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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 from $40,000 to over $800,000!

MORRISSEY MONEY MATTERS RENTAL HOUSE NEWSLETTER

Las Vegas Rental Newsletter –Since 1981 – MARCH 2018 ISSUE, copyrighted George Morrissey/PSI
written by George Morrissey, Real Estate Broker, Investor, Tennis Player, Property Manager,
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According to www.BusinessInsider.com as of Nov 8, 2017
The 20 best cities to own Investment properties are:

20. Columbus, Ohio
19. Minneapolis, Minnesota
18. San Antonio, Texas
17. Charlotte, North Carolina
16. Arlington, Texas
15. Reno, Nevada (a Las Vegas neighbor! With many of the same qualities as Las Vegas)
14. Richmond, Virginia
13. Phoenix, Arizona

12. Durham, North Carolina
11. St. Paul, Minnesota
10. Las Vegas, NV - where when we look closer shows us the following….
- Employment Growth 3.7%
- Population Growth 1.68%
- Increase in home values 10.1%!!!
- Rental Yield 5.47%

They also say… The city's 3.5% employment growth is the third highest overall and population growth is better than average.

***Note from this writer – the press is still staying 12,000 or so move to Las Vegas EVERY MONTH with 5,000 to 7,000 also moving away. Thus, we have a NET GROWTH FROM 5,000 TO 7,000 NEW RESIDENTS every month! This demand – has gone on for the last 20 plus years! But not during the foreclosure years where 12,000 moved in monthly and 12,500 moved away monthly. **
Business Insider also says – the double-digit percentage in home values growth year over year is a "win" for Las Vegas!

Continuing with the best cities to invest in…
9. Nashville, Tennessee
8. Atlanta, Georgia
7. Boise, Idaho
6. Seattle, Washington
5. Jacksonville, Florida
4. Cleveland, Ohio
3. Tampa, Florida
2. St. Petersburg, Florida
1. Orlando, Florida Note from this writer - like Las Vegas in the past – this was one of the "foreclosure capital cities of the world!

And looking closer at #1 Orlando shows us…
4% Employment Growth
2.47% Population Growth
11.9% Increase in Home values
5.97% Rental Yield

According to www.Gobankingrates.com The 20 worst cities to own investment rental property are the following starting with #20 and topping out at the worst place which is #1….

#20. San Diego
19. Milwaukee
18. Wichita, Kansas
17. Houston
16. Los Angeles
15. St. Louis
14. Baltimore
13. Baton Rouge
12. Santa Ana, CA
11. Chicago
10. San Jose CA
9. Bakersfield, CA
8. Pittsburgh
7. Winston Salem, N.C.
6. Anaheim, CA
5. Honolulu, HI
4. Anchorage AK
3. Virginia Beach, VA.
2. Tulsa, Ok
1. New Orleans, LA. And looking further shows us…

0.7% Employment Growth
0.45% Population Growth
-1.9% Increase in home values
5.75% Rental Yield

In the last 60 days I sold a rental house for a long-term client (at my discounted rate of course). I won't mention the address but it is important to measure the market by looking at this. Here is the story that is important to pay attention to in this market.

The description of the property was:
In Las Vegas, NV with zip code 89148
It was in the MLS AREA #504
The property was built in 2002.
The tenants had lived there since March of 2010 (we liked that). Thus, the owner had no vacancy, no utility costs, no fixup, or cleanup costs for 8 years!

It is a 1 story, 3-bedroom, 2 baths, 2 car garage home with about 1,220 Square Feet (SF) - which is not the exact size. It has a Two Car Garage, is fenced, with all the appliances included! This house – once the tenants left – now has new carpet, fresh paint inside, and brand-new blinds. This owner followed my advice exactly which worked out well for him which was:

1st we asked to try and see if the tenants wanted to buy it. They didn't - and ended up renting somewhere else and paying more rent above what their mortgage payment would have been. Important Strategy: If the tenants WOULD HAVE PURCHASED THE HOME than the owner would have enjoyed A) no vacancy B) less fixup costs because the tenants have already "accepted" the property C) less turnover costs as they may have not Plus having to come up with a new deposit, turning on utilities, having new neighbors, and discovering different ways to drive to work and to shop.
2nd once they left – after we asked them to move – we reviewed the house and got it ready to sell.

