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Hello, everyone …

1 September 2010

This just in … Mortgage buyer Freddie Mac says the average rate for a 30-year fixed loan is 4.36%. That's the lowest since Freddie Mac began tracking rates in 1971. That's almost 40 years ago. The average rate on 15-year fixed loan dropped to 3.86%. That is really, really low. And it's a buyer's market with severely depressed prices. Time to take advantage??

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The first article might contain a surprise for many home owners with homesteaded properties. The fact that the market has fallen in the last few years will mean that tax assessments will be lower, and property taxes will be lower, right? Wrong.

The second and the last articles approach the question of "why own" from different directions. The defender of home-ownership states his case *without* mentioning the tax advantages of home ownership, and the leverage inherent in mortgage financing (at really, really low rates, see above).

The article from Tim Geithner, Treasury Secretary, is only a month old. Is it just me, or has a LOT happened since that time?

The multi-unit inventory was slow-moving in August (like everything else) and it grew by a tad, adding one. It's not unusual for the real estate market to be sluggish in AUG-SEP, which ironically is the part of the year that I like the best! Two newbies came on-the-market, and 1 veteran departed, net (+1). This is the property that departed:

| Address: | Type: | Listing Price: | Results: | Date: |
|---|---|---|---|---|
| **504-06 Catherine St** | **3-4 unit** | **$ 495,000** | **SOLD for $425,000 on 24 August 2010** | |

Lower-priced properties, especially distressed ones, continue to close … necessary for our market to eventually recover. No one seriously doubts that it will. It's still Key West. And it's just a matter of time.


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

BY ANNE-MARGARET SWARY
**15 August 2010**
**amswary@keysnews.com**

# Residents should brace for tax bills

## Despite market crash, homesteaded property values increase

When preliminary tax bills arrive later this month, many of Monroe County's 17,000 homesteaded property owners likely are in for a surprising increase. At a time when market values are plummeting, it stands to reason that property assessments and resulting tax bills should be decreasing. **But just the opposite is true**.

A state law unexpectedly has shifted the tax burden to homesteaded property owners instead of the owners of second homes, investment properties and commercial buildings, who traditionally have carried the load. The Save Our Homes law in 1992 was meant to protect homesteaders from skyrocketing market values, but it contains a provision that in this economy is coming back to bite them.

**No tax relief:** Under the law, the assessed value of qualifying homesteaded properties, which typically is less than the artificially set market value, will increase by 3% or the CPI, whichever is less. For those who bought their homes before the real estate boom, Save Our Homes was perceived as a beneficial cap that kept their assessments well below market value while real estate values soared. Now they are realizing the unintended consequences of the "recapture" provision in the law which **allows property appraisers to continue increasing assessments**, even as market values are declining, to recoup some of the lost taxable value that homeowners enjoyed during boom years.

**Compound effect:** Taxing agencies have proposed increasing their tax rates (millage) to generate the same amount of tax revenue for their budgets. This would be *on top of* the assessment increases.

For homeowners without a homestead exemption, tax bills could remain about the same, because their assessed value is likely to decrease as the tax rate increases, resulting in almost zero net change. Some commercial property owners say they, too, think their assessed values are declining as well, but that's not always the case.

**Assessing value:** Monroe County Property Appraiser emphasized that his office looks at every property every year to make sure values are where they should be. In the case of commercial properties, the office reviews real estate sales for the past year, and considers factors such as the property's size, quality, expenses, lease rates and whether any improvements were made.

**Unappealing odds:** Any property owner is entitled to appeal if they think their valuation is inaccurate. The Property Appraiser's Office will review the claim and may decide to side with the property owner and issue a new value. Not many appeals succeed, however.

The Monroe County Property Appraiser’s office said, "In the last five years, somewhere in the range of approximately 500 cases have been heard. **Two** cases have had values reversed."

