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Hello, everyone ...

1 August 2013

I love the summers in Key West. I wear shorts and sandals to work! Even with the North Roosevelt construction, there is no real “commute” or “traffic”, not like I remember. The temperature?? The humidity?? I grew up in Memphis TN ... now *that’s* hot and humid! Key West is a piece of cake compared to Memphis. Check it out ... I think the highest recorded temperature EVER in Key West was 97.

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July was a great month for articles! I have more than I can use for the newsletter, so here’s a summary of three that did not make the newsletter (and where to find them):

- (1) The End of Fannie and Freddie? (NYTimes, 26JUN13, Joel Nocera) Bring the implied government guarantee out into the sunshine. How? Will the private market step up? Another quasi-governmental agency?
- (2) Seven Serious Worries of Today’s Home Buyers (Trulia staff, 26JUL13) Rates going up, prices going up, inventory low, stiff competition for homes, can you get a mortgage ...and two more.
- (3) Should I Feel Guilty Filing Bankruptcy? (MoneyTalksNews, Stacy Johnson) Would lenders hesitate to use BK to eliminate any obligation they had to you? *People* feel guilty when they fail to meet an obligation, but corporations are not people. They feel nothing.

Second month of 2013 Hurricane Season is past! The prediction for the whole season was 13-to-20 named storms. Two in July (Chantal, Dorian) brings the total to 4, all Tropical Storms. The scoreboard looks like this:

2013 Forecast:	13-to-20 named storms w/wind > 39 mph
	↘ of which 7-to-11 are <u>hurricanes</u> w/wind > 74 mph (CAT I + II)
	↘ of which 3-to-6 are <u>major hurricanes</u> w/wind > 111 mph (CAT III, IV and V)
2013 Actual:	4 Named Storms
As of 6/30/13	0 Hurricanes (CAT I and II)
	0 Major Hurricanes (CAT III, IV and V)

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Anthony Weiner, no texts, please ☺



Did You Miss the Best Real Estate Buying Bonanza in Decades?

You just missed the bottom — the intersection of low home prices and rock-bottom mortgage rates. But has your best chance at getting a great deal on your dream home passed you by? The answer is no.

It's still a bonanza out there for prudent buyers! Real estate is still low-priced, mortgage rates are still very low and great wealth still can be earned from owning quality properties for the long term.

The most likely scenario where a real estate buyer increases his or her wealth (the reason most people desire to own real estate) is by holding property for the long term. When you own long term:

- (1) You pay down your mortgage along the way
- (2) The property's value hopefully will increase over the years
- (3) You avoid the large transaction costs that go with buying and selling real estate over and over

So don't buy a home or investment property unless you are virtually positive you will own it for years. You generally have to own a property for around 7 years to start earning serious equity.

And keep this in mind ... if you have that long-term ownership goal, the recent uptick in property prices shouldn't be big a deal for you, because in 10, 15 or 20 years, the values should be much higher. In fact, in 15 years you'll hardly remember what you paid today ... just brag about how it was the best investment you ever made.

But beware. You can't just buy any property and expect it will add wealth to your financial picture. You have to buy nice properties that are affordable to you — no get-rich quick schemes. Many properties are wealth-draining, not wealth building. It's usually the ones that sound like incredible deals, but they end up being too good to be true. A few types of properties that usually diminish your wealth are:

- (1) Fixer-uppers
- (2) Fancy prize properties
- (3) Second homes and vacation rentals
- (4) Land
- (5) Properties in mismanaged homeowners associations
- (6) Rent-to-own deals
- (7) Properties in bad locations

The bottom has passed — a perfect storm of low prices and low interest rates is gone, gone, gone — but it's still a buying bonanza out there for savvy buyers.

- (1) If you are buying a personal residence, buy a home you can afford.
- (2) If you are buying a rental property, buy a property that pays for itself.

Most importantly, don't worry about what the news says and all the negative or positive commentary on the airwaves. Buy a great property for yourself, and enjoy the rewards down the road.

