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1 September 2009

Hello, everyone …

You've probably heard the national media pronouncements that the US economy is showing signs of coming back to life … and there has been encouraging news with respect to real estate lately. I hope they are right, but I'm a little gun-shy, seeing as how they seemed to miss all the signs last year leading to vaporization of how many trillions of dollars?

But I'm not gun-shy about saying that there are great real estate bargains out there, if you are in the buying mode. Way below market value. When the distressed inventory is erased, the "market" will re-emerge … and I suspect it will be a big bump-up from where properties are now.

Table of Contents for this issue:

I hope you like the articles and the more quantitative stuff. I've included more comparative data that confirms Zillow seems to be way off-the-mark in the Lower FL Keys. It's interesting that Zillow over-shoots the market so often down here … I wonder if there is something unique to the Keys that generates a constant high-side bias in the Zillow calculations? Maybe Zillow heavily weights the tax assessor's "market value", unaware that it bears little resemblance to the real market value.

Details, details. Why spoil a good story just because a few of the details may be off? Reminds me of a joke about speaking Southern. What does "RURNT" mean? It's how to say "RUINED" down South.

The multi-unit inventory shrank again in August … 5 departed (below), 4 entered, net -1. Here are "The Departed" … can you say that without thinking of Nicholson, DiCaprio and Damon?

Address:	Type:	Listing Price:	Results:	Date:
308 Peacon Lane	**duplex**	**$ 549,000**	**SOLD for $500,000**	**on 3 AUG 09**
1612 Bertha St	**duplex**	**$ 349,000**	**SOLD for $343,000**	**on 17 AUG 09**
1211 Olivia St	**duplex**	**$ 699,000**	**CANCELLED**	**on 23 AUG 09**
1914-15 Seidenberg	**duplex**	**$ 575,000**	**EXPIRED**	**on 12 AUG 09**
917 Packer St	**3-4 Unit**	**$1,175,000**	**EXPIRED**	**on 10 AUG 09**

Key West training for the Leukemia and Lymphoma Society "Team-in-Training" has begun. It's becoming an annual thing for us. In the next newsletter, I'll gently ask you to contribute to our efforts on behalf of blood cancer research. Not to mention the DisneyWorld or ING Miami marathons!

Jim Smith, Broker Associate
Realty Executives Florida Keys

Time to Buy Your Dream House

Jul 20, 2009

Home prices remain at an all-time low and selection an all-time high. Wait a second. *BusinessWeek* just ran a cover story saying home prices won't rebound until 2012. What gives?

There is an opportunity in residential real estate ownership unlike any we've seen in quite a long time, a perfect storm of sorts that is unlikely to last much longer. Home prices are down, interest rates remain near historical lows, and inventory is high. Thus, those with stable jobs and good credit can find their dream home, pay a price lower than any time in the last five or more years, finance it at a very favorable interest rate, and thereby be perfectly positioned for the housing recovery that the magazine wrote about.

Most of us who remember shopping for a home in 2005 and 2006 recall how difficult it was to find our dream home in our preferred neighborhood at a price we considered affordable, let alone realistic. With so few houses available, any home in a desirable area sold regardless of its condition or layout, often before it was even officially listed.

According to the National Association of Realtors, the inventory of existing homes for sale peaked in November of 2008 at an 11 months' supply. There was a 9.6 month supply at the end of May and, from what I hear, it has fallen since then. While you think your dream home will remain on the market forever; the selection is shrinking.

You Can't See the Future. If we all had a crystal ball, we'd time our purchases by buying at the bottom of every pricing cycle. However, we all know that most of us are no better at picking bottoms than we are at selling tops. NAR statistics indicate that the national average for existing home sale prices peaked at $230,200 in July of 2006. In January of 2009, its lowest point, the average fell to $164,800, down 28.3% from its peak. Since then, despite foreclosures still making up a significant portion of the transactions, the average price has slowly climbed each month. It stood at $173,000 at the end of May.

While mortgage rates have climbed slightly, they, too, are near historic lows. Freddie Mac reported recently that the average 30-year fixed mortgage rate is down to 5.32%.

Given the economy over the last couple of years, we are all rightfully skeptical. You have to think twice when someone tells you home prices are on the rise.