The New York Times

# Housing Fades as a Means to Build Wealth

By DAVID STREITFELD

August 22, 2010

Housing will eventually recover from its great swoon. But many real estate experts now believe that home ownership will never again be what it was … when houses not only provided shelter but also a fat nest egg.

Wealth generated by housing, particularly on the coasts, powered the economy … paying for the education of children, keeping the cruise ships full and the restaurants humming. That era may be gone for good. Economists say future housing values will only keep up with inflation, not multiply the investment.

**Buying a home is a willful act of optimism**. That explains why the Lyons are waiting to close on a $417,500 house in Deerfield, Ill. "We're trying not to think too far ahead," said Ms. Lyons, 35, an IT manager. The couple's first venture into real estate came in 2003 when they bought a condo in a 17-unit building under construction in Chicago. By the time they moved in two years later, it was already worth $50,000 more than they had paid. The real estate crash interrupted that pleasant dream. The couple cannot sell their condo. Unwillingly, they are becoming landlords. "I don't think we're ever going to see the prosperity our parents did, but I don't think it's all doom and gloom either," said Mr. Lyons, an IBM manager. "At some point, you just have to say what the heck and go for it."

Not everyone views the notion of real appreciation in real estate as a lost cause. In an annual survey conducted by economists Robert J. Shiller and Karl E. Case, hundreds of new owners in four communities — San Francisco, Boston, Los Angeles, and Milwaukee — once again said they believed prices would rise about 10% a year for the next decade. The latest results reflect what new buyers always seem to feel. At the boom's peak in 2005, they said prices would go up. When the market was sliding in 2008, they still said prices would go up. "People think real estate appreciation is a law of nature," said Mr. Shiller, who teaches at Yale. In the late 1990s, happy homeowners were taking about $100 billion a year out of their houses, which paid for a lot of good times.

Bob Walters, chief economist at Quicken, argues that housing remains unique. "In three or four years, people will resume a normal course, and home values will continue to increase." All homes are different, and some neighborhoods and regions will rebound more quickly.

For many there is occasional regret that a life-changing sum of money was so briefly within their grasp. A Phoenix lawyer paid $200,000 for his home in 2000. Five years later, his neighbors listed a similar home for $500,000. "I thought, when my daughter gets out of school, I can sell the house and buy a boat and sail around the world." His home is now worth about what he paid for it. As for that cruise, "it may be a while," he said. Showing the hopefulness that is apparently innate to homeowners, he added: "But I won't rule it out forever."

**MULTI-UNIT PROPERTIES:**

**1 August 2010**

address = "Short Sale" or foreclosure

**DUPLEX (top 10):**

| | | | ROI | | | | | | ROI | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2627 Staples Ave:** | $349K | Max | 8.86% | On market | 17MAY | **3314 Northside #17** | $184.9K | Max | 16.26% | On market | 20SEP |
| MLS113053 | | Min | 7.71% | | | MLS111626 | | Min | 14.20% | **Contract** | 12MAR |
| **2404-07 Flagler:** | $265K | Max | 9.66% | On market | 5JAN | **1317 Sunset Dr:** | $385K | Max | 9.73% | On market | 1OCT |
| MLS112267 | | Min | 8.25% | **Reduced** | 7APR | MLS109389 | | Min | 8.60% | **Reduced** | 6MAY |
| **823 Terry Ln:** | $250K | Max | 11.87% | On market | 1MAR | **800 Elizabeth St:** | $400K | Max | 9.10% | On market | 4MAY |
| MLS110398 | | Min | 10.22% | | | MLS110803 | | Min | 7.83% | **Contract** | 13FEB |
| **1319 2nd Ave:** | $299K | Max | 10.97% | On market | 8MAR | **2007 Flagler:** | $360K | Max | 11.27% | On market | 8JUN |
| MLS110430 | | Min | 9.92% | | | MLS110984 | | Min | 10.03% | **Reduced** | 29JUL |
| **2500 Patterson:** | $300K | Max | 10.27% | On market | 27JUL | **1203-05 1st St:** | $269K | Max | 11.32% | On market | |
| MLS109032 | | Min | 9.02% | **Reduced** | 27JUL | MLS113265 | | Min | 9.86% | | |

