outspoken and forceful in her efforts to protect taxpayers from the mistakes of Wall Street and the Too-Big-To-Fail banks, and the dereliction-of-duty by other regulators. Her biggest opponent was the Treasury Secretary, Tim Geithner, representing the Obama Administration. The White House, however, was an inert participant, largely uninvolved ... as Geithner seemed to be setting his own direction, and his priority was not protecting taxpayers. Fed Chairman Bernanke was generally supportive of FDIC initiatives.

There is a lot of insider-information in this book. For example, here is a short clip:

“Tim summoned all the major agency heads to his conference room and proceeded to give us an expletive-laced tongue-lashing about talking to people on the Hill. The arrogance and disdain he showed for the agency heads, including Ben Bernanke and (SEC Chairman) Mary Shapiro, was astonishing. He ignored the legitimate policy issues that stood at the heart of most of our disagreements, seeking to portray anyone who disagreed with him as interested only in protecting his or her own turf.”

The last chapter of the book is Bair's recommendations for improvement in the overall financial system, several of which are listed here:

- (1) Raise capital requirements (reducing leverage). And enforce them.
- (2) Break-up TBTF institutions (but it's not *size* that's critical, it is complexity).
- (3) Require securitizers to keep some of the risk.
- (4) Impose assessments on big banks depending on risk profiles.
- (5) Abolish the Office of the Comptroller of the Currency.
- (6) Abolish the GSEs (Fannie Mae and Freddie Mac).
- (7) Stop subsidizing debt via the tax code.
- (8) Tax labor (earned income) and investment income the same.

Many books are being written about the financial crisis by participants. More of them (like this one) seek to correct assertions made by earlier books ... some of the books that have been reviewed right here in this newsletter. Interesting reading!

Quote from Sheila Bair:

We need to reclaim our government and demand that public officials, be they in Congress, the administration or the regulatory community, act in the public interest, even if reforms mean lost profits for financial players who write big campaign checks. We cannot afford to let the financial sector drive us into the ditch again.



SCIENTIFIC MARKETING & ADVERTISING

Psychology of choice, preference and buying behavior

20 Most and Least Admired Occupations

The name of the book is *The Day America Told the Truth*. The book surveyed more than 2,000 Americans in over 50 locations asking over 1,800 questions about sex, politics, religion, lifestyles and beliefs.

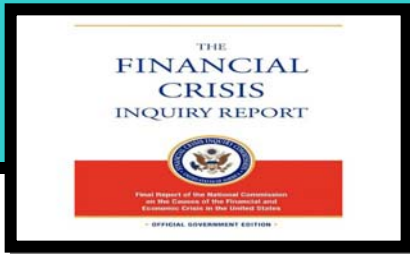
The survey graded 71 occupations and professions for their honesty and integrity. Each profession was graded on a four-point scale. Here are America's 20 most-and-least respected professions according to this survey.

<u>Rank:</u>	<u>Most Admired:</u>	<u>Profession:</u>	<u>Least Admired:</u>	<u>Profession:</u>
1	3.07	Fireman	0.61	Drug Dealer
2	3.02	Paramedic	0.99	Crime Boss
3	3.00	Farmer	1.19	TV Evangelist
4	2.91	Pharmacist	1.24	Prostitute
5	2.88	School Teacher	1.45	Street Peddler
6	2.82	Mailman	1.52	Local Politician
7	2.81	Catholic Priest	1.58	Congressman
8	2.80	Housekeeper	1.59	Car Salesman
9	2.79	Baby Sitter	1.72	Rock Star
10	2.77	College Professor	1.76	Insurance Salesman
11	2.76	Airline Pilot	1.89	Union Leader
12	2.73	Rabbi	1.92	Wall St Executive
13	2.72	Scientist	1.93	Real Estate Agent
14	2.68	Chef	1.94	TV Executive
15	2.68	Flight Attendant	1.94	Oil Co. Executive
16	2.66	Dentist	1.97	Lawyer
17	2.66	Engineer	2.00	Soap Opera Star
18	2.65	Accountant	2.00	Movie Star
19	2.64	Protestant Minister	2.00	Broker
20	2.64	Medical Doctor	2.02	Prison Guard



What Can Be Learned From This Survey? Compare the top 20 most admired professions to the bottom 20 and the answer becomes obvious ... sales and "persuasion" occupations litter the bottom 20. None of the top 20 are in direct sales, while 17 of the bottom 20 are selling something. Prostitutes and politicians, both are selling. Only when these professions start respecting the buyers they serve, will their image improve.

JSmith Note: The survey was done quite some time ago, and today surely the rank-orderings have changed. I will bite my tongue about the ranking of Realtors. I'd rather my profession be admired, of course. I think it can be done with honesty and integrity, but evidently buyers and sellers continue to have bad experiences at times. When I'm working with buyers, I picture myself as a real estate "consultant" helping my customers find the property that best fits their criteria. Working with listings and sellers is different. Then my objective is for that particular property to sell at the best price. I think the best way to do that is to be **honest** with the sellers and **disclose everything** to buyers so that the *other* Realtor can be an effective consultant for his-her customers. Neither of us wants the buyers to end up in a property that does not fit their needs, or with ugly surprises.



