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MORRISSEY MONEY MATTERS RENTAL HOUSE NEWSLETTER

Las Vegas Rental Newsletter –Since 1981 – August 2018 ISSUE, copyrighted George Morrissey/PSI
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WE HELP PEOPLE BUY AND SELL HOUSES TOO AND HAVE FOR DECADES from $40,000 to over $800,000!
We are Licensed Real Estate Agents, Realtors and Brokers

From First American Title Company (FATCO) – An Escrow and Title Company nationwide and here in Las Vegas. Here is their local website link below:

http://www.firstam.com/title/nv/las-vegas/index.html

Here is some of what they reported recently about some Las Vegas Real Estate Statistics

From August 2018 – from First American Title Company

The median list residential sales price for Las Vegas, NV is $365,000.

They say their conditions favor the property seller currently.

This is a Strong Seller's Market – as per First American Title (and I agree).

FATCO says - Home sales continue to outstrip supply and the Market Action Index has been moving higher for several weeks. This is a Seller’s market so watch for upward pricing pressure soon if the trend continues.

Real-Time Market Profile – from FATCO (with my comments parenthesis)

Median List Price	$365,000 (yes it went down a bit)
Per Square Foot	$172 (Still at $172)
Days on Market	73 Days. Sales are taking place faster! (this is about 3 months for those that "do sell" and one must realize not all property "sells")
Price Decreased	40% yep some prices can be lowered by some sellers!
Price Increased	6% Other sellers raise prices after they see the activity
Relisted	9% - this number has creeped up a bit from 8% before. Sellers put the property back on the market again after the listing time expires and it does not sell.
Inventory	4010 This number is creeping up a bit too! This is the amount of residential properties on the market for sale as of this date.
Median House Rent	$1550 – The same as before.
Most Expensive	$16,500,000 (*still the same as before). – Looking just for fun seeing the price of the most expensive home in Las Vegas!
Least Expensive	$83,000 This is the "least expensive" listing asking price for a residential property on the market for sale today).

The Index is STRONG for sellers today at a SELLERS RATING OF 48!

Market Segment – Each segment below represents approximately 25% of the market ordered by price. (absorbed is those that sold, DOM = Days on Market)

Median Price	Sq. Ft.	Lot Size	Beds	Bath	Age	New	Absorbed	DOM

$249,900	1,464	4500-6500sf	3	2	29	246	186	46
$320,000	1,945	4,500-6500sf	3	3	17	171	132	47
$425,000	2,523	6,500-8,000sf	4	3	16	112	111	67
$752,500	3,793	0.25-0.5 acre	4	4	16	91	74	133

// End of Statistics!

IMAGINE… You are a young family. And you go out and buy one average house. You get a 30-year loan that has a fixed rate mortgage and a payment you can afford. You don't put too much money down because borrowing money right now is "cheap". So, you borrow a couple of hundred thousand at very low rates because you can. You know if times get tough, you can still afford the payment. Even if houses prices go down, you can still afford to live there. So, after some time goes by, you continue to work hard and save some more money. Part of your savings comes from your pay being raised over time, with your housing expense (the mortgage) staying the same. So that difference gives you a little more money. And the annual tax savings you get by "owning" the house and "writing off" the mortgage expenses also frees up some extra money for your savings. And since you bought the house as an "owner occupant" you get the best (lowest) interest rates that there are. You know that an investor is required to put "more money down" which could be as much as 10, 15, or 20%. Most investors want to put down 20% since they know that A) they will have a lower mortgage payment B) a lower payment means there is less risk C) the PMI or Private Mortgage Insurance premium – which is paid monthly on "top" of their mortgage payment "goes away" when a buyer puts down 20%. And this cost could easily be $75 per month for 30 years! Or more!

