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Real Estate Investing Podcast

Why Lease Options Are A Great Strategy

Hosted by: Joe McCall

Featuring Special Guest: Jay Adkins

- Intro:** Welcome, this is the Real Estate Investing Mastery Podcast.
- Joe:** Hey everybody welcome to the Real Estate Investing Mastery Podcast. I'm glad you are here, I say that every time, but I really am. I'm glad you are listening to this and we appreciate you. Alex, how are you?
- Alex:** I'm good. It's been a crazy past few... past week or so. My father-in-law is not doing so well, so we just came back from Massachusetts visiting him. So anybody who wants to say a quick prayer for him, we would definitely appreciate it, but other than that things are roiling along...
- Joe:** Yeah, sorry to hear about your father-in-law.
- Alex:** Yeah, but well, everything happens for a reason. We understand that. But like I said, everything else is running along here, so we press forward.
- Joe:** Good, are you still sending out marketing, doing postcards and all that good stuff?
- Alex:** Oh, absolutely. You got to continue doing that. In fact, while I was away, we closed a deal for \$40,000 on a wholesale.
- Joe:** Good for you, man.
- Alex:** Yeah.
- Jay:** Wow.



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- Joe:** Good for you. We have... Those of you guys just heard that, that was Jay. And Jay has been posting checks left and right over in our Facebook group, so he's been doing some deals as well. That's what I love about this podcast Alex. We get guys on here and ladies. The last interview we did was with Kathy. You missed it Alex but...
- Alex:** Yeah, I was probably in the air.
- Joe:** She was saying that you should not send postcards.
- Alex:** She was sending this on letters and tear sheets, I bet.
- Joe:** Yes she was, but I told her, I said well postcards work pretty good for me. She said yeah, but they don't work as good as my letters. So maybe she is right, I don't know, but I think the point is and we talked about this in the podcast you always got to be marketing, no matter what you are sending. It could be a postcard or a letter; it could be just a napkin. In fact you might find out test that anybody listening to this. Just fold up a napkin and stick a stamp on it and put a label on it and send it, I bet you'll get a good response rate on it. Anything that's different and stands out from your competition is good. But Alex I'm glad to hear you are still sending direct mail.
- Alex:** Oh, yeah, I have to.
- Joe:** Why not? You've been sending...
- Alex:** Why not? You got to keep the train going.
- Joe:** Yeah, for sure. Okay, well I think we should just jump into this... Oh, yeah, we should say first, Alex, everybody needs to go to [RealEstateInvestingMastery.com](http://www.RealEstateInvestingMastery.com).
- Alex:** They should.
- Joe:** They should to download our Fast Cash Survival Kit. And I think we even talked about direct mail in that Fast Cash Survival Kit, did we?



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Alex: Oh, yeah, we've talked about direct mail, VAs, how the business runs, all that good stuff up. It's been a couple of years ago now I mean, but it's all good information, it's all relevant, but maybe you and I should even think about doing a 2.0 or something like that.

Joe: I wonder if we can outsource that.

Alex: Yeah.

Joe: Can we outsource the updating of our Fast Cash Survival Kit?

Alex: Probably not.

Joe: Maybe you can get your VA and my VA to work together. But I was looking at it the other day, and I don't know there's much too update on it. Because we still... I'm still using VAs; I'm still doing Craigslist, and still doing postcards and still doing Craigslist stuff, so you are still wholesaling deals, the stuff works. And that's one of the cool things about talking to Kathy the other day on that podcast was... It was three years ago almost to the month when I was interviewing her last time in Prague. And I'm here in Prague again, and she is still doing deals, she is still sending letters, she is been doing it since the 80s I think, or maybe I'm dating her, I shouldn't do that.

She's been doing it since the 90s and it still works. So go to RealEstateInvestingMastery.com, check out the show notes, and you'll get a transcription of all of our... Well, most of our podcasts. And you get to hear some cool things about what we are talking about today with Jay, and well I think we should quit chatting and let Jay talk, Jay how are you my man?

Jay: Oh, we are doing great.

Joe: And you are with your wife?

Jay: Yeah, my wife Annie is my business partner.



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Joe: Awesome.

Jay: So I definitely wanted to have her on the call with me. She is a lot smarter than I am.

Annie: Huh, we'll see about that.

Joe: That's usually the case. I know Alex would agree with me on that one, but...

