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MORRISSEY MONEY MATTERS RENTAL HOUSE NEWSLETTER

Las Vegas Rental Newsletter – Since 1981 – November 2018 ISSUE, copyrighted George Morrissey/PSI
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**We hope everyone has a wonderful Holiday Season spending time with
family and friends!**

ASKING THE RIGHT RENTAL PRICE!!!

So, your tenant is moving, and/or you have a new rental property that needs to be put on the market for rent. What price should you ask? Here are some strategies.
We will be using a "rental house" as an example – even though many of our owners (including me) have condos that we rent out.

ASK THEM TO PAY FOR YOUR MORTGAGE PAYMENT?

This is a mistake. Some amateur owners may just "ask" for a tenant to pay their mortgage payment to cover their "nut". This can be really a big mistake. We must remind owners that your mortgage payment "amount" has nothing to do with what your house should rent for! You would not let a tenant stay there for free if you had no mortgage? So, it should be obvious that the market determines the rent not your mortgage

payment. Owners let tenants pay their mortgage for them to break-even but is usually a big mistake!

One owner may have put down a large down payment so his “payment” is substantially BELOW what the property would rent for. Another owner may have a lower cost mortgage with lower rates than today, so his payment is below market. Again, which would be below the current rental market asking price that is going on all around this property. One hard and fast rule is this – YOUR MORTGAGE PAYMENT HAS NOTHING TO DO WITH WHAT YOUR HOUSE WILL RENT FOR.

The tenants certainly don’t think about what your mortgage payment is. They are just looking at your rental asking price, and those “all important” move in terms – and comparing them to other properties in the market – along with features and amenities – like if your house has all the appliances or not – to even consider looking at or applying to rent your house.

The asking price for a rental house WILL CHANGE. About 10-12 years ago we saw some small increases yearly in the asking prices for rental houses. Then when the economy began to get weaker and eventually go backwards – the Las Vegas rental prices stayed FLAT and did not increase for several years. They ACTUALLY WENT DOWN about six years ago, but most times tenants did not shop around or pay attention to the market as they were not planning on moving (which is one of our goals!). When their rent does not go up – so they stay put – which is good for you as an owner keeping your vacancy and turnover expenses down.

Now during some of those foreclosure years the NEWS MEDIA reported more and more about rental prices and encouraged tenants to APPROACH THEIR LANDLORDS AND ASK (some even demanded) them to LOWER THEIR RENT OR THEY WOULD MOVE. One should know on a case by case basis this took place and occasionally for a long-term tenant we had some owners lower the rent to keep good tenants!!!

ONE OF MY OLD SAYINGS IN THE RENTAL BUSINESS IS THAT IF YOU GIVE SOMETHING GET SOMETHING.

So, when we did lower the rent we traded off with the tenant having them sign a new two-year lease or something like that. Some tenants were bluffing and were not really going to move, and others were scared the owners might lose their house to foreclosure. We charge reasonable rents and do not “milk” the market by asking the highest price possible. We also arrange to make repairs and give other support to our tenants unlike some other landlords. Tenants see us and our owners as a tried and true product and we notice good tenants too! Many did not really want to leave and deal with a “new landlord”. Another of my sayings is this –

NO MATTER HOW MUCH BETTER A NEW DEAL IS VS. THE ONE YOU HAVE IT IS GOING TO BE DIFFERENT!!! Over time we see how owners and tenants work and they see us doing the same – and this instills confidence in both parties who are doing the right thing. This confidence in showing tenants and owners that one CAN have a long-term tenant stay - lowering all those surprise turnover costs and of course having no vacancy during that time. Tenants can then relax and have their kids go to the same schools for years, make long term friends with the neighbors, and know the best places to shop in their surrounding area and more! Owners can relax a bit more with scheduled and regular payments of rent. So, owners are more supportive with helping those tenants for added features sometimes not just with repairs! It's good all around.

