



Realty Executives Florida Keys

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1 June 2009

Hello, everyone ...

A few days ago the USS Vandenberg was sunk (deliberately!) in 140 feet of water just 7 miles south of Key West. It is destined to become an artificial reef and dive attraction for scuba enthusiasts, and if the public relations surrounding this event are correct, it will also be a huge boost to the local economy.

And today we greet Atlantic Hurricane Season 2009! Locals tend *not* to get too spun-up about it, although the national media make it hard to ignore. Actually, locals tend not to get too spun-up about *anything!* Except Key West chickens and Hemingway cats. And conch fritters.

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Yes, I know not to take The Navy Times to the bank, but it was the shortest, clearest article I could find on a super military "benny". Many thanks to a client who brought it to my attention, and hopes to take advantage of it. If you know of others for whom this may apply, please pass it on!

Notice in the Southernmost Stars section that there is a LOT of monthly turnover in these properties. This part of our inventory is *moving*. Good thing.

Two other short bulletins ... actual articles available upon request:

- (1) For the \$8,000 "1st-time Homebuyer" tax credit, you must close on the purchase by 30 Nov 2009, not the end of the year. And it means close, not just have it under contract. Clock is ticking.
- (2) In Florida, the Governor signed a law making the \$8,000 available for the downpayment on the purchase. So, you don't have to wait to receive the tax credit after filing your 2009 tax return.

The multi-unit inventory grew in May ... 1 departed (below), 5 entered, net +4. Two of the five newbies made it to the best-of-the-best matrix. Here are the dearly departed.

| | | | | |
|------------------|--------------|-----------------------|-----------------|--------------|
| <u>Address:</u> | <u>Type:</u> | <u>Listing Price:</u> | <u>Results:</u> | <u>Date:</u> |
| 1918 Staples Ave | 3-4 unit | \$ 650,000 | listing EXPIRED | on 24 MAY 09 |

The cash-machine at 1212+1214 Catherine Street is still available. I'm working on a quantitative way to identify "value", and of course it depends mostly on the buyer's objectives. For an investor looking for immediate cash-flow, I'm betting the Catherine Street complex would top the list, by a long shot.

Jim Smith, Broker Associate
Realty Executives Florida Keys

Sales up, prices down

By ROBERT SILK Citizen Staff

Real estate sales in the Florida Keys were up in the 1st quarter of 2009. Prices continued to plummet.

A total of 278 properties were sold between Key West and Key Largo during JAN-MAR, according to MLS. That's a 4% increase over the same period last year, and the first increase since 2004.

Though more properties were moving, the overall news remained bad for sellers. Prices declined 22% over the same period, compared with the same months last year. The average closing price of \$494,000 is roughly on par with early 2004. And though the total number of properties on the market has dropped some, there's still a 48-month inventory.

"The 1st quarter of '09 is behind us and the results are bringing continuing good news for buyers and sobering news for sellers, at least for the balance of the year," said Coldwell Banker.

Note from Jim Smith ... these headlines and the article appeared on the front page of a recent Key West Citizen newspaper. I think this needs clarification, because it might be misleading. The arithmetic may be correct, but the implications are (my opinion) off-the-mark. Did YOUR home lose 22% of its value over the last year?

Sales are up. That's an indisputable fact ... the number of sales can be accurately counted. And it is great news that the number of sales has increased for the first time in 5 years! We have a huge inventory of homes on the market, and this stockpile must be reduced before our market returns to "normal".

And prices are down ... not too surprising, since it's a buyer's market and there are many, many properties to choose from. But are the prices really down a startling 22% from a year ago? Yes, if you simply calculate the average sale price of the properties that have sold. But I think you have to look a little more deeply at the data. Are those 278 properties reflective of the overall market? Do they represent a fair cross-section of all properties?

I don't think so. What has been selling? It's not the average home. I suspect that sales in the first quarter of CY2009 are dominated by distressed properties ... much more so than a year earlier. It's not an apples-to-apples comparison.

I don't have the resources to dig into each of the 278 sales in the Florida Keys to determine if those sales fairly represent the market. But OK, my interest is in the Lower Keys and in particular Key West ... and by golly, I dang well better muster-up the resources to understand my own market! So, I did. Check out the next article! JS.