**3-4 UNIT (top 6):**

| | | | ROI | | | | | | ROI | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1403 4th St:** | $419K | Max | 10.22% | On market | 22FEB | **1614 Dennis:** | $524K | Max | 10.03% | On market | 20FEB |
| MLS112562 | | Min | 9.40% | | | MLS107921 | | Min | 8.83% | **Reduced** | 5MAR |
| **904 Truman Ave:** | $325K | Max | 11.23% | On market | 28SEP | **1130 Elgin Ln:** | $399K | Max | 11.16% | On market | 5JAN |
| MLS111640 | | Min | 9.56% | | | MLS111405 | | Min | 10.00% | **Reduced** | 5APR |
| **2618 Fogarty:** | $670K | Max | 8.23% | On market | 24NOV | **327 Margaret St:** | $499K | Max | 11.16% | On market | 8JAN |
| MLS109707 | | Min | 7.43% | **Reduced** | 24DEC | MLS110031 | | Min | 9.40% | **Reduced** | 19MAY |

**> 4 UNITS (top 2):**

| | | | ROI | | | | | | ROI | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **1301 Truman Ave:** | $1.5M | Max | 13.38% | On market | 18JUN | **1214 Catherine:** | $549K | Max | 16.76% | On market | 9NOV |
| MLS111056 | | Min | 11.45% | | | MLS111893 | | Min | 15.31% | **Reduced** | 10MAY |

**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:** | $750K | Max | 1.47% | On market | 1APR |
| MLS555666 | NEW | Min | 1.13% | | |

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.*

The New York Times

# Welcome to the Recovery

By TIMOTHY F. GEITHNER, Secretary of the Treasury 2 August 2010

THE devastation wrought by The Great Recession is still all too real for millions of Americans who lost their jobs, businesses and homes. Every new economic report brings another wave of anxiety, but a review of recent data shows that we are on a path back to growth. The recession was extraordinarily severe, but the actions taken at its height to stimulate the economy helped arrest the freefall, putting the economy on the road to recovery.

From the start, we knew that recovery from a crisis of this magnitude would not come quickly and would not follow a straight line. While the economy is short of reaching its full potential, recent economic data shows strength.

Recoveries that follow financial crises are typically a hard climb. That is reality. But there is good news to report:

► Exports are booming … US companies are very competitive and lead the world in many high-tech industries.

► Private job growth has returned — at an earlier stage of this recovery than in the last two recoveries.

► Businesses have repaired their balance sheets and are now in a strong financial position to reinvest and grow.

► American families are saving more, paying down their debt and borrowing more responsibly.

► The auto industry is coming back … the Big Three are leaner, generating profits despite lower annual sales.

► Forced to raise capital and open their books, banks are stronger and better positioned to finance growth.

► The government's investment in banks has already earned more than $20 billion for taxpayers, and TARP will be out of business earlier than expected — costing nearly a quarter of a trillion dollars less than projected last year.

These signs are cold comfort to those Americans still looking for work and to industries, like construction, hit hardest by the crisis. Nonetheless, they do represent a turnaround from the frightening future we faced just 18 months ago.

The new data show that this recession was even deeper than previously estimated. The plunge in economic activity started in 2007 and was accelerating at the end of 2008. The economic rescue package was essential to turning the economy around. Government action delivered a powerful bang for the buck, and the bank rescue on its own will turn a profit for taxpayers. However, we have a long way to go to address the fiscal trauma and damage across the country.

These are considerable challenges, but we are in a much stronger position to face them today. And as the president said last week, no one should bet against the American worker, American business and American ingenuity. We suffered a terrible blow, but we are coming back.