So over time – at least a year as most "owner occupant" mortgages make you promise to stay in the house as an owner occupant before moving on – goes by – then you go out and with your savings for a 2nd down payment. You buy another house! And do this again by getting a low cost 30-year mortgage with a fixed payment. You move out of house #1 and by this time – in a growing area – your fixed rate payment on house #1 looks better and better! (think affordable). So, since rents have risen from the date when you purchased the house (remember, this is a growing area like Las Vegas), then the rents are closer to and/or even covering the mortgage payment! So, you turn house #1 into a rental house and move into house #2 as an owner occupant. Then you start the cycle again which is saving, thinking, learning what you can about the real estate business as it applies to you – which is having a rental house, fixed rate mortgages, how best to buy a house, how best to take care of a house, and how to save for the future. Your savings also may be put into another investment that pays a good dividend yield – I like ATT which pays 6% or more right now. So that your savings can grow as well for that (now) 3rd down payment!

In the meantime, you customize and improve the house you live in – maybe adding features that would really be helpful for a future tenant. A covered patio goes a long way in the Las Vegas heat for example. You take the time to add shelving, upgrade the appliances, add an alarm perhaps, and/or convert the landscaping to an easy-care yard.

If you continue to do this and repeat 5 or 6 times you will have eventually built up a foundation of assets that will help take care of your current family, your future savings requirements, your future foundation of some “real assets”. If your kids learn how to also pay attention and take care of these situations (think rental houses) you may be providing for them and their kids for generations to come!

Sure, it’s a hassle to have a rental house or two. But most tenants are good, and the positives far outweigh the negatives. Having a rental house or two is also like having a forced savings program. By using the tax rules that the government actually “invented” you will pay less tax over time than your neighbor who pays rent! This will put more dollars in your pocket to spend! If you can keep some discipline around you and “not spend it” you can take this money and invest it for the future.

This is a true real estate wealth building formula I called “hopscotch”. This allows you to take a normal or long amount of time to try and go out and buy a few houses. If you end up with five (5) houses and you keep them – you are estimated to be doing better than like 97% of all others when it comes to wealth building and growing of assets!

Imagine if each house earns $1,000 a month in rent. And imagine you keep them for a while and end up owning them for 30 years. Then you know the mortgages will “go away” (being paid off completely) by naturally amortizing (this is the simple fact of just making mortgage payments each month) and getting paid off! This amortization is one way to make money by owning a rental house. Heck, if you are paying attention, you will realize that you will be “gaining equity” each time you make a mortgage payment because you are paying down the mortgage each month! This means you “owe less” after each payment is made – which means your net worth is “going up”.

Five houses earning $1,000 a month in rent – with the mortgages one day finally going away means that you as the owner would be receiving $5,000 a month in rents each month! This is $60,000 a year in income! And since you can be earning this money while you are doing other things (like sleeping) this is terrific and better than 95% of almost everyone else’s financial savings program!

The mere fact you own a rental house, forces you to enjoy any appreciation that may occur. This also forces you to take some “paper losses” with your tax shelter allowing you to pay less taxes. And if the economy really goes nuts and things (everything) doubles in price! Like movie tickets, gasoline, food, and rent! Then you are protected there too because you will receive double rents but only have a FIXED mortgage payment – giving you a “spread” over and above your mortgage payment!

So, by just taking some time – over your lifetime – get a few rental houses – places you in the rare group of someone who is controlling some decent assets and is protected for the future!

You can insure these houses (assets) so you are protected from fire, liability, and even some repairs with a home warranty (which I am not a big fan of). If inflation kicks into high gear and costs, go crazy you can be on the "right side" of that fence and get higher rents paid to you! If things REALLY goes nuts like they have in San Francisco, Aspen, and Honolulu – you can cash in and take your money and run to a different more affordable market.

Las Vegas some predict will double in value in 10 years and we have already seen this kind of property value increase in the last 18 months.

