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MORRISSEY MONEY MATTERS
The Property Management Firm
By George Morrissey Real Estate Broker / Property Manager
June 2018, updated Since 1981 Copyrighted PSI/GM

**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 – June 2018 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*

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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).

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 Monday June 25, 2018 – from First American Title Company

The median list residential sales price for Las Vegas, NV is \$385,000.

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 in the near future if the trend continues.

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

Median List Price	\$385,000 (this is high now as compared to a couple of years ago!)
Per Square Foot	\$172 (yep! It's going up!)
Days on Market	87 (about 3 months for those that "do sell" and one must realize not all property "sells")
Price Decreased	32% (yep, 1/3 of the market – most likely greedy sellers asking too much have lowered their asking price!)
Price Increased	8% (this happens too, but on a smaller scale)
Relisted	8% (these are properties that did not sell after being on the market, 90,120, 180 days or more and expired. So, the sellers put the property back on the market again after the listing time).
Inventory	3071 (this is the amount of residential properties on the market for sale)
Median House Rent	\$1,495 (yep. This has finally gone up too. For the last few years rents were flat and before that rents went down!).
Most Expensive	\$16,800,000 (just for fun seeing the price of the most expensive home in the Las Vegas area for sale today!).
Least Expensive	\$80,000 (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.

The number of investors who are buying houses in Las Vegas has risen the last 18 months. Why? Because they have seen the price of housing (have you?) in other metropolitan cities and Las Vegas is **STILL** priced less almost across the board for a similar house somewhere else.

Just look at Portland, Nashville, Salt Lake City, Denver, Seattle, Phoenix, Atlanta and elsewhere and you will see “pricing” to be very favorable in Las Vegas.

If you are thinking of selling you should ask yourself the following questions:

What will my taxes be once I sell? Talk to your CPA or tax preparer – or get some of the Tax software on your own – and plug in some numbers to see what kind of taxes you will pay. Many forget this step – sell and “oops” they owe a bunch of taxes they were not paying attention to.

What will my expenses be to sell? Sometimes the “closing costs” can be substantial and if one “does not sell” then you don’t pay those costs (of course). This means that “equity” not eaten up by closing costs continues to work for you as long as you own the property. It does cost money to buy and sell and can add up – even for only two transactions. My family prefers to “keep” our property intact. When we want to buy another property, we figure out how to get the down payment money on our own and if borrowing – line up a loan to do so. Loan costs are so LOW Right now it is a “no brainer” to get a new mortgage to buy another property. Rates are from 3.5% to 4.9% depending if you are a home owner or investor. Remember, they charge a higher rate if you are an investor. But with rates so cheap – and usually the interest is deductible of course – borrowing is certainly one of your first considerations.

What will you do with the money? I have seen clients sell and take their net proceeds from the sale and invest in their own business – to make more money. This seems like a very good choice. Others have no idea what they will do with the money – and that’s not a good choice. I had one or two clients who had a stockbroker convince them to sell and invest with “him” which I think is A) unethical and B) maybe not as good an investment and C) certainly a “different” type of investment than a rental house. This couple was older and tired of the random expenses of their rental house – which I don’t blame them as no one likes that. But their investment of choice they told me was going to pay them 3%. I mentioned they should at least talk to their stockbroker (Disclosure here – I used to sell Mutual Funds and Annuities with a Series 6 and 66 NASD License myself – which is no longer current) – and consider other types of companies that pay dividends that are strong. ATT pays 6% at this writing today and the risk is low. Other companies are known as the Dividend Aristocrats and are famous for not having missed a dividend in decades and with raising what they pay every year too. You can look up that term to see a list. Search for DIVIDEND ARISTOCRATS. The dividend aristocrats are a group of companies in the S&P 500 that have increased their dividends every year for the last 25 years. They are large blue-chip companies from different industries who are healthy companies with a good balance of capital growth and dividend income. A stock market investor needs to also remember the stock prices vary. If the company does not A) lower or eliminate their dividend and B) does not miss their scheduled payment – then the investor “locks in their yield” on the date they buy the stock. Here are “Some” of the stocks that are on this list. I have also included their annual yield they pay (as of this writing which varies day by day since the stock price varies daily) and their stock symbol. Once you buy the stock, you lock in your yield as I mentioned before. Because

no matter what the stock prices does – go up or down – the company plans to pay the SAME dividend no matter what – and the Aristocrats plan to INCREASE this payment amount every year as well – that’s why they are an “Aristocrat”.

One can see owning some dividend stocks (or a rental house with all the tenant hassles included) give you more income and more benefits (almost always) than having your money in a bank. The statistics for the Dividend Aristocrats can be found online and with most stockbroker accounts or has many newsletters that talk about Dividends. As always check with your financial advisor(s) and/or CPA and/or Stockbroker before selling or buying any investment. Remember stock prices move up and down every minute and day by day and week by week.

Here are some stocks that are on the DIVIDEND ARISTOCRAT LIST.

