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MORRISSEY MONEY MATTERS
The Property Management Firm
By George Morrissey Real Estate Broker / Property Manager
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**WE HELP PEOPLE BUY AND SELL HOUSES TOO AND HAVE
FOR DECADES.**

MORRISSEY MONEY MATTERS RENTAL HOUSE NEWSLETTER

Las Vegas Rental Newsletter –Since 1981 - JUNE 2017 ISSUE, copyrighted George Morrissey/PSI *written by George Morrissey, Real Estate Broker, Investor, Tennis Player, Property Manager, GRI, E-Pro Certified, Bachelor of Science in Finance, NARPM, UNLV Alumni, Alpha Kappa Psi*

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NEW RULES FOR SHORT TERM RENTALS IN THE CITY OF LAS VEGAS!

These homes rent out for one day, one week, or one month. They are usually furnished and the City now charges \$1,000 to do this.

The City now charges a \$1,000 license fee plus requires you to have \$500,000 of liability insurance (the amount we recommend as a minimum too!) – if you rent out your house on a “short term basis”. Many owners in Las Vegas do “rent out” their houses/condos on a short-term basis. There are some good and bad things to consider when doing this.

Renting on a short-term basis usually means you supply FURNITURE to do so.

This means you have (buy!) for the property and leave things there such as a:
Toaster, Microwave, Complete set of Towels in all bathrooms, utensils, place mats, throw rugs, Toilet Paper, Coffee maker, Washer, Dryer, Refrigerator, Telephones (wireless + multi), Pots, Pans, Cleaning supplies, Shelving, bottler openers, knives, forks, spoons,

fryer, glass ware, small side tables, coffee tables, dining room set, full bedroom sets, pillows, bedspreads, sheets (full sets), with all rooms furnished etc.

One must remember that in Las Vegas you are competing with the casinos and worlds best hotels that have over 124,000 hotel rooms – that are also furnished with lots of amenities! And those “world class hotels” have some services you won’t or can’t have at your rental furnished house/condo!

They have (and many are unique to Las Vegas)

24-hour room service

World Class Restaurants (more than one) downstairs

24/7 check in availability

Major world class unique one of a kind shows downstairs

A casino downstairs!

Celebrity entertainment!

World Class Events to attend

Over 70 showrooms and concert halls to visit (and get discounts if you stay at their hotel!)

Major hotels usually upgrade their rooms every 3 (three) years! (Look it up).

Worldwide reservation systems

Superb outside amenities, tennis, pools, walkways etc.

Others have Movie Theatres, Multiple restaurants, Bowling Centers, Live Music, Bars (open 24/7), Coffee Shops, Trinket Shops, Gift Shops, Sports Centers – playing college and pro sports.

NHL Hockey is now here with a new team (if you have not heard) called the VEGAS GOLDEN KNIGHTS. They have already been selling season tickets (about 75% sold out!) and were the new team recently who took part in the Expansion Draft! That link is: <https://www.nhl.com/goldenknight>

And if you also have not heard, the OAKLAND RAIDERS NFL football team is moving to Las Vegas (it’s 100% official) in 3 (three) years! You can even put down (today online) \$100 to hold your spot in line (I did) to get season tickets! The link is: <http://www.raiders.com/lasvegas/>

The newest Concert/Sports hall opened recently called the T MOBILE ARENA.

They have had many concerts and recently the NHL Annual Awards show (with the Vegas Golden Knights expansion draft) there too!

The T MOBILE ARENA seats 20,000 and is between the Monte Carlo Hotel + Casino and the New York New York Hotel + Casino

I have been there personally and have seen there

Garth Brooks, Billy Joel, The Roger Waters Tour with more to come. That link is: <http://www.t-mobilearena.com/>

Another new theatre is called THE PARK THEATRE at the East Side of the Monte Carlo

Hotel + Casino. This seats about 5,200. I have seen HANS ZIMMER AND HIS ORCHESTRA, AND BOSTON WITH NIGHT RANGER THERE SO FAR. This theatre was the old Lance Burton (Master Magician) theatre that sat about 1,200 and – was converted – with Millions invested – into this New PARK THEATRE. The first act there was STEVIE NICKS WITH THE PRETENDERS. THE PARK THEATRE PERFORMERS NOW AND IN THE FUTURE, INCLUDE: CHER, RICKY MARTIN, BRUNO MARS, CHRIS ROCK, WIDESPREAD PANIC, RUFF RYDERS, ALI WONG, BILL BURR AND MANY OTHERS TO COME. This is very popular and another reason to “stay in a hotel” or nearby.