The Financial Inquiry Commission spent more than a year examining the causes of the financial crisis. It held 19 days of public hearings, interviewed more than 700 witnesses and reviewed millions of pages of documents.

Parts I, II, III and IV of the FCIC report have been covered previously. This begins Part V called “The Aftershocks” with two Chapters focusing on the longest and deepest recession in generations. This post covers the last chapter of the FCIC report ... **The Foreclosure Crisis**:

Estimates are that when the damage is over, between 8 million and 13 million foreclosures will have taken place. It will have hurt families, undermined home prices in entire zip codes, strained school systems and community support systems, and depleted state coffers. Even if the economy began suddenly booming, the country will need years to recover.

Mortgage defaults are generally caused by one of two events:

- (1) Payments become unaffordable ... due to unemployment, financial hardship or payment increases.
- (2) The home’s value becomes less than the debt owed ... 22.5% of homes with mortgages are underwater. The prevalence and extent of negative equity has given rise to “strategic default”: homeowners walk away from mortgage obligations when upside-down, and they believe the value will not be rising soon.

Testimony from the National Community Reinvestment Coalition: *Even a million people going into foreclosure ... you can say “Well, they should have known better”. But 15 million American families can’t all be wrong. They can’t all be greedy and they can’t all be stupid.*

The same system that was so efficient at creating millions of mortgage loans over the past decade has been ineffective at resolving the problems it created. All 50 state attorneys general banded together to investigate foreclosure irregularities. “Robo-signers” were one abuse discovered. Many court cases have challenged the legal standing of the financial system to foreclose ... being the legal entity with the right to repossess a home.

The growth of mortgage securities (and multiple sale of the same loan) out-paced the ability of the legal and financial systems to record who owns the mortgage. 3000 mortgage lenders created MERS to track servicing rights and ownership interests, and become the “mortgagee of record” ... giving it the legal right to foreclose. But courts have held that MERS does not own the underlying notes and cannot foreclose.

For the millions of Americans who paid their bills, never flipped a house, and had never heard of a CDO, the financial crisis has been long, bewildering, and painful. Renters who never bought into the madness are also victims ... losing the roof over their heads and often their security deposits. One-third of the children who experienced homelessness after the financial crisis did so because of foreclosures on the houses that their parents owned or were renting.

The Commission concludes that the complexity of the mortgage loan madness created powerful competing interests which rendered resolution nearly impossible. Disputes and inaction have caused pain largely borne by individual homeowners.

Southernmost Stars: **1 MAY 2013** 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 #205	\$114,900	1	1	528	217	Foreclosure
2521 Fogarty Ave #4	\$165,000	1	1	373	442	Short-sale
1624 Bertha	\$190,000	2	1	681	279	Conventional
1016 Howe St #10	\$195,000		efficiency	110	1773	Transient license!
1016 Howe St #9	\$199,000	1	1	144	1389	Transient license!
419 William St #6	\$199,000		efficiency	300	663	Conventional
3312 Northside #704	\$205,000	2	1	736	279	Conventional
3312 Northside #215	\$199,000	2	1	800	249	Conventional
3312 Northside #104	\$199,900	2	1	736	272	Conventional
2521 Fogarty #2	\$230,000	2	1	667	345	Conventional

Missing from last month: 3312 Northside #505 ... under contract
 1207-09 William #3 ... under contract
 3930 N Roosevelt #105-W ... under contract

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	\$/Sqft:	Other:
1209 Margaret St	\$249,900	3	1	864	289	Conventional (cash only)
901 17th Terrace	\$289,000	2	2	856	338	Short-sale
718 Thomas St	\$349,900	2	2	855	409	Conventional
1112-rear Margaret St	\$360,000	2	1	664	542	Conventional
3525 Flagler Ave	\$362,000	3	2	1104	328	Conventional
717 Galveston Ln	\$369,000	1	1	532	694	Conventional (ren proj)
3307 Donald Ave	\$359,000	3	2	1248	288	Conventional
2831 Flagler Ave	\$375,000	3	2.5	1300	288	Conventional
1711 Johnson St	\$399,000	2	1	816	489	Conventional
212 Golf Club Dr	\$399,900	2	2	856	338	Conventional

Missing from last month: 2012 Patterson Ave ... under contract 3407 Eagle Ave ... under contract
 2403 Patterson Ave ... under contract 2119 Staples Ave ... under contract

35% turnover from last month's STARS! Prices up, availability down. At one point several years ago, almost all of the Southernmost Stars (least expensive 10 in each category) were distressed properties, either short-sales or bank-owned. Now look at all the *conventional* (non-distressed) sales instead!

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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