ExxonMobil dividends pay an annual yield of 3.96% the Symbol is XOM

Stock Price: 52 Week high was \$89.30
52 Week low was \$72.16

Trading about \$82.89 this week.

ExxonMobil has grown its payout for 25 consecutive years.

Chevron dividends pay an annual yield of 3.56% the Symbol is CVX

Stock Price: 52 Week high was \$133.88
52 Week low was \$102.55

Trading about \$123.78 this week.

Chevron has grown its dividend by 7.8% per year over the last 20 years.

Lowes dividends pay an annual yield of 2.00% the Symbol is LOW

Stock Price: 52 Week high was \$89.30
52 Week low was \$72.16

Trading about \$82.89 this week.

Lowes has made increasing payouts for 54 years in a row

Walgreens dividends pay an annual yield of 2.78% the Symbol is WBA

Stock Price: 52 Week high was \$83.89
52 Week low was \$59.07

Trading about \$65.42 this week.

Walgreens has increased their dividends 41 straight years.

McDonalds dividends pay an annual yield of 2.53% the Symbol is MCD

Stock Price: 52 Week high was \$178.10
52 Week low was \$146.84

Trading about \$157.95 this week.

McDonalds has 40 years in a row of dividend growth.

Proctor and Gamble dividends pay an annual yield of 3.62% the Symbol is PG

Stock Price: 52 Week high was \$94.67

52 Week low was \$70.73
Trading about \$78.78 this week.
Procter and Gamble recently did not increase their payouts but may soon again.

Coca Cola dividends pay an annual yield of 3.45% the Symbol is KO
Stock Price: 52 Week high was \$48.62
52 Week low was \$41.45
Trading about \$45.01 this week.
Coca Cola has 54 straight years of dividend growth

PepsiCo dividends pay an annual yield of 3.44% the Symbol is PEP
Stock Price: 52 Week high was \$122.51
52 Week low was \$94.94
Trading about \$114.64 this week.
PepsiCo has paid dividends for 50 years in a row raising them 80% of the time.

Colgate Palmolive dividends pay an annual yield of 2.58% the Symbol is CL
Stock Price: 52 Week high was \$77.91
52 Week low was \$61.28
Trading about \$65.28 this week.
Colgate Palmolive has a record of over 50 years increasing their dividends.

3M dividends pay an annual yield of 2.71% the Symbol is MMM
Stock Price: 52 Week high was \$259.77
52 Week low was \$190.57
Trading about \$200.76 this week.
3M have raised their dividend for the last 50 years.

TRowe Price dividends pay an annual yield of 2.38% the Symbol is TROW
Stock Price: 52 Week high was \$127.43
52 Week low was \$81.61
Trading about \$121.40 this week.
TRowe Price have raised their dividend for the last 30 years.

ATT dividends pay an annual yield of 6.13% the Symbol is T
Stock Price: 52 Week high was \$39.80
52 Week low was \$30.80
Trading about \$31.58 this week.
ATT have increased their payouts on their dividends for over 33 straight years.

Johnson and Johnson dividends pay an annual yield of 2.86% the Symbol is JNJ
Stock Price: 52 Week high was \$148.32
52 Week low was \$118.62
Trading about \$129.14 this week.
Johnson and Johnson have raised their dividend for the last 55 years.

Warren Buffet (as per online sources) owns (some but not all) of the following stocks with their symbols and dividend yields listed below:

Delta Air Lines	Symbol DAL	Yield 2.7%
General Motors	Symbol GM	Yield 3.9%
Johnson and Johnson	Symbol JNJ	Yield 2.86%
Coca Cola	Symbol KO	Yield 3.45%
Procter and Gamble	Symbol PG	Yield 3.62%
Store Cap Corp	Symbol STOR	Yield 4.47%

Bill Gates (from online sources) owns companies that have dividends but are poised for More growth. Here are some of the stocks Bill Gates owns:

Crown Castle	Symbol CCI	Yield 4.1%
United Parcel Service	Symbol UPS	Yield 3.1%
Coca Cola	Symbol KO	Yield 3.45%
Walmart	Symbol WMT	Yield 2.5%
Walgreens	Symbol WBA	Yield 2.78%
Waste Management	Symbol WM	Yield 2.3%

One should think about placing some of your “extra money” that may be doing nothing in a bank – into one of these stocks to earn some more income. Wealthy people (think wall street guys) who get big bonuses sometimes put a big chunk into one of these stocks – or split it up among several – and earn more income. They can retire if they have enough invested to earn enough income. That’s another reason to own a rental house too. Which is to earn income. And the price of the house can vary too. Houses in a healthy market (which is the Las Vegas market right now) tend to go up consistently in value – and over time the rents go up too. Over the long term in this country houses do go up regularly. So, the long-term owners of houses get some terrific benefits if they can hang in there owning them and not selling. They “say” that paying cash for a house overall gives you from a 4% to 6% yield depending on a variety of conditions that happen to your “individual” house. And of course, you get tax shelter and growth as well owning a rental house. Bonds or CD’s don’t give you tax shelter or growth just fixed income.