An important consideration in raising rents is to be sure and do so, but do not overdo it! Do not raise your rents to market rent because then the tenants have no incentive to stay as they can now shop around and pay the same rent somewhere else – that may have “newer” stuff or more features! Remember that your good tenant is now a “tried and true” product! One should look at their track record and consider other variables before raising their rents. And certainly, don't just raise rents “just because”!

THEY SAY NO ONE MOVES FOR A \$20 RENTAL INCREASE in Las Vegas. If they do move when you raise their rent \$20 (based on a \$1,000 existing rental house) they were going to move anyway. Tenants need to understand that property taxes, insurance, HOA/CIC dues all go up over time! The cost for repairs, maintenance and services all go up also. So normal tenants know that the rent will go up some. This is expected in the normal cost of doing business concerning rental houses. Owners need to realize this too.

Early in my dad's rental property career he came home and announced he was going to raise all his rents on all the rental houses by a fixed percentage after reading an article that you should! I told him this was a mistake and to look at each tenant on a case by case basis. He raised his rents anyway to at least the market price or more – because of this “formula” he read about. Guess what happened? 95% of all the tenants all moved! This turned into a couple of very expensive months for my dad. I knew this was a mistake when he told me he was going to do this in advance and it was. The moral of this story? Don't just raise rents “because” you can. Take into consideration the tenants track record on a case by case overview of their performance.

Some owners are so delighted that their tenants pay rent in full and on time (most of the time) that they don't want to raise their rents! This is a minor mistake. Because over time if you raise their rent \$20 a year, then over a five-year period you will end up with a \$100 increase! (5 x \$20 is \$100). Owners should try to raise their rents slightly each year. Not too much though. If you are going to charge what everyone else is charging they may as well find another house closer to work, school, or maybe in something newer with lower utility costs, or easier terms. Maybe that “other owner” will lock in their market rent for a longer-term lease with no increase too. So, don't lose good tenants!

**THE PRO STRATEGY IS TO RAISE RENTS WITH EXISTING
TENANTS BUT NOT TOO MUCH.**

Another benefit an owner gets with raising rents is that the existing tenant’s paperwork and lease terms can be upgraded to add in: additional services, additional features, clauses that explain things better for both owners and tenants. Over the years upgrading paperwork is important. As the rental business is rapidly changing – as it is relatively a new business still – as one could not hire a property manager to rent their house out 40 years ago when I started! New products, strategies, applications, policies, procedures and ways to do business are being upgraded by those “in the know” and/or who are trying to stay cutting edge as I am. Upgrading your paperwork over time is important!

**THERE IS ALWAYS A RANGE OF RENTS ONE CAN ASK
LET’S LOOK AT SOME MARKET RENT ASKING STRATEGIES**

Let’s use a house that has competition from a few other houses (there is always competition from other rentals – houses nearby, condos, apartments, etc.). The range of asking prices comes from a variety of factors. Let’s look at a few.

<u>House A Terms</u>	<u>House B</u>	<u>Our Recommend terms</u>
Does not always have all the appliances		We always will supply appliances
Some deposits are non-refundable		All our deposits are refundable
Must pay rent in person or by mail		Can pay rent online and at 7-11
Owner has tenant pay HOA dues		Owner pays HOA dues
Does not allow pets		Allows some pets (75% have them)
Has a Nonrefundable Cleaning Charge		We don’t take dangerous dogs \$0 Cleaning cost -but charged if needed when they move.
Has a Non-Refundable Pet Fee		We don’t charge a pet fee
Has a non-refundable Pet Deposit (fee)		Our Pet deposit is Refundable
Has a non-refundable key fee		We have a refundable key deposit
As is or clean?		We have it cleaned before move in
As is or clean the carpet?		We have the carpet cleaned before

Let’s look at the asking rental prices of a typical rental situation. These information is based on real stories and the market, but I am using a house as my “base” that could rent from \$1,000 to \$1,100 depending on lots of factors. There is always an asking “range” of prices because of:

Some owners think their house is worth more (but there is always competition!).