That link is:

https://www.montecarlo.com/en/entertainment/parktheater.html?icid=GMB_Entertainment_ParkTheater

I PERSONALLY have rented out “furnished units” in the past. Our company and myself do not offer this now – we will tell you why in this newsletter. Some hotels here have sold some of their hotel rooms as “furnished hotel room units” which become like a second home for some (rich owners) or as a rental investment (very bad investment). One of my college buddies became a stockbroker and was involved with many pro athletes (think NBA players) who purchased some of those rental “hotel units” at the PALMS HOTEL AND CASINO. AND if you are an owner of a “hotel unit” at the PALMS and want your unit in their “daily rotation” so they handle the reservations, collect the money release and get keys etc. Guess what they charge? 50% of every rental dollar they collect. That’s right. 50%. So, if they rent your unit out for one day for \$150 – they keep \$75 and send you \$75. Also, if they make a profit from the room service (they keep it), restaurants downstairs (they keep it), casino losses (they keep it). Oh – and you say your window is cracked? You pay for it as you are the owner. Carpet needs cleaning? They supply the service – and again – you pay for it. And since it is furnished if the phone goes on the fritz, or the toaster shorts out, or the coffee maker is dirty – they you pay to handle all that.

FORBES MAGAZINE some time ago said that HOTEL FURNISHED UNITS that people BUY for investments – are one of the worst investments around (not just a real estate bad investment but compared to ANY type of investment!).

We have found – when managing furnished units, the following exists –

We must have live 24/7 service

We must have live 24/7 check ins and check outs

We probably should have (hard to compete if not) an “on site” desk” for concierge, bellman, check-ins, valet parking etc.

I WAS OFFERED 100 UNITS TO MANAGE IN A HIGH RISE TOWER WHEN IT WAS FIRST BUILT HERE IN LAS VEGAS.

A man had found me – and we interviewed each other to see if we could work together. His business model is this: He goes to PREMIER cities that are building PREMIER

HIGH RISE TOWER UNITS TO OWN – and buys a group of them BEFORE the High Rise Tower is built and open! That’s right! He puts down a deposit and locks in presale prices from 100-200 units. He has done this all over the world and has investor/clients from all over too! And one by one he sells these units he has locked up – for a profit – to his “well heeled” clients from all over the world. He caters to those who are wealthy and want a “very nice unit” in various cities such as Paris, London, La Jolla, San Francisco, Berlin, Madrid, San Diego, Las Vegas etc.

I asked him how long it took him to sell the first 50 units and he said about one week! Anyway, I could tell he was “well versed” in this universe, knew exactly what he was doing, and was a long term “pro”.

He had many reasons he wanted to hire me to do this job. He liked my reputation, my background, my experience, etc. But one of the main reasons was this: The High Rise Tower charged the following to rent out your unit (if you were the owner) and wanted to be put in their reservation “rotation” system:

50% Property Management fees of all dollars collected
The monthly service fee (varies by unit) to keep the units clean, use maid service etc.
Of course, they keep all profits from valet parking, the bar, the nightclub, ticket reservations, etc. You as an owner pay an annual fee also to help pay for upkeep of the unit.

And think of this from their perspective.

- 1) They build a hotel
- 2) They sell the hotel (at a profit) to others (like you)
- 3) They don’t have to pay for all the upkeep (the owners pay for it like you).
- 4) If something breaks in the unit the individual owner pays for it (not the hotel).
- 5) If the unit is vacant the individual owner pays for it (not the hotel).
- 6) The insurance and property taxes the individual owner pays for – not the hotel.
- 7) Any convention space, restaurants, valet parking, the bar, nightclub etc. – profits go to the hotel) not you the owner! Of course, they must supply those amenities, staff them, and could lose money, but their rate of success is much higher because of all the “guests” staying at the hotel.
- 8) They get 50% of the cash flow and don’t own the hotel!
- 9) They don’t suffer any kind of vacancy, skipped tenants, poor credit card charges, or evictions – the individual owner does!

And the clincher with this High Rise Tower (some time ago I admit which may have changed now but I doubt it) was this:

The High Rise Tower charged 5% for the use of their “name” if you rented out your hotel unit. So, the OWNERS OF THE High Rise Tower would get 55% of every rental dollar collected and you would get 45% and you own the unit!

Overall a very bad deal. I do not EVER recommend someone buy a “furnished hotel rental unit” unless they are a filthy rich corporation with lots of excess money that they don’t know what to do with and would use it for business purposes.

Some other things to think about – when you rent out a furnished unit/condo/house here in Las Vegas.

- 1) You WILL Get a higher rent.
BUT...
- 2) You WILL have higher liability (if the tenant falls off “your chair” they could look at you – sue – for costs of problems that occur.
- 3) You WILL have higher liability (yes, I am stating this twice) - anything that goes wrong will have tenants look to you for MORE compensation since you supply the toaster, TV, phone, towels, toaster, pots, pans, oven, hamper, chairs, tables, beds, coasters, coffee maker, patio furniture, couches, recliners, etc.
- 4) You WILL have higher expenses.
- 5) You WILL Have higher vacancy.
- 6) You WILL Have more turnovers. With more turnovers means...
You will have more things to do more often such as:
Carpet cleaning
Touchup paint
Replacing appliances
Etc.
Why? Because with more turnover there is more use and stuff wears out faster.
Did you know the average hotel chain refurbishes their room every 3 years?

