The Property Management Firm
3590 East Patrick Lane Suite #1
Las Vegas, NV 89120-3259
702-597-9635 / Fax 702-740-4172
www.ThePMFirm.Com / GeorgeM@VegasRentalOffice.com

MORRISSEY MONEY MATTERS RENTAL HOUSE NEWSLETTER

Las Vegas Rental Newsletter –Since 1981 – September 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

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 2018 – from First American Title Company (FATCO)

The median list residential sales price for Las Vegas, NV is now

$356,749 vs $365,000 in August.

Market Action Index they say is 45 which 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	$356,749 vs. August $365,000 (yes it went down a bit)
Per Square Foot	$172 (Still at $172)
Days on Market	76 days vs. 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	45% vs. 40% from August - yep some prices can be lowered by some sellers!
Price Increased	6% and August is still 6% Other sellers raise prices after they see the activity
Relisted	10% vs. August 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	4504 from August which had 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	$1495 vs. August of $1550 – Rents soften in the winter months as do sales.

Lease Expensive House Price is $88,400. It was $83,000 in August. Many times, the "lower cost housing" becomes more expensive because more people can afford the lower prices, so that creates demand pushing the low prices higher.

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**
$249,000	1,458	4500-6500 sf	3	2	29	226	191	50
$314,999	1,899	4,500-6500 sf	3	3	17	187	142	54
$414,970	2,480	6,500-8,000sf	4	3	16	122	123	69
$729,978	3,733	0.25-0.5 acre	4	4	16	88	62	132

// End of the Statistics!

We have had more than a few owners discuss the idea of selling and some that have sold their rental houses using our services! Some are "happy" to break even finally or make a small profit – vs. during the foreclosure years where their value was below what they paid for their house. I think that "too many" owners are interested in selling and not seeing the big picture of the potential future right now. Las Vegas is finally "back" and real estate values have gone up dramatically. Rents have finally become stronger too, so the market is both a Landlord and Sellers' market. The sellers' market has softened just a bit because prices can't go straight up – which they have for the last 18 months or so. And the winter months are now here so sales will be less during these months. Historically October, November and December have the lowest sales volumes for real estate in Las Vegas.

Even though I used to be a stockbroker I do not look at a rental house like a stock. Most others do! Most stocks don't have tax shelter while owning them, don't earn income (like rent) unless they pay dividends. An owner cannot control that stock -think how do you change the nature of the company, their policy, their decisions, where they are going etc. just by owning 100 or 1000 shares? Think about DISNEY for example. You by owning some shares – unless you are Bill Gates owning millions of shares – cannot control or influence what DISNEY does. But you can with a rental house!

Many who own a rental house in a down market -which is what Las Vegas has the last few years think "oh no" my value is below what I paid for it, so I should sell as it may get worse! Or they plan to sell once they break even. They forget that over the time they are waiting to break even they are paying down their mortgage payments, if they have a mortgage - which gives the owner increased equity buildup each month. The owner also is receiving rents usually and this helps soften the burden of ownership allowing some or most of that money to pay for repairs, expenses, and of course their mortgage. Some owners have a positive cash flow and make money just by owning the property. That is what long term ownership does. And that is one of the keys in Real Estate. One must understand your role as an owner with specific goals for your house. Are you a short term buy low sell high kind of guy? Do you buy beat up properties, pay cash, then invest cash to fix them then (try) to sell them at a profit? Or do you buy them with fixed rate (not variable) financing in place to hold for the long term so they stay in your family forever? What are you?

We understand that if we sell a property (and we may break free and sell one in this market) we will have
-Sales expenses like commissions, escrow, title insurance, property transfer taxes and others
-Holding expenses during the sale (think utilities while it is vacant).

