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Hello, everyone …   1 September 2011

We've been downgraded. I have to take that personally, like I can't be trusted anymore. I have a big problem with that. UNLESS what S&P was trying to say was … Congress, knock off the bull-s**t and get to work on the nation's economy. *That* I can get behind. Seems to me we need commerce … people buying and selling goods and services, credit, income, employment. That would be a good start on the deficit issue, too, which in my mind is a convenient distraction for complainers. When the economy gets better, the deficit gets better. The order is important, economy first. And real estate is a huge economic engine. Like the 100+ year old Realtor's Code of Ethics begins: "Under <u>all</u> is the land …"

<u>Table of Contents for this issue</u>:

The Warren Buffett letter (first article) received a lot of attention, as did his $5B investment in Bank of America. I like Warren Buffett, but I suspect that if he was working BofA short-sales (like I am) he might have put his money somewhere else. I hope to *never* do business with BofA again … my own small protest. Fortunately for Warren, BofA is Too-Big-To-Miss-Me.

A couple of this month's articles throw stones at Washington DC. Lots of articles (and books and documentaries) recently have drawn similar conclusions … it appears our country is <u>not</u> run by the President and Congress, it is run by lobbyists instead. And it's not a recent phenomenon. Apparently it's been happening for decades.

Locally, well, things are moving. The slowdown has become the new-normal. There are great real estate bargains out there. Next month I'm going to give newsletter coverage to a special (non-real estate) event that's coming up this Labor Day weekend. Sorry, but I can't spoil the surprise now!

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The New York Times

Stop Coddling the Super-Rich

Warren Buffett 8/14/11

OUR leaders have asked for "shared sacrifice." But, they spared me. I checked with my mega-rich friends. They, too, were spared. While others fight for us in Afghanistan and struggle to make ends meet, we mega-rich continue to get our extraordinary tax breaks. These blessings are showered upon us by legislators who feel compelled to protect us. It's nice to have friends in high places.

Last year my federal tax bill was only 17.4% of my taxable income. If you make money with money, as some of my super-rich friends do, your percentage will be low. But if you earn money from a job, your percentage will be high. The mega-rich pay income taxes at a rate of 15% on most of their earnings but pay practically nothing in payroll taxes. It's a different story for the middle class.

Years ago, tax rates for the rich were far higher. According to a theory I sometimes hear, I should have thrown a fit and refused to invest because of the elevated tax rates on capital gains and dividends. I have yet to see anyone shy away from a sensible investment because of the tax rate on the potential gain. People invest to make money, and potential taxes have never scared them off.

I know well many of the mega-rich and, by and large, they are very decent people. They love America and appreciate the opportunity this country has given them. Most of the mega-rich wouldn't mind being told to pay more in taxes as well, particularly when so many of their fellow citizens are truly suffering.

12 members of Congress will soon address the crucial issue of our country's finances. They've must devise a plan that reduces the 10-year deficit by at least $1.5 trillion. It's vital, however, that they achieve far more than that. Americans are rapidly losing faith in the ability of Congress to deal with our country's fiscal problems. Only action that is immediate, real and very substantial will prevent that doubt from morphing into hopelessness. That feeling can create its own reality.

I would leave rates for 99.7% of taxpayers unchanged and continue the current 2% reduction in the employee contribution to the payroll tax. For the nearly 250,000 making more than $1 million, I would raise rates immediately on taxable income in excess of $1 million, including dividends and capital gains. And for the 8,274 who make over $10 million, I would suggest an additional increase in rate.

My friends and I have been coddled long enough by a billionaire-friendly Congress. It's time for our government to get serious about shared sacrifice.