3rd. We ended up
A) putting in fresh paint (paint has about a 3 to 4 year life in a rental property).
B) putting in new carpet (carpet has about a 5 to 7 year life in a rental property).
C) putting in new miniblinds (which has a 2 to 4 year life in a rental property. Especially in Las Vegas where the hot sun really hurts blinds in Las Vegas and wears them out so much faster. So, we replace them a lot. Some long-term owners do put in the more expensive blinds to last longer and have less replacement turnover costs but most don't want to.

Then when the house was ready we checked the comparables "again" and put it on the market for sale (at about $180 a Square foot I might add) – which Price per Square foot is above what Las Vegas average and median prices are right now.

And then what followed shows us all how strong the market is right now. <u>Because we got 29 offers in about 4 days!</u> And considering it takes me at least 30 minutes to go through each offer, note the pluses and minuses for each offer, and the risks, and then figure out the "net" for each offer that my owner would "get" – this took me a long time to go through! I was in the office until 3am a couple of nights doing all this work. I put all the sales prices together in a spreadsheet and noted each point of "risk" – such as a Cash offer has less risk than a "new loan" offer. I also state each offers potential "net" to the seller! This makes it much easier to pick which offers to pursue and which ones to discard instantly.

<u>Here is the breakdown of the offers</u>. Remember the property had an asking price in the amount (about but not the exact price) of about $220,000!!!
Here is what happened when I received 29 offers:
3 came in below list price and they were rejected quickly.
5 came in at the listed price! $220,000 (or so)
6 came in a $2,000-$3000 above the listed price!
10 came in $5,000 or so above the list price.
2 came in about $7,000 or so above the list price.
3 came in about $10,000 above the list price
$233,000 was the highest price for all the offers and it was NEW LOAN OFFER!

<u>Of all the offers</u>
<u>22 were getting a NEW LOAN.</u> The risks are of course that

A) the appraisal comes in too low and that changes or kills the deal
B) The borrower at the last minute does not qualify, loses his loan "lock" on a special rate, runs out of time, or has another speedbump that pops up (I have seen this happen many times) and so the buyer kills the deal because he/she now can't qualify and does not get the loan.
C) The buyer borrower has something change in their life changing or stopping their income (like lose their job, lower their hours etc.) and so then does not get the new loan killing the deal.
D) Rates change and the new loan time for the buyers "loan lock" expires and instead of qualifying let's say for a 4% rate, he/she now must pay for a 5% rate and thus they don't quality – and/or don't want to pay that rate so this kills the deal and they don't get the new loan.
E) As you can see there is more than meets the eye when getting a new loan – many factors go into "getting" the new loan, and many factors that change or once confirmed (bad credit that pops up for example) stops the buyer from getting the new loan.

<u>7 of all the offers were PAYING ALL CASH!</u>
The cash offers were in the following amounts:

$220,000, $225,000, $225,000, $222,000, $227,000, $231,000, and $223,000.

It is important to note that the highest of the CASH offers was $231,000. The highest new loan offer was $233,000.

This should show you how a good Broker thinks a bit and how the process of all this works when receiving multiple offers and how to "choose" one. Of course, the owner gets the final "choice" but my job is to educate them to see the different variables and possibilities and outcomes. This is an example of how I go about helping owners: The owner may know only 3 choices, and I may have 9. It is my job to explain the 9 choices and recommend 1 such as #7. If the owner likes choice #3 that is OK as long as I point out the differences – which I do – and the pro's and con's of each.

Anyway, the owners ended up accepting the CASH OFFER that was $2,000 LESS than the new loan offer! This is why - explained below:

1) The cash offer had no appraisal needed! So, no cost (for buyer or seller) for the appraisal. No waiting – appraisals take two weeks sometimes. No appraisal conditions – meaning the appraisal could FIND an old roof, or carpet missing in a room, or something else that REQUIRES a repair – which stops the loan process until the repair is done – and of course costs the owner more money. Then the appraiser has to go back (another fee) to confirm the repair is "passed".
2) The new loan offer needed (slightly) some of the closing costs paid by the seller. Thus, the seller WOULD have netted more but still had more variables.
3) The cash offer closed escrow in 22 days. The new loan offer needed a 45-day escrow. Since items are "prorated" this meant every day the owner had ownership, then the owner had to pay daily A) insurance costs, B) property tax costs, C) Sewer costs, D) trash costs E) power costs F) water costs G) landscaping costs etc.
4) The new loan offer also required the owner to pay for a home warranty (about $450) but the cash offer did not ask for one!
5) The cash offer had the "NET CASH AT CLOSE OF ESCROW" end up being LESS to the seller than the new loan offer! Remember, this is all with the seller's knowledge and he/she had the final decision!