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

I researched residential sales within the City limits of Key West (single family, multi-units, condos, and townhomes) during the 1st quarter of 2009. There were 82 sales, according to MLS. I assume those 82 sales are representative of all the 278 sales throughout the Florida Keys (previous article). **Those 82 sales break-down into the following categories:**

| | <u>Single-family or Multi-unit</u> | <u>Condominium or Townhome</u> | <u>Totals:</u> |
|------------------------|------------------------------------|--------------------------------|----------------|
| Conventional Sale | 30 | 13 | 43 |
| Short-sale | 9 | 9 | 18 |
| <u>Bank-owned sale</u> | <u>13</u> | <u>8</u> | <u>21</u> |
| Totals: | 52 | 30 | 82 |

47.5% of ALL sales were distressed properties (short-sales or foreclosures) ... 39 out of 82. Distressed sales definitely skew the statistics!

(1) Homeowners engaged in short-sales already know they are “underwater” with loan principals greater than what the property will sell for. They will clear *nothing* at the closing table. What is their incentive to negotiate for a better price? To save the lender a little money?

(2) Former homeowners of bank-owned properties are already separated from their properties, and the lending institution is a very blunt instrument ... they don't like owning the property, they've probably never seen it, and they're embarrassed about a loan-gone-bad. I don't think they are fighting for the last nickel of a decent price, either.

(3) Distressed properties very likely are in poor condition, further lowering prices.

(4) Purchasers of distressed properties are much more motivated to drive a *low* price that serves their purposes, compared to distressed property owners (including banks), who just want out. These are not arm's-length transactions between neutral buyers and sellers under normal conditions.

In my view, the selling prices of distressed properties do not represent market value. And they shouldn't be included in “average selling price” calculations. They probably shouldn't be included as Comps in residential appraisals, either ... but often there is no alternative. It's either bad Comps, or no Comps.

I discovered another surprising statistic while researching these 82 sales. In 69 of them, the buyer's financing method was reported in MLS. **31-of-69 were CASH purchases. That's 44.9%!** That's huge. With mortgage interest rates at historically low levels, why aren't all buyers financing their purchases?

Bottom line: Cash buyers and distressed properties. I'm tempted to conclude that we have such an unusual current market, I wouldn't put very much faith in *any* generalized statistics coming out of it!

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



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MULTI-UNIT PROPERTIES:

1 June 2009

address = "Short Sale" or foreclosure

| DUPLEX (top 10): | | ROI: | | | | ROI: | |
|-----------------------------------------|------------------------------|-------------------------------|------------------------------------------|----------------------------------------|-------------------|--------------------------------|-----------------------------------------|
| 1725 Johnson: MLS110889 | \$349K Max NEW Min | 6.91% 6.01% | On market 19MAY | 613 Ashe: MLS108813 | \$590K Max Min | 6.95% 5.95% | On market 2SEP Reduced 15APR |
| 3314 Northside #12: MLS105322 | \$299K Max Min | 9.10% 7.83% | On market 21MAR Reduced 7MAR | 1317 Sunset Dr.: MLS109389 | \$385K Max Min | 9.73% 8.60% | On market 1OCT Reduced 6MAY |
| 1319 2nd St.: MLS110430 | \$299K Max Min | 10.97% 9.92% | On market 8MAR Reduced 19APR | 823 Terry Ln.: MLS110398 | \$399K Max Min | 6.87% 5.90% | On market 1MAR Reduced 4MAY |
| 1634 Johnson: MLS548158 | \$250K Max Min | 11.38% 9.85% | On market 10MAR Reduced 22APR | 1907-09 Patterson: MLS109613 | \$449K Max Min | 6.88% 5.99% | On market 7NOV Reduced 23APR |
| 2226 Patterson: MLS110648 | \$499K Max Min | 7.93% 7.02% | On market 5APR | 3739 Duck Ave.: MLS106388 | \$345K Max Min | 7.20% 6.45% | On market 22AUG Reduced 6MAY |
| 3-4 UNIT (top 6): | | ROI: | | | | ROI: | |
| 1508 Seminary: MLS110874 | \$525K Max NEW Min | 7.65% 6.55% | On market 15MAY | 1614 Dennis: MLS107921 | \$559K Max Min | 9.25% 8.12% | On market 20FEB Reduced 16DEC |
| 719 Frances St.: MLS107720 | \$500K Max Min | 8.78% 7.59% | On market 12FEB Contract 12FEB | 2618 Fogarty: MLS109707 | \$695K Max Min | 7.84% 7.07% | On market 24NOV |
| 726-28 United St.: MLS109831 | \$599K Max Min | 8.03% 7.02% | On market 9DEC Reduced 8-APR | 811 Thomas St.: MLS109377 | \$425K Max Min | 10.62% 9.24% | On market 1OCT Reduced 5FEB |
| > 4 UNITS (top 2): | | ROI: | | | | ROI: | |
| 1401 Truman Ave.: MLS107641 | \$1.9M Max Min | 4.80% 4.00% | On market 7DEC Reduced 24APR | 1214 Catherine: MLS109618 | \$649K Max Min | 13.79% 12.56% | On market 9NOV 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 | Max income Unit #1: (12)x(\$1,350)x(0.95) = \$15,390 |
| | Min rent = \$1,300/mo | Min income Unit #1: (12)x(\$1,050)x(0.95) = \$11,970 |
| Unit #2 is 1-bed, 1-bath | Max rent = \$1,050/mo | Max income Unit #2: (12)x(\$1,300)x(0.95) = \$14,820 |
| | Min rent = \$ 995/mo | Min income Unit #2: (12)x(\$ 995)x(0.95) = \$11,343 |
| Vacancy rate: 5% | | |
| Max sell price = 96% of ask price | | Max expenses = (0.025)x(0.96)x(sell price) = \$18,000 |
| Min sell price = 92% of ask price | | Min expenses = (0.025)x(0.92)x(sell price) = \$17,250 |
| Taxes + insur = 2.5% of sell price | | |
| Max ROI = $\frac{(\text{MaxIncome} - \text{MinExpenses})}{\text{Min Sell Price}}$ | = | $\frac{27,360 - 17,250}{690,000} = 1.47\%$ |
| Min ROI = $\frac{(\text{MinIncome} - \text{MaxExpenses})}{\text{Max Sell Price}}$ | = | $\frac{26,163 - 18,000}{720,000} = 1.13\%$ |