MULTI-UNITS: 1 SEPTEMBER 2011

2420 Patterson Ave **Duplex**

2-bedrooms, 1-bath, 1509 living sqft, lot = 5,000 sqft

Major renovation … fire damaged

SOLD Asking price = $170,000

Sales price = $140,000 + $150,000 ren $

Rental income = ($2,000/mo) x (5% vacancy rate)

= $3,800/mo … or $45,600/yr

Taxes + Insurance = (2.5%) x ($290,000) = $7,250/yr

ROI = (income – expenses) ÷ (selling price)

= ($45,600 - $7,250) ÷ $290,000

= $38,350 ÷ $290,000

= **13.2 %**

925 Eaton St **3-4 Unit**

4-bedrooms, 4-baths, 1924 living sqft, lot = 2,320 sqft

Conventional sale

SOLD Asking Price = $405,000

Sales Price = $385,000

Rental income = ($4,123/mo) x (5% vacancy rate)

= $3,917/mo … or $47,000/yr

Taxes + Insurance = (2.5%) x ($385,000) = $9,625/yr

ROI = (income – expenses) ÷ (selling price)

= ($47,000 - $9,625) ÷ $385,000

= $37,375 ÷ $385,000

= **9.7 %**

3314 Northside #12 **Duplex**

3-bedrooms, 3-baths, 1404 living sqft, lot = complex

Short-sale

SOLD Asking price = $212,900

Sales price = $190,000

Rental income = ($2,700/mo) x (5% vacancy rate)

= $2,565/mo … or $30,780/yr

Taxes + Insurance = (2.5%) x ($190,000) = $4,750/yr

ROI = (income – expenses) ÷ (selling price)

= ($30,780 - $4,750) ÷ $190,000

= $26,030 ÷ $190,000

= **13.7 %**

2500 Patterson Ave **Duplex**

8-bedrooms, 5-baths, 2742 living sqft, lot = 10,000 sqft

Short-sale

Contingent Contract

Asking price = **$225,000**

Rental income = ($5,000/mo) x (5% vacancy rate)

= $4,750/mo … or $57,000/yr

Taxes + Insurance = (2.5%) x ($225,000) = $5,625/yr

ROI = (income – expenses) ÷ (selling price)

= ($57,000 - $5,625) ÷ $225,000

= $51,375 ÷ $225,000

= **22.8 % assuming sale at asking price**

BUT this property needs a lot of work!

TIME Moneyland

Financial Insights from Your Wallet to Wall Street

15 Financial Moves to Make Right Now

The best financial advice is timeless, sound in good times and bad. This moment of economic and market turmoil has unique characteristics. Moneyland put together a handful of smart moves to make right now. For full article, see: **http://moneyland.time.com/tag/15-financial-moves-to-make-right-now/**

(1) **Refinance Your 30-Year Mortgage into a 15-Year Loan**: Rates are at a record low.
(2) **Buy Stock in Companies with More Cash than Debt**: Apple has more money than the US government.
(3) **Get Comfortable with Your Portfolio**: Adjust asset mix so you can ignore volatility in the long run.
(4) **Buy Stocks with the Highest Credit Rating**: The number of AAA-rated corporations will be limited.
(5) **Open an Online Bank Account**: Far fewer fees and better interest rates than the brick-and-mortar kind.
(6) **Apply for a New Credit Card (if FICO > 750)**: Lower "utilization ratio", improve credit score.
(7) **Buy Top Consumer Brand Stocks**: Well-known brands hold up well in a troubled economy.
(8) **Transfer Balances to Credit Card with Better Rate**: Pay it off before the teaser rates expire.
(9) **Buy Telecoms w/Exclusive Deals w/Apple:** Wireless servicers (AT&T, Verizon) provide generous yields.
(10) **Renovate Wisely:** Contractors are not busy, pick high-payback projects (kitchen, bathrooms, green).
(11) **Buy Oil Stocks:** Rising energy demand and inflation protection.
(12) **Sign Up for Alerts:** Track bank account and credit activity, budget better, catch thefts sooner.

(13) **Buy Residential Real Estate:** (Michael Sivy, 19 Aug 2011) Falling home prices plus the foreclosure backlog probably mean a flat-to-down market in the near term. But beyond the current desolation, three trends are aligning that figure to produce a major home-price boom over the next 20 years.

(a) One is economic: there could be a double-dip recession, but once the economy finally recovers, the factors that drive housing demand will follow.

(b) Second, most experts think prices are within about 5% of a bottom. Pretty soon, prices will have been knocked all the way down and as a general rule, the worse the crash, the longer the subsequent recovery can last, because there is nowhere to go but up.

