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Real Estate Investing Podcast Creating Win Win Win Deals – Part 2

Hosted by: Joe McCall

Hey everybody, Joe McCall, REI In Your Car, how are you doing?

I'm excited—I just got back from the PGA Championship here in St Louis. If you are listening to this and golf fans, it's one of the four major golf tournaments. I think there's four, right? The British Open, the US Open, The Masters and the PGA Championship. Well, this year, it's the 100th PGA Championship and it was in St Louis, at a golf course called Bellerive. Very exclusive, very exclusive golf course. And it's funny you hear people talk about the golf course all the time and they'll say things like, "yeah, they haven't let me play there since June because they're working on the course," and things like that. Really, they haven't let any members, even members, play the whole months of June, July and August. So, three months. None of the members have been able to play and they're charging all the members of an extra special assessment for extra work that needs to be done to the golf course to prepare for the PGA Championship. It's funny. There're thousands, probably tens of thousands, 100,000 people maybe, I don't know, a lot of people over there. It was fun to be at.

So anyway, on the last podcast I was talking about creating win-win-wins on your deals, right? Last time I talked about creating win situations for sellers. Now, I'm going to talk about creating wins for buyers as well. This relates to investor buyers and tenant buyers. You know, investor buyers for your traditional selling deals and tenant buyers for your lease option deals. It's important you create win-wins, right? And for the cash buyers, let me just kind of talk about the investor buyers first.

It's important for an investor buyer that you always under promise and over deliver and you always, always, always tell the truth, okay? This relates to incentive buyers as well, but especially investor buyers, always tell the truth.

If you know something's wrong with the property, don't try to hide it, tell that to them, right? It may kill the sale, but you got to tell it to them and always give full disclosure of everything you know, right? That's common sense. The other thing I'll say is always under promise and over deliver. And what does that mean? Well, if the rents are like \$700-800 a month, you should tell them it's \$700 a month. If the repairs are \$20,000-30,000, you should say \$30,000. If the comps are \$80,000-90,000, you should say what? \$80,000. Because you know, just a



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\$50 to \$100 swing in the rents can make a huge difference on the cap rates for the ROI calculations. You know, so when you're advertising a property, sometimes it's better not even to say anything about what you think the repairs are going to be or what the ARV is or whatever.

I mean, these investors are smart enough, they can figure that out themselves. But there's no faster way to lose credibility when you're advertising a house than you advertising a house for \$45k and you say that it's worth \$80k. Everybody that knows anything about deals in that market are going to look at that thinking you're on drugs or something, right? So, then the next deal that you send to them may actually be a good deal, but they're just not going to pay you much attention. That's important to remember, okay? When it comes to tenant buyers, you know you always want to create win-wins for tenant buyers.

Some of the biggest things you got to remember - why would a tenant buyer want to do a lease option? Well, it gives them time to fix their credit. They get to lock in a good price on a home. So, when I'm advertising a lease option property, I'm not marking it up 15, 20 percent higher than current market value. I may be marking it up five percent higher than current market value if it's a home in San Diego, maybe 10 percent above current market value for two years. But you want them to have some incentive to want to buy the house when it's time to get a mortgage. So, you've got to be careful with over blowing your option price of the home, right? So, make sure it's a good, fair price, but they're going to want to buy it when it comes time to buy it, okay?

The other thing is, you never ever want to put a tenant buyer in a house who does not have a realistic chance of getting a mortgage in one or two years. I think, I mentioned this in the last episode, but there's gurus out there that teach that, just get a tenant buyer in. The more, the better, right? You hope that they don't buy the house because then you can get someone else in there and make another five grand. Well, that's disaster waiting to happen. If you have that attitude and that approach, you should only put tenant buyers in houses that have a realistic chance of getting a mortgage in one or two years. So, if they have a \$300,000 unpaid child support for whatever reason and alimony and unpaid taxes or whatever, there's no way they're going to be pay that off in 12 or 24 months.

So why would you give them a lease option with a deadline to buy a house that's just not going to happen? So, don't ever do that. You know, make sure they can afford the home and it's not going to be their last penny every month. It doesn't matter if you're trying to get five grand down on a house and they have 20 to put down on the house. Don't do a lease option with them if you know they can't get a mortgage in two years or less, that's just not right. The other thing that you got to think about with buyers. This is really important to pay attention to this, okay? Especially with lease option deals.



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You want to make sure that the tenant buyers get an inspection done on the property and the same with cash buyers or investor buyers for wholesaler deals, right? Make sure they get an inspection, professional inspection done on the property because you don't want them moving in the house and then later realizing, oh, there's termites or others foundation problem, or Oh, the sewer lateral is filled with tree roots and it needs to be replaced and why didn't you tell me about this?

You want to make sure that they get a professional inspection done. If they don't want to get one, make them sign an initial a thing on my contract that says, I've waived my right to get a professional inspection done. That's really critical. Let's see, what else?

Lease options are great for tenant buyers. You know, again, because somebody may want to buy a house, they moved, they're moving to a new city and they just need six months to repair their credit. It's really stinks if they have to go live in an apartment for six months while they fix their credit and then move again six months later to a house, right? Wouldn't it be cool if they could actually live in the house while they get their credit up? Twenty, 30 points and so that they can buy the house and actually get a good mortgage. So that's important.

Now the other thing too is if you're doing lease options, make sure you are using a third-party escrow service to collect the initial option, consideration money, the option deposit, and also the rent. If you're assigning little lease option, you're stepping out of the deal. You want to make sure you have a third party collecting the rent like an escrow company, collects the rent, pays the mortgage, and then sends any difference to you or to the seller or whatnot, right?

You want to avoid the situation. I've seen this happen a lot, unfortunately, not in my own deals, but where the tenant buyers paying the rent to the seller and the seller's not paying the mortgage and all of a sudden, the house gets foreclosed and this tenant buyer that's put five grand down, that's gone to you and had been paying their rent on time every month, but now the house is getting foreclosed on. That's not good.

So again, when you're setting up these deals for your lease option, tenant buyers, make sure you're setting them up to win and you're not setting them up to fail. That's so critical and important. You know, creating a win - win includes setting up wins for you, the investor, right? And you know what I meant? Eight minutes and 30 seconds, so why don't I break that up for part 3. That way I can leave you guys on a cliffhanger a little bit