The Property Management Firm
3590 East Patrick Lane Suite #1
Las Vegas, NV 89120-3259
702-597-9635 / Fax 702-740-4172
www.ThePMFirm.Com / GeorgeM@VegasRentalOffice.com

MORRISSEY MONEY MATTERS
The Property Management Firm
By George Morrissey Real Estate Broker / Property Manager
May 2017, updated Since 1981 Copyrighted PSI/GM

WE HELP PEOPLE BUY AND SELL HOUSES TOO AND HAVE FOR DECADES.

MORRISSEY MONEY MATTERS RENTAL HOUSE NEWSLETTER

Las Vegas Rental Newsletter –Since 1981 - MAY 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

THE FIRM is a Full Service Real Estate Company •All Agents Are Realtors© in Good Standing + Members of the MLS
We work with Buyers, Sellers, Tenants, Lease Options and Exchanges Concerning New or Resale Real Estate in Southern Nevada as well as with Referrals Across the Country. We also Specialize in Property Management. 9 - 5 PM Mon - Fri and by appointment No representation, warranty or guarantee to the accuracy, express or implied to this newsletter information is made. Any actions taken or not taken based on this information should only be considered after consulting with appropriate advisors. Written entirely by George Morrissey (this is not a "purchased" letter from a provider like many others have).

HAVE YOU BEEN TOLD TO SELL YOUR RENTAL HOUSE AND INVEST IN SOMETHING ELSE? READ ON….

Occasionally I have a Client who owns a rental house who wants to “sell it” and invest in something else. This can be a legitimate idea, but many times it is from another financial “person/salesman” who wants the client to use their real estate money to invest with them (and of course they would get paid a fee, commission and/or add to their account books) in a different investment product. Many times, it sounds kind of OK on the surface but many other times it is not a clever idea.

For those who don’t know I have a Finance Degree -with a concentration in Real Estate), used to be a Stockbroker who sold Annuities and Mutual Funds, and had a Life Insurance license also – on my way to becoming a financial planner -which I did not become full time as I liked real estate rentals a whole lot more than the usual stock market offerings –

and did not like (at that time) the way they handled investments with the public. Many funds had Front End Fees, so you could invest $1,000 and immediately your investment would be charged up to a 7.5% fee and thus your investment would ONLY be worth $925 to start! And if it did not perform that good or fast – would take some time (think years) to get back to that $1,000 level. Now they have back end fees, and higher management fees (like we have management fees too) and penalize you (sometimes) if you sell in less than 5 years (by charging you a sliding scale penalty fee. These are like 5% the first year, 4% the 2nd year etc. I do invest in the stock market but do my own research and buy individual stocks (OH my!) and have done very well earning more than 300% on some investments. And I have had the pleasure to LOSE money also (five figures and more) as well – but only on a stock or two. So I am way ahead.

TRUE STORY – I had client (who I will call Mr. H) who sold a very nice house that was rented to a 3 year tenant with no problems. He had bought the house (before he met me) and out of the blue wanted to sell it. I tried to find out about what the money from the sale would go for and he basically wanted to invest in something "safer". This was his first rental house. I did spend some time with him and sent him some information about the market and how it was coming back (as per the media) and a small boom had started (like now) but he was not interested. So I gave him a discount commission structure and we had the tenant leave, fixed up the house (very little as it was in good shape), and sold it quickly. He had about $90000 in expenses, 45 days of vacancy with utilities in his name and yard care (no tenant remember) and paid off his mortgage. He originally was making about $350 per month, and ended up (I found out later) he invested in a Bank CD (Commercial Deposit) that pays VERY Low (they all do most of the time) – which lowered his cash flow to about $45 per month.

He actually talked with me some time later and realized and admitted he probably should not have sold his house. Because now he
Had no tax shelter
Had no growth (houses can go up and down but CD's stay at the same level)
Had less cash flow
Had no potential to increase his income (rents do tend to go up in the long term)
Had no leverage (with only $60,000 invested in the house, with a $130,000 mortgage when the house goes up $5,000 in one year (and it did) then his return for ONE YEAR was about 9% (not including his tax shelter, and not including his income). So, he would have made over 10% in the next year had he held his house. I checked with him awhile later and he ended up spending a good chunk of that money and could not afford to buy another rental – and the one he owned (sold) in Las Vegas went up again the 2nd year.