Some owners have higher holding costs (think mortgage) so they ask more
Some owners have recently painted, cleaned, bought a washer/dryer etc. so think they are justified in asking more (they are not as you are supposed to have decent paint, flooring, and appliances).

Some owners are “testing the market” (which is a mistake) and see how it goes asking a higher rent before adjusting and lowering their rent later.

Some owners just want more and think they will get it and just don’t care about what the market prices are as they have pride of ownership – this is a mistake too.

Some owners have the “top of the line” house with brand new everything and can ask the highest price – but still may have some resistance for the same size house cheaper in the neighborhood.

These ideas are all true and work in the real world. Let’s say the house asking \$1,100 takes 60 days to get rented, then for a 12-month period, he has 2 months of vacancy and 10 months getting \$1,100 or \$11,000 in total. Of course, during those 2 months of vacancy, that owner may forget that he has “additional costs” which can include but are not limited to:

Landscaping costs

Power, Water, Sewer, Trash, and Gas monthly costs

Marketing costs

The cost of “time” making phone calls, getting updates, monitoring the rental process, dealing with applications and changes etc.

If the “other guy” asks \$1,000 and gets his house rented in 1 day, then he gets \$1,000 for 12 months of rent collected for a total of \$12,000 in gross rents. Then the LOWER PRICED HOUSE GETS MORE RENT!

So, the guy with the LOWER RENT makes MORE MONEY in that 12 months than the guy with the higher asking price! And the LOWER RENT house stops (sooner) the ongoing costs of utilities and other related vacancy costs! Pros know this!

PRO STRATEGY: So many pros ask for their rent to BE A BIT LOWER THAN THE MARKET PRICE. This means that more people will notice their rental listing, which means more potential tenants will make inquiries and possibly see it. This also means we will get more action and more applications and we will get it rented faster! This saves our owner money, saves our owner vacancy, saves our owner the “ongoing” monthly costs. Other benefits include: If we have more applications and more interest that creates competition. And so, our terms can be tougher protecting our owner better than just being at the same price as everyone else.

If a rental house/condo does have the same price as everyone else, then a price war may take place with different owners LOWERING THEIR STANDARDS TO LET A TENANT MOVE IN.

THIS PROBLEM EXISTS WHEN YOU OWN A RENTAL PROPERTY -LIKE A CONDO – THAT HAS THE EXACT SAME CONDO IN THE COMPLEX FOR RENT ALSO. I have this same trouble as I own some rental condos too! I have a few owners that own condos in a very large complex and one year when they had their condo for rent there were 48 OTHER CONDOS THAT WERE THE EXACT SAME SIZE AND MODEL as theirs for rent too! So now – the group of potential tenants can “compare terms” and this is one area where we shine!

With our ONLY NON-REFUNDABLE MOVE IN FEE BEING OUR APPLICATION a tenant can have confidence that all our deposits are refundable and there are no other “fees” to move in. We do have a \$20 pet application to be paid for a screening service - which is becoming more popular among property managers – to see if a tenant’s pet is who they say it is!

I have seen over my four decades of renting our property (I bought my first rental property as a teenager in 1977 and still own it!) that the competition can be very difficult among the many condo owners who have the same type of unit as my clients or mine!

For my client of these 48 for rent that one year (remember, it was a condo, with the same square footage in the same complex), people lowered their rent another \$150 than the competition!

I have been through many markets since 1977. The great ones with the prices going through the roof was fun! And the bottom of the barrel market when 30% of Las Vegas was in foreclosure. In 1981-82 or so, mortgage interest rates went to 14% or so and that was a very tough market. I remember I was told that about 20% of builders went out of business during that time. I sold a house or two with clients WHO DID NOT CONSIDER MY OPINION AND ADVICE and got a horrible mortgage – which I tracked – and which caused them to lose both houses. One client had 3. 1 he lived in, 2 he rented out. He met a girl (of course) and moved into her house. She as a showgirl and dancer (hey I married a ballerina, so I get it). Her work was off and on and they ended up losing her house to bankruptcy and his other 2 rentals plus the one he bought to move into (with a bad variable rate mortgage). His payment was \$1,050 the first year rising to \$1600 the 4th year or so – causing him to lose his house!). He still rents today.

