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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 - March 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

SUBJECT: THE IDEAL INVESTMENT AND SOME EVICTION STORIES

YEP, WE GO TO EVICTION COURT SOMETIMES

Since the company started in January this year, I have had to go (with Bill) to eviction court twice! This is rare as since I have been managing property since the 70’s I have only actually had to go to Eviction Court – now 16 times. I have had to do two mediations. And the most evictions and mediations have happened in the “second half” of my career much more than the first half – and we are better managers now so what happened!!! Well the tenants are more desperate – those who are in trouble – and probably smarter too so they use the system more to their advantage. One of the worst ones was last year where we had a long-time owner with a long-time tenant who wanted to sell his property. We approached the tenants to see if they wanted to buy it and gave them a fair price a bit below the top dollar price in the market.

By selling to a tenant an owner gets a lot of advantages. For example, the tenant “already lives there” so they negotiate LESS about repairs and maintenance – some of which may have been caused by them. So, this saves the owner money! The tenant also – if he buys the property – will pay rent until the close of escrow date – so the owner has NO VACANCY! This saves the owner money. And the tenant does not want to move – so the tenant may be more flexible in the negotiations because it will cost the tenant more time, trouble and money to move. This save the tenant money, but gives a flexible negotiator that much more opportunity to make a deal – so this is good for the owner too.

Now if we sell our owner rental property to a tenant – with no other Broker getting involved – we give our owners a substantial discount – and this saves the owner money again! And since the deposit will be given back to the tenant at the close of escrow – without deductions usually – this makes it easier for the tenant to buy (again good for both), and no stress in “fighting over deposit deductions” with an ex-tenant – which is good for all three of us, tenant, manager and owner.

The tenant can hire another Broker (who will want to get paid a commission) but if we deal with the tenant privately we owe no commission to another Broker. But once we list the property for sale in the MLS (the Local Greater Las Vegas Association of Realtors Multiple Listing Service – for the 12,000 plus local Realtors – of which we are full time members) then we offer a commission to any Broker who brings us a buyer that the owner does sell to. This commission is variable and can be anything but in this market it is usually 3.0%. We prefer to try to offer 2.5% if we can (giving our owner another discount) to start out.

Anyway, the owner usually gets a quicker sale if the tenant buys it, no vacancy, no hassle over forfeited deposits, less fixup costs, no utilities in the owner’s name, and all in all a good transaction (usually). I have done this numerous times over the years but also had tenants who “lied” and tried to be involved buying the house but had no intention to and had to be evicted (as in last year).

We recommend to owners to 1) offer the house to a tenant first – as a sign of good will. Give them 2 weeks to talk to a lender and get prequalified to see what kind – and how much of a loan they can get. 2) give them a fair price. Not too high to milk the market, and not too low to give it away.

Well last year we had a seven-year tenant. We offered him the property before listing it. He and his wife were very interested. I told the owners, that if the tenants don’t buy it (this is my BEST advice) to have them move, find out what is wrong with the property – usually something needs attention – fix it – and then and ONLY then list the property for sale. Well my owners did not want to do that. The tenants in this case – wasted our time – as they kept saying all the right things but never did get prequalified for a loan (they said they did but never shared the information with me). So, the owners gave up on the tenants and had me list it for sale (against my advice and better judgement). Owners should know that being in the business full time – we generally give very good advice – and when an owner goes against that advice it could cost them money if not more aggravation and trouble. Of course, I was then in the position that if I told my owner “No I won’t list it for sale until the tenants move out (again my best advice) – they may list it with someone else”. So, against my own advice I listed it for sale. And guess how much cooperation we got from our tenants in showing it? None. Our tenants did have us call them for appointments which they stood us up on, and were not home, and would be home and then not let anyone in. A real problem.