-Taxes on the profit now due which changes year by year sometimes.
-Negotiated repairs – those requested by a buyer to “get done” to make the sale go through.
-Appraisal conditions – the appraisal may require the owner get a new roof before a mortgage can be placed on the property - which could be expensive and hold up the sale (this has happened to two of my clients in the last 12 months!).
-And many other things can come up that may not turn into an expense if the owner just “kept it” and “owned it” for the long term. And if the investment is doing “OK” over time in a growing market like Las Vegas it can and should do better. So, if we want to use money for something else (my family) we think of borrowing or using cash reserves to “get” that other investment or other cost using cash and leave our rental alone. We know that one day it will become free and clear. When this happens the cash, flow goes up very high, and the rents at that time will most likely (almost guaranteed) be higher too.

Fortunately owning a property longer than one year and a day usually makes the property earn a “long term capital gain” tax rate – which is one of the lowest taxes there is!
So, it could be a good problem to make a profit and pay a low tax rate.

Currently for 2018 (check with your tax preparer to be sure) it looks like the following long-term capital tax rates apply which is this:

Long Term Capital Gains Tax Rate is
0% tax if your annual income is $0 to $38,700 (being single)
0% tax if your combined with spouse annual income is $0 - $77,400 (if married)
15% tax rate on the profit if your annual income is $38,700-$426,700 (being single)
15% tax rate on the profit if your combined with spouse annual income is $38,700 - $480,050 (if married)
20% tax rate on the profit if your annual income is $426,700 or more (being single)
20% tax rate on the profit if your combined with spouse annual income is $480,050 or more (if married).

Look at those rates closely. The MOST you would pay would be ONLY 20% on your profit. That I believe is a LOW tax and certainly worth anyone’s “while” to own an asset longer than one year to qualify for this “long term capital gains tax rate”. And of course, if you don’t sell it there is no tax due, no sales costs due, and all the future gain (if any) is still yours to keep! You could do an IRS qualified Section 1031 Exchange if you sell an asset if you replace it with a “like kind” asset. Then you would STILL PAY NO TAX - but you would “owe” the tax – but it would not be payable until you sold the 2nd property. Basically, this means if you sold one rental property, do an exchange, and take the proceeds from property #1 to buy property #2. There are certain rules to follow, and if you don’t and blow it, then you WOULD owe the tax right then even if you had used the money to buy property #2. Not to worry, I have done several exchanges and am experienced in this area. I would explain the basics and let you confirm then with your tax preparer and any exchanger you end up using.

Some have said owning some rental houses for the long term is the “lazy way’s man to build wealth”. This can be true if you continue to let the years go by and you hang on owning it forever. Sure, the expenses continue but so do the all the other benefits too. And that is how you end up with free and clear property with no mortgage. The average American sells their house on the average exactly every six years. This is from the National Association of Realtors who keeps historical data and this number is from the years from 1985 to 2008.

A wealth building formula that could work would be to “just don’t sell” that one home and go and buy another one turning home #1 into a rental home. Then you have “two” working for you. So twice the benefits and expenses go on and on. Sure, there is risk, but that is why you have insurance. And another reason why you get a low cost low payment 30-year loan instead of a higher payment loan that pays off faster over 10, 15, or 20 years. You WANT the lower cost mortgage payment to be your responsibility not the high one. Because if times get tough you can just pay the lowest amount possible and still own the house. Your risk GOES UP the higher your payment is.

Many times, people get “itchy” and want to do something with their house. So, they end up selling it paying all the sale commissions and expenses somewhat “churning” their equity and then having to do something different (hopefully better) with the money.

I was taught to look at a rental house (or home) in a different way. One way I look at them like this: Once you own the house and keep it in the family “forever” just take care of it and it will take care of you. A house is a real asset and can help your family for decades and your descendants for generations. It is not just a thing that wears out, as it can be around for a long long time. Some houses in San Diego are almost 200 years old and those families who own them are glad they do! Houses in the Las Vegas valley I believe (as do many others) will be worth a ton soon. We are one of the lowest cost metropolitan cities in the whole country and others are realizing that too. So now investors have come back about 25% of the buyers are investors again!

A house that may cost $600,000 in Seattle, or San Diego, or Portland will be much LESS here in Las Vegas. So unless you TRULY know what you are doing with your money; and you know that after sales commissions and expenses you will have less left over; and you know you must make that money go back to work to “do better” than the house you sold (which is hard); then go ahead and sell. But if you can just hang on and keep it for the long term you may be more than surprised how a long term “hold” can really help you.