JSmith note: Yep, FOX news ... I get extra points and airline miles for that! The author could have mentioned the federal tax advantages built-in to real estate, unavailable to other investments. And in Key West, I personally think Old Town, expandable fixer-uppers can be a great real estate investment. There have been *killa* deals on some distressed properties, too. Lots of opportunities!

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

List Price:

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

DUPLEXES:

1612 Bertha St:	\$ 410,000	ROI 8.23%	duplex	\$ 212,500	
717-719 Catherine St:	\$ 525,000	ROI 5.05%	duplex	\$ 262,500	Under contract 7/13
2514 Staples Ave:	\$ 595,000	ROI 5.21%	duplex	\$ 297,500	
1122 Eaton St:	\$ 599,000	ROI 3.51%	duplex	\$ 299,500	
1004 Watson St:	\$ 669,000	ROI 4.91%	duplex	\$ 334,500	
1321 South St:	\$ 750,000	ROI 3.12%	duplex	\$ 375,000	
914 Frances St:	\$ 795,000	ROI 2.49%	duplex	\$ 397,500	Short-sale
1324-28 Duncan St:	\$ 799,000	ROI 3.63%	duplex	\$ 399,500	
1122 Southard St:	\$ 825,000	ROI 2.61%	duplex	\$ 412,500	Under contract 7/22
1113 Watson St:	\$ 929,000	ROI 3.44%	duplex	\$ 464,500	
815 Eisenhower Dr:	\$ 1,395,000	ROI 2.12%	duplex	\$ 697,500	

3 UNITS:

1614 Dennis St:	\$ 649,000	ROI 7.62%	3-units	\$ 216,333	
1821 Harris Ave:	\$ 799,000	ROI 7.27%	3-units	\$ 266,333	
622 Grinnell St:	\$ 1,200,000	ROI 2.35%	3-units	\$ 400,000	

4 UNITS:

1023 Whitehead St:	\$ 850,000	ROI 11.79%	4-units	\$ 218,750	Temporarily off market
1411 Flagler Ave:	\$ 899,000	ROI 5.63%	4-units	\$ 449,500	
1119-23 Simonton:	\$ 1,100,000	ROI 4.71%	4-units	\$ 275,000	Price reduced
530 William St:	\$ 1,645,000	ROI 10.36%	4-units	\$ 411,250	

Greater than 4 UNITS:

1301 Truman Ave:	\$ 925,000	ROI 10.36%	8-units	\$ 115,625	
733 Whitehead St:	\$ 1,000,000	ROI 8.40%	6-units	\$ 166,667	
400 Simonton St:	\$ 1,599,000	ROI 2.61%	6-units	\$ 266,500	

SALES: recent or imminent



421 United Street (duplex)
PENDING
Asking Price: \$625,000



1210 Virginia Street (duplex)
CONTINGENT
Asking Price: \$427,000



3409 Eagle Avenue (duplex)
CONTINGENT
Asking Price: \$469,000

The Results of Idle Time Spent on the Internet:

Fourteen single-family homes in Key West sold in the past month. Assuming the sale price to be the best indicator of “market value”, how well did various Automated Valuation Models (AVMs) predict the value?

<u>Address:</u>	<u>Actual Sale \$:</u>	<u>Zillow.com</u>	<u>appraisal.com</u>	<u>Trulia.com</u>	<u>Chase.com</u>
3715 Donald	\$295,000	\$355,620	\$244,361	\$354,000	\$326,000
2403 Patterson	\$300,500	\$648,387	\$524,710	\$596,000	\$466,000
2119 Staples	\$355,000	\$369,511	\$292,683	\$404,000	\$325,000
2116 Fogarty	\$420,000	\$413,288	\$292,113	\$359,000	\$344,000
2900 Riviera	\$463,000	\$409,321	\$331,394	\$389,000	\$448,000
321 Grinnell	\$525,000	\$626,386	not avail.	\$589,000	not avail.
3821 Eagle	\$610,000	\$538,602	\$416,907	\$558,000	not avail.
3630 Flagler	\$625,000	\$591,375	\$417,907	\$649,000	\$653,000
917 Grinnell	\$640,000	\$773,540	not avail.	not avail.	not avail.
1607 Sunshine	\$649,000	\$668,106	not avail.	\$649,900	\$276,000
1308 Atlantic	\$649,900	not avail.	not avail.	not avail.	\$275,000
1304 Reynolds	\$680,000	\$580,019	\$415,944	\$699,000	\$689,000
1700 Patricia	\$689,000	\$708,817	\$851,311	\$699,000	\$717,000
730 Love Ln	\$975,000	\$854,067	\$623,720	\$560,000	not avail.