(c) The third, and arguably most compelling, reason is the near inevitability of inflation. In such an environment, any kind of tangible property appreciates rapidly. The boom we're talking about will probably take more than a decade to unfold. But the next two or three years should offer exceptional opportunities for buying primary residences and vacation homes, preferably somewhere that's warm and green.

(14) **Sell (at Least Some of) Your Gold**: Lock-in some of your gains, gold is historically a bad investment.
(15) **Buy Natural Gas Pipeline Stocks:** High barriers to entry, gas demand near certain to rise.

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Hello, everyone …

This will be a recurring article each month, intended to convey meaningful information from my "Florida Keys Real Estate" radio show on KONK-AM, every THURs noon-to-1:00 PM. What happened in August?

Thursday #1: My guest was **Bob Cardenas**, President of the Key West Association of Realtors. And Broker/Owner of the new international Engels & Voelker real estate brokerage. This was a "half-time report" on Bob's year as KWAR Prez, highlighted by his exposure to the upper leadership levels of the nation's real estate hierarchy … especially State and national. Priceless education. In the Lower Keys arena, Bob had amazing statistics on the high activity level in the top-end, luxury market … just the day before this interview, Bob closed on $11+M worth of property on Sunset Key! What recession??

Thursday #2: My guest was **Ruben Concepcion**, President and owner of Keys Financial Corporation. After a week of unsatisfactory debt ceiling struggles, S&P downgrading of US debt and Wall Street panic, Ruben and I tried to make sense of it all. Conclusion: Watch and wait, it's as much political as it is economic. Chaos presents great opportunities for the skilled, low-drama, financial strategist. And, oh yeah, Warren Buffett is *buying*. What about Florida Keys real estate? When the Fed announced low interest rates until 2013, that was a very large gift. Thank you, Ben B. That removes some economic uncertainty, ummm, and that can change my thinking. Maybe businesses, too. Interesting times.

Thursday #3: My guest was **Gretchen Morgenstern**, author of *Reckless Endangerment*, on the New York Times Best Seller list. Not really. I was solo today … but for good reasons. I just flat-out didn't have time to arrange for a guest. I think I'm going to plan on going guest-less one Thursday per month hereafter, to release a little steam pressure. But I did read the book (Thanx, Rob!) and discussed it on the show. It's about Fannie Mae … more evidence that the country is run by lobbyists, not the Congress or the President. Ugh.

Thursday #4: My guest was **Jerry Sanders**, attorney at the local offices of the Vernice & Bowling Law Firm, headquartered in Miami, FL. Approximately half of his legal business is real estate-related, mostly involving distressed properties (short-sales and foreclosures). Even though he tried to be neutral, I think Attorney Sanders believes, as I do, that the banking system's behavior over the last, oh, 10 years has been deplorable. There is a LOT to know about handling of distressed properties, and homeowners who are on the verge of delinquency should get legal assistance right away. Sad to say, but putting your trust in your banker (at least the Too-Big-To-Fail variety) can back-fire.

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Current BUYERS in the Lower Florida Keys:

September 2011

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: A young couple from Muncy, Pennsylvania, is hoping to pull up roots and relocate to the Conch Republic in the near future. We had been exchanging emails for a long time before actually meeting. We've seen several properties, and they are getting comfortable with the lay-of-the-land. Affordability is a top-priority at the present time for a residence, especially since they may also re-invent themselves and purchase a leasehold business, too. Although they have not yet found the home that they love, there's no question that Key West is where they want to be!

Buyer #2: A resident Key West business man, who (I'm proud to say) is a repeat customer, is looking for a single family residence in Key West, Old Town preferred, 2-bedrooms or more. Casa Marina or Mid-town OK, too. I'll be trying very hard to find the perfect property for this gentleman because, as an art expert, the last time we did a deal, I also received a discount on a very nice Wyland painting! Maybe I shouldn't be admitting that in public (?). Come to think of it, the painting was simply "on sale" for the general public, but I got there first. What, did you think Martha Stewart was the only one to benefit from inside information?

Buyer #3: A couple from Ontario, Canada (again repeat customers) bought a single-family home in Old Town in 2010 to use as a vacation home for several years before relocating to Key West. The husband owns a family drilling and excavation business and the wife is an Urban Planner in high demand. They are considering a commercial property (office storefront) where they may continue their careers off-site and possibly attempt a new business venture, also. Very strong financially. I have a feeling they will become well-known and respected KW entrepreneurs.