There was one aggressive agent who got inside the gated community anyway with her buyers, found the tenants home and showed the property whether they liked it or not. They did write an offer and we worked out an acceptance (with counter offers) and had an escrow 40 days away. Well that gave us time to give the tenants a 30 day notice to move. Now remember, this was against my recommendation no how to do business. Well the tenants told us they would move out on time and DID NOT. We then (I knew the procedure but have not had to do this much) had to give them an unlawful detainer eviction for “staying” longer. Oh, yeah. Did I mention they did not pay the rent that month and owed a balance from before? (the owners were being super nice). So, we went to court on about the 42nd day of the start of all this – keeping the buyers informed of course. This was in Henderson. The tenants produced in court their medical problems and how the wife was in the hospital for a day and it would be a hardship for them to move right now so could they have some more time. The judge gave them another 30 days (remember this was day #42). We were also there for nonpayment of rent, and I told the judge since they were getting more time, it would only be fair if the tenants paid the rent also. And the judge said they could pay after they moved out if they wanted to. I said it may be very difficult for us to collect so why don’t they pay now? The judge said they are having medical problems. I am letting them stay, and after they move out, if they owe you money you can sue them. (Great I thought).

So now we had to get an extension for the escrow as we could not close on time and/or give possession to the property to the buyers on time. The buyers did say, hey let us take over the eviction (a seemingly good idea on the surface) but no. As they were not the owners, and had no “dog in the fight”. After discussing this with several brokers (now some of my new partners) and eviction services, we all agreed we had to go on with the original eviction and not let anyone else “take over”. I did have the judge direct them to give us the keys on a certain date. The judge figured this for Thursday and gave them until 5pm (this was day 72) to turn in the keys. Take a wild guess if they turned in the keys. Yep. You’re right. They did not turn in the keys. I went to the property (did not go in) but could tell they had not moved and lots of junk was on the patio and stored up – looking through their unblocked window inside. So, we had to finish the eviction. The problem is that the Henderson court is closed on Friday’s – that’s cute – so that gave the tenant 4 more days to fool around. We had to finalized papers on that Monday, and then wait for the constable to go out and serve the final 24 hour notice this took a few days) and finish the lockout. Of course, the owner had to pay for all of this. And was not getting rent either.

So, when the lockout was finished. We then had to take care of all the stuff left behind. In Nevada that means we had to inventory it, move it and store it for at least 30 days. This cost money too for the movers, and the storage shed. I shot a bunch of photos and they had old couches, old beds, old desks, some eating ware, some bags of old clothes, old tvs, old computers, old junk. The garage storage was full of stuff too. It filled a 10 foot by 14-foot storage area well.

Finally, we could let the buyers in for a complete walkthrough and inspection (we had to give them more time). The place was a mess. Why? Because tenants who are getting evicted and leave stuff behind, know they are going to lose their deposit and so don’t do any cleaning, and in this case, don’t move stuff, don’t do anything they are supposed to do – putting more work on our shoulders and costing the owners more money. And of course, no rent was coming in during all this time either. And now we had to get the utilities on. And…

The buyers wanted more concessions because of the condition. The property needed all the usual after a seven-year tenant. It needed a great cleaning, new carpet, new paint, fixing all the small tweaks and items that get bumped over time. Again, this could have been avoided by having the owner get his tenant out first, fix the property up, with fresh paint and new carpet – and then they would have had more buyers with more competition, with easier showings (the property would be vacant so agents could go anytime – and thus get better offers at a higher price with better terms. This all cost the owner money.

The tenants after all this time, did not contact us to get their stuff or anything, and of course we notified them by mail as regulated by Nevada law over time etc.

The concessions the sellers gave up were not that much because I told the sellers if this killed the deal, fine, they could fix up the property as I had originally suggested, and they could afford to do it. But they decided to give up some of the concessions (not all) and the buyers took it and did not like it (or me as I out negotiated them). They did not get credit for full new carpet, or full fresh paint, or cleaning but got some credits. (The buyers were going to put in new carpet anyway and paint it themselves so it did not matter as much to them as it did to their agent). I had kept them informed all the way of the court appearances, the eviction, the lockout, the stuff left behind, the moving of the stuff, when the utilities went on etc. So, they had no real complaints as all was disclosed, they just did not like it. So, would I sell a "tenant occupied property". Only to the tenant. The advice is sound.