Furnished rental units of any kind are more time intensive for both owners, vendors and especially property managers.

We have seen (as have others) that YES you may get a higher rent (from 20-50% more) but your extra expenses – repairs – services – and utilities are so much higher that we think you will do better with longer term tenants in unfurnished rentals.

The long-term tenants help avoid
VACACANY
TURNOVER COSTS
And usually have LOWER costs of repairs.

Oh, and the going rate for Property Management right now for FURNISHED units in Las Vegas is about 50% for hotel units, 20% for houses/condos managed by property managers, and maybe less if you have multiple units (all rates vary of course on a case by case basis from different property managers).

When we have a 3 year or more tenant, our vacancy is ZERO. And our turnover costs (utilities, leasing, showing, cleaning, carpet cleaning, painting etc. are ZERO) until the tenant moves out. WE like those numbers. Considering in the past my average tenant WAS STAYING OVER THREE YEARS we liked this a lot!

One must remember the tenant who moves into a FURNISHED rental – can move out just as fast! And they usually don't have "roots" for any reason to make them stay long term - so you are almost guaranteed to have a short-term tenant – that will have you go through the "turnover" process again – real soon!

What happened to the units at THIS HIGH RISE TOWER I was asked to manage? I turned them down and was offered 40% of the rental income as my management fee (and an extra 5%) would go to THE HIGH RISE TOWER OWNERS. from the property proceeds remember to use the Famous entity who is the owner of the High Rise Tower.

I turned them down because I would have to:

Increase my staff

Have a 24-hour maid service

Have a 24-hour call service

Have a 24-hour money in/money out keys in/keys out service

Have vendors available 24 hours for all repairs and maintenance (not just emergencies).

And we would have no guarantee that this extra business would sustain itself or continue to "stay on our books". There was too much change and risk for my company at that time to go for this project so we passed.

There is a Broker I know who specializes in this business. She rents out furnished units, charges the owners 20% and before they "market them" she sells the owners all the furniture, appliances, services, and repairs they need. The furnishings average from \$12,000 to \$20,000 or so – and yes she makes money from the sale of this furniture. The owner equips their unit, pays for the furnishings, pays 20% when rented, and hopes for the best.

Recently I showed a potential tenant (and long-time friend of my son's) some furnished units in PANORAMA TOWERS.

The rents are expensive – especially if furnished.

The move in amounts are expensive.

Many are not furnished.

The HOA requires an additional \$1,000 of deposit for any tenant when they move in (to avoid move in damage) and when they move out (move out damage).

And the HOA gets to review the tenant's info, and signed lease, and can STILL turn down an "accepted application and tenant" so the potential tenant – who was approved by the Management Company could still be blocked from moving in.

The HOA may take from 1 day to 14 days to give out an answer (and this causes more vacancy and delays). Of course, the HOA dues -in the Las Vegas market – usually are paid by the owner. I do not remember the last time I saw a tenant paying any HOA dues in years!

One unit for rent in Panorama Tower #1 today is:

2 bedrooms

1 and ¾ bath

FULLY FURNISHED! THIS IS A WRAP-A-ROUND CORNER UNIT WITH STRIP, CITY & MOUNTAIN VIEWS! Views, Views, Views! Beautiful corner unit and spacious floor plan and panoramic views. 2 master bedrooms with 2 balconies and electronic black-out shades in all living area and both bedrooms. Huge kitchen with stainless steel appliances, oven and cherry cabinets.

Due to move in is

First Month's rent

Security Deposit

Cleaning Deposit

1 year Lease

2,181 Square Feet in size and on the 31st floor.

This unit has two spaces in the Tower Garage (a second space when sold had to be purchased by a buyer when they were built in 2006 for an extra \$25,000).

All units get ONE SPACE in the garage so only a few have TWO.

All visitors are required to VALET park their car too – there is no self-Parking.

The towers themselves (there are two side by side)

Have 24-hour security

24-hour concierge

24-hour valet parking

Each tower has their own

Elevator system

Outdoor Pool

Inside Gym with equipment

Inside Dance Workout Room

Inside lobby area with couches and computer stations

WIFI

Interior Saunas

Dog Run

And more...

This unit was built in 2006

\$545,000 was the original FORECLOSURE sale price on 6/2/2009

\$660,687 was the TRUSTEES DEED SALE amount on 02/24/2009

And later

\$1,017,500 was a full "regular" sale with a Grant Bargain and Sale deed on 01/02/2007.