So, the seller decided to take the CASH OFFER that was $2,000 LESS than the new loan offer because it would close sooner, have less variables, have less risks of the escrow not closing, and have no added repairs, appraisal conditions or home warranty costs. I agreed with this choice.

<u>The people and entities who made offers were</u>

1. Husband and Wife getting a new loan
2. Husband and Wife getting a new loan
3. Single Person paying CASH
4. Single person getting a new loan
5. LLC buying as investment with an ALL CASH offer
6. Single person getting a new loan
7. Husband and Wife getting a new loan
8. Single person getting a new loan
9. Husband and Wife getting a new loan
10. Single person getting a new loan
11. Single person getting a new loan
12. LLC buying as investment with an ALL CASH offer
13. Single person buying as investment with an ALL CASH offer
14. Single person getting a new loan
15. Two unrelated individuals getting a new loan
16. Husband and Wife getting a new loan
17. Two unrelated individuals paying ALL CASH
18. LLC buying as investment with an ALL CASH offer
19. Single person getting a new loan
20. LLC buying as investment with an ALL CASH offer
21. Single person getting a new loan
22. Two unrelated individuals getting a new loan
23. Husband and Wife getting a new loan
24. Single person getting a new loan
25. Two unrelated individuals getting a new loan
26. Single person getting a new loan
27. Husband and Wife getting a new loan
28. Husband and Wife getting a new loan
29. Single person getting a new loan

So, what does all this tell us? That this is a SELLERS MARKET.
And we are in (from other sources) a BOOM MARKET with prices going up monthly. Those of us “long term owners” like my family ARE NOT

GOING TO SELL ANYTHING RIGHT NOW. We are – what many believe <u>– are at the beginning of a BOOM MARKET and expect to be for a few years. Buyers MUST pay more than List price and make GREAT offers to have an “opportunity” to get a deal! So, lowball buyers need education!</u>

I just attended a three-day BROKER RETREAT last week at the MIRAGE Hotel. All attendees were OWNERS and DECISION MAKERS from property management companies from across the United States and members of NARPM (The National Association of Residential Property Managers) of which I am a 11-year member. It was terrific and I attend every year. The last speaker showed us data of why there will be “NO BUBBLE”. Basically, he said and had backup statistics that made sense that growth will continue for ten years with appreciation of home values and rising rents. During the foreclosure years, many builders cut back and did not build so now the country is SHORT of housing inventory. People are still having babies, and moving from the east coast to the west coast and causing demand in popular west coast cities like Las Vegas. And banks are smarter now making “better” loans so they won’t make those kind of loans (as much or anymore they hope) that will cause buyers to default and lose their house/condo to foreclosure. The banks don’t want bad loans anymore. They have seen and felt the pain of losing millions of dollars and the hassle it brings with bad loans.

I got a new loan a couple of years ago to buy a house and my credit is very good (like 780) and they STILL had me sign dozens of papers which I thought were unnecessary but I did because I got the loan. For those of you keeping track, I bought a 3-bedroom 2 bath, 2 car garage 1500 SF home for about $150,000. I put $32,000 down (at least 20% so I could avoid the $90 a month PMI (private mortgage insurance) cost for the life of the loan. I got a 30-year fixed rate loan. Since I was an investor they charged me MORE than a homeowner so I am paying 4.6%. However, since my loan is fixed and a thirty-year loan my loan payment today is $747. I rented the house out when I bought it. And yes, our Firm here rents it and I pay full PM fees to our company like our clients. The house rents for $1,195 so I am in a positive cash flow position. That house today is probably worth about $195,000.

Anyway, the real estate data analyst said that the pent-up demand is here now and the builders and new home starts can’t catch up so prices with rents and values shall continue to go up for ten years at least with no bubble. I believe him. And if I buy and/or own good quality properties and they DO GO Down In value, I know I can keep renting them (everyone needs a place to live) and every month be closer to a free and clear property. My goal is to buy quality properties and own them forever. I receive cash from these properties, get some tax shelter, and some appreciation over the long term. In this last case, I also get leverage borrowing from the lender a loan for 4.6^ that the tenant is helping pay back. If I/we do nothing else – those that own rental property here in Las Vegas – we probably will get $500 to $1,000 in appreciation a month for now and the foreseeable future. My opinion – and others - could be wrong of course but I don't see any changes or at least 2-4 years. My family is glad we own property in this market and will continue to do so.

If you ever want me to write about something let me know.

We appreciate your business!

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