GOOD NEWS FOR LAS VEGAS HOMEOWNERS
APPRECIATION RATES HAVE RISEN AND WILL CONTINUE TO RISE
BEING TALKED ABOUT BY MANY!!!

The local papers just said (from many sources) that we have seen a 5.6% appreciate rate in the last 12 months, and we will see (they predict) another 5.0% in the next 12 months! This means (according to the 5% (I am being conservative instead of using 5.6%)
A $100,000 property (condo?) went u $5,000 in 12 months! This is $416 per month!

A $150,000 property went up $7,500 in the last 12 months!
A $170,000 property went up $8,500 (or $708 per month!).
And a
$200,0000 property went up $10,000 (or $833 per month).
And a
$225,000 property went up $11,250 or $937 a month!

This monthly growth in value per MONTH remained NOT TAXABLE now (until you sell). AND if you have a mortgage then you have most likely paid a significant amount DOWN on your mortgage principal – which could add up to at least probably $2,000 - $5,000 or more! (The longer you own the house the faster you pay down the mortgage balance). Look on your annual statement to SEE how much your balance is and how much you paid down. Owners forget this sometimes that "amortization" – this is the amount you pay down on the mortgage just by owning the house – is a REAL return on your investment. Heck, if you pay down only $150 per month (this is $1800 a year by the way!) – then this could be looked at like "saving" $150 a month by putting that amount aside. Why? Because your equity GROWS monthly with this reduction in principal – even if the house does not go up in value.

So now you get the best of both worlds.
Appreciation – yep you are probably getting a nice rise in price now.
Amortization – yep, you are paying down your mortgage every month gaining equity.
Tax Shelter – most continue to get some "depreciation" helping them shelter other income (like rent)
Write Offs' and as you fix the property most normally get 100% write-off for those expenses!

ANOTHER TRUE STORY

Another client I will call Mr. Z has been approached by a stock broker to have him sell his rental (condo) we have been managing for years. Sure, the property had come down during the crash but has come back about 65% in my opinion and many others.
Anyway, back to my story but…

We seem to be at the beginning of another slight boom. And it is a sellers' market right now. There are no "deals" for anything priced below $300,000 most likely (so this is good if you are a seller). My client does have a mortgage. And now since rents have firmed up we could raise the rent a bit (which would help).
He will have some
Closing costs
Miss any future appreciation
Miss any amortization
Miss any more "write-offs" for expenses
Miss any more depreciation (and tax shelter)
And miss using good leverage (this is where the mortgage is a low-cost mortgage which I define as anything that is less than 5%. If your mortgage is 5% or LESS you have a

GREAT mortgage. Do you realize you borrowed money SUPER CHEAP and in a huge amount that someone else (the tenant) is paying back for you (most of it anyway)? This is one of the huge advantages owning a rental property.

This client said his mortgage would pay off in about 10 tears (which would make his cash flow go way up and give him a nice chunk of equity in that free and clear property).

He did say He was going to invest (with his stockbroker) and make a return of 3.90%. I cannot remember what her mortgage is (Think it is about the same). I have found people in this type of situation

Sell the asset that is most likely to appreciate. Why? Because it has done an excellent job and is worth SOMETHING!
So, the stockbroker is kind of "churning" the client's other asset(s) to come to him to invest. Can you say conflict of interest?

<u>He will</u>
Pay closing costs that are substantial
Pay fees to the stock broker to invest (they must make a living too)
And since Stock brokers don't use the same type of leverage (borrowing power) as houses offer, most likely will have a Cash investment (paying 100% of the cash left over to invest in that 3.90% investment.

If this amount is $100,000 then $3,900 will be the annual income earned from this investment (which is taxable).
And the sales proceeds (will be taxed on the house, so maybe there is LESS to invest than thought and with no leverage the growth rate is weak to nothing.

A $100,000 10-year CD for example paying 3.9% can be cashed in for (ONLY) $100,000 in ten years. He is firm about selling. And did not want to discuss options much. He said it would be a bank investment.

He does not realize He has other options than just selling for cash.
We can fix the terms to maximize his return if He was open to that.

Here are some examples that may work. Note – I was also listed in the US Registry for Creative Real Estate Professionals, and have done some creative deals helping clients and my family do "better" than the average deals others do. I was only 1 of 9 listed in this Creative Real Estate Registry in Nevada. This group retired.

