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## Real Estate Investing Podcast

### Brilliant at the Basics Part 6: What Are Lease Options?

*Hosted by: Joe McCall*

*Featuring Special Guest: Peter Vekselman*

**Joe:** Hey, everybody. Welcome! This is the Real Estate Investing Mastery Podcast. And, we are back again for another Brilliant at the Basics episode series with Peter. Peter, how are you?

**Peter:** I'm great. How are you, Joe?

**Joe:** Awesome. Doing really well. I'm excited about this new year. You know, 2015 is upon us now. And, I've already seen the market start and kind of cool down a little bit in November and December. But, we didn't slow down our marketing at all. It seems like now, coming in the January and February, a lot of the excitement is coming back. I mean, a lot of sellers actually are getting better responses now with our marketing. We're getting more buyers contacting us, saying, "Hey, do you have any deals? You got anything?" And, even on our lease option deals that we're doing, we're seeing a lot more interest. We're putting up bandit signs, getting flooded with calls for buyers. But, the purpose of this podcast series that Peter and I are doing... Listen back a few episodes ago, we talked about why we're doing this, who we are. Peter introduced himself.

A lot of you guys already know who I am. If you haven't listened to that one about two or three series, episodes ago, where Peter kind of introduced himself... I think that was Brilliant at the Basics Episode 4 from Peter. Then, you should go check it out, because Peter's doing some awesome things. And last week, we talked about, "What is wholesaling?" On this episode, we're going to talk about, "What are wholesaling lease options?" which is some of more what I do. And, with traditional wholesaling, you flip a lot of properties that have equity. I flip a lot of properties that don't have any equity. And, there's even another strategy that we can maybe talk again later, about how to



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make money outsourcing these leads that don't have any equity to maybe realtors, and making income from that.

But, I got to tell you about our book, "Brilliant at the Basics." There is this book that Peter and I wrote, called "Brilliant at the Basics." And, you can get this for free at [freebasicbook.com](http://freebasicbook.com). You just have to pay shipping and handling. It's about four or five bucks. If you don't like the book, keep it. Let us know. I'll give you your money back. But, it's about how to get more leads, more time, more money, by being brilliant at the basics. And, it's called at the bottom. It says, "Discover the exact systems and simple tools that two of the industry's premier wholesalers use to flip 30+ properties a month. And, how you can too, by partnering with them." So, the goal of this book that we wrote, and the goal of this podcast series is, we're looking for people that we can help in the business, who want to grow their business, take it to the next level and explode their business, and make 2015 the biggest year ever.

We've talked about this before too. You make your money talking to sellers and making offers, right? And, all that other stuff, the support system that build that up? This is something that isn't very, very important. But, so many people that we work with get bogged down and can never get started because they're work... They're spending too much time worrying about getting the marketing started, getting the websites, getting the Podio, CRM systems up, or finding the buyers, and getting the list, sending the postcards. Well, this is stuff that we've already have set up. We're already doing it in our business over a year ago. A year and a half ago, Peter and I started talking and saying, "Look, why don't we just do this for other people? So, we can partner with other people and start doing more deals? And, sharing the wealth and help people."

So Peter, last time you talked about wholesaling. I'm going to be talking about wholesaling lease options real quickly here. Feel free to interject, and if I'm saying something wrong, go ahead and interrupt me. But, I just wanted to talk about what lease options are. Lease options are something that I do when I take a property that doesn't have much equity. They can't take my cash offer because it's too low. And, but they're be willing to maybe lease it for a couple of years and then sell it. Lease options in the... It's the same for wholesaling. Lease options, specifically though, allow you to



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control property without owning it. And, many times, you can set up sandwich lease options, which allow you to stay in the middle for a longer period of time. If you're looking to build a portfolio of rental properties, you can go out and buy a house, get a bank loan, and going to debt to buy these properties. Or, you can buy these properties without getting any financing on them, by doing a lease option.

So, with a lease option, you can get cash now. You can get cash flow over two, three, five years. And, cash later, when you actually sell the property. It's a brilliant model. It's something that I'm doing for years. But... So, I always go after deals with the long-term picture. I want to stay in the middle. I want to hold this property for long-term wealth building. But, if there's just not enough equity... Many times, I'll tie it up on a lease option, and instead of wholesaling it to an investor, I'll wholesale it to a tenant buyer, who's going to live in the house. And then, I'm stepping out, and I'm out of the deal. So, a lot of it is really similar to what we've talked about last week. We talked about marketing for sellers. You got to find sellers that are at least somewhat motivated. They have a reason to sell. They have a house that they want to sell, but can't. Okay? And, many times, they're stuck. They don't want to be a landlord. They don't have enough equity to pay a Realtor. So, we'll tie it up as a lease option. And Peter, you mainly work in homes all over it. So, you wholesale mainly homes that are lower end and upper end. Is that right?