Alex: They are definitely smarter, yes.

Joe: Yes, they are.

Jay: Yeah, we actually... We just got one of our coaching students their first house today under contract, so that was good.

Joe: Good for you, excellent. So, Jay Adkins, I have seen you post your checks on different forums, Wholesaling Houses Full-time and the Wholesaling Lease Options one that I do. And you are doing all kinds of different deals, and I know you've also seen you around at different Lifeonaire events. In fact, Jay, I think I saw you last at a St. Louis Cardinals baseball game in St. Louis, am I right?

Jay: Yeah, you were with your son, I think.

Joe: Yeah, and I remember seeing you and thinking, "That looks like Jay from Facebook."

Alex: Did you guys meet up?

Joe: No, this was...

Alex: Or was it just a random event?

Joe: Yeah, this was a Lifeonaire event in St. Louis.



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Jay: Yeah, all of the different groups decided to go together to a baseball game. That was a whole lot of fun.

Joe: Yeah, and I think the Cardinals lost.

Jay: They did. They came close to coming back at the end.

Joe: That was they were playing the Cubs.

Jay: Yeah.

Joe: Those stupid Cubs, but they've had a pretty good year and but I didn't get a chance to talk with you because it just didn't work out that day. And it's funny even though the Lifeonaire event was in St. Louis; I was only there for like half of one day. Anyway, cool, Jay, so I saw you. You've been posting deals, you've been giving some good advice to different folks on Facebook posts, and I just wanted to ask... I asked if you would be open to an interview and you were gracious enough to say yes.

And you are doing some cool things that I wanted to talk with you about in regards to bulldogs; you are doing some lease option deals and stuff. Jay, why don't you talk about how you and Annie got started? Or Annie, of course, just interjecting in time, but talk about how you guys got started in real estate. And how you got... how you found out about this cool business.

Jay: Okay, yeah, we got started about 15 years ago, we bought our first house, and we fixed it up a little bit and moved into it. And after about three years we decided that we wanted to buy a house in a little bit quieter neighborhood, we lived on a busy street. And now we had multiple children so we decided to buy an additional house, and we didn't want to sell our first house.

Joe: Okay.

Jay: So we decided to rent it out and we were able to get qualified to buy an additional home and keep the one that we had. So yeah, we put an offer on a house; we moved



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out to a golf course community and rented our first house. And as soon as I got the first rent check I was instantly hooked.

Joe: And this was 15 years ago?

Jay: Yeah, then that would have been 12 years by then.

Joe: Okay.

Jay: So we bought the first house 15 years ago, and then it ended up being our first investment property 12 years ago.

Joe: All right.

Jay: So yeah, I instantly got hooked when I got the rent check, and it paid my mortgage and I actually had about \$300 cash flow from that property.

Joe: Nice.

Jay: So yeah, after that we started doing more homework, and I found a book at the library on lease options and I read the book and it just happened to have some contracts on a disk in the back, so...

Alex: Was that by Peter Conti that book?

Jay: Yeah.

Joe: You know what? That's a great book.

Alex: I read that book too. That was one of my first books. I sat in the middle of the Barnes and Noble isle, because I didn't want to buy it, and I just sat there and read it.



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- Jay:** That was me, too cheap to buy the book, so I took it home and downloaded the disks on to my desktop. We really didn't have... Laptops weren't really popular back then. They were too expensive still.
- Joe:** Yeah.
- Alex:** You bought the book, or how did you get to this call if you didn't buy it?
- Jay:** I rented it from the public library. Had it...
- Alex:** Oh, the library. Okay, got you, sorry.
- Jay:** Yeah, so they let me check it out, and I put the disk in my desktop and downloaded all the forms, and that's how I got started in lease options.
- Joe:** How about that?
- Alex:** You read that book too, didn't you Joe?
- Joe:** It's one of my favorite books and I'm looking it up right now on Amazon.
- Alex:** It's got like a blue cover on it.
- Joe:** Yeah, it sounds... The title kind of sounds spinier like making big... But here is one of them. This might be "Making Big Money in Real Estate Without Tenants, Banks, or Rehab Projects," that was written in 2002. "Buying Real Estate Without Cash or Credit," that was written in 2005, and...
- Alex:** 2002, let's see. It probably would have been...
- Jay:** That was probably it.
- Joe:** Yeah, was it 2002 then?