Other AVMs that were attempted:

- (1) Realtor.com ... reported the *sale price* as the estimate, in every case.
- (2) Housevalues.com ... requires personal data and email address before divulging the market value. I get 200+ emails per day, and don't want them to capture me. But, thanx for participating!
- (3) RealestateABC.com ... it simply reported the Zillow “Zestimate” only, nothing original.
- (4) Realestate.com ... it couldn't find any of these addresses, maybe just a *bad* day for the website.
- (5) Homes.yahoo.com ... it simply reported the Zillow and Eppraisal estimates.

Results: **Not so good**, I would say! But why do so many people put such faith in these results?

I think you should remember that **these businesses are not real estate companies ... they are **MARKETING companies****. They make their money by attracting internet surfers based on the *illusion* of providing an estimate of market value. They promote themselves (falsely) as offering an important piece of real estate information, and that attracts curious on-line lookers. As more and more people are attracted, then advertisers start to pay for the opportunity to be seen by all those lookers. As lookers and advertisers grow, then Realtors are attracted to pay for the opportunity to have their photos included ... and positioned to appear as though they are the Listing Agents for the properties being searched (they aren't). Soon the virus spreads to others in the real estate business ... title companies, appraisers, surveyors, lenders, etc.

Its genius, I suppose, that a very weak product can underpin the whole successful process ... because so many hopeful and trusting people are willing to pay to be seen by so many other hopeful and trusting people. **Accuracy is not their objective ... getting you in the door is**. After that, human nature kicks-in and it becomes self-generating. But, I'm sure these are not the first businesses built on *that* foundation!

But, maybe I'm being too harsh. I'm sure it was a monumental and impressive data-collection effort to amass all that public information about properties, then subject it to (super-secret) analysis and derive a number to represent market value. **It's a place to start, period. You can't really make a valid estimate of market value without boots-on-the-ground** ... someone has to assess the myriad subjective, non-public factors that may be the *biggest* part of the buy-sell decision.

My Current BUYERS in the Lower Florida Keys:

August 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: Word-of-mouth is the best marketing, no question ... it just takes a long time to get there, and there's no roadmap for achieving it. I was fortunate to hear from a friend of a California client who is already in Key West, renting. And it's time to think about buying! I was happy to receive her call, and we are now at work on identifying a small (one-person) unit, probably a condo, in the Old Town section of Key West. Even a studio or efficiency might be sufficient, and the price needs to be a bargain. There are several candidates out there, even though the inventory is low and properties are moving fast.



Buyer #2: Once again, lucky me, a past-customer got me hooked-up with a friend of theirs. This is the past-client who got the best deal *ever* on a property I had listed in Old Town. It'll be a chapter in the book I'm going to write! The new couple is looking for a seasonal (snow-bird) property in the sunny Keys ... not necessarily Key West. They are attracted to the Middle Keys for diving opportunities, like world famous Looe Key (Ramrod). Retired Army, goodness, have I told you lately how much I love this real estate profession? The people you meet. The places you see. The things you do to help clients reach goals.



Buyer #3: A prominent attorney in Key West asked me to look into the purchase of a particular residential property in Mid-Town. It's a large, multi-unit property that has been in "hard times". Foreclosure action has been initiated (maybe more than once!). This could be a cash sale, if I can navigate the legal and administrative roadblocks to determine exactly who has the authority to sell the property. I know of another beautiful multi-million dollar property in the same legal-limbo. You might think it is easy to identify the responsibility entity ... but, not so.



Buyer #4: Realtor's dream-come-true! I received a call from an Upper Keys friend and fellow Rotarian who asked me to put his Old Town 3-unit rental property on-the-market! Some (rare) days are like that ☺. And to top it off, his plan is to do an IRC 1031 Exchange and purchase *another* property to extend the rental investment! The "Replacement" property might be in the Upper Keys, or it might be in KW. I'm pulling for KW. Something in Old Town high enough to avoid flood insurance, strong enough to avoid windstorm insurance. Thank you, Great Spirit!