**Peter:** Yup. Absolutely. All kinds.

**Joe:** So, when I'm doing lease options typically, I only wanting to do this on nicer homes and nicer neighborhoods, right? So, in the Midwest or maybe in Atlanta, we're only looking for homes that are maybe \$150,000 and up. You want to stay away from the \$30,000, \$50,000 rental neighborhoods. You want to make sure that these are nice homes that people actually want to buy, and live in for the next 20, 30 years of their life. So, we talk to sellers. We find sellers who want to sell but can't. We ask them simple questions like, "What are you going to do, Mr. Seller, if you can't sell this house? Are you going to rent it? What are your options? What are you going to do?" They may say, "Yeah." "I don't know." Or even, "Just take it from there."



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Everything I like to say is, "You know, I'm looking for... I'm an investor. I'm looking for a property in a nice area that I could lease for a couple of years, and then buy. Would that work for you? Or probably not?" Okay? I already know what... Like, let's say they owe a \$140, and the house is worth \$150. That's not something that I can probably buy. So, I might ask them, "Why are you even selling this? Sounds like a nice house!" Or, "Why haven't you sold it yet?" Let them tell me why they haven't sold it yet. And, if I find that there's not enough equity but there's a lot of motivation, maybe lease purchase would work, okay? So, if they say, "Yeah, I would do a lease purchase. I'd lease the house for a couple of years, and then sell it." I'm going to get that property under an option contract, okay?

Then, I'm going to market that property as a rent-to-own for a tenant buyer. And, if the numbers work, I'm going to stay in the middle, which is my main goal. Again, if you stay in the middle, you get cash now when you get that tenant buyer to move in. You get cash flow, which is the difference between what I'm paying the seller and renter when paying the mortgage payment. And then, when I'm renting it out for, to the tenant buyer, that's cash flow. Normally, I'm trying to get \$200, \$300 a month. And then, I'm going to get equity at the back-end when I'm going to sell it for maybe \$160, \$170 to my tenant buyer. And, I'm going to pay off a loan, which is maybe \$130 at the back-end, okay? Cash now. Cash flow. Cash later. Real simple. It's a sandwich lease option, and you stay in the middle.

A lot of times, if the numbers don't work, I'm just going to sell the contract and assign the contract, which is exactly what Peter does every day in Atlanta. One deal a day almost, right? So, if the numbers work, then, I'll stay in the middle. If they don't work, I'm just going to assign or sell my contract out. It's very simple. Now, my typical deal when I'm doing a wholesaling lease option deal, when I'm assigning it out, my average profit in St. Louis is anywhere from \$3,000 to \$6,000, 4,000 to 5,000 on average. When I'm going to be doing a sandwich lease option, I'm going to be staying in the middle for three, five years, my typical profit is \$30,000 to \$50,000, maybe \$60,000 or more, okay? It's a great way to start building a portfolio of properties that you're going to keep in the long-term, and without having to get bank financing, dealing with nicer homes and nicer



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areas. Let's look at an example deal real quick, and Peter, maybe you can interject any time you want. Feel free. I felt like I'm hogging the show.

**Peter:** That's okay. You're the best! [Laughs]

**Joe:** So anyway, let's look at an example deal, okay? Let's say a house is worth \$150,000. And, I don't spend too much time actually even looking at comps until I get the seller to say, "Yeah, I'll do a lease purchase on that." And then, this is one thing that we talked about a lot, and we'll talk about more. Don't overanalyze these deals. Just get the seller on the phone, right? And, find out what their needs are. Find out if they really have a reason to sell, and just get it under contract, and then, look at the numbers, okay? So anyway, let's say this house is worth \$150. The seller owes \$140,000. There's only \$10,000 in equity, quote unquote, equity. But, if they were to sell it with a realtor, it probably becomes, or prob... They're probably not going to get a full price offer, all right? They're going to get a little discount, or the sellers are going to ask them to pay their closing costs or something. Then, they're going to have to pay the realtor commissions. Then, there's going to be an inspection on the property, and they're going to have to get things fixed. And, there are maybe some carrying costs, if the house is vacant and they're living somewhere else.

So, there's going to be a lot of costs involved in these closing costs. There's going to be a lot of costs involved where, if they were to sell that house today with a realtor, they would probably have to come to closing with money, all right? They don't have the money. They're moving down to Florida for job transfer. Something happened. They got to get out of there. And, they don't have many options. They don't want to be a landlord. So, I find that if the mortgage payment is about \$1,200 a month, this property could probably rent for \$1,400 or \$1,500 a month. Some are a little interesting. I mean, there are different things I can do with a little bit of equity, not a lot. And, there's a little bit of cash flow. So, what I would do is, I would talk to the seller and say, "Well, look. Would you consider leasing this house for a couple of years? Maybe more and then selling it?" And they say, "Yeah." I said, "Well, I have what I call my perfect tenant program, where if the numbers work, I will be the tenant buyer. I will lease the property from you. I'll pay the rent every month. I'm not going to be living in it. This is an



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investment property. But, I'll pay the rent every month, whether it's vacant or not. And, I'll take care of the major... Of the maintenance and repairs on the property." All right?