Sell to the tenant. If not have them move. Find out (easier when vacant) what the property needs. Fix it. Then list it and get the higher dollar with easier showings and more offers than any other strategy.

Now I consider myself a "pro" rental house investor, and have many professional national known speakers I consider my friends too. I have talked some with my specialty being "property management" as I have been a landlord since 1977 – which is the year I bought my first rental property here in Las Vegas – and still own it! My dad in his last years as a Lt. Colonel in the Air Force began dabbling in real estate as an agent and buying a rental house occasionally. He learned a ton from Jack Miller, John Schaub, Peter Fortunato, and Jimmy Napier. I met them and took their classes too over the years. My mom told Jack (he is the only one deceased I am sorry to say) that we put one of his kids through college with the number of real estate seminars we took (my dad, me, my sister, and my mom too). They are all still teaching (except Jack). You can find them on the internet at www.CashFlowdepot.com, www.JohnSchaub.com, www.PeterFortunato.com, and www.JimmyNapier.com John has some great books and courses you can buy from him or on Amazon.com I have had many classes and traveled with these guys too on cruises, and out of the country. Check them out if you want to know why houses are such a great investment – as many don't know it.

It would be very hard to replace a good rental house with another investment that does as good as the house does.

First you would need an investment that makes

INCOME. Houses collect rent. Gold does not. Some stocks do not. Some stocks pay dividends but they are small in comparison to the value they represent. Sure, CD''s give you income but no appreciation or tax shelter.

DEPRECIATION is a valuable tool you use when owning a rental house. You can write off expenses. The house goes down in value on paper over time – per the IRS's own rules.

EQUITY BUILDUP is important. Just by paying your mortgage payment each month you are building up equity because you are paying our debt down. If the house never goes up in value, or you never sell it, your equity continues to grow over time – and one day that debt will be paid off and you can then enjoy even greater cash flow.

APPRECIATION houses have too. They can go down (look at the foreclosure crash some years ago) but normally go up over time. My mom – one of my clients who has purchased several rental houses over time, lost over one million dollars of equity in the crash. But she did not sell one property, continued to rent them out and collect/spend the rent. And now the market is stronger, so she has recovered more than "half" of what she lost on paper, and the rents are creeping up too. Three houses that had turnover tenants at $895 each 6 years ago rent for $1,095 today. The mere fact that it costs more to build a house next year vs. some years ago makes them worth more. We all know wood, roof tiles, carpet, plumbing, cement, drywall, electrical work etc. all will cost more to get done in the future than in the past. Inflation makes things go up. Things get more expensive over time. We all see it. So, by owning a house you are "on that bandwagon". If movies double in cost to go see in ten years (they have in the last 10 years) and apples cost more, and dinner, and gas, and everything else. That means your house will cost more too. So, you get Appreciation. Not all investments go up. Or if they do, you can't control it. Gold can go up but it can go down too. No deprecation or tax shelter owning gold (or diamonds, or jewels or collectible comics/paintings/etc.). And no income either, unless you are "leasing your collection" to some museum. You CAN control the value to your house. If the competition got tough, you could improve your property by giving it more features than the competition. So, tenants will want your property first and stay longer and pay a higher rent. With gold (and many other things) you cannot control this. Unless you are Warren Buffet paying big bucks for millions of shares, we can't control big items. Everyone needs a place to live, but not gold or diamonds or cold storage land (one of the worst investments) or paintings etc.

LEVERAGE IS the last component about thinking of investments. Banks will loan you 96.5% right now for a loan to buy an owner-occupied house. Gold or stocks, can get loans too – but variable rates and short term with house loans being fixed at lower rates over a longer time. Why? Because houses banks look at as "better risks" than other items. So, they give better terms. Borrowing money from your Stockbroker to buy Gold or stocks is allowed up to 50% of the value (not 96.5%) and if the stock goes down in value 5% than you must immediately pay off that 5% in cash or your Stockbroker will sell your stock to pay this loan off without your permission (that's built in the rules – I know – I used to be a stockbroker on a small scale – realizing that 90% of stockbrokers OWN no stock at that time was interesting).