<u>**Example #1**</u>
His example.
Sell the house to the public
Pay discounted fees from my discounted commission structure
Pay off the mortgage
Take the money and make 3.9% in a fixed investment.

The money from the sale (after expenses) will be LESS than the equity in the house, and of course all the sales expenses will apply making that equity shrink. Think, utilities, landscaping, fixup, repairs, delayed maintenance, escrow, title insurance, prorations, commissions, appraisals, loans, negotiated expenses, credits, etc.

Example #2

Sell on a lease option type of sale and get

1) Better cash flow from a higher rent (buyers will do this for a lease option)
2) Get next year's higher price
3) Get one more year of equity paydown and more tax shelter

The risk of course if the buyer does not perform we must evict them, kill the deal, or foreclose (depending on the sales terms) – which we would structure so those advantages would be in our favor not the buyers if they default.

Most buyers would LOVE to buy but some cannot quality today so we pick the buyers.

There are other ways to do this too, like carrying back a 2nd mortgage at a higher rate (like 6% which is higher than 3.9%) with a sizeable down payment. We would control who we do (or don't) do business with and so make the "odds" for a very solid deal be in our favor.

Recently I received some news from a Title Company about Appreciation. So, I am including some of the zip codes from an Appreciation Chart showing appreciation amounts that took place in the last 12 months in Las Vegas. This chart is from FIDELITY NATIONAL TITLE COMPANY AND ESCROW who organizes and packages information.

This information is for single family homes from March 2016 to March 2017. The information was gathered from public records by FIDELITY NATIONAL TITLE INSURANCE COMPANY. You can write Julie if you want more information sent to you at JCimoreli@fnf.com

One must remember that many of these zip codes had VERY HIGH NEGATIVE APPRECIATION RATES IN THE PAST FEW YEARS SO EVEN A ZERO PERCENT NOW IS POSITIVE NEWS.

HERE ARE THE PAST 12 MONTHS OF APPRECIATION RATES BY ZIP CODE FOR THE LAS VEGAS VALLEY

ZIP CODE / (Area locations added by me/George) / Appreciation rate by Percentage

FAR WEST

89166	Far West at end of mountains (the end of town)	1%
89004	Far West at end of mountains (the end of town)	0%
89124	Far West at end of mountains (the end of town)	0%

SOUTH AND SOUTHWEST

89161	Far Southwest (the end of Blue Diamond Road)	0%
89179	Farther Southwest, W of 89161	9%
89178	Southwest, E of 89179	1%
89148	Southwest, S of 89147	13%
89141	South, E of 89178	5%
89139	South, N of 89141	3%
89113	South, N of 89178	5%
89148	South, W of 89113	13%
89135	Southwest, W of 89148/89147	9%

CENTRAL SOUTH, CENTRAL WEST, CENTRAL NORTH

89118	Central South, N of 89139	13%
89103	Central, N of 89118	12%
89147	Central West, W of 89103	6%
89117	Central West, N of 89147	14%
89146	Central (West of Strip, older) W of 89102	-20%
89102	Central (West of Strip) South of 89107	3%
89107	Central, N of 89146/89102	0%
89145	Central West, N of 89117	-9%
89103	Central E of 89147	12%
89106	Central, E of 89107	0%

FAR WEST

89135	Far West, just E of 89004	9%

NORTH WEST

89144	Northwest S of 89134	-3%
89138	Far West N of 89135	0%
89129	Northwest just W of the freeway	0%
89143	Northwest just E of the freeway	8%
89149	Northwest just N of 89129	-6%
89134	Northwest N of 89144	1%
89128	Northwest t of 89134	7%
89147	West, W of 89103	6%
89149	Northwest, N of 89129	-6%
89128	Northwest, N of 89145	7%
89108	Northwest, E of 89128	16%

NORTH

89143	North, N of 89149	8%
89131	North, E of 89145	7%
89130	North, S of 89131	7%
89084	North, E of 89131	16%
89085	North, N of 89084	14%

89031	North, E of 89130	2%
89081	North, E of 89031	23%
89086	North, N of 89081	18%

NORTH CENTRAL

89032	North Central, S of 89031	27%

EAST

89101	East Central	0%
89110	East, East of 89101	6%
89115	North East, E of 89110	0%
89191	North East, E of 89115	0%
89156	Far East, East of 89110 (borders Lake mead mountains)	0%
89142	East, E of 89104	-6%
89109	East Central,	0%
89169	East Central	-14%
89119	Southeast	0%
89123	South, South	-4%
89183	South, South, S of 89123	4%
89044	South, South, S of 89183	1%