But, the numbers have to work for me. So, what are some numbers that I would offer? And, this is important too. I never sell the lease purchase program. I'm always just making offers, okay? So, I'm making offers, something like, "Well, I could maybe lease purchase this property from you for seven or eight years. And then, I will pay \$1,200 a month to your bank to cover your mortgage payment, okay? And, I'll buy it from you for the same equity that you get, if you sold it with a realtor today. Would that be fair or not? Is that reasonable or not?" So, I'm going to pay them the same equity they would get if they sold it with the realtor today. So, if you look at the numbers, and I don't have the time to go through that now. But, you're looking at the numbers. If I can lease purchase it for seven years, maybe five years, seven years, that loan balance is going to be... Sometimes, depending on the numbers too, I'll negotiate to whatever the loan balance is, in five or seven years. But, they're typically, if it's worth \$150 today, they're only going to be walking away with 85% of that. So maybe, my option price is \$130, okay? My option price is \$130, and I'm going to have over five, seven years. I'm going to sell that property for maybe \$180. That, depending on the numbers, looking at normal average appreciation.

So, you're looking at a \$50,000 spread at the end of five years where I can sell that property. Plus, all the cash flow that I'm getting every month. Plus, the initial option deposit that I'm getting from the one or two tenant buyers that are in the house. So anyway, that's what my first offer would be. I will cover the mortgage payment. I'll give you the same equity. You get it if you sold with the realtor. Or, I'll pay whatever your loan balance is in five to seven years. Then, I put a tenant buyer in it. I'd mark the price up a little bit. Marked the rent up a little bit. So, I'm getting that cash flow. If they don't like that, and they want more money, then I'll still get it under lease option contract, for maybe exactly what it's worth today. And then, I'll just assign or sell that contract to a tenant buyer, okay? Real simple.

But, real quick, the benefits... There's lots of sellers out there right now that don't have any equity, would love to sell their house, but can't. And, there's a ton of buyers out



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there that would love to buy a house but can't, because they don't have good credit. They just need six to twelve months to rebuild their credit, repair it. They're just moving into a city, and they don't want to have to rent a house for a few years while they fix their credit. And then, once their credit is fixed, move again to buy a house when they're ready. They want to live in a house that they're going to buy later on down the road. A lot of leads that we're throwing away right now because they don't have any equity, you can tie them up on lease options. Or, you can tie them up and send, or actually send them to a realtor to maybe list. Very little risk. No money down. No money out of pocket. And, it's a great way to build long-term wealth, okay? So, whew! I got through all of that, Peter.

**Peter:** Now, that is good! But, look. Here's the key. And, you and I both know. The key is to control real estate. The key is to tie up properties. And then, by just simply utilizing a couple of very basic strategies, whether it's a straight wholesale from, to an investor in the back-end... Whether it's a lease option to a potential end user in the back-end... It's becoming brilliant at this stuff. Understanding the fundamentals of this business. Controlling real estate. And then, there's plenty of opportunities to make money. So, I know you love the lease options. I kind of stick straight more forward with the wholesaling side. But, once you understand the stock, it's just a matter of doing it over, and over, and over again.

**Joe:** Yeah! It's real simple. And, I hope I didn't complicate them all too much. But, it is very simple. And, we talk a lot more about this in the book, "Brilliant at the Basics," talking about how we do wholesaling, how we flip lease options. And, you get all of that at [freebasicbook.com](http://freebasicbook.com). [Freebasicbook.com](http://freebasicbook.com). Check it out. It's free. You just pay shipping and handling. But, if you also... If you... Again, we've talked about this before. And, we're going to be talking about this in every episode if you... You make your money talking to sellers and making offers, all right?

**Peter:** Hmm.

**Joe:** How much of that are you doing right now? Chances are, if you're struggling getting started in this business, you are not talking to enough sellers. You're not making enough



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offers. Then maybe, what's holding you back is getting the systems going, getting the marketing going. That's our specialty. That's what we are good at. And so, we're looking for people that we can help with in that business, grow to the level where they can do deals like Peter 20, 30 a month. Or, maybe want to do deals like me while we're traveling to Prague or going all over the world. Whatever it is, we're looking for those rock stars that are willing to take their business to the next level. And, there is an application process if you want to work with us. Join our mastermind. Get us to do your marketing for you, to build your systems for you. You can go right now to PeterandJoe.com. Fill out an application. Peter will actually call you. You get on the phone. Talk to Peter. We'll determine if you're a good fit or not. Walk through the next steps. It's not cheap. Right, Peter? But, for somebody that wants to take their business to the next level, they easily can recoup their money in several months. It's just a matter of how badly do you want, right?

**Peter:** There's... There's no question. Two decisions. One, do you want to be in this business? I assume if they're listening to your podcast, they've already made a decision. Next decision, do you want to do it all yourself? Or, do you want to basically leverage or piggyback off someone like us, who've already got all the systems in place. And, we could do 90% off the work for you. But, we're looking for other partners across the nation right now. And, if your listeners want to apply, let me talk to them and see if there's a good fit between among us.

**Joe:** Very good. All right. Thanks again, guys. Thanks Peter. We'll see you on the next episode. Take care, buddy. Buh-bye.

**Peter:** Bye.