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Annie: Pretty close, yeah.

Jay: Yeah, it was 2003.

Alex: That's probably it because I did 2003 as well.

Jay: Yeah.

Joe: Because you can buy it \$0.04 used, but that is actually a good book, and I have met Peter Conti, he is a nice guy.

Alex: He got a podcast too.

Joe: Well, yeah, he does the flip guys or something like that.

Alex: Yeah, but we've had him on this podcast too, haven't we?

Joe: No, I don't think so.

Alex: I could have sworn we did.

Joe: I should contact him. It's... I'm not sure if he is even doing real estate anymore actually to be honest. He might be doing his own like investing and stuff, but I don't think he is teaching anymore. He is done really-really well for himself, and he is probably just yeah, that's enough. Well, there's another book he wrote here called, "How to Create Multiple Streams of Income, Buying Homes in Nice Areas With Nothing Down," and he wrote that in 2000. And you can buy that for one penny paper bag. Wow, whoever is selling that, how do they make their...? But I have all of those books and I've read... I haven't read the multiple streams of income book, but I've read the other two, and they are actually really-really good.

I remember going through those and thinking this is great stuff. But anyway, so you were reading one of Peter Conti's books, and you stole it from the library, I'm just



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curious. And you illegally downloaded all the contracts, so did you start doing deals with that then or what?

Alex: Yeah, I actually had a friend that was buying properties; he was my age, but definitely a few years ahead of me. But he was buying with another investor at the Sherriff sale. So they were lease optioning some of those to us, and then we were sandwich leasing them to other tenants.

Joe: Okay.

Jay: So our model was if we could make a little bit down, and a few hundred dollars a month on the monthly cash flow, then we should be good to go.

Joe: All right. And then how did that work out?

Jay: Pretty good for a while. I had some personal challenges after that. I went to a treatment facility, and things kind of felt apart a little bit, so we ended up giving back our lease options and we lost our first couple of houses to foreclosure.

Joe: Okay, was this when market tanked or before?

Annie: It was a little bit of both...

Jay: It was right during that period.

Joe: Yeah.

Annie: Personal challenges and market challenges.

Jay: So personal challenges plus market challenges equaled... We started completely over.

Joe: Okay.

Jay: So...



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Joe: Were you guys still together at that time?

Jay: Yeah, we are actually high school sweethearts.

Alex: Wow, and you all weathered the storm?

Annie: We've been together... We've been together since I was 15 and Jay was 16 so...

Joe: Wow.

Alex: Well, congratulations.

Jay: Yeah, thank you.

Joe: You guys have been through a lot it sounds like?

Jay: Yeah, we were pretty much homeless almost. You know the...

Alex: Were you working another job at that time like when you were doing the lease options and things were going on a belly up?

Jay: Yeah, I was a full time bar tender managing a scotch and cigar bar.

Alex: Okay.

Jay: I got into trouble due to alcohol, and so I had to quit that job. I couldn't work there anymore.

Joe: Wow.

Jay: Yeah, I was pretty much starting from scratch, and then Annie was pregnant and when her employer found out she was pregnant with our fourth child, then they told her that they didn't need her anymore.

Joe: No way.



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- Jay:** Yeah, so it was a tough time, really tough time. We had to start over, find a new place to live and...
- Annie:** With three kids under the age of six.
- Jay:** Three kids under six and one on the way, so...
- Alex:** Wow.
- Joe:** What kind of employer would do that? Was this a big national company or just a local small company?
- Jay:** It's a...
- Annie:** No, it's a national chain.
- Jay:** I would say it's regional.
- Annie:** Well, probably regional.
- Joe:** Well, can we name names?
- Jay:** Well...
- Annie:** I don't care.
- Jay:** Ironically enough, it was called...
- Alex:** I would think these guys have too much loyalty to them.
- Jay:** No, ironically enough it was called Family Video.
- Joe:** Holy smokes! Like the video DVD store?
- Jay:** Yes



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Annie: Yes.

Alex: Is that the Christian company that does the videos or?

Annie: No, it's a rival to Blockbuster. It's what put most of the Blockbuster's competitors out of business, so...

Alex: Yeah, they're out of business now at this point anyway, right? They can't keep up Redbox totally revolutionized everything, so everybody is dead on that.