Reported like this:

| | | | |
|--------------------------------------|------------------------------|------------------------------|----------------|
| 123 Blue Street: MLS555666 | \$750K Max NEW Min | 1.47% 1.13% | On market 1APR |
|--------------------------------------|------------------------------|------------------------------|----------------|

Assumptions made in the analysis:

- (1) Rental income is taken from MLS or estimated for comparable properties
- (2) The following data is NOT factored-into the ROI calculations:
 - Maintenance expenses
 - Utilities (assumed paid by tenant)
 - Property management fees
 - Tax benefits to owner of investment property
 - Potential for appreciation

If you would like to see ROI calculations using a different set of assumptions, please contact me and I'll re-run the analysis.

This analysis is based on many assumptions and approximations. ROI estimates are believed to be reasonable, but they are not guaranteed. Prospective buyers may use this as a guide and arrive at their own determination.

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

1800 Atlantic Blvd is a very popular condominium complex located on the Atlantic shoreline next to Smathers Beach. Like most Lower Keys properties, the condominiums at 1800 Atlantic Blvd experienced dramatic appreciation through 2005. Since then the real estate downturn is reflected in the number of units sold and the sales prices. There are a few over-sized units at 1800 Atlantic Blvd, but the following is eleven years of sales data taken from MLS, relating to "standard" 2-bedroom, 2-bath, 1357 squarefoot units *only*:

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| # sold: | 17 | 10 | 7 | 14 | 23 | 13 | 11 | 14 | 7 | 3 | 7 |
| Avg \$: | \$230K | \$270K | \$334K | \$319K | \$391K | \$515K | \$757K | \$825K | \$740K | \$600K | \$449K |
| High: | \$330K | \$387K | \$440K | \$470K | \$625K | \$749K | \$990K | \$950K | \$1.2M | \$750K | \$665K |
| Low: | \$173K | \$213K | \$275K | \$230K | \$290K | \$365K | \$635K | \$720K | \$550K | \$525K | \$350K |

So far in 2009, two of the "standard" units have sold, with an average selling price of \$563K. An average of only two datapoints does not suggest a *trend*!

- (1) Unit C-138: sold 16 January for \$472,157
- (2) Unit C-429: sold 12 February for \$650,000

1800 Atlantic Blvd has not been immune from the overall economic recession, and approximately one-third of the recent sales have been distressed properties ... short-sales or foreclosures.