Buyer #4: A couple from Hondo, Texas, are looking for a condo to use as a vacation home for a year or two before they relocate to Key West permanently to Key West. He plans to retire as a criminal defense attorney and she plans to continue her career in nursing. They have submitted a purchase offer on an 1800 Atlantic condo (2nd floor, interior view) in the $300,000 range, a short sale. It will need some updating, but they have the time before they become Southernmost residents and frequent travelers to parts unknown.

Buyer #5: Single female, Virginia real estate brokerage owner nearing retirement, looking for full-time residence in Old Town to enjoy beautiful weather, outdoors walking and exercise, cultural attractions, making new friends, etc. Already owns a small Old Town vacation property which was a "pilot study" to see what it is like to live in Key West. Suspicions confirmed, now she is "all-in". Very strong financially, hoping to keep it under seven figures.

The New York Times
The Opinion Pages By PAUL KRUGMAN August 7, 2011

Credibility, Chutzpah and Debt

To understand the furor over the decision by the rating agency S & P's downgrade of US government debt, you have to hold in your mind two seemingly (but not actually) contradictory ideas.

(1) America is indeed no longer the stable, reliable country it once was.
(2) S & P is the last place anyone should turn for judgments about US's prospects.

S & P lacks credibility, but it has chutzpah. The US's large budget deficit is primarily the result of the major role S & P played in causing the financial crisis … S & P gave AAA ratings to mortgage-backed assets that have since turned into toxic waste. S & P gave Lehman Brothers an A rating right up to the month of its collapse (and ensuing global panic). These people are now pronouncing on the creditworthiness of the USA?

US Treasury spotted a $2 trillion error in S & P's calculations. S & P conceded it was wrong, and downgraded the US anyway, removing some of the economic analysis. S & P's judgment hardly inspires confidence.

And yet America does have big problems.

But the US government is having no trouble borrowing to cover its current deficit. If you actually do the math, you discover that even very large deficits over the next few years will have remarkably little impact on US fiscal sustainability. No, what makes America look unreliable isn't budget math, it's **politics**. Are both sides at fault, as usual? No, our problems are almost entirely one-sided — specifically, they're caused by the rise of an extremist right that is prepared to create repeated crises rather than give an inch on its demands.

The truth is that as far as the straight economics goes, America's long-run fiscal problems shouldn't be all that hard to fix. It's true that an aging population and rising health care costs will, under current policies, push spending up faster than tax receipts. But the United States has far higher health costs than any other advanced country, and very low taxes by international standards. If we could move even part way toward international norms on both these fronts, our budget problems would be solved.

So why can't we do that? Because we have a powerful political movement in this country that screamed "death panels" in the face of modest efforts to use Medicare funds more effectively, and preferred to risk financial catastrophe rather than agree to even a penny in additional revenues.

The real question facing America, even in purely fiscal terms, isn't whether we'll trim a trillion here or a trillion there from deficits. The real question is whether the extremists now blocking any kind of responsible policy can be defeated and marginalized.

FORTUNE

By Allan Sloan, senior editor-at-large August 18, 2011

Fix Washington and You'll Fix the Problem

What the hell is going on? S&P downgrades the US, and the world trembles. US markets lose $1 trillion one day thereafter. Europeans finance chiefs are playing Whac-a-Mole with members' debt problems.

Our current mess stems primarily from politics, not economics and was avoidable. Blame it directly on the fools who brought our country to the brink of default in the name of saving us from … I'm not sure what. Yes, the right wing types bear primary responsibility, but they couldn't have done it without the cowardice and incompetence of the Obama administration. This fiasco enrages me.

The S&P downgrade is not from fear that the US is "broke" or lacks the financial ability to meet its obligations. S&P's primary worry is that the US may not summon up the *political will* to pay its debts.

The problem is there are no grownups in positions of serious power in Washington. I've never felt this way before. I certainly don't worship Washington institutions. Despite being an irreverent professional skeptic, I never felt there was a total absence of adult supervision in our nation's capital. Now I do.