Jay: Yeah, shockingly enough, they're still in business, but...

Joe: Yeah, well, I've seen them around where we used to live in St. Louis.

Jay: Yeah.

Joe: Wow, okay. Well, if anybody listening to this that works at Family Video, just don't get pregnant while you work with them.

Alex: Wow.

Jay: Yeah.

Joe: All right, so you guys were... I imagine this must have been a pretty stressful time for you guys?

Jay: Extremely, yeah, because we didn't know where we were going to live. Our house was gone for sheriff sale like 60 days after that. I was in a treatment facility, so it was extremely challenging. You know, the very lowest point of our life, I would say at that point. We believed in real estate and we knew it worked, and we just didn't know enough to, like we didn't know even being newer investors. We didn't even know what a short sale was at that point.



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- Annie:** Yeah, it wasn't really like anything that anyone talked about what to do when your house goes into foreclosure or what your options are, or how you can get out from underneath it or anything, which I think is one of the main reasons that we do so many different types of real estate these days, because we have been in that situation that so many people are in where they have really no idea where to turn.
- Joe:** Sure.
- Jay:** Yeah, so we found it very powerful for us in our life to help a lot of these sellers that really don't know what to do. They don't know where to turn or how they dispose off this problem property.
- Joe:** Yeah.
- Jay:** We really are doing an incredible service to them to show them there is a way out without you totally destroying all of you credit, or your personal situation.
- Joe:** All right. So you... This must have been 2008, 2009?
- Jay:** Yeah.
- Joe:** Okay, how many homes did you guys control or own at that time before the market kind of crushed and things hit bottom?
- Jay:** There were five.
- Jay:** Okay.
- Jay:** Plus we had our own house.
- Joe:** All right, what market were you guys in?
- Jay:** We're in the Columbus, Ohio area.



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Joe: Okay, so you're still there?

Jay: Yeah, we're still in the same area.

Joe: Okay, so what happened after that?

Alex: Let me ask something real quick. Do you guys know Darren Dickey up there?

Jay: I don't, no.

Alex: Wow, okay. Yeah, he was doing a lot of wholesale deals up there. We should get to him on the podcast.

Joe: Yeah.

Jay: Yeah, you should connect him with me. Yeah, I can buy some houses from him.

Joe: Cool.

Jay: We do a lot of that swapping back and forth with other people here.

Joe: Awesome.

Jay: Yeah, we stated over that I talked to a couple people here locally that I knew and I actually was doing some of the contracting. The first four or five house I rehabbed them myself so I had some experience in doing that and I learned a lot from my dad growing up. I went to a couple of people and I said, "Hey, I want to buy, fix, and sell some house. I'll move in, fix it up while I'm living there, and then we'll sell it and split the profit." That was our model. After that, for a while, so we had no... We didn't have any needs for banks or loans because we were using other people's money and just investing with them and splitting the deals.

Joe: This was in '08, '09?



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Jay: Yeah.

Joe: You were clean by that time if you don't mind me asking?

Jay: Yeah, I had actually just got out of treatment and was going to a couple of meetings everyday and actually this October I'll be sober for 10 years.

Joe: Awesome, Jay, that is so cool.

Jay: Yeah, so that was actually 2005 when that happened.

Joe: That is so cool.

Jay: Yeah, so we started doing that we would move into it. I'd fix it up while we're living there, and then we would sell it and go do another one. We did that for a few years until I... We joined a few other local career groups and I started learning a lot more about real estate. I got my mortgage license, my real estate license. Annie got her mortgage license and we just started... We just jumped in head fast in the real estate and we tried to do multiple different aspects of it. We had multiple streams of income.

Joe: Why did you get your mortgage license?

Jay: I was really good with numbers and I had a real estate office that gave me the opportunity to work in their office, so I was there in house lender.

Joe: Okay.

Jay: They would have people call in leads and I would answer the phone and basically try to get them to do a pre-qualification right over the phone when they were calling about houses.

Joe: Okay.



