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Hello, everyone …   1 August 2012

Seems like Key West might have had the most attractive temperatures in the country, while the mainland baked in a July heat wave. The average summer temperature here is 89 degrees. Some places were 20 degrees hotter! Happy 4th of July ☺   And Happy Coast Guard Day on 4 August ☺ ☺

We just had our mini-Lobster season … too silly to explain, if you're not familiar with it. And we elected another Hemingway Look-Alike. No tropical storms yet, boogitty boogitty.

The LIBOR scandal is not confined to London, it's international. So, Countrywide gave "VIP loans" to people in high places, no surprise. I'm waiting for the practical applications of the Higgs Boson, before I celebrate. Maybe it will help Wall Street grow a conscience? *That* would be a nice trick! Let's feed an investment bank to the Large Hadron Collider and see what happens.

Table of Contents for this issue:

The media is full of articles announcing the end of the real estate down-turn. Prices are starting to go back up. Interest rates are historically low (if you can get a loan). Inventory is down. You've heard these things before, but now they are sounding serious. In the Lower Florida Keys, Realtors are busy, busy, busy. Not necessarily closing, closing, closing … but busy is a good place to start.

I can state with some confidence that the last 3-4 months has been as active as the peak of the 2004-2005 bubble. I'm as busy now as I was then. The similarity ends there, however. The results are not the same. I realize now that things were a lot *easier* then. In 2004, once buyer and seller agreed to a contract, the rest was auto-pilot almost. Not anymore. Short-sales can take years off of your life. Bank-owned properties follow no one's rules, except the banks', and they're all different. Appraisals are wildly inconsistent. Getting a mortgage loan in 30 days is like winning the lottery. Thank goodness for cash buyers.

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FLORIDA KEYS
keysnews.com
The Florida Keys and Key West's Daily Online News

By **Regina Corcoran**
15 July 2012

Police Power, Gotta Love it

What single entity has more muscle than your mortgagee? *(Sidebar … mortgagee is the lender (payee), and mortgagor (payor) is you.)* The answer is … the government!

The states are empowered to seize privately owned property for public use or benefit, without the owner's consent. It's called the Right of Eminent Domain. However, the government must pay just compensation to the owners. For the underlying lien holders … take a flying leap! Very interesting. In San Bernandino County, California, more than half the homeowners owe more than their houses are worth. They are underwater.

The County has run out of patience with the litany of federal programs designed to save the homeowners. Foreclosures are bad for the neighborhoods. They result in lost tax revenues, along with vandalism, squatters, property deterioration and abandoned residences. Loan modifications have been a dismal failure all over the country. Banks don't want to write-off a portion of the loan balance. In many cases, the note was sold off in fractions. It's easier to find the father of a street-walker's baby than it is to accomplish a loan modification.

OK, one buzzard says to the other "Heck with waiting, I'm gonna kill something." Likewise, San Bernandino County is looking into eminent domain as a solution for its underwater property owners.

How would it work? Mortgage Resolution Partners has launched a proposal. The County would buy the underwater properties at fair market value using venture capital funds. Owners would have to be current on their mortgage payments. The County would give the mortgagee (lender) the fair market value … less than the existing loan balance. The County's position would be:

"Not enough to pay off the loan balance? We don't care. Don't know who owns the note? Not our problem. Our police power trumps your lien rights. We don't have to beg and plead for months for a short-sale approval. Nor do we have to wait an interminable time for a loan modification. Now, mortgagee, you've got all the time in the world to unravel this mess. Knock yourself out!"

Having cleared-off the existing mortgage, the County then resells the property to the homeowner. Mortgage Resolution Partners would help secure investors to fund new mortgages. Smaller balances, smaller payments.

Mortgage Resolution Partners has spent the last year working out the legal intricacies of this program. They have approached County and City governments in several of the states where property values have been hardest hit, including California, Nevada and (you guessed it) Florida.