A rental house is like a forced savings program. Each month you pay the mortgage (you are forced to of course because it comes due each month) you build equity. Some months the payment hurts your wallet more than other months, but you keep getting closer and closer to that free and clear property. A free and clear property is very powerful! And valuable! Keep that insurance in force (that lowers your risk) and hold on! Each month you own that property – especially now in Las Vegas – it is most likely going up! Some are averaging an appreciation amount that is $1,000 or more per month!

IN AUGUST OF 2018 the UNLV LIED Institute for Real Estate Studies published their report. You can find it at:

https://www.unlv.edu/sites/default/files/page_files/27/Business-NevadaHousingReport-Aug2018.pdf

Some of that report is as follows:

Single family homes had price increases of more than 12 percent in one year.
Laughlin was the only area where prices decreased (at an average of 9 percent).
My comment – This is a good reason NOT to buy a property in a small fringe area that does not have all the amenities like a major metropolitan area does Like Las Vegas.

In North Las Vegas year by year prices increased 14%. This increase was 24% before so their price increases are slowing down (but still going up).

Las Vegas had the highest year over year growth in price per Square Foot vs. compared to any other area in Nevada – which was 15%!

The average price of new home listings increased 11% as well!

Existing condo sales are down year over year in all areas also (interesting but I have always realized condos are not as valuable as "houses" as they compare to apartments.

The Las Vegas Metropolitan Area Trends include some of the following:

	Home Type	2017-18	2018-18	Year Growth
Average New Home Price	Condo	248.00	307.00	23.79%
(Thousands of Dollars)	House	421.00	456.00	8.31%
Average Existing Home Price	Condo	176.33	209.33	18.71%
(Thousands of Dollars)	House	296.33	332.33	12.15%
Average REO Price	Condo	150.67	206.00	36.73%
Average REO Price	House	243.00	291.33	19.89%
Existing Sales	Condo	901	859	46%
Existing Sales	House	3,590	3,209	(11%)
REO Sales (foreclosures)	Condo	73	47	(35%)
REO Sales (foreclosures)	House	246	94	(62%)

CASH BUYERS	Condo	57.27	48.40	(8.87%)
CASH BUYERS	House	23.73	27.63	3.90%
Total Flips	Condo	57.67	77.33	34.10%
Total Flips	House	158.67	157.67	(0.63%)

One can see from the numbers above, the house market is healthy, prices are going up! And Cash buyers and investors are a big part of the market (so maybe you should keep your property and not sell?!).

The mere fact that you own a property and the years roll by means you keep improving your position without even trying much. The biggest reason most people sell a rental house is the 1) thrill of dealing with tenants and 2) the random expenses that come out of nowhere. Most people don't like change and the rental house business has lots that change every month! We can never promise or guarantee what a tenant will or won't do, but most want a nice house to live in and most don't want to move.

Even if you are losing money every month with a negative cash flow. One can look at that negative like this: Think about contributing $200 a month into your IRA, SEP IRA, ROTH or Keogh or another pension plan. That is money you won't touch for a long time, but the money keeps building for the future. Your house is doing the same thing. One good thing about the house that most wounds heal over time, so your rent "should go up" eventually; along with the value going up, your mortgage going down and your equity building every month. You won't see it for a while, but you are building wealth and most people forget that!

Some of our "old timer" customers have seen that come to be true! And some have sold and most I don't blame them that they do! I am one of the few Realtors that may actually "Talk you out of selling". You may know of 3 choices regarding your property. It's my job to explain more choices. If I have 5 and you have 3 and I have told you those 5 I have done my job. If I owned your property I may pick a different choice, but that's OK as I am not you. You pick the best choice for you, and I will support that choice and help you if I can to keep, sell, rent or move into the property. So, keep that wealth building going!

We appreciate your business!

George Morrissey Real Estate Broker / Property Manager / Investor / Realtor
WWW.THEPMFIRM.COM
GeorgeM@VegasRentaloffice.com
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