So, did anyone notice the first letter of those first 5 major words? We are looking for an IDEAL investment.

Income, Depreciation, Equity buildup, Appreciation, and Leverage / IDEAL.

Using this word against other investments to compare will open your eyes.

INCOME – Those that do = Houses, Dividend Stocks, businesses, CD's, some others.

Those that don't – Gold, Platinum, Bitcoin, Paintings, Collectibles, Land (unless leased as a parking lot), Silver, Diamonds, Comics, Jewelry, Fancy Cars, etc.

DEPRECIATON- (meaning lowering your taxes) Those that do = Houses, Shopping Centers, Hotels, others

Those that don't = Stocks, mutual funds, CD's, Gold, paintings, savings accounts, Cars etc.

EQUITY Buildup = Safer = Houses, some stocks, some mutual funds etc.

Gold too and paintings and others but that is determined using leverage.

APPRECIATION – Yep, Houses, Gold, Stocks, Mutual Funds, jewelry, Paintings, Collectibles etc.

But your appreciation is also determined by the time of year, or the market when "comics" are in favor (or not). And some you cannot control (like the price of Disney stock).

LEVERAGE – Again what can you borrow 100% on safely with good terms. Houses if you are a Veteran you only need $1. And some leverage can be bad (variable rate loans that had many owners lose their house to foreclosures).

The best time and place to buy a rental house – if possible is just not paying a low price. Heck, the last two houses I bought I paid retail prices for but got great terms. Great terms today exist with a 30-year fixed rate loan. Yeah, I put down 20%. One of those deals went like this

$150,000 purchase price.

$30,000 down payment

30-year fixed rate mtg. at 4.65% with mortgage payments PITI at $737 a month (PITI is principal, Interest, Property Taxes, and Insurance).

That house rents for $1095. A month. I did throw in landscaping as it has a lot of grass. So, make money with INCOME positive each month, DEPRECATION – with tax shelter on all my repairs written off – and yes my Property Management Fees – as I pay FULL PRICE to the FIRM to manage my property, EQUITY BUILDUP by paying down my mortgage each month, APPRECIATION with houses going up $500 a month or more the papers say, and Leverage. I used 80% of the banks money to buy this property. My $30,000 has one up about $12,000 since I bought the property which is over 30% (on paper) on my original investment dollars.

I will be FORCED to make money over time. Every year. Sure, I will have bumps in the road. We all do. I save for a rainy day – for that new roof I may need one day. That new refrigerator, or vacancy and turnover costs. My family and I are long term owners. We know we are building wealth for the future. We also know we probably cannot sell that one rental property – and then pay taxes on the profit – and then reinvest that money and do BETTER with something else. Sure, some do that sometimes, but they are an exception. What else can go up over time, give me income, have low vacancy and low turnover, be inflation protected, have a real value (people will always want shelter, but not gold, paintings, comics, cold hard land, boats, or jewelry) and give to the next generation. My son may do well in the far future. My dad built up his estate (he's gone). My mom is left – taken care of because of those wise investments in rental houses. I have also invested, as has my sister (in Phoenix). So, my son may do well.

And we hope this means he can give to charity, offer and create more jobs and work for people – as we do. We try to get a tenant to relax and become a long-term tenant - that's one of the keys in this business – so the tenant's kids can go to the same schools, grow up with the same friends and enjoy a good standard of living – with repair and maintenance report for fair rents. Families do look for this.

You as an owner of a rental house or condo have a terrific investment. Have you ever looked on your Schedule E IRS form to see how your house is doing? Ever got your pencil out and figured out how much you paid off on your loan last year? Look at the two annual mortgage summary reports and find out how much your mortgage was in January of 2016 and now in January 2017. Take that number and divide by 12 and that final number tells you how much you are paying off your mortgage EACH MONTH! And this number goes UP every month. Because as you pay a mortgage payment, you then owe less so then less interest is charge you so then that means you are paying MORE of your mortgage off EACH MONTH.