JSmith note: I hafta tell ya, this got my attention!! Joe Nocera wrote about this in the New York Times, too. You can find it at http://www.nytimes.com/2012/07/10/opinion/nocera-housings-last-chance.html?_r=1 (phew!). Google Mortgage Resolution Partners. Big banks could stand to be knocked down a notch or two IMHO. And the investors in those CDOs, well, they made bad investments, with a lot of help. Good luck, gentlemen and ladies.

MULTI-UNITS: 1 AUGUST 2012

1911 Staples Ave **3-4 Units**

8-bedrooms, 3-baths, 1712 living sqft, lot = 5,000 sqft

Conventional sale

SOLD 20 April 2012 for **$370,000**

Asking price = $540,000

Rental income = ($5,550/mo) x (5% vacancy rate)
= $5,273/mo … or $63,270/yr

Taxes + Insurance = (2.5%) x ($370,000) = $9,250/yr

ROI = (income – expenses) ÷ (selling price)
= ($63,270 - $9,250) ÷ $370,000
= $54,020 ÷ $370,000
= **14.6%**

1116 Watson Street **3-4 Units**

3-bedrooms, 3-baths, 1873 living sqft, lot = 2,690 sqft

Bank-owned sale

SOLD 20 June 2012 for **$335,000**

Asking Price = $359,000

Rental income = ($2,700/mo) x (5% vacancy rate)
= $2,565/mo … or $30,780/yr

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

ROI = (income – expenses) ÷ (selling price)
= ($30,780 - $8,375) ÷ $335,000
= $22,405 ÷ $335,000
= **6.7 %**

327 Margaret Street **3-4 Units**

4-bedrooms, 4-baths, 1936 living sqft, lot = 2,489 sqft

Conventional sale

SOLD 29 June 2012 for **$475,000**

Asking price = $599,000

Rental income = ($4,900/mo) x (5% vacancy rate)
= $4,655/mo … or $55,860/yr

Taxes + Insurance = (2.5%) x ($475,000) = $11,875/yr

ROI = (income – expenses) ÷ (selling price)
= ($55,860 - $11,875) ÷ $475,000
= $43,985 ÷ $475,000
= **9.3 %**

1911-13 Patterson Ave **Duplex**

6-bedrooms, 2-baths, 2410 living sqft, lot = 7,000 sqft

Conventional sale

On Market Listed for **$415,000**

Rental income = ($4,000/mo) x (5% vacancy rate)
= $3,800/mo … or $45,600/yr

Taxes + Insurance = (2.5%) x ($415,000) = $10,375/yr

ROI = (income – expenses) ÷ (selling price)
= ($45,600 - $10,375) ÷ $415,000
= $35,225 ÷ 415,000
= **8.5 % if it sells at asking price**

BOOMERANG: Travels in the New Third World

By **Michael Lewis** (W. W. Norton & company, 2012)

The tsunami of cheap credit that rolled across the planet between 2002 and 2008 was more than a simple financial phenomenon. It was temptation … offering entire societies the chance to afford things they otherwise could not.

At the time of this writing, the US government has taken onto its books the subprime loans that triggered the financial crisis, absorbing the risk of nearly $2 trillion in dodgy securities. In the rich, developed world, bad loans made by highly-paid financiers working in the private sector were being eaten by national treasuries and central banks everywhere.

The financial crisis isn't over … it's being smothered by the full-faith-and-credit of rich western governments. At issue is not the collapse of a few bonds. We are talking about the collapse of entire countries.

In the last decade, what appeared to be economic growth was just activity fueled by people borrowing more money than they could ever repay. The big banks that had extended this credit became, in effect, extensions of their government, sure to be bailed-out in a crisis. The implied government warranty meant that rich countries' public debt (already at dangerously high levels) also included the debts inside each country's banking system.

