



INTRO TO LEASE OPTIONS

LEARNING THE NUTS AND BOLTS OF LEASE OPTIONS

This guide will help you better understand lease options and how they can help you achieve your goals in real estate.

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Lease Options

Part I

Add a little Lease Options are becoming quite the buzz word lately. Years ago it was harder for me to get Realtors to even consider a Lease Option for their clients. Today, markets all across the country have changed. Lease Options are currently a viable industry trend and needed for many sellers and buyers in the market.

What is a Lease Option?

A Lease Option is a way to purchase real estate, usually with very little or no money down, sometimes even with money back in the investor's pocket.

Sound too good to be true? Well, it isn't. Can an investor end up with money in their pocket and not have to put 10-20% down to purchase real estate? Yes. This technique is used commonly today by the most successful real estate investors.

The lease option strategy gives an investor the right to lease a home and also the right to purchase the home during or before the end of the lease period. An option is a contract that gives an optionee the right to exercise a privilege – and in the case of real estate investing,

it gives the optionee (investor) the right to purchase property during a contracted period of time. It is a technique that involves gaining 'control' of a property, without the total burdens of ownership.

ALL money made in real estate is made by controlling property. Owning property is the most obvious way to control it, but control is possible without ownership – and control is what makes the money. It was a dying John D. Rockefeller who told all of us his secret to achieving great wealth, "Control everything, own nothing." All of the most successful real estate developers today utilize options, in one form or another.

What Are Some of The Risks of Lease Options?

It is important to be aware that there are some risks involved with this strategy (as with all real estate investments), but there are also ways to minimize your exposure and the rewards that can come with this technique truly outweighs the risks. Real Estate investing is truly the quickest and best way to build lasting wealth. Many of the world's wealthiest people acquire much of their wealth through investing in real estate.

While lease options can build you tremendous wealth, they usually shouldn't be considered a short-term investing strategy. I define a short-term strategy as the time that passes from the start of the transaction to completion (cashing out) being less than one year. A classic example of this would be a "rehabbing project" (fixing up a home and reselling it).

The other side of the spectrum would be a longer-term strategy, such as buying a rental property and renting it over many years. I consider lease options and subject to's to be in the center of that spectrum, usually requiring one to three years for the best payoff. However, you can always immediately sell the deal to another individual or investor for a profit; this is what is called in the business "wholesaling." This can be done if you buy the property at a low enough price that you can turn a profit by selling the deal to another investor at a discounted price.

Visualize this scenario

In every seminar I teach I ask the students, "Who of you would be willing to purchase a home valued at \$200,000 for \$100,000." Of course all hands shoot up. Then I continue by asking if they would still be willing to purchase the same home if the price was \$150,000. Most of the hands stay up. I proceed upwards with the price increasing the increments by \$10,000 each time.

All of the hands slowly but surely drop. At the price of \$180,000 almost all hands are down. At \$190,000, usually, all hands in the room are down. The point I am trying to make to each of them is most investors are not willing to pay this close to retail price for a home (nor should they in most cases).

I then re-pose the question to each of them, “How many of you would be willing to pay \$200,000 for that same home 10 years from now in a market that is appreciating at 10% per year with nothing down and only \$1000 per month?” Now all their hands go back up. I ask, “Why, now are you willing to pay more for that house that you refused to pay \$180,000 - \$190,000 for a few minutes ago?” They respond in unison saying, “Because you added some attractive terms!” My response is always the same, “You didn’t ask the terms before!” Most investors never ask the seller for any terms. They only consider one term - Price! They walk away from deals before they know if terms are even possible.

Evaluating Lease Option Real Estate Terms

“Terms” are parts of an entire deal, such as price, length of time to pay, monthly payment, amount applied to the purchase price and other negotiated items with the seller. Most of the time even experienced real estate investors don’t ask, “When does the seller need their price?” They say no to an entire deal before they ask the seller when the seller needs their price. The previous example illustrates how most investors think, they don’t ask all of the right questions about the property before they make a decision.

They look at the surface but they don't dig deeper for other possibilities. Lease options provide a creative solution that can allow you to negotiate terms that can increase your profits and provide a great investment opportunity. Whenever you can negotiate the terms on real estate the value of the property goes up. Deals that were out of your reach before now might be possible – i.e. large apartment complexes. Now you are able to pay a higher price on a home if you can get reasonable terms, and having this tool at your disposal will allow you to open up many new possibilities and make money on deals that were before completely ruled out. I am not suggesting that you pay \$200,000 for a home worth \$200,000, especially in many markets today, but you can if certain market conditions and terms previously described exist. If your market is flat (not appreciating) and you have only 2 years to exercise your option to buy the home, then maybe the price you offer should be much less. It's all about terms!

Creating a Win-Win-Win Scenario With Creative Real Estate

When doing any lease option deal, it is one of my mottos that everyone must win or don't do the deal. There are 3 people involved in a Sandwich Lease Option: the seller, you (the investor) and the tenant/buyer. It must be a win/win/win, otherwise walk away.

Wendy's Rule about Buying on Lease Option

If it isn't a Win/Win/Win for the Seller, the Investor and Tenant/Buyer then walk away from the deal. There are plenty of the deals out there where everyone can win.