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- Jay:** I built that up like that, and then I slowly transitioned over to being a real estate agent at that time and then Annie became the full time mortgage person so we would, she would do the loan, and I would close the transaction.
- Joe:** Okay.
- Jay:** Then during that time we were also buying, fixing, and selling. It was very light at that time we are doing like one about one every six months.
- Joe:** Was this enough to support you and your family then?
- Jay:** Yeah.
- Joe:** Cool.
- Jay:** Yeah, when I got my real estate license, I hired a coach right off the bat.
- Joe:** Yeah.
- Jay:** I get... I did a profit split with them, and I had somebody that was in the industry over 20 years coaching me so. My first year was in 2007 as an agent, which was the market crash and I made about \$50,000 that first year.
- Joe:** Wow, okay. That is pretty good at that time.
- Jay:** Yeah, so everyone was telling, "You're absolutely nuts. You're crazy for getting into real estate and..."
- Annie:** Wanted to know what our 'real jobs' were going to be?
- Joe:** Sure, I mean, I've heard the average real estate agent full-time income; the average full-time income for a real estate agent in the United States is \$12,000 a year.
- Annie:** Wow.



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- Joe:** That's not for somebody who does it part-time, and I don't know if those numbers are right but that's what I've heard. It is low. I can promise you that.
- Joe:** Yeah.
- Joe:** That's pretty good. So in 2007, 2008, you started to do short sales and rehabbing houses, how long did you continue to do that, the short sales specifically?
- Jay:** We still do them here and there we're not really targeting those currently.
- Joe:** Okay.
- Jay:** We still do you know from our leads that we get we'll get short sales here and there and well go ahead and try to make that transaction work but we solve out all of the negotiations. We don't do any of that ourselves.
- Joe:** Okay, when did you guys find out about life in error?
- Annie:** Two years ago. Approximately two years ago.
- Jay:** Yeah, two years...
- Joe:** Okay, so were jumping ahead too much then, we're...
- Jay:** Yeah.
- Joe:** I don't want to jump ahead too much.
- Jay:** Okay.
- Joe:** Kind of what was going on between 2008, 2010 kind of where the, maybe 2012, 11 or 12 was the bottom of the market. What were you guys doing up to that point then?



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- Jay:** Up to that point, we started doing more lease options because we were still in process of rebuilding our credit and so we were seeking out owners that either moved away and couldn't afford to make the payments, or they were distressed in some way and needed to move, or they were getting divorced and neither one of them could afford the house. We really focused more on options at that time.
- Joe:** That's when I was doing most of my lease options as well.
- Jay:** Yeah.
- Joe:** Between 2009, 2012 is when I was doing most of them.
- Jay:** Yeah.
- Joe:** Interesting, okay.
- Jay:** Yeah, so I think from doing all the loans that we did that really helped us to qualify good candidates as far as analyzing credit and debt ratios and counseling them on how to get their final loan approval.
- Joe:** Okay, good.
- Jay:** Plus we had been through the same thing so we knew how it felt to go through that and not have anybody to turn to so we have a large passion for helping other people that you know that need our help.
- Joe:** That's one of the reasons why I still love lease options to this day I'm not doing as many as I used to. We're doing more traditional wholesaling but I am actually starting to go back into lease options because I want to start building my own portfolio. You really have the opportunity to help a lot of people that might not otherwise have gotten that help...
- Alex:** Sandwich lease options, Joe?



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Joe: Yeah, sandwich lease options.

Alex: Interesting.

Joe: Because the reason, my... And maybe we'll talk about this later, Jay, because I know you guys still do some lease options.

Jay: Yeah.

Joe: One of the reasons I like them is because it's a great way to build a portfolio of nicer homes in nicer areas, right?

Annie: Right.

Jay: Yeah.

Joe: Because you can go out and you can buy this \$40, \$50,000 homes that rent for \$800 or \$900 a month, and get good ROI, but the problem is one of the problems and I don't even know if this is a problem, because if you've got right, if you've got property management doesn't matter. One of the issues maybe are challenges or opportunities where you own a house in a \$40, \$50,000 neighborhood. A lot of times you just don't find the best quality tenants there and...

Jay: No.

Joe: When you can lease option a home or when you can control a property in maybe a \$100, \$200,000 neighborhood, let's just say if you could, when you can control a home in \$150,000 neighborhood, the headaches go way down for the most part. You get better quality tenants and when you are buying properties without any of your own money or credit taking control of it with an option you can get as good of numbers or better with less headaches in those neighborhoods. Does that make sense would you agree Jay and Annie?