A Great Time to Shop. But the numbers, both current and historic, show it is indeed the case. While the unemployment rate is high, the rate of people losing their jobs is slowing and it appears that inflation has moved up the list as a primary economic concern. And it's reasonable to expect any increase in inflation to also include an increase in home prices.

I do not claim to be Nostradamus, but I am observant enough to understand we are at a unique and opportunistic point in time within the realm of residential real estate. There are some terrific homes on the market today, at prices historically quite low, with attractive interest rates available to those with good credit.

I'm not suggesting everyone run right out and buy a home above their means. But I am suggesting that **if you don't yet own a home, or if you own a home and have been considering trading up, now is a great time to go shopping**.

The New York Times

By DAVID STREITFELD

August 19, 2009

Appraisal Shift, Lenders Get Power and Critics

Brokers, real estate agents and banks asked appraisers to do a lot of pretending during the housing boom, pumping up values while ignoring defects. Some appraisers thought they had no choice if they wanted work. A profession that should have been a brake on the spiral in home prices instead became a big contributor. On May 1, a sweeping change took effect that was meant to reduce the conflicts of interest in home appraisals while safeguarding the independence of the people who do them. **Brokers and real estate agents can no longer order appraisals. Lenders now control the entire process**.

The Home Valuation Code of Conduct is setting off a bitter battle. Mortgage brokers, lenders, real estate agents, regulators and appraisers are all arguing over whether an effort to fix one problem has created many new ones.

"The real estate industry is incredibly complex," said the Mortgage Bankers Association. "If you take one piece and tinker with it, it causes friction throughout the process." Putting appraisals completely in the hands of lenders may sound like a good idea in principle, because lenders are putting their money at risk. But many lenders do not worry about the accuracy of appraisals because they sell their loans to Fannie Mae or Freddie Mac.

Before real estate prices went out of control, appraisal work was straightforward. The appraiser examined a property inside and out, judging it against the prices that similar properties in the neighborhood were fetching. If the appraisal matched the sales price, the lender financed the loan. As lending standards collapsed during the housing boom, appraisers were pressured from all sides. When the appraiser did not deliver a satisfactory price, the deal did not get done, and the broker, agent and lender did not get their fees. Homeowners also loved inflated appraisals, using them to take out as much as possible when they refinanced.

The honest appraisers saw housing prices driven beyond reason. In a petition they warned of "the potential for great financial loss" to the economy if the penalties for pressuring appraisers were not enforced. Honest appraisers were being blacklisted. Regulators and lawmakers did nothing. A rising market covered all sins. Then the market turned, and the lawsuits began.

National lenders long ago began outsourcing the process to the management companies, who had claimed about 30% of the market before the code took effect. Now that the lenders are the ones ordering all the appraisals, the management companies are expanding their share. Real estate groups say the management companies are now trying to fatten their profit margins by hiring appraisers as cheaply as possible. These inexperienced appraisers, often traveling many miles to a market they do not know well, are scuttling legitimate deals, the agents claim. This argument has resonated in Congress, where 55 legislators have sponsored a bill calling for an 18-month moratorium on the code.

Instead of developing relationships with brokers and agents, appraisers must wait for a lender or appraisal management company to call. A year ago, they would make $350 for an appraisal that would take about five hours. Now the management companies offer as little as half that.

Under the code, the role of deciding what is pressure is assigned to a new entity called the Independent Valuation Protection Institute (IVPI). If appraiser complaints are deemed valid, the IVPI is supposed to forward them to regulators. 17 months after it was announced, the IVPI has no staff and no appraiser complaint hotline. All that exists is a single Web page.

Appraisers play a key role in keeping real estate transactions honest, but we have done very little to support them and ensure their independence.