Currently, there are 19 units on-the-market. Ten of those units have transient licenses, allowing short-term rentals (28 days or less). Five of those are short-sales.

Although I've tried to keep the analysis apples-to-apples by using a "standard" size 1357 Sqft condo unit, there is still quite a bit of variance in the selling prices. That can be explained somewhat by the following factors:

- (a) Units are on different floors (1 through 4)
- (b) Units are in different wings (A, B and C) of the horseshoe-shaped complex
- (c) Units may have different views ... interior (courtyard), or exterior
- (d) Units may or may not have ocean views
- (e) Units may or may not have transient licenses

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The New York Times

What You Don't Know Makes You Nervous

By Daniel Gilbert May 20, 2009

CAMBRIDGE, Mass. — 76 years ago, Franklin Delano Roosevelt reminded a nation that “The only thing we have to fear is fear itself.”

Americans' innocent belief that money buys happiness is entirely correct. Although the very rich are no happier than the merely rich, for the other 99% of us, happiness is greatly enhanced by a few quaint assets. **Those who think the material is immaterial have never stood in a breadline.**

Money matters, and today most of us have less of it. New survey results show that Americans are smiling less and worrying more than they were a year ago, that happiness is down and sadness is up, that we are getting less sleep and smoking more cigarettes, that depression is on the rise.

But light wallets are not the cause of our heavy hearts. After all, most of us still have more inflation-adjusted dollars than our grandparents had, and they didn't live in an unremitting funk. Clearly, people can be perfectly happy with less than we had last year, and less than we have now.

So, what is making us miserable? No one knows, and **it's the *not knowing* that is making us sick.** **People feel worse when something bad *might* occur than when something bad *will* occur.** Most of us aren't losing sleep because the Dow is going to fall another 1000 points, but because we don't know if it will fall or not. **Humans find uncertainty more painful than what they're uncertain about.**

- (1) Researchers gave subjects 20 electric shocks. Some subjects knew they would receive an intense shock every time. Others knew they would receive mostly mild shocks and a few intense shocks, randomly. Those with a small chance of receiving an intense shock were more afraid (sweated more profusely, hearts beat faster) than those who knew for sure that they'd receive an intense shock.
- (2) Researchers studied patients whose colostomies were permanent and those who had a chance of someday having their colostomies reversed. 6 months after the operations, those who knew they would be permanently disabled were happier than those who thought they might someday be returned to normal.
- (3) Researchers studied people who had been tested to determine their risk for developing Huntington's disease. Those who learned they had a very high likelihood of developing the condition were happier a year after testing than those who did not learn what their risk was.

Why would we prefer to know the worst than to suspect it? Because when we get bad news we weep for a while, and then get busy making the best of it. We change our behavior, we change our attitudes. We raise our consciousness and lower our standards. We find our bootstraps and tug. But **we can't come to terms with circumstances whose terms we don't yet know. An uncertain future leaves us stranded in an unhappy present with nothing to do but wait.**

Our national gloom is real enough, but it isn't a matter of insufficient funds. It's a matter of **insufficient certainty.** Americans have been perfectly happy with far less wealth than most of us have now, and we could quickly become those Americans again — if only we knew we had to.

Daniel Gilbert is professor of psychology at Harvard and author of “Stumbling on Happiness.”

Department of Defense Homeowner Assistance

May 15, 2009

The Homeowners Assistance Program has been expanded for military homeowners caught in the housing crisis. Those who get PCS orders by December 31st will be eligible if they meet other requirements, and they must submit the application by March 31, 2010. The program applies retroactively to those who received PCS orders on or after February 1, 2006.

Because of limited funds, officials expect to cut off benefits Dec. 31 for homeowners affected by permanent change-of-station moves. The law authorized Department of Defense officials to run that program through September 30th, 2012. Officials added one group not included in the law: US Coast Guard members who make PCS moves.

According to the Pentagon rules, the government will reimburse eligible homeowners for losses incurred when selling their houses, or will buy houses of those who have been unable to sell.

ELIGIBILITY RULES:

- Homeowners must have lost at least 10% between the purchase price and sale price of the home, and the home must be in an area that suffered at least a 10% decline in housing prices.
- The home's value must not exceed a cap that ranges between \$417,000 and \$729,750, depending on location.
- The PCS move must be farther than 50 miles.
- Homeowners under PCS orders must have purchased their homes before July 1, 2006.