The New York Times

# Say Goodbye to Fannie and Freddie

**By WILLIAM POOLE** **August 11, 2010**

Fannie Mae and Freddie Mac were poorly structured 40 years ago when they were set up as government-sponsored enterprises. Both enjoyed federal backing in the event they got into financial trouble but only weak regulation to prevent such trouble. Essentially, the fed insured their liabilities but never charged a premium.

Fannie and Freddie had a license to print money. What a deal … borrow at the low rate, invest at a higher one, hold little capital and let the federal government bear the risk! Investors got high returns, management got high salaries and politicians got campaign contributions. In September 2008, the federal government brought them under federal conservatorship. Fannie and Freddie have cost taxpayers about $150 billion so far.

What to do with these two companies? Clearly, it would be an inexcusable mistake to reconstitute them as private companies in anything close to their prior form. Some people have suggested recasting them as a single new "Fan-Fred agency" to continue to securitize and guarantee home mortgages. It's true they played an important role in developing the market for mortgage-backed securities. But that work is done, and they should not be preserved in any form. They should be thanked for their successes and gracefully retired.

Can the home mortgage market stand on its own, without support from federally sponsored mortgage companies? Experience tells us that the answer is an unambiguous **yes**. When Fannie and Freddie curtailed their operations after the disclosure of accounting irregularities in 2003, there was no effect on mortgage rates. We have seen how the jumbo mortgage market, for loans too large to be eligible for Fannie and Freddie purchases, has long operated efficiently, with rates only slightly above the rates on smaller mortgages. And many other asset markets, like securitized auto loans, have functioned well without federal intermediaries.

In principle, it ought to be possible for government financial agencies to be self-supporting. But decades of observation have convinced me that there is no practical way to prevent the government from inserting hidden subsidies and special interest mandates into the agencies' operations. If the home finance market were fully private, then it would bear the losses from its own mistakes in pricing and insurance. The proper government role is regulatory oversight and not direct operation of financial firms.

Fannie and Freddie are too large to be shuttered immediately. They should stop buying new mortgages and their portfolios would decline. Within 10 years, the portfolios would shrink to insignificance. Their securitization business, purchasing mortgages and issuing securities against them, should likewise be wound down. Set a gradually rising schedule of fees, motivating private companies to enter the securitization business. In 10 or 15 years, Fannie and Freddie would be gone, closing a chapter in American financial history that enjoyed considerable success but ended very badly and at great taxpayer cost.

*William Poole, a senior fellow with the Cato Institute and a distinguished scholar in residence at the University of Delaware, was president of the Federal Reserve Bank of St. Louis from 1998 to 2008.*

The New York Times

# In Defense of Home Ownership

By RON LIEBER August 27, 2010

It's hard to read the headlines and not conclude that becoming a homeowner is a terrible idea. Existing-home sales in July fell an astounding 25.5% from the previous year. And with single-family home sales at their lowest level since 1995 and unemployment still stubbornly high, home prices may fall further. Millions of homeowners are underwater, and government programs to help them have fallen well short of their goals. So it's hardly surprising that the conventional wisdom says that home values will never again rise faster than inflation.

But, it is dangerous to assume any certainty in the housing market. And by wallowing too much in the misery of others, house-hunters may think every home purchase will end in financial regret. But a mortgage is still a form of long-term forced savings, after all. This is more important than ever, since fewer people have access to generous pensions than they did during the last big housing slump. A 401(k) is no bargain either, with its erratic returns and employer matches that come and go as the economic winds shift. Social Security will be less generous, and Medicare will cost more.

But owning a home isn't just about what shows up on a net worth statement. Many of these more qualitative factors, from living free of a landlord's whim to having access to a good school district or retirement community, haven't changed and probably never will. It is possible for a homeowner to make very little money but still buy plenty of happiness. So before you swear off real estate, reconsider a few of the basics.

**WORST CASES**: Some buyers may rue the day in 2010 they bought their homes. They may end up like those who bought in 2006 and have lost their jobs. But many current buyers are locking in mortgage rates under 4.5%. A year ago, they might have paid 5.25% on a $300,000 loan (monthly payment $1,657). Today, you could lock in a lower monthly payment of $1,520 on the same loan … if you need that much, given that prices have fallen in many areas.