Do you think paying over \$1,000,000 for a property that rents for \$3,800 a month?

Is/was worth it?

It makes \$45,600 for the year if full (as of this writing it has been vacant 43 days).

That same \$1,000,000 could do the following:

Buy FIVE (5) \$200,000 houses.

These would rent for probably \$1,000 or more EACH monthly.

They would be easier to rent, have longer term tenants, and PM fees would be in the lower range of 10% (not 20%).

Comparisons:

The FIVE HOUSES

The ONE PANORAMA Tower unit

Rent

\$5,000 month

\$3,800 a month

Easier to sell 1/5 at any time

Must sell the whole thing one time

More buyers could afford

Less buyers could afford this unit

More renters can afford

Less renters can afford

Less turnover

More turnover

Less get ready costs

More get ready costs

Can have Low/zero HOA dues

Has Expensive HOA monthly dues

Loans easier to get

Loans harder to get

PM fees lower

PM fees higher

Cost of furnishings lower

Cost of furnishings higher

HOA dues can be zero

\$750 (range) for monthly HOA dues

In my opinion, the only time to buy an expensive high-rise unit is

- 1) When they are first built – so you get the opportunity to get the most future appreciation
- 2) If the unit is located to the most desirable center of commerce – in Las Vegas, that may be downtown (THE OGDEN for example). PANORAMA is across the street from the BELLAGIO.
- 3) If you have a lot of extra cash with nothing to do with it (this is after realizing you have taken care of your family now and in the future, charity donations are maxed out, your staff and employees are taken care of etc. An example may be that when the TURNBERRY TOWERS WERE BUILT – 4 TOWERS ON PARADISE ROAD ACROSS FROM THE HILTON HOTEL AT THE TIME (NOW THE WESTGATE). BILL GATES bought the PENTHOUSE unit for his staff and himself etc. to have a nice secure place to stay when they visit Las Vegas – which they do annually at least for the CES Show (Consumer Electronics Show) and others.

Try to memorize the very good (if not great advice) from many sources – which I have memorized and act on which is the following:

There are four types of rental properties to consider buying
EXPENSIVE
WHITE COLLAR
BLUE COLLAR

LOWER INCOME.

The smartest “professional buyers” of which I consider myself one.

Try to buy the unit (WHITE COLLAR) which is nice and just expensive enough that the BLUE-COLLAR tenant wants to live there, cannot buy it, so he/she rents it!

We do NOT want to buy the FERRARI of rental houses to rent out (like a Panorama unit). And we don't want to buy the bottom of the barrel either.

We want the kind of rental units that

- A) we would live in ourselves
 - B) Are the easiest to loan against (a buyer moving into a \$200,000 home can get a loan MUCH easier than a \$1,000,000 home).
 - C) That don't have high carrying costs (No HOA, no expensive elevators to maintain and full time on site staffs)
- And many other investors.

The best kind of rental house to buy if possible is:

- 1) A one story not a two story (people with bad knees, babies, canes, don't like heights etc. won't rent/buy these units. This may only be less than 5% of the market, but you still “miss” this 5% if you have a two story.
- 2) On a cul de sac if possible. This allows for less traffic, less salesman knocking oin doors, less burglars, less car wrecks etc.
- 3) You do not want a house on a corner (usually higher property taxes)
- 4) You do not want a house with a “larger lot” – usually higher property taxes
- 5) You do want a house that is surrounded by houses, have houses behind you, houses across the street etc. This means when the occupants if are broken into the bad guys either are seen from the street or have to go through another yard and/or have neighbors see what they are doing.
- 6) Three bedroom minimum (thus a husband/wife, two kids and a dog can live there. Or three college roommates. Or a single person with a library in the 2nd room, and an office in the other etc. If you have two bedrooms or less, you limit some of the useable “options” your future tenants/buyers would want and/or be able to use.
- 7) A two car garage is better than a one car garage. And a one car is better than a carport etc. People like to store their stuff (see PUBLIC STORAGE and other storage warehouses that rent out space). A converted garage to a family room gives you more square footage, but no garage. So be careful here.
- 8) NO HOA dues if possible. This saves you money monthly forever.
- 9) And in size (if possible) 1,400 square feet. Bigger is better. And when I buy my first choice if all things are equal – is to buy MORE square feet than less. This means my tenants/future buyers will have more utility value and get way more use out of our home than a smaller competitors.

So, got out and buy another rental HOUSE as described above - in Las Vegas! At this writing values are going up now about \$500-\$1000 a month and this a Sellers' market right now. Did I mention I charge to established clients much less than most other Realtors (I am also a Realtor and have been since 1981). Ask if interested. This market is one to “own” in and buy not sell in my (and many others) opinions! Thanks for reading!

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