After searching google I asked how long does the average American own their home? Google’s answer was...

From 2001 to 2008 the average tenure of a home seller was relatively short, with owners selling their homes after owning them for only **six years**. But by 2011, following the collapse of the real estate bubble, the number of years sellers had owned their homes increased by 50 percent to an average of **nine years**.

Mar 7, 2012

The old rule of thumb answer was that the average homeowner owned their house for five years.

According to the US Census Bureau, only 37 percent of Americans have lived in their homes for more than 10 years, with a median duration of 8.7 years.

So, if you are going to sell, be sure and put some numbers together to see what you think will happen with all the expenses and/or if you kept it a bit longer. You will have to make some assumptions of course, but that's OK. Appreciation of 4-6% would be a conservative number at this point to use in my opinion.

Let's look at a real estate rental investment. This is a 2 story 2-bedroom 1 bath 880 Sq. Ft condo with a one car carport. Each unit has a locked outside storage unit too (about 5x4. Not gated, but the community does have a clubhouse, pool, picnic area and park.

A condo I purchased years ago with a \$2,000 down payment had a \$42,000 loan. \$327.00 a month was my mortgage payment. \$45.00 were the HOA dues. \$44,000 was the purchase price for that condo. \$295 was the rent so I lost a little every month. I was aware of this but bought it because of the future potential and it is near UNLV so students could walk to school. I was looking forward to making money by having fixed costs (my mortgage) stay in place. Then later I figured rents would go up and they have.

Today here is the same condo with today's market prices.

\$105,000 value
\$750.00 a month rent
\$100.00 HOA dues
\$0.00 mortgage payment (it is now free and clear)
\$55.00 a month for insurance
\$45.00 a month for property taxes
\$75.00 for Property Management (yes, we have our own company manage the property
And just like our clients we pay the company property management fees)
\$475 is my net income if A) the property is rented B) the rent is paid and C) no repairs or extra services are needed.
\$5,700 is my total net income (\$475 x 12) with no extra vacancy or expenses.

So, what is my yield on this investment? Based on these numbers my cashflow yield
Is almost 300%

My growth of my \$2,000 has turned into \$105,000 which is terrific! However, both the cashflow and growth would be offset by past expenses. I also received about \$2,300 a year in depreciation further lowering my taxes each year.

I won't go back in history and go through each year's numbers, but overall, I can safely say this is a worthwhile investment. If I sell this condo I could net \$90,000 let's say after expenses.

\$90,000 would have some taxes due of course, and fortunately I have OTHER tax shelter that would offset some of those taxes. Depending on one's tax bracket I would have to pay 15% or 20% on the long-term capital gains. That's not bad! That's a low tax! So, using 20% I would have to pay \$18,000 to the IRS for tax from this profit. Plus, I would

have to add back in the depreciation (about \$25,000) and pay tax on the recapture. 20% of the that \$25,000 would be another \$5,000 in taxes.

Thus....

\$23,000 would be my taxes (roughly figured out here) from my \$90,000 leaving me with \$67,000 left over to reinvest.

If I stuck that \$67,000 in ATT stock (today) I would earn 6.13% in dividend yields
Which turns out to be \$4,101 annually or
\$342 a month.

Having that money in this stock would put me in the following position which is: I would have no vacancies anymore (less tenant headaches), not as much growth – but the opportunity for growth still exists – some rising income over time (but slowly) and no tax shelter. I may do this but since we are at the beginning of a big growth spurt in Las Vegas, I am not planning on selling but will keep owning this asset for a longer time to see what the near and long term looks like. Because of the small nature of this property it would sell fast, and I would get rid of the HOA monthly expense – which no matter how you look at it – bites into my cash flow every month FOREVER. That is why in a perfect world a pro investor would NOT buy a property with an HOA – it hurts your positive cash flow too much!

SUMMARY: I like to invest in things that give me income. That is why I don't own any land, gold, diamonds, or other "investments" that only make me money if I sell. Even a Picasso painting makes you no money owning it (unless you rent it to a museum which is rare) UNTIL YOU SELL IT. So those assets you MUST SELL to make money on! Those I normally do not buy or own (like Gold)! I also don't treat my rental houses or condos like a stock. I look at them and ask myself are they doing their job? Do tenants stay in them a long time? Are the expenses normal? Is it a good neighborhood or is it going downhill? Is this house a keeper because the track record is so good? Or is it a loser, with constant turnover, constant repair surprises and other problems? On a case by case basis we decide which houses/condos to keep and which ones to sell. We don't sell much because if we do we will have big expenses that are lost forever, must pay more taxes on the profit, must take the "net" amount and reinvest it and hope to do better with something else – and find most of the time we can't! The exception might be if one has a specific need for the money. I want to take care of my chicken (the rental house) for a long time so I can enjoy the eggs (rent) it gives me over time. I can eat the eggs, give them away, use them, or sell them – but as long as I own that chicken I get more eggs! If I kill the chicken those eggs no longer are produced. So, take care of your chicken!
We appreciate your business!

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