I spent July on family leave, not writing columns, and watching with increasing horror as market-illiterate know-nothings, abetted by the Republican Party (from which I'm about to resign) and the unspeakable ineptness of the administration, brought our country to within an inch of defaulting on its debts. The deficit-trimming deal is laughable. Then S&P did what it had previously warned it would do and downgraded the US's credit. I have no love for S&P or its competitors, whose influence vastly exceeds their competence. But I respect S&P for alerting investors that a once unthinkable US default has become thinkable. Fitch and Moody's have kept the US debt AAA, which I wouldn't have done.

If I sound angry, it's because I am … angry and fed up with the lunacy and incompetence of our alleged national leaders. And people causing trouble from which they hope to benefit politically or financially.

The Obama people don't even know how to spread good news, which actually does exist. One example: To my surprise, I discovered that TARP actually stands to make money for taxpayers. Treasury reached a similar conclusion but put the information into the public domain in such a low-profile way that few people saw it. Why wasn't the Obama administration spreading the word that taxpayers had made money saving the world financial system? Beats me.

The one saving grace we have is that the rest of the world seems to be run by midgets, too. Now that I've finished venting, let me make one more attempt to be rational. We need more jobs, more growth, and more tax revenue. Cut tax rates and broaden the tax base. Modify Social Security and Medicare formulas, imposing higher costs on higher-end retirees (which would include me, should I ever retire).

Yes, rationality is out of style, and fanaticism is the new normal. But do we really want a national life like the one we've had the past few years? All shrieking and no thinking? Today's problems are horrible, but what are they compared to the Civil War, the Great Depression, and World War II? Enough screaming. As for me, I'm going back to the beach to finish my vacation.

Southernmost Stars: **1 September 2011** 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 #4	**$125,000**	**1**	**1**	**388**	**322**	**Affordable Housing**
3312 Northside #313	**$139,000**	**2**	**1**	**736**	**189**	**Conventional**
1830 Fogarty #7	**$144,000**	**1**	**1**	**572**	**252**	**Affordable Housing**
1830 Fogarty #6	**$149,000**	**1**	**1**	**598**	**249**	**Affordable Housing**
3312 Northside #208	$149,000	2	1	831	179	Conventional
3312 Northside #204	$149,000	2	1	736	202	Conventional
408 Petronia St #B	$149,000	0	1	270	552	Foreclosure
906 Truman #4	**$157,900**	**2**	**1**	**648**	**244**	**Foreclosure**
3312 Northside #613	$175,000	2	1	736	238	Conventional
3312 Northside #111	$179,000	2	1	952	188	Conventional

Missing from July:

1010 Grinnell St … listing cancelled
157 Golf Club … replaced by less expensive unit
3312 Northside #713 … replaced, too expensive
409 Margaret #B … replaced, too expensive

* 408 Petronia St: BOTH halves of the duplex are available together for $308,000.

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

Address:	Ask Price:	#beds:	#baths:	Living Sqft:	$/Sqft:	Other:
1701 Johnson #1	$269,000	2	1	850	317	Conventional
2108 Harris Ave	$269,000	2	1	1266	212	Short-sale
1209 Margaret St	$275,000	3	1	864	318	Conventional
1208 Florida St	**$289,000**	**3**	**2**	**948**	**305**	**Short-sale**
2116 Fogarty Ave	**$289,000**	**2**	**1**	**838**	**230**	**Conventional**
1312 William St	$299,000	3	3	864	346	Short-sale
2425 Fogarty Ave	$304,900	2	1	838	364	Conventional
1202 George St	**$310,000**	**4**	**3**	**1720**	**180**	**Short-sale**
1218-Rear Packer	**$329,000**	**2**	**1**	**578**	**569**	**Conventional**
2113 Seidenberg	$330,000	2	1	838	394	Short-sale

Missing from July:

3 Hutchinson (rear) … under contract
2929 Patterson … replaced by less expensive unit
912 Windsor Ln … under contract
1017 17th St … replaced by less expensive unit

Contrary to recent history, in order to find the 10 *least expensive*, I had to remove 5 units still on-the-market, but replaced by even lower-priced properties. There are bargains out 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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