MULTI-UNIT PROPERTIES:

1 September 2009

address = "Short Sale" or foreclosure

DUPLEX (top 10):		**ROI:**					**ROI:**		
1217-19 3rd St: MLS111465	$275.5K NEW	Max / Min	10.09% / 8.71%	On market 26AUG	**1725 Johnson:** MLS110889	$289K	Max / Min	8.86% / 7.77%	On market 19MAY **Reduced** 28JUL
3314 Northside #12: MLS105322	$299K	Max / Min	9.10% / 7.83%	On market 21MAR **Reduced** 2JUL	**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	**3314 Nortside #24a:** MLS107613	$299K	Max / Min	9.10% / 7.83%	On market **Reduced** 21AUG
1634 Johnson: MLS548158	$250K	Max / Min	11.38% / 9.85%	On market 10MAR **Reduced** 22APR	**2007 Flagler:** MLS110984	$360K	Max / Min	11.27% / 10.03%	On market 8JUN **Reduced** 29JUL
2226 Patterson: MLS110648	$475K	Max / Min	10.02% / 8.50%	On market 5APR **Reduced** 17AUG	**1907-09 Patterson:** MLS109613	$399K	Max / Min	8.06% / 7.02%	On market 7NOV **Reduced** 29JUL
3-4 UNIT (top 6):		**ROI:**					**ROI:**		
915 Pohalski: MLS106416	$399K NEW	Max / Min	8.37% / 7.22%	On market 27AUG	**1614 Dennis:** MLS107921	$559K	Max / Min	9.25% / 8.12%	On market 20FEB **Reduced** 16DEC
1125 Washington: MLS107914	$688K	Max / Min	8.67% / 7.51%	On market 18FEB **Reduced** 24JUL	**2618 Fogarty:** MLS109707	$695K	Max / Min	7.84% / 7.07%	On market 24NOV
726-28 United St: MLS109831	$535K	Max / Min	9.54% / 8.15%	On market 9DEC **Reduced** 7JUL	**811 Thomas St:** MLS109377	$425K	Max / Min	10.62% / 9.24%	On market 1OCT **Reduced** 5FEB
> 4 UNITS (top 2):		**ROI:**					**ROI:**		
1301 Truman Ave: MLS111056	$1.5M	Max / Min	13.38% / 11.45%	On market 18JUN	**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; Min rent = $1,300/mo

Unit #2 is 1-bed, 1-bath — Max rent = $1,050/mo; Min rent = $ 995/mo

Max income Unit #1: (12)x($1,350)x(0.95) = $15,390
Min income Unit #1: (12)x($1,050)x(0.95) = $11,970
Max income Unit #2: (12)x($1,300)x(0.95) = $14,820
Min income Unit #2: (12)x($ 995)x(0.95) = $11,343

Vacancy rate: 5%
Max sell price = 96% of ask price
Min sell price = 92% of ask price
Taxes + insur = 2.5% of sell price

Max expenses = (0.025)x(0.96)x(sell price) = $18,000
Min expenses = (0.025)x(0.92)x(sell price) = $17,250

$$\text{Max ROI} = \frac{\text{(MaxIncome - MinExpenses)}}{\text{Min Sell Price}} = \frac{27{,}360 - 17{,}250}{690{,}000} = 1.47\%$$

$$\text{Min ROI} = \frac{\text{(MinIncome - MaxExpenses)}}{\text{Max Sell Price}} = \frac{26{,}163 - 18{,}000}{720{,}000} = 1.13\%$$

Reported like this:

123 Blue Street: MLS555666	$750K NEW	Max / 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:
- Financing (assumed cash purchase)
- 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.

<u>Lower Keys Real Estate Data</u>: Just the facts, M'aam ©

Sugarloaf Shores is a popular residential area at mile-marker #17, locally known as the "flashing yellow light" on US#1. The two primary residential arteries are Sugarloaf Boulevard and South Point Drive. Partially hidden from US#1, there are 683 tax-paying property owners in this established waterfront development.

The following is the 11-year MLS history of residential sales in Sugarloaf Shores:

	# Sales:	Avg Sale $:	Avg Living Sqft:	Avg $/Sqft:
1998	23	$345,000	1884	187
1999	20	$371,000	1863	199
2000	28	$378,000	1867	203
2001	29	$470,000	2113	222
2002	30	$420,000	1674	251
2003	31	$633,000	2120	298
2004	30	$743,000	1618	459
2005	20	$1,013,600	1710	623
2006	20	$886,175	1779	504
2007	20	$879,074	1632	538
2008	14	$837,893	1865	470

Looking at the data in more magnified detail:

(1) In spite of the current real estate slump, properties in Sugarloaf Shores have fared very well in the long run. From 1998 to 2008, values jumped 240% … that's an impressive average of 8.5% per year.