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- Jay:** Definitely, that's 100% true. You get less turnovers, you get less phone calls, you get less you know just less headaches all...
- Alex:** When you lease option a property in a sandwich style so you mean?
- Jay:** Yes, in a higher priced neighborhood.
- Alex:** Got you, so you'd rather not own a home at all. You'd rather do the sandwich?
- Joe:** Well, yeah, because think about it, if you were to buy that property, that \$150,000 property, that's a lot of money. And you have to either get a loan or pay cash. And so why not, maybe put \$1,000 down to control the property on a 5- to 10-year lease options, and you don't even have to do a lease option on the other side. You could just rent it as regular tenant.
- Alex:** Yeah, you could.
- Joe:** But the numbers got to work. The numbers need to... have to work.
- Alex:** Whatever you do that is going to be somewhat of a temporary, a control temporary situation because the owner could say, "Yeah I want the property back," potentially, right?
- Joe:** Well, not before the lease option term expires.
- Alex:** Right, because you have the... You've got it locked up.
- Joe:** Yeah.
- Jay:** Yeah, once they've signed an agreement, they've signed an agreement...
- Alex:** So control without ownership, cash-flow situation, I guess.



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- Jay:** Yeah. It was actually this just... A few weeks ago was the first time I had an owner call me and say, "I don't want the house in my name anymore."
- Joe:** So what did you do then?
- Jay:** Well, we are going to convert it and put it in to a trust. And then I will be the trustee and the beneficiary of the trust.
- Joe:** That's smart.
- Jay:** So, it's a little bit more sort of newbie. It's a little bit more advanced strategy.
- Joe:** Here's the point, because I have a similar story to you and Jay and Annie that, I think maybe Alex has too. We were buying a lot of houses subject two or with seller lease options and then the market crushed and all of a sudden we were left holding a bunch of properties. I think the same...
- Jay:** If you own it, yeah, you are definitely stuck.
- Joe:** Sure. But that's a great thing about lease option because it's less risk. I'm not saying there's no risk, but it is less risk and if the deal goes bad, it's a lot easier to get out of it. But now that I see the market appreciating again, I would rather hold a property; control a property in a nice neighborhood than a cheap rental neighborhood.
- Alex:** Right. With no equity even?
- Joe:** No, I would only stay in the middle if it had equity in it. You know what, Jay maybe you can tell us your general, what's your rule of thumb for a lease option that you are going to stay in the middle of?
- Jay:** If there's not a lot of equity, I'll still do the deal. If it's in a good neighborhood, and I know I can make at least \$300 a month on the rent and I can get at least \$5,000 for a down payment. And how I usually work mine like that is, "Mr. Seller, you really don't have any equity, it could, I don't know what the future of the market is. It could go up, it



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could go down. So that's why I need to a ten-year option with you so I have time to pay down your mortgage and I don't know how much equity is going to be there. There could be none, there could be a bunch. But I'm taking the risk, so whatever it is, whenever I decide to execute it, I'm just paying off your mortgage. You are not getting any money."

Joe: So how do you set your option price and is it whatever the loan balance is in ten years?

Jay: Yeah, just says mortgage pay off.

Joe: So your option price is your mortgage pay off?

Jay: Right.

Joe: Interesting. So, Alex, would you do that? Would you in a good appreciating area? In the slums of Virginia Beach, would...

Alex: Hey!

Joe: Okay, in the slums of the really... Never mind. A home in that area, okay, would you do a long-term lease option for ten years if it cash flowed a couple of \$300 with no equity?

Alex: Here's the issue or the problem is that you're on the hook for that money if your tenant doesn't pay.

Joe: But okay, let's say they don't. How hard is it to find another tenant in a really, in a nice neighborhood like that?

Alex: Right, but let's say you've got ten of these things and then three people don't pay, now you are on the... I mean, you got to make sure that you got cash reserves at that point for sure.

Joe: Definitely. That's really important.



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Jay: Yeah, I don't recommend that unless... If someone is thinking about this strategy and they are new to it, I would either not do that, or I would make sure that you put that deposit money that they gave you in a savings account in case that person quits paying and...

Alex: Gone off and buy Gucci shoes.

Joe: Sure.

Jay: Now we've had it happen where people get divorced or... We had one a month ago, they just up and moved out and they hadn't even told us. But we got \$4,000 down from them and they moved out. And luckily they hadn't torn it up. It was broom swept and in great condition but we just turned around and filled it again within two weeks and got another \$3,600.