Most people could manage "one house" on their own if they lived in the same area and had some training time and smarts. But if you didn't most could afford the monthly cost to pay someone else to do the management. Surely, one should NEVER try to manage long distance as it does not work well. You need to have systems in place on how to handle bookkeeping, phone calls, trusted vendors to use, knowledge of Landlord Law, local tenant law knowledge as well, and one MUST know local customs on what works and what doesn't regarding rental terms, features, amenities etc. For example, if you have a garage with NO REMOTE CONTROL then shame on you! This is a feature that a tenant will use every day no matter what – and if you as an owner are too cheap to install one or have one in good shape – you probably should not own a rental house!

The group who is privately (and quietly) buying 1,000 houses in Las Vegas is not a hedge fund but a family. They have pooled together their resources and knowledge and are getting smarter and smarter. Two of my long-term clients have sold their long-term rentals (both were vacant on purpose at the time) to this group. They pay a fair price, try to offer a little below the listed price. They DO negotiate after they get the inspection back – and have sellers LOWER their price and/or give them a credit for what they find on the inspection. They make CASH offers only and their "proof of funds" letter showed to me on their last deal on one of my listings – had their checking account with Thirteen Million Dollars in the account! Pretty strong buyer huh! Both of my sellers DID end up lowering their price during escrow after the inspections were done. Both had older air conditioning units – and the buyer HATES older air conditioning units as they break so much here in Las Vegas. Most older air units are inefficient and need to be upgraded anyway.

I was surprised by both sellers – who are not professional investors but who had rental houses we managed for them – lower their price during escrow. The sellers both wanted to sell and were tired of the rental business - I can understand that! They invested for the right reasons but in my mind did not hold onto their houses long enough. Time can and does usually heal many real estate wounds! Long term owners usually do the best then their neighbors who continue to go into and out of investments every year like gold, stocks, CD's, mutual funds etc.

Think of your kid's future if you owned only five rental houses. They eventually will have the mortgages get paid off. The cash flow will then REALLY improve. Sure, the hot water heater and other items will break and need fixing and/or replacing. But once you DO replace the hot water heater, you won't have to for several years after that!

Your kids can learn about investments on a small scale. One thing my dad did when I was about 16 was show me his tax return and the amount of "losses" the rental houses "had" which saved him a ton on taxes! And these were the federal governments' own rules! I was impressed that a long-term Air Force Career officer could get ahead – way ahead – by slowing doing what I mentioned earlier and buy a house occasionally.

The house that I went to elementary school in, college, and a couple after that – which my parents bought – they still own and rent out! So, they did exactly what I said before! The bought a house and after some time went and bought another and/or moved into the next house and turned the old house into a rental!

Let's look to see where my mom stands now looking at values today from where my mom and dad bought some houses over time and what is going on with them.

So here is a snapshot of some "long term" rental house investments to see what can happen in a growing market. Take into consideration these houses are all in the Las Vegas area, and DID go down in value (a lot) during the foreclosure years. We did NOT sell one property. We even lowered the rent a bit to keep some good tenants. We did NOT want vacancy – which was our main goal – which we accomplished. We knew eventually the market would come back. We bought a couple more at the bottom of the market. I tried to get other investors to buy others but that was difficult because people thought the values would go lower or a lot lower even though they were at the bottom of the market or thereabouts. Our family goal has always been to be an owner of rental property and have them for a long time. We buy houses we know we can afford, with reasonable payments, that would appeal to the biggest cross section of people who want to live in a house. So, our ideal house is a 3 or 4 bedroom in size from 1200 to 1800 Square feet or so with a two-car garage. We do not want a pool. We want a house that is also surrounded by other houses. So, there are houses on either side of us, and behind us and across the street. We want to make it difficult for a burglar to go through someone else's yard to get to our house and vice versa. We do not want a school, or park, or business, or gas station, or 7-11, or alley closer than 2 blocks away. We don't want our yard to be the one the kids cross to go to school, or drop their trash form a 7-11 or other store or have alley access to mess with our trash cans or backyard. We also do not want an HOA if we can help it as we know those HOA dues will continue to be charged and go up and up and up. These dues take a real big bite out of our cash flows. We think we can use that money "better" than the HOA to do repairs or other work on our house. Yes, we know about the argument about having all house be “monitored” by the HOA – to make them all more appealing and uniform in the neighborhood. We also know if a neighbor is not taking care of his yard, or driveway, or having too many cars, and/or storing them on the front yard etc. we can complain to the “code enforcement” officers. Those officers will visit the house and warn the owners and eventually fine them – making them clean up their yard, house etc. They probably have more “leverage” and “power” in our view to enforce things so are stronger than an HOA.