(2) The $1,000,000 "barrier" for Sugarloaf Shores was broken in 2005. Since then prices have retreated. How long will it take to breach $1,000,000 again? Not long, I think?

(3) So far in 2009, eleven homes have sold for an average price of $575K+ and the $-per-Sqft metric has fallen to 354. There are 27 homes currently on-the-market (not under contract) and the average asking price is $898K+. The average $-per-Sqft is 469.

Compared to Key West proper, the Lower Keys generally offer more living squarefootage and lot size for your dollar, and (ironically) waterfront locations. There aren't very many waterfront properties in pricey Key West.

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

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REO Assertions and Assumptions

July 30, 2009 by Mildred Wilkins, former Fannie Mae Broker - Specialist

Biggest Assumption: *They just need to dump it . They'll take any kind of crazy offer*

Assertion: *NOT YET*

I can provide insight into the real world of buying and selling bank-owned properties. Forget most of what you think you know about such transactions—you're probably way off target. If you're assuming they just need to dump it … they do, but not at any price. A common misconception is that the holder of REO property will accept any offer without care for the value of the collateral. Despite the substantial increase in REO inventory, the basic business principles which govern liquidation are not changing.

It is a harsh new reality that today's market is being flooded with REO's. Thousands more will be added in the months ahead. Both federal agencies (HUD, VA, Fannie and Freddie) and private mortgage insurance carriers will need to adjust their guidelines during the upcoming months. Unfortunately, in the meantime, they and loan servicers must operate within the guidelines of existing regulations and contractual stipulations. They will eventually be relaxed— and the consequence will be a 'let's make a deal free-for-all.' Good for agents and buyers—not so good for price stabilization. But it has to happen and the sooner we get to it the better.

You're right on target with "They don't know its market value." The local market is a piece of data which is hard for the servicer to grasp when handling properties around the US from a centralized location. Their usual resources are less than reliable. They rely on:

- Their appraisal, likely to be inflated
- A $50-$75 BPO— it does not determine value. They are fulfilling a servicing requirement to have a BPO performed.
- Their gut instinct
- The loan balance — not connected to the ACTUAL value of the property

The market will dictate and that process takes time. The servicer needs a current, as-is appraisal. Recently sold comps don't lie. It's worth what someone will pay for it—today—not last year. Within the next 3-4 months the inventory will be so high that valuations will plummet and get in line with what a ready and able buyer is willing to pay a reluctant REO owner.

In time, the newly created rental housing market (previous homeowners, now renting again) will absorb much of the current excess housing but we will have changed the balance between single-family, owner-occupant to rental dwellings. Investors are likely purchasers of the glut of foreclosed homes hitting the market in the next 2 years. Financial institutions will have no choice except to reconsider their options to do something to stop the bleeding. The law of supply and demand will not be ignored.

Know the difference between a marketable-title and a clear-title? REOs can have gaps in title coverage which leave room for undisclosed liens to surface after the closing and bite the new owner in the behind. Since you will have signed numerous documents stating that you understood what you signed, you will not be surprised that: YOU HAVE NO RECOURSE AFTER CLOSING.

<u>Lower Keys Real Estate Data</u>: Just the facts, Ma'am ©

Last month I looked 9 sold KW SFRs and compared those sales to their "Zestimate". The Zestimate was worth the price (zero), and my sign-convention was a goofy. This month: **more fun with Zillow**!

Quick recap: Zillow.com is a popular website that advertises "accurate" estimates of a home's market value by manipulating public info to make Zestimates, primarily County tax info. In my opinion, Zillow-like websites are great data crunchers, but poor predictors of market value. But many buyers and sellers put faith in the Zestimate of a property's value. Zillow operates under a great handicap … it is unaware of many of the variables that make up a property's *value*. It depends on tax records, which are inaccurate.