Buyer #5: Sometimes I can't explain where contact with buyers originates. For example, I was recently notified via email that a buyer might possibly be interested in a listing of mine. The email sender was "ListHub". I don't know what that is ... even after googling it. I do appreciate the referral, whoever you are! Thank you, and please send more! The business is getting very electronic, at least in the early stages (banks are still paper-bound). Buyers and sellers these days often never meet. I kinda like the face-to-face aspects. Usually!





Why All-CASH Offers Rule the Housing Market

Cash buyers reap a bevy of benefits that come with cutting lenders out of the buying equation. 10 reasons why:

- (1) **Possible price reductions**: Cash offers are the most certain sales, making them more attractive than higher priced offers requiring financing.
- (2) **Quicker closings**: Cash saves time and stops much drama at closing. Financing is the primary cause of settlement delays. Average time to arrange for financing = 47 days.
- (3) **No credit check**: Cash buyers don't generate lenders snooping through financial records like an autopsy. No questions like "Why did Aunt Polly write that \$1,000 check on your last birthday?"
- (4) **No appraisal contingency**: A substantial number of home sales are lost when the appraisal comes in too low. To have a 20% downpayment and get the loan, buyers must either pay more or ask the seller to reduce the price.
- (5) **Cut title insurance**: Cash buyers can choose to save this expense ... but not everybody agrees this is a good idea. It's protection that, for half of one percent of the selling price, might be worth the protection.
- (6) **Avoid closing costs**: Lenders may charge several thousand dollars in trumped-up fees ... application, origination, underwriting, etc. Cash buyers avoid all these fees by avoiding the lender.
- (7) **Kick mortgage insurance to the curb**: Borrowers who put less than 20% down usually have to pay 0.5% of the loan amount for insurance. With no mortgage, no mortgage insurance.
- (8) **No escrow**: The lender uses your money for free when taxes and insurance are escrowed. It makes better financial sense to pay taxes and insurance separately, which cash buyers can do.
- (9) **Avoid exchange rates**: This helps foreign cash buyers who can take advantage of exchange rates in cash deals. It also avoids problems if foreigners don't have a long credit trail, or if they have no credit score at all.
- (10) **Zero monthly loan payments**: The biggest perk of all! It's the equivalent of earning 4%-to-4.5% long-term on your investment, not including appreciation and rental income potential.

JSmith Note: More than 50% of all home sales in Key West are CASH purchases. The 10 reasons above may help explain why this phenomenon is taking place. I can add two more:

- (1) It's hinted at several times in the bullets above, but let's come right out and say it. When buyers pay cash they don't have to deal with banks. That saves a lot of expenses and saves a lot of time, BUT it also saves a huge amount of frustration! I think that's a giant factor in cash purchases.
- (2) In the Florida Keys, the high cost of bank-required insurance (flood and windstorm) is so great that many buyers may be paying cash just so they can avoid insurance. I don't know about anyone else, but for me personally, if I didn't have a mortgage, I would not be paying the insane premiums for windstorm insurance. Flood insurance premiums are rumored to be headed up, too.

There may be another reason, too. What better would buyers do with their cash? Who do you trust?



10 neighborhood homebuyer magnets

Neighborhood quality matters ... the biggest factor in determining where buyers will buy. 10 factors:

Access to transportation: The ability to get to and from their neighborhood easily is important. Most homebuyers say that finding a house convenient to work greatly influenced their neighborhood choice.

Key West score:

Good schools: School quality influenced the neighborhood choice of 27% of homebuyers ... 55% for buyers with teenage children, 13% for buyers without kids. It affects the resale value for buyers without children, too.

Key West score:

Nearby amenities: 68% of baby boomer seek proximity to restaurants and shops when looking for a home. The presence of these amenities signals that an up-and-coming urban neighborhood has "arrived."