The 2008 financial crisis was suspended only because investors believed that governments could borrow whatever they needed to rescue their banks. What happens when the governments themselves cease to be credible? The subprime mortgage crisis was more symptom than disease … the deeper social and economic problems remained. There's a bigger financial crisis waiting to happen. Not just big banks defaulting and being bailed-out by their governments … but whole countries defaulting. Because whole countries borrowed more than they could ever hope to repay. They lived the good-life for a while, but Judgment Day is coming.

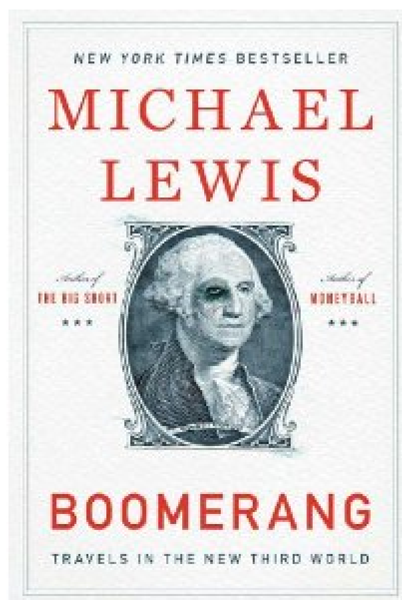
Michael Lewis traveled to several countries to examine the state of their financial affairs:

(1) Iceland: Spectacularly bankrupt in October 2008. An entire nation without experience in high finance tried to copy the example of Wall Street. Iceland became the only nation on earth about which the US could say "Well, at least we didn't do *that*."

(2) Greece: The Greeks took borrowed money and turned their government into a big piñata stuffed with dollars and gave as many citizens as possible a whack at it.

(3) Ireland: Irish financial markets offered virtually unlimited credit to all comers. Their real estate boom was like a family lie … sustainable if not questioned, unquestioned if it looked sustainable.

(4) Germany: May hold the fate of the financial universe. Germany is the biggest creditor of the various deadbeat European nations … and also their only serious hope of future funding.



JSmith note: This wouldn't qualify as a "Book Review", but I wanted you to know that it's easy reading and it gives you a picture of why the Eurosystem is in trouble, and why that's important financial news these days. If you haven't read "The Big Short" by the same author (Michael Lewis) … read that one first!

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 July?

Thursday #1: My guest today was as surprised as I was to discover that the KONK Broadcasting Network declared 5 and 6 July to be station holidays! My *scheduled* guest was my son **Cale Smith**, owner of Islamorada Investment Management. So, we’ll reschedule later and then discuss similarities and contrasts between investing in stocks and bonds versus real estate (“timing” the markets, tax considerations, SEC-type regulations with some commercial real estate, etc).

Thursday #2: My guest today was **Just Me**, your host for “Florida Keys Real Estate” on the KONK Broadcasting Network. It was my one-Thursday-per-month hour to be solo and rant about anything that crosses my mind, trying to focus on real estate. But first, congratulations to the Miami Heat. And congrats to the physicists who discovered the Higgs Boson last week … I hope it has huge and immediate practical applications ‘cuz lordy we’ve got lots of problems to solve. The real estate material for this hour was taken from my last newsletter, and *that* material was taken from all sorts of media outlets!

Thursday #3: My guest today was **Just Me** again, your host for “Florida Keys Real Estate” on the KONK Broadcasting Network. I was hoping for a guest to talk about Affordable Housing, but couldn’t make it work. I just couldn’t convince my “target” to come on the show. Fortunately, I have mastered on-air BS and was able to pull it off alone, again, still using material from the newsletter. I’ll have to check the records, but I think this was the first time I’ve ever gone solo back-to-back. Now I’m more curious than ever about Affordable Housing. Who runs the program? Who’s willing to speak about the program?