This month I looked at all Lower Keys (Stock Island to Little Torch) single-family sales so far in the year 2009. To qualify, the property had to be waterfront, at least 2-beds, 2-baths and 2000 living sqft. I compared their actual selling prices to the "Zestimates" of the property's value. Here's what I found:

Address:	Sale Price:	Zestimate:	(Z-actual) Difference:	% off:
27311 West Indies Drive, Ramrod	$450,000	none		
1525 Niles Road, Summerland	$650,000	none		
1007 Buttonwood East, Sugarloaf	$695,000	$875,000	$180,000	25.9%
574 W Shore Drive, Summerland	$700,000	none		
143 Sawyer Drive, Cudjoe	$750,000	none		
28 Bamboo Terrace, Key Haven	$752,700	$993,000	$240,300	31.9%
429 Sawyer Drive, Cudjoe	$780,000	$918,500	$138,500	17.8%
1151 Sugarloaf Blvd, Sugarloaf	$825,000	$968,500	$143,500	17.4%
1057 Buttonwood East, Sugarloaf	$825,000	none		
15 W Cypress Terrace, Key Haven	$825,000	$1,137,500	$312,500	37.9%
28536 Anne Bonny, Little Torch	$850,000	$1,111,000	$261,000	30.7%
44 Floral Avenue, Key Haven	$890,000	$1,923,000	$1,033,000	116.1%
660 Cruickshank Rd, Summerland	$1,200,000	none		
327 Sawyer Drive, Cudjoe	$1,300,000	$1,077,000	-$223,000	-17.2%
570 Seminole Drive, Cudjoe	$1,300,000	$1,302,500	$2,500	0.2%
1040 Gulf Drive, Summerland	$1,320,000	$1,381,500	$61,500	4.7%
52 Cannon Royal Drive, Shark Key	$1,725,000	$2,296,000	$571,000	33.1%
927 Ocean Drive, Summerland	$1,980,000	none		
16650 Old State Road, Sugarloaf	$2,600,000	none		
15680 Old State Road, Sugarloaf	<u>$3,250,000</u>	$1,893,000	-$1,357,000	-41.8%
20	$1,183,385	$1,323,042	$1,363,800	**21.4%**

I don't think Zillow does a very good job in the Lower FL Keys. For 8 of the properties, Zillow made <u>no</u> Zestimate, due to lack of County data. In the other 12, results were not impressive. I STILL wouldn't bet-the-farm on the Zillow. Zillow won't be putting Realtors or appraisers out of work!

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***Southernmost Stars*:** **1 September 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:
1016 Howe St	**$110,000**	**0**	**1**	**144**	**764**	**Short-sale (+ transient lic)**
3312 Northside #301	$112,900	1	1	408	277	Foreclosure
3312 Northside #215	**$120,000**	**2**	**1**	**736**	**163**	**Short-sale**
3211 Pearl St	**$125,000**	2	2	1032	160	Short-sale
3312 Northside #409	**$139,000**	2	1	631	244	Short-sale
3930 S. Roosevelt #W303	$148,000	1	1	461	321	Short-sale
3312 Northside #612	$150,000	1	1	656	229	Conventional sale
3312 Northside #702	$164,000	2	2	892	184	Conventional sale
1012 Truman Ave #103	**$169,000**	2	1	750	232	Foreclosure
3930 S. Roosevelt #E113	**$169,900**	**2**	**2**	**806**	**211**	**Foreclosure**

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

3210 Harriet Lane … under contract
3930 S. Roosevelt … under contract
921 Thomas St … under contract

Ten least expensive Single-Family Residences in Key West:

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
2515 Seidenberg St	**$139,900**	**1**	**1**	**908**	**154**	**Foreclosure**
2420 Patterson Ave	$210,000	2	2	1509	139	Conventnl sale, tear-down
2310 Seidenberg St	$250,000	2	1	640	391	Short-sale
728 Windsor	$270,000	2	1	654	413	Conventional sale
1217-19 3rd St	**$275,500**	**4**	**2**	**1376**	**200**	**Foreclosure (duplex)**
323 Angela St	**$285,000**	**3**	**1**	**840**	**339**	**Conventional sale**
1715 Catherine St	**$285,000**	**3**	**1**	**993**	**287**	**Short-sale**
701 Windsor	$285,000	2	1	802	355	Short-sale
3314 Northside #24a	$285,500	3	3	1404	203	Short-sale (duplex)
703 Windsor	$299,000	1	1	808	370	Short-sale

The following properties are *missing* from last month:

319 Catherine St … under contract
1916 Staples Ave … under contract
1007 Watson-rear … under contract
1725 Johnson St … under contract

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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