Key West score:

Area architecture: Historical or architecturally significant homes can be a big draw for homebuyers. Many buyers favor a neighborhood with character and charm or one that doesn't look like the typical subdivision.

Key West score:

Reputation: "Buzz" translates to buyer interest and higher sale prices. When an area becomes branded as hot, reputations tend to stick, even if only 80% based on reality and 20% based on what people have heard or read.

Key West score:

Parks and outdoor spaces: Homebuyers appreciate having a park nearby, especially with children or pets. 18% of homebuyers say proximity to parks and recreation facilities are an influence. For baby-boomers ... 34%.

Key West score:

Low crime rate: People want to feel safe. Buyers ask about it. It does affect home values. Realtors must refer to objective sources of statistics, rather than sharing their opinions about "good" and "bad" neighborhoods.

Key West score:

Your neighbors: The people who live in a community are important. Buyers always want the neighborhoods where there are the least amount of properties for sale ... if people aren't moving, they're probably happy there.

Key West score:

Local economy and stable home values: Buyers are attracted to neighborhoods where property values are likely to go up rather than down. A community without foreclosures or distressed properties are more attractive.

Key West score:

Proximity to cultural experiences: Buyers prefer to live with ethnic and cultural diversity, and access to nightlife, recreational facilities and the arts. Easy access to entertainment and leisure activities is important.

Key West score:

JSmith Note: The "Key West score" is mine alone. And not very scientific. But there's no comparing my Cape Cod-to-Boston commute and Key Haven-to-Midtown jaunt. Counting the ocean, "Parks and Outdoor Spaces" is off-the-scale. My neighbors are the best ... other people's neighbors make the Crime Report. BUZZ, aahh yes ... an enviable reputation to uphold! For culture, I have no standing to judge, I just hope some of it rubs off. My daughter went to HOB and KWHS ... excellent. I'm happy to rank KW very high!

Island of Key West:

Sales since 2000

(data from MLS)

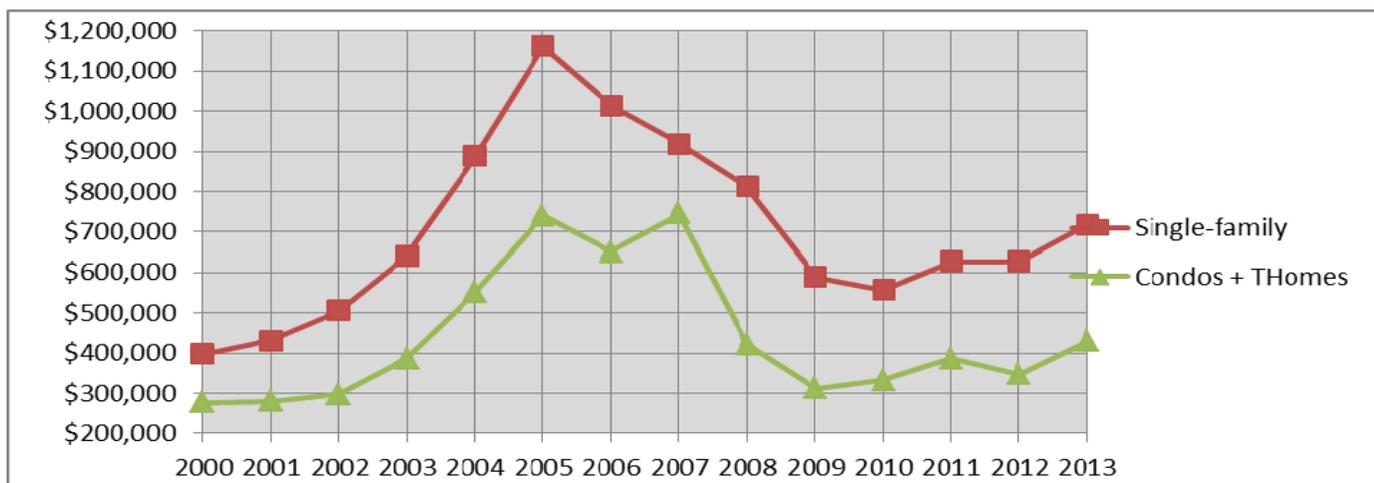
The date below captures the last 13 years of real estate sales on the island of Key West. There may be an additional 10% of sales that are not reported in MLS ... due to owners selling directly to buyers (FSBOs) or buyers purchasing directly from developers. But there is enough data here to illustrate the “trends” in our local market. See the chart below ... one section for single-family homes, one for condos and townhomes:

Year:	<u>Single-family homes</u>			<u>Condos + Townhomes</u>		
	# sold:	Avg Sell Price:	\$/Sqft:	# sold:	Avg Sell Price:	\$/Sqft:
2000	232	\$ 398,157	264	176	\$ 276,443	257
2001	323	\$ 430,707	291	233	\$ 279,226	270
2002	320	\$ 505,579	336	349	\$ 298,187	309
2003	324	\$ 641,831	421	351	\$ 386,243	402
2004	372	\$ 888,978	575	347	\$ 552,130	591
2005	249	\$1,162,621	720	229	\$ 740,807	754
2006	196	\$1,013,707	628	86	\$ 650,461	672
2007	158	\$ 918,585	584	146	\$ 745,035	710
2008	176	\$ 811,937	465	127	\$ 421,401	427
2009	202	\$ 588,193	360	168	\$ 311,354	290
2010	221	\$ 556,637	364	183	\$ 331,767	329
2011	216	\$ 626,603	374	194	\$ 386,694	348
2012	241	\$ 626,732	383	218	\$ 347,142	348
2013	171	\$ 717,890	442	147	\$ 428,937	392

(so far)

2005 was clearly the “peak” of our market ... interesting because most authorities would say on the national level, the peak was 2006. Did we start to see the downturn first? Maybe, but of course the peak is not recognizable until time moves on and you can look-back on it. Same with the “bottom” of the market. In \$/Sqft, our bottom was 2009, whereas other sources quote 2010 as the southernmost dip in the curve.

It’s hard to refute that our recovery started in 2011. It’s almost always been said by local business-people that Key West is the last place to feel an economic downturn and the first place to see signs of recovery. The raw data does not actually see it that way! In terms of real estate in The Great Recession, it appears that we might have seen it coming first ... and showed the earliest signs of recovery. So, OK ... the legends are *half-right*.



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:
1016 Howe St #9	\$164,900	1	1	144	1145	Transient license!
3312 Northside #213	\$169,000	2	1	736	230	Conventional
419 William St #6	\$159,000		efficiency	300	530	Conventional
3312 Northside #307	\$179,000	2	2	696	257	Conventional
3312 Northside #215	\$189,000	2	1	800	236	Conventional
1016 Howe St #10	\$195,000		efficiency	110	1773	Transient license!
3314 Northside #31	\$195,000	2	2	920	212	Conventional
3312 Northside #104	\$199,900	2	1	736	272	Conventional
2521 Fogarty #2	\$230,000	2	1	667	345	Conventional
3930 S Roosevelt #N-110	\$248,000	2	2	806	308	Conventional

Missing from last month: 3312 Northside #514 ... under contract
60 Merganser Dr ... under contract

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	\$/Sqft:	Other:
727 Emma St	\$299,000	2	1	640	467	Conventional
723 Thomas St	\$340,000	3	2	1110	306	Short-sale
718 Thomas St	\$349,900	2	2	855	409	Conv: Temp off-market
1112-rear Margaret St	\$349,000	2	1	664	526	Conventional
2831 Flagler Ave	\$350,000	3	2.5	1300	269	Conventional
3525 Flagler Ave	\$360,000	3	2	1104	326	Conventional
1609 Trinidad Dr	\$365,000	3	2	1083	337	Foreclosure: auction only
717 Galveston Ln	\$369,000	1	1	532	694	Conventional (ren proj)
1007 Watson – Rear	\$399,000	1	2	646	618	Conventional
1329 20 th St	\$399,000	4	2	1513	264	Short-sale

Missing from last month: 909 Catherine St ... under contract

Not very much turnover from last month's STARS ... slow season. Interesting factoid, however, is that for condos and townhomes, the 10 least expensive units do not include a single distressed property (short-sale or bank-owned). That may be a first, since about 2008. Is there a signal there?

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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