Anyway, regarding rental terms:

Most of the low-cost discount terms used are for apartments and condos since they have so much other competition. With houses THERE IS STILL COMPETITION but normally not as much like it is with condos and apartments. I have seen some of the following terms being used – and sometimes for loss leaders in today’s market! Here they are:

\$99 moves you in! (lower cost – think crummy - apartments)

One month free for a 12-month lease (for those apartments offering 6-month leases)

No deposit *** (usually for veterans, school teachers, cops, or other preferred groups)

No fee applications! (so, more people will apply and then they get more rented faster)

We take pets! (most take pets now. Apartments may charge a monthly fee from \$10 to \$25 for each pet. We used to charge \$10-\$20 a month but the rental house market changed, and people would “skip” renting from you if you did that. So now hardly anyone – in the rental house market – charges a pet fee – so by doing so now would create a major disadvantage for those shopping terms. One should always remember that the good tenants do shop terms! The bad ones don’t care (like drug dealers etc.) since they know they will break their lease or whatever, they pay whatever rent you want (think high rent) and don’t blink an eye about terms because they are going to cause lots of problems and probably get evicted.

We help you move for free! (not offered for a long time)

Free moving truck (depending on availability) sometimes offered!

There are only three real costs of a rental house. Those are Vacancy, Turnover costs when tenants move, and Repairs.

If you can get a long-term tenant than two of those three expenses, go away! So, if you can create marketing patterns and terms that encourage long term “tenancy” than you will have solved some of your most expensive costs! And for those tenants who stay long term – repairs tend to go down as things don’t need as much attention or repair if the house is occupied. It’s amazing how “more stuff” needs attention (that the existing tenants put up with) that new tenants would not when a house becomes empty.

Back to pricing.

That \$1,100 house costs \$36.67 a day for every day it is vacant. So, if it is empty ten days than you have lost \$366.70 in lost income. A vacant day – once passed – is never recoverable. It is gone forever! So, trying to get your properties occupied faster is smarter. And for those of you who do have a property with no mortgage that is “free and clear” the vacancy STILL costs you that same amount of money for each day that is it vacant! Anyone would and should WANT their house to be occupied so they can get that income coming in. Even if they are in the highest tax bracket! Getting money and paying some taxes is much better than getting no money! I have had owners say “well it is not costing me anything because my house is paid off. That’s not true! Each day a property is vacant costs the owner money from lost revenue they otherwise could have had.

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A basic summary of competitive terms for what to “ask” for your rental house is the following:

Try to ask a bit **BELOW** what everyone else is asking. Give tenants a good deal! Those who **CARE** will be shopping for a better price and terms and this count!

An old saying (from Jack Miller) is to **LOWER THE RENT AND RAISE THE DEPOSIT**. This means to give someone a **GOOD DEAL** but make it tougher for them to move in with higher deposits and more stringent rules. This means that a **GOOD TENANT** won't mind signing up for a **GOOD DEAL** and paying full deposits and honoring the rules – because they know they won't break them! A good deal matters to them! They know that they will honor the rules and get their money back! The marginal tenant who is not truly sure of the future may just skip your property since your move rules are stronger than the other guy, and that (less qualified) applicant may not want to put up all the deposit money we want to allow them to move in!

The other move in terms are important too. Since we don't charge a cleaning fee, or pet fee, or administrative fee, or move in fee, or other garbage fees to tenants ... We know that those who do care, and shop will see our house and our competitors house And with all things being equal Since our terms are better, are move in amounts are fair, and our rent a bit lower, they will most likely apply with us **FIRST** and get our house rented **FIRST**! That is the idea, right? So generally, our owners enjoy less vacancy – unless they insist on trying to ask for a higher rent than what the competition is!!!