Owning a rental house is like having a forced savings program in place over the years. The biggest hassle is having tenants – and that keeps many out of the market. But we help solve that problem for you and give you decades – now a century's worth – of the partners to deal with problems and strategies to work them out. Sure, there may be a replacement roof (expensive) in your future. But they last for 20-30 years! And not all tenants get evicted (though some do figure out how to screw up). It's much easier to "keep" your rental house investment once you own one in your back pocket. It's harder to go out and make yourself buy one. One of my regrets is that I did not buy even ONE MORE RENTAL HOUSE. They all have done good for me in the long run (not always the short run). Time heals a lot of wounds with rental houses so be glad you own one! You are doing better than probably 95% of the world's population by just owning one rental property. If you do nothing else that may be paid off one day and will give you income for life. And I can be very competitive with my rental house payment of $737. If the competition lowers their rent to $995 I can go to $975 and still make money. Heck, if the market crashes and rents go down (not likely soon) I can lower my rent to $895, even $795 and hang in there! I can help my tenants stay there by having more features. I can add an alarm system. I could add a covered patio (but one is already there). I can upgrade the carpet or paint, pay the tenants water bill (I don't know) and do lots of things to improve the property and keep them there! I could convert the grass to rock to save water and have no more "lawn care cost". I could upgrade the appliances. I could add shutters (but this house already has them). I could put shelving in the garage, and/or attic storage too. I could upgrade the Air System to be more efficient which would lower their power bill. I could spend a lot of money and upgrade to solar. But that may be $20,000 or so which is money I could use to buy another house. If you only end up with five rental houses, that should be enough. If each rent for $1,000 each then one day you will get $5,000 a month in rental income and probably more in the future. Tax shelter will help you pay less tax on some of those profits and by using this investment strategy of buying only five (5) rental houses in your lifetime and keeping them – will have you be known – to do better than 97% or any investments or savings strategy out there for you to choose from – Heck I should know some of this as I used to be a Licensed N.A.S.D. Securities Licensee, use to sell Mutual Funds, Insurance and Annuities and have a Finance degree to boot - not to forget the over 200 seminars I have taken on investing over the years. So, consider buying just ONE MORE rental house. You will probably thank yourself in years to come. Remember terms are better than the price, and low interest rate terms exist now.

The best type of rental house to buy - and this is confirmed with many of the "pros" in the business – who I know most of is this. A three bedroom, two bath, two garage home. Surrounded by other homes.

No park, 7-11, or business or alley behind or next to it. On a cul de sac with NO HOA (this bites your cash flow). About 1400 Sq. Ft or larger. And a 30-year fixed rate mortgage, built after 1978 if you (lead based paint). That is the bread and butter of the business. Any variation cost you money. A husband and wife, 2 kids and a dog WILL rent that three-bedroom house, but not a two bedroom. A guy/gal with a decent income who wants an office, and a guest room will too, but not the two bedrooms. The three bedroom has more utility and smaller configurations. Sure, you will pay more per unit of a house than an apartment, but you will get better tenants, and them stay longer, and have less management problems.

One of my sayings is THE QUALITY OF THE PROPERTY DETERMINES THE QUALITY OF THE TENANT. Think about that. Those are the type of properties we like the best. 20 years from now do you want five quality houses or 15 crummy apartments. I stand with my five-house strategy. And with no HOA my cash flows are better. So, think about that. Save that money, get that 20% down and buy one more rental property in a growth area (Las Vegas is that) with affordable prices (Las Vegas again is that), with good property management available. (again, we offer that). It's hard to get ahead, but with a forced savings program, even if you do nothing fancy but get five properties with long term 30-year fixed rate mortgages you will probably do very very well. I have seen over my 40-year investing and management career many owners good and bad decisions, and investments and have been steered correctly in what to do by the best which has certainly paid off. We hope we can help you keep your property for a long time so you can see the long-term benefits. We appreciate your business.

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