HOW REIMBURSEMENT WILL WORK:

- Wounded veterans, defense or US Coast Guard civilians and surviving spouses would receive a cash payment for the difference between their home's sale price and 95% of its prior fair-market value.
- PCS homeowners would receive up to 90% of the home's prior fair-market value.
- The government will buy the home only if the homeowner can't sell it after 120 days on the market at a price deemed appropriate by the Army Corps of Engineers.

It is unclear when officials will begin processing payments and buying houses. The regulations are subject to the federal rule-making process, which includes publication in the Federal Register and a comment period.

More information about applying for the program is at <http://hap.usace.army.mil>. Click on the "Service Member Homeowner on PCS" tab.

Southernmost Stars: **1 JUNE 2009** The least expensive properties currently on the market on the island of Key West. Changes from last month are in **blue!**

Ten least expensive Condos or Townhomes in Key West:

| Address: | Ask Price: | #beds: | #baths: | Living Sqft: | \$/Sqft: | Other: |
|------------------------------|------------------|----------|----------|--------------|------------|--------------------------|
| 3312 Northside #210 | \$ 99,000 | 0 | 1 | 441 | 225 | Conventional sale |
| 3312 Northside #601 | \$ 99,900 | 1 | 1 | 408 | 245 | Foreclosure |
| 3312 Northside #301 | \$112,900 | 1 | 1 | 408 | 277 | Foreclosure |
| 3312 Northside #216 | \$120,000 | 2 | 2 | 896 | 178 | Short-sale |
| 3225 Pearl St | \$123,500 | 3 | 2 | 1032 | 120 | Foreclosure |
| 3312 Northside #614 | \$130,000 | 1 | 1 | 600 | 217 | Short-sale |
| 3312 Northside #612 | \$150,000 | 1 | 1 | 656 | 229 | Conventional sale |
| 1207-09 William St #1 | \$150,000 | 2 | 1 | 560 | 268 | Short-sale |
| 3255 Flagler Ave #403 | \$154,900 | 2 | 1 | 748 | 207 | Short-sale |
| 3211 Pearl St | \$165,000 | 2 | 2 | 1032 | 160 | Conventional sale |

The following properties are *missing* from last month's report:

| | |
|------------------------------------------------|-----------------------------------------------|
| <u>3210 Harriet St</u> ... under contract | <u>3314 Northside #35</u> ... under contract |
| <u>3231 Pearl St</u> ... under contract | <u>3314 Northside #141</u> ... under contract |
| <u>3635 Seaside Dr #210</u> ... under contract | |

Ten least expensive Single-Family Residences in Key West:

| Address: | Ask Price: | #beds: | #baths: | Living Sqft: | \$/Sqft: | Other: |
|----------------------------|------------------|----------|----------|--------------|------------|----------------------------|
| 1922 Patterson Ave | \$239,000 | 3 | 1 | 720 | 332 | Short-sale |
| 1916 Staples Ave | \$269,000 | 2 | 1 | 880 | 306 | Short-sale |
| 2119 Staples Ave | \$274,000 | 3 | 2 | 1664 | 165 | Conventional sale |
| 2420 Patterson Ave | \$279,000 | 2 | 2 | 1509 | 185 | Conventional sale |
| 701 Windsor | \$285,000 | 2 | 1 | 802 | 355 | Short-sale |
| 3314 Northside #24a | \$285,500 | 3 | 3 | 1404 | 203 | Short-sale (duplex) |
| 1300 Ashby St | \$295,000 | 3 | 2 | 1760 | 168 | Foreclosure |
| 703 Windsor | \$299,000 | 1 | 1 | 808 | 370 | Short-sale |
| 2407 Patterson Ave | \$299,000 | 3 | 1 | 1008 | 297 | Conventional Sale |
| 1212 Catherine St | \$299,000 | 3 | 1 | 910 | 329 | Short-sale |

The following are *missing* from last month:

| | |
|------------------------------------------------|--------------------------------------------------|
| <u>2117 Fogarty St</u> ... under contract | <u>1313 8th St</u> ... under contract |
| <u>1728 Laird St</u> ... under contract | <u>3359 Donald St</u> ... under contract |
| <u>3425 Flagler Ave</u> ... under contract | <u>213-rear Truman Ave</u> ... listing expired |
| <u>215-rear Truman Ave</u> ... listing expired | |

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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