**FORCED SAVINGS**: You may make nothing at all beyond inflation over time on a home, but the part of your mortgage payment that goes toward principal is a form of forced savings. You *might* do better by renting and investing the difference between the rent and the total costs of ownership, but:

(1) You need to actually save the money. Americans have trouble with that sort of plan.

(2) You need an after-tax return that's better than whatever a home would deliver.

(3) You must not raid the savings along the way.

**DIFFICULT LANDLORDS**: A bank can kick you out only if you don't pay your mortgage. But landlords can drive you away in any number of ways.

**THE NICE PART OF TOWN**: If you want to live in the Fox Hill Farm development in Glen Mills, Pa., you'll have to buy because renters are not allowed. The same may be true of other communities for older people. And there may not be many family-size rentals — or at least any financial edge to be gained by renting — in suburbs or urban neighborhoods with excellent public schools.

**Southernmost Stars: 1 September 2010** 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: |
|---|---|---|---|---|---|---|
| 1207-09 William #1 | $165,000 | 2 | 1 | 560 | 277 | Short-sale |
| **3312 Northside #704** | **$175,000** | **2** | **1** | **856** | **204** | **Conventional** |
| 1016 Howe St #3 | **$172,000** | 1 | 1 | 254 | 650 | Conventional |
| 3675 Seaside #139 | $179,900 | 2 | 2 | 772 | 233 | Foreclosure |
| **1012 Truman Ave** | **$184,900** | **2** | **2** | **1017** | **182** | **Foreclosure** |
| **3312 Northside #613** | **$185,000** | **2** | **1** | **736** | **251** | **Conventional** |
| **3930 S. Roosevelt #212N** | **$199,000** | **2** | **2** | **750** | **265** | **Short-sale** |
| 3930 S. Roosevelt #414W | $205,000 | 2 | 2 | 805 | 255 | Short-sale |
| **919 Packer St** | **$210,000** | **2** | **1** | **1243** | **169** | **Short-sale** |
| **3930 S. Roosevelt #210W** | **$214,900** | **2** | **2** | **804** | **267** | **Conventional** |

*Missing* from last month:
1119 Georgia St … SOLD 8/27/10
3075 Flagler #25 … under contract
3205 Harriet Ave … under contract
419 United #4 … under contract
24 Merganser Ln … under contract
1445 S Roosevelt #410 … under contract

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

| Address: | Ask Price: | #beds: | #baths: | Living Sqft: | $/Sqft: | Other: |
|---|---|---|---|---|---|---|
| **323 Angela St** | **$135,000** | **3** | **1** | **840** | **161** | **part-interest conventional** |
| 1908 Staples Ave | **$219,800** | 2 | 1 | 1080 | 225 | Foreclosure |
| 2412 Seidenberg Ave | **$225,000** | 2 | 1 | 730 | 341 | Short-sale |
| **3005 Flagler Ave** | **$234,900** | **3** | **1** | **1403** | **167** | **Foreclosure** |
| 901 Packer St | $249,000 | 2 | 1 | 852 | 292 | Conventional |
| 713 Galveston Ln | **$269,000** | 2 | 1 | 672 | 424 | Conventl, needs renov |
| 2307 Patterson Ave | $270,000 | 2 | 1 | 864 | 313 | Short-sale |
| **901 Catherine St** | **$275,000** | **3** | **1** | **690** | **399** | **Conventional** |
| 3327 Donald Ave | $279,000 | 3 | 2 | 1248 | 224 | Conventional |
| **315 Virginia St** | **$289,000** | **2** | **1** | **846** | **342** | **Short-sale** |

*Missing* from last month:
3231 Harriet Ave … under contract
2400 Fogarty Ave … under contract
221 Petronia St … listing expired
2625 Flagler Ave … 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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