Besides if one does the math and is paying $100 a month for HOA dues and owns 10 houses – this is $1,000 a month which is $12,000 a year for annual dues! These funds could be the source of another down payment to buy another house – or to build up reserves for repairs. We try to get a one story not a two story – since people with kids, pets, canes, and bad legs may not want a two story. The garage is important because Americans like storing their stuff and keeping their car out of the Las Vegas heat at least keeping it safer in the garage. That’s why so many Storage unit places are popular now in this country.

Taking a quick look, we see some of the following of rental houses my family has been involved with:

House (in code) / purchase price / Value / Mortgage / Rent / plans (note my mom has lived in all of these).

FS $47,000/$200,000 no more mortgage $1,095 maybe sell to upgrade and do a Section 1031 Exchange (of which I have done several). Neighborhood had downgraded some

PZ $120,000/$325,000 no more mortgage $1,750 sold to (me) to keep in the family and “out of the estate” so there will be no probate on this house with my mom – and yes, we used formal papers, used an escrow company, got title insurance etc. Keep forever

HS $180,000/$425,000 no more mortgage $1,850 (due to be raised) keep forever. I may live in this house one day.

SC $325,000/$425,000 $1100 mtg pmt mom lives in it. Keep forever (would rent for about $2,100 a month.

My family all have bought other houses too, including myself, my sister, my dad etc. We know that these houses are like “Chickens” who lay eggs of “rent”. And as long as we take care of the chickens they continue to produce eggs (or should I say “rent”). And over time the mortgages go away, and rents go up and tax shelter helps. Sure there are exceptions to this – especially during the foreclosure years! But over the long-term houses can be great investments building wealth for generations to come.

Owning several houses mean you probably are a better citizen doing a lot of things like:
Paying Property taxes
Not being “broke” and getting government support
Saving on your income taxes, giving you more money to invest, give to charity, or spend on your family
Continuing to build a foundation of assets for your kids and even great grandkids – as long as they take care of the assets “those chickens”!
Creating jobs, by hiring vendors and others to work on your property.
Giving people (tenants) stable lifestyles, by not being a bad landlord, allowing a tenant’s family to live in a property for a long time. Stable landlord business relationships – one of our primary goals – allows a tenant’s family to see their kids grow up in the same neighborhood. It allows them to have their kids go to the same schools for years and keep the same friends. This really helps society, that family, your investment, and the neighborhood. Houses seem to attract these types of tenants more than apartments or small condominiums. That’s why my family and investors I work with tend to focus on gathering a portfolio of quality houses and not apartments. Sure, we will pay “more” per unit than an apartment but we almost always will have better tenant results.

Remember, one of my sayings is “THE QUALITY OF THE PROPERTY DETERMINES THE QUALITY OF THE TENANT”. If you have a junk property it will attract junk tenants! If you don’t take care of your property, the tenants won’t take care of you. Only three expenses occur for rental property. Vacancy, Turnover, and Repairs. Two of these GO AWAY for a long-term tenant. EVEN IF THE HOUSE NEEDS PAINTING INSIDE but the tenants stay and stay – you will get MORE life out of that paint (and other items) and pay LESS money to fix and repair them should the tenants continue to stay. Sure, you could have them move, fix it up and jump through all those other hoops to try and replace them but in the meantime, you are suffering NO VACANCY for long term tenants. We try (as do many others) to own the white-collar property, that the blue-collar family wants to live in but can’t buy it. So, they pay rent, work hard for a living and end ups staying a long time. This helps EVERYONE.
We appreciate your business!

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