MORE SOUTHEAST

89052	South East, E of 89044	1%
89012	Southeast, E of 89052	3%
89074	Southeast, E of 89123	7%
89014	Southeast, N of 89074	2%
89120	Southeast, N of 89014	27%

EAST

89121	East, E of 89169	8%
89122	East, E of 89121	3%
89011	East, E of 89122	-4%
89156	East, E of 89110 (edge of town)	0%
89015	East, E of 89012 (edge of town)	-14%
89012	Southeast, E of 89074	3%
89002	Southeast, E of 89002	3%
89052	Southeast, S of 89012	1%
89044	South, South, edge of town	1%

So even if your Zip Code had a POOR Appreciation rate, this does not mean your actual property went down. These are GROUP rates -not individual. Some areas had more foreclosure actions and vacant houses which does affect your appreciation rate, but case by case, those houses in decent shape with good terms have gone up in value in the recent past according to most! Some low sales prices – again think foreclosures – have added to lower sales price in some areas. But normal sales still take place at normal values.

One can see that many zip codes went UP in value, some had zero appreciation and some went down. This is all from the balancing act still going on from the past big Las Vegas Crash in the past. Considering we are still one of the top cities for the number of foreclosures, we have a lot of growth to occur in the future. And the buyers are starting to come on board too – pushing prices up making this a sellers' market. Some agents are saying anything priced below $300,000 – if priced fairly WILL SELL!

One will find the older areas don't appreciate as much. The run-down areas don't do as well either. Some of the older areas on the outskirts have great growth with local building going on and others just don't have much "push" yet so have not gone up. In some of my classes they taught us about the circle theory of cities. This is where the property closes to the center of the city – when starting out -does well. But as things go on the outer circles get more building and more people. This makes the center of town more valuable – for a while. And the outside growth more valuable too. But eventually (and this does take years) the center of town stagnates – unless really taken care of and remodeled, and the BETTER shopping centers and movie theatres and services and other things that make a city be vibrant – happen there. As time goes by, the builders and architects get smarter so the outlying centers (like DOWNTOWN SUMMERLIN) are terrific and not near the center of the city at all.

Since a small boom in pricing is upon us – my family – and almost all our clients are staying put and keeping their rental houses. Of course, my family has owned houses for years, and we try to acquire some occasionally, and we hardly ever sell. So, we have seen both Bull and Bear markets and all the other ones in between. And having managed clients houses for decades (since 1977) I have seen LOTS of decisions made by those clients, strangers, tenants and my family made over and over. And I have seen WHAT happens with all those decisions. That is where a lot of my experience comes from.

We look at a rental house like a great ongoing income producing asset forever. We truly don't want to sell hardly ever. Like Warren Buffet says (his company is BERKSHIRE HATHAWAY – of which stock I also own some) "My greatest holding period is FOREVER"!

We plan to harvest those "rents" to spend, reinvest and (pay taxes as we must). And build the families wealth so future generations (my son) can have some advantages in the future also. That is where a family dynasty can come from. But some say it takes three generations. It does take time to own property for a long time. And expenses, mortgage payments, and repairs, can seem very high at the beginning. But like any worthwhile investment the future holds more promise than the present. That golden goose (the rental house) keeps laying eggs (rent) which we can eat, waste, or sell to another. Once we kill (sell) that golden goose (the rental house) no more eggs (rent) will come in, and no more growth will occur. And once sold we must pay taxes on the profit proceeds, and find ANOTHER investment to reinvest that will do BETTER (very hard) than the rental house we own. **<u>So, I would say to rental house owners</u>** If you have a good 30-year loan (5% rate or less), are in a decent neighborhood (you will know if you are in a crime area and

can research it), are in a growth city (Las Vegas is that), and have rents consistently coming in (that's part of our job), and EVEN with a few hundred in negative cash flow, that rental is probably a keeper – because $200 a month or more could be used to fund an IRA which others do. We see over time, usually ownership advantages, and profits improve! Once sold (you kill the golden goose).
Thanks for reading!

George Morrissey Real Estate Broker / Property Manager / Investor
WWW.THEPMFIRM.COM
GeorgeM@VegasRentaloffice.com
702-597-9635
The Property Management Firm
3590 East Patrick Lane Suite #1
Las Vegas, NV 89120-3259