Good tenants don't mind jumping through a few hoops to get a good deal. They recognize value. As an owner you truly do not want to be asking the “top rent” that you can because it may take longer to get rented and this will cost you a lot! And when it comes time to renew the tenant may look around and shop and find another landlord who will give him a better deal – since he is paying top dollar for his rent! One of my clients had a 2-year tenant and the client wanted to raise their rent \$100 to match the market after I had suggested \$30. The tenant ended up moving **ACROSS THE STREET**! And their new landlord reduced his rent below our original rent \$100 from what our tenant was paying! The neighbor had seen them take care of the yard those two years and be responsible tenants! So, my owner – who was **ASKING TOO MUCH** had more turnover expenses and it took another 60 days to get the house rented. This cost my owners about \$2,500. Way more than it would have cost them if our 2-year tenants had stayed and were not **FORCED** to go shopping with such a big increase in rent. **SO, DON'T ASK TOO MUCH FOR RENT!** Attract and get the Long-term tenant and you will be hundreds if not thousands of dollars ahead!

Summary: \$11,550 in annual collected rent for the \$1,050 house that rents in 30 days (11 x \$1,050 = \$11,550).
(and with less cost for utilities, marketing, processing, time, and landscaping).

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\$11,000 in annual collected rent for the \$1,100 house that rents in 60 days.
(10 x \$1,100 = \$11,000).

Keep in mind at that the “asking rental price” is very much price sensitive and matters to the public! The ones it does not matter much to are the bad tenants who don’t care about taking care of a property and figure they are going to lose their deposit anyway. The public looks at similar properties in the same area, so they are very aware of who is charging more and who is charging less. They also pay attention to what the “move in costs” are which most owners don’t pay attention to. Most owners are so wrapped up in the fees they are paying to a property manager that they miss one of our competitive advantages is that we have very easy move in terms for our tenants, and all our deposits are REFUNDABLE! Rent is very price sensitive and every dollar counts. “Lower rent” does count and gets looked at first and much more than a similar property at a higher rent.

The classic way most people in the US negotiate and set prices when they sell or otherwise is to “try a high asking price” and lower their price later when an offer comes in. This does not work in the rental house business! This backfires in most rental markets as the public knows (and thinks) that landlords won’t change their price or come down – even if you might be the one who does! There can be a few exceptions, but when some tenants are looking for a price they can afford – let’s say in the \$1200 rental price range – and you are asking \$1295 and they see this.

If you are too high **THEY ARE GOING TO SKIP SEEING YOUR RENTAL PROPERTY AND LOOK AT AND RENT ANOTHER PROPERTY. THEY WON’T KNOW THAT YOU WOULD LOWER THE RENT FROM \$1,295 TO \$1,200!** So, the better value property gets rented first! This means that the one getting rented first has lower vacancy, less utility costs and less time involved with the marketing and all that entails. Remember a \$900 house has a vacancy cost of \$30 a day, and if it takes 10 days longer to get rented than the owner suffers that \$300 vacancy cost (10 x \$30 is \$300). And if those continues to go on for 20 days then that owner loses 2/3 of their rent that month which is \$600 (20 x \$30) in this case. Any adjustment of a rent to be lowered that gets the house rented **FASTER** puts dollars in your pocket! “Trying” to be at a high asking rental price and coming down in negotiations is a disaster as tenants know most landlords don’t negotiate rent so those tenants just skip your house and don’t even look at it. Being a bit below market gets more people interested in the house, and better tenants who want to be long term and who “care”. They will beat a path to our door for a little bit better deal to rent our house and end up staying a long time. If you can meet this goal, the 2 of your 3 expenses go away. The only costs a rental property has are **VACANCY, TURNOVER, AND REPAIRS**. And If a tenant stays awhile, then **VACANCY AND TURNOVER COSTS GO AWAY!** And that is how you get and keep long term tenants which save you **THOUSANDS**. Even if you must do new paint and flooring when that 10-year tenant leaves – you are still thousands ahead by having a 0% Vacancy during that time, and no turnover costs! That is how a pro tries to handle their rentals!

We appreciate your business!

George Morrissey Real Estate Broker / Property Manager / Investor / Realtor

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