Alex: On the turn around, you are not going to go back to the owner and say, "Oh, guess what, your place got tore up. We need some money to fix this puppy back up."

Jay: No.

Joe: So the important thing to realize is you have to make sure you have reserves for each one of your properties. And I would recommend two to three months of rent if you can swing it in each property.

Jay: Yeah, I would say at least three.

Joe: Right, at least three months. So the cool thing about lease option too is that if it does need work, you can put a little bit of money into it to clean it up, but you could then advertise it as a lease option again as a handyman special work for equity and get the new tenant buyer to do some of the work to fix it up. Now within reason, there can be a ton of work but you can get the tenant buyer a new one to fix it up if you cut them a good deal. Is that what you do sometimes?

Jay: We've done that...



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- Alex:** ...On the sandwich. When your tenant buyer says, “Yes, I'm ready to buy the property,” how do you handle that with seasoned issues with loans and such?
- Joe:** Great questions. And I have an answer to that but Jay, what would you say to that?
- Jay:** One strategy we've used is an open-ended mortgage with the original owner and you can record a mortgage for the difference of whatever your profits are going to be and then you just get paid out as a second lien holder.
- Joe:** What were you going to say, Alex?
- Alex:** I said, I never thought about that one.
- Joe:** Yeah. So you are not the sharpest knife in the drawer?
- Alex:** No, I'm not.
- Joe:** I'm not either. That's why I love these podcasts because you hear these guys come up with these things.
- Jay:** That's a good strategy because you know bank...
- Alex:** But you have to get the seller to agree to that. You got to say, “Hey, Seller, sign this \$20,000 mortgage.”
- Joe:** True.
- Jay:** Yeah.
- Joe:** Well then, they have to look at what their options are. If they want to ever sell this house, they are going to have to do what you ask them to do.
- Alex:** It's the least worst option, right?



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Joe: Sure, sure.

Jay: Yes, and we always very upfront with them about, “Hey, we are helping you out obviously but we are here to make a profit and everybody needs to make a profit to live.” So they are usually pretty understanding about that.

Joe: I found with lease options when I've done them is if you just, I'm not saying nothing can go wrong because something always will. No two deals are going to be the same. But if you can keep the lines of communication open with the seller and give full disclosure of everything you are doing, it's not a big deal. And there will be times when the seller says, “Listen I need to sell this thing.” And then it becomes... You can negotiate. Maybe they can give you a bigger discount if you actually do close it or maybe you just take it out of their name and put it into a trust like Jay was saying.

That's why again, I like lease options so much better than subject two's is because if the deal does go bad, you can get out of the option if you want. You don't want to give up and walk away from these deals but it's just easier. And I really like it as a strategy if you want to. If it's in your plan or vision to control a nicer portfolio of homes then this is probably a really good way to do it. Good, was there anything else you wanted to say regarding that seasoning issue when you double close on a sandwich lease option?

Jay: No, that's it. I mean that's the easiest way. Otherwise you are calling banks trying to figure out who will finance and allow your options to be paid at closing. Some banks may say yes, some may say no. so I think the easiest way to do it is just do a second lien open ended mortgage.

Joe: And when do you record that? At the very beginning or when the tenant buyer is ready to buy the house and you need to double close or close, whatever?

Jay: When we know they are a few months away from closing, they are getting close to being qualified then we would put that open ended mortgage in place. But you can certainly do it in the beginning like almost as a home equity line of credit. You could record it as a second lien mortgage without a dollar amount on it. So you see there's a



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mortgage there but there's no specific amount attached to it or it could be up to... If you see home equity lines of credit, you will see it as a mortgage on there, but they don't necessarily have the amount.

Joe: Interesting and that also has the added benefit of clouding the title as well to prevent the owner from taking more loans out on the property, correct?

Jay: Right.

Joe: Very good. Hey, everybody, this is Joe McCall, and I'm going to have to cut this interview short because it actually went a little too long with Jay. It was a great interview. So we're going to split it up into two parts. If you want to go to listen to part two, it should be released soon, probably in the next few days. But anyway, go to RealEstateInvestingMastery.com, RealEstateInvestingMastery.com to get the show notes, to get more information about this episode, to get the links and the transcription and all that good stuff. Okay, go to RealEstateInvestingMastery.com, and we'll see you on part two in a little bit. Take care.