Thursday #4: My guest today was **Jerry Hughes**, Sales Associate with Real Estate of Key West and the Education Chair at the KW Association of Realtors. Earlier in the week Jerry had organized an informal training session for Realtors wherein various Department Heads from the City and County made presentations about their programs. Excellent. This is the kind of information that Realtors are expected to know … a little bit of everything about local rules and procedures. We heard from Code Compliance (Jim Young), Permits and Licenses (Carolyn Walker), City Planning (Don Craig), County Property Appraiser (Karl Borglum, Scott Russell) and County Environmental Resources (Michael Roberts). I would say confidently that every presentation contained a surprise … something we didn’t already know, often of great importance! Best of all, every speaker agreed afterwards to appear as a guest on my “Florida Keys Real Estate” show! That by itself was worth the price of admittance ☺

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My Current BUYERS in the Lower Florida Keys:

August 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 <u>you</u>, too! It will be a challenge to highlight 5 <u>new</u> 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 <u>are</u> one of my buyer-prospects, surely you will recognize yourself!

<u>Buyer #1</u>: A wonderful couple from Key West decided to take the plunge and purchase a property, and they contacted me after a referral from another client of mine! They made purchase offers on several properties, but good fortune was missing. Although pre-approved for a mortgage loan, the fact that it was FHA was a concern for sellers, especially if the property needed work … and short-sales and bank-owned properties usually <u>do</u> need work. But my buyers persevered, and as I write this, they are "under contract" to buy a brand new modular home in Big Coppitt: 3-beds, 2-baths, approx 1200 sqft. A very good day in real estate!

<u>Buyer #2</u>: I was involved in an unusual sale last month. A couple purchased a very nice Bahama Village property in late 2010, but the side-lot (approx 17' x 80') was not included, owned separately. The couple wanted to purchase the side-lot, also. Research showed that the side-lot contained a dwelling unit as recently as 2004, when it was demolished. After many months of slow-motion negotiations, the side-lot was purchased! Now the owners are beginning the process of planning what to do with their new squarefootage. It will be an interesting process via the City and HARC, expected to add much value to the residence!

<u>Buyer #3</u>: For the 2nd month in a row, I was contacted by a couple who want to do an IRC 1031 "Like Kind" tax-deferred exchange. They are selling an investment property and would like a KW replacement property to complete the exchange. Yes, indeed. This is a very nice tax break, one that everyone should be aware of. I'm looking for an investment property for as much as $1.5M, and it would be especially attractive if it offered the owners the opportunity to live in one unit of the property when they are visiting Key West. More people should be thinking of this!

<u>Buyer #4</u>: Courtesy of a pretty little condominium that I had listed for-sale at an attractive price, I received a large number of inquiries … which I have held onto, of course, and I try to stay in touch with them. There is definitely a strong market for a nice Old Town property in the $250,000 range! This one set a "personal record" I think of eight showings on the first day it was listed in MLS! It went under contract immediately, with a solid back-up contract, too. It will be a full-price purchase, a point worth emphasizing … lots of properties are selling *above* asking price.

<u>Buyer #5</u>: I've been corresponding with a customer who has promised (?) he will buy a property with me as his Realtor. I like that thought! Recently, he inquired about the possible purchase of a boat-slip for a 50-foot boat. There are a fair number on the market currently, and the prices are very, uh, healthy. I've not been involved in a boat-slip purchase before, but I'm motivated to learn … especially if it suggests the possibility of a property purchase later! Full-contact real estate in Key West, Florida … life doesn't get better!

By **Tara-Nicholle Nelson** | Broker in San Francisco, CA
27 June 2012

Timing the Market: 5 Signs It's the Right Time to Buy or Sell

Many buyers and sellers believe they should buy at the bottom and sell at the top, despite the facts that:

(a) Seasoned investors like Warren Buffett avoid trying to time markets, famously advising investors not to buy anything they can't hold at least 10 years, specifically to avoid getting caught with poor timing

(b) Human emotions make us want to buy when we think prices are on the upswing, and sell when we fear that we may lose money (the diametrical opposite of our logical desire to buy low and sell high!).

If you're struggling with whether it is the 'right' time to buy or sell, look for some or all of these signs:

Sign #1. It's the time of your life. Overarching rule … if you're buying the home you plan to live in, don't even bother trying to align with market peaks and troughs. Time your transaction in accordance with your life, your vision and your finances. Take the market more deeply into account when you're *executing* your decision to buy or sell, like deciding how much to offer, when to lock your interest rate, setting a list price, etc.

Sign #2. You need the tax write-off or other advantages. Take into account the urgings of your accountant! There's no hard and fast rule of thumb for how much income you have to earn before you'd be crazy not to own a home and take advantage of the mortgage interest and property tax deductions for homeowners. There are too many inputs into any given person's tax situation for such a black-and-white rule. These are two of the meatiest deductions the average wage-earner can take

On the other hand, if you're a seller considering a short sale, be aware that there is a major massive tax exemption currently in place under which the IRS will not charge you the normal income tax on your forgiven mortgage debt - so long as your short sale closes by the end of this year.

Sign #3. Your financials and the market are in alignment. Buying a home before your financials are truly ready for it is a grave, grave mistake. Here are signs of financial maturity for home ownership:

Your income is relatively secure (i.e., you didn't just start a new business or find a new job).
You have money in the bank (enough for a cushion once you've paid down payment and closing costs).
Your consumer debt is well under control (or non-existent).
You have good financial habits around spending and saving in place.

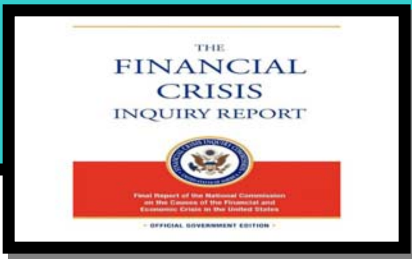
Sign #4. Your space needs are predictable for at least 5-10 years. If you can't project your space needs out that far in advance, you may want to wait to buy until you can, so that a market downturn won't find you stuck with a bizarrely inappropriate home for your lifestyle. Sellers should heed precisely the same advice, but in the opposite direction. When your home stops meeting your space needs, at least explore the prospect of selling.

Sign #5. Your location will be predictable for at least 5-10 years. Are you ready to stay put for a while, geographically speaking? If not, home ownership is probably not the best move to make, unless you're comfortable with the idea of being a landlord when you move *and* you won't need to use the cash you put into your home to make a move. The flip side applies for sellers … if you are concerned about the future job, educational or other important prospects for yourself or your family members in your town, that's certainly a valid reason to think about making a move. Just make sure you don't wait until everyone else makes the same move. That's a surefire way to do the opposite of every seller's goal: selling at the bottom.

If you regret your transaction timing, what would you do differently next time? If you feel like you timed it right, how did you know it was the 'right' time to buy or sell?

<u>Financial Crisis Inquiry Commission</u>

post #16



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, II and III of the FCIC report have been covered previously. This begins Part IV called “The Unraveling” with nine Chapters focusing on early 2007 through the full-blown crisis of September 2008. This post covers late 2007 and early 2008: **<u>Billions in SubPrime Losses</u>**:

In the fall of 2007, the Financial Sector was losing billions of dollars in mortgage-related losses on loans, securities and derivatives, with no end in sight. The market began to discriminate between firms perceived to be healthy and others about which they were not so sure. Bear Stearns and Lehman Brothers were at the top of the “suspect” list. CitiGroup and Merrill Lynch reported spectacular losses on their CDO business.

(1) OCT 24: Merrill Lynch stunned investors with a $7.9 Billion loss, double their estimates to investors just 3 weeks earlier. CEO Stanley O’Neal resigned, with a severance package worth $161.5 million.

(2) OCT 30: CitiGroup announced it would be taking an $11 Billion loss. CEO Chuck Prince resigned, with a severance package worth $36 million.

Goldman Sachs had bought credit default swaps from AIG to insure against losses in their mortgage-backed securities business. Goldman Sachs realized the “insurance” meant nothing unless AIG had collateral to back-up its credit default swaps. Starting in July 2007, Goldman Sachs sent AIG a “demand letter” every *day* for 14 months. Goldman pursued AIG relentlessly.

(1) Most of AIG’s senior executives did not even know that their credit default swaps contained provisions for collateral calls.

(2) AIG did not have a model to estimate the value of the CDO portfolio that it guaranteed through the credit default swaps, nor did it hedge its exposure.

(3) AIG’s auditors, Price Waterhouse Coopers, were also unaware of the collateral requirements.

(4) One of AIG’s risk management tools was to learn of its own problems from counterparties who were demanding collateral from AIG.

(5) On February 11, 2008 the rating agencies (Moody’s, S&P) downgraded AIG.

(6) In March 2008 the Office of Thrift Supervision, in charge of regulating AIG, downgraded the company’s rating from “fundamentally sound” to “moderate/severe supervisory concern.”

<u>Commission conclusions</u>:

(1) Some large investment banks and insurance companies, including Merrill Lynch, CitiGroup and AIG, experienced massive losses related to the subprime mortgage market because of significant failures of corporate governance. Executive and employee compensation systems disproportionately rewarded short-term risk taking.

(2) Regulators failed to adequately supervise the safety and soundness of:

(a) large investment banks (by the Securities and Exchange Commission)

(b) bank holding companies and AIG (by their banking supervisors)

(3) Regulators allowed them to take on inordinate risk in subprime mortgage securitization and derivatives, and to hold inadequate capital and liquidity.

A sense of humor is important!

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Southernmost Stars: **1 August 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:
1830 Fogarty #6	$149,000	1	1	598	249	Affordable Housing
1830 Fogarty #2	**$149,000**	**1**	**1**	**460**	**324**	**Affordable Housing**
3312 Northside #204	$158,000	2	1	736	215	Conventional
3029 N Roosevelt #48	**$164,900**	**2**	**2**	**800**	**206**	**Foreclosure**
508 Louisa St #1	$179,000	1	1	214	836	Affordable Housing
2601 S Roosevelt #317sc	**$197,500**	**1**	**1**	**625**	**316**	**Short-sale**
3675 Seaside #433	**$209,900**	**2**	**2**	**772**	**272**	**Foreclosure**
1207-09 William #3	$225,000	3	2.5	1183	190	Foreclosure
105 Golf Club Dr	**$235,000**	**2**	**1**	**780**	**301**	**Short-sale**
3930 S Roosevelt #E-403	$249,999	3	2	1070	233	Conventional

Missing from last month: 3314 Northside #115 … under contract; 3312 N Roosevelt #616 … expired; 3314 Northside #35 … under contract; 3343 Flagler Ave3 … under contract; 3930 N Roosevelt #E-302 … under contract

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

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
1611 Bertha St	**$188,700**	**3**	**2**	**1214**	**155**	**Foreclosure**
1200 6th St	$235,000	2	1	740	318	Conventional
1209 Margaret St	$249,900	3	1	864	289	Conventional
1617 Catherine St	**$275,000**	3	1	1301	**211**	Conventional
1121 Watson St #2	$279,000	1	1	420	666	Short-sale
2008 Patterson Ave	$289,000	3	1.5	850	341	Short-sale
1305 20th St	$290,000	3	2	1003	289	Short-sale
819 Terry Lane	**$290,000**	**2**	**1**	**700**	**414**	**Short-sale**
813-Rear Eaton St	$315,000	2	2	812	388	Short-sale
2922 Flagler Ave	$325,000	4	2	1488	218	Short-sale

Missing from last month: 316 Julia … SOLD for $125,000
2333 Fogarty … under contract

Flipping back through previous reports, since April 2012 there has been a 34% turnover rate among each month's 20 least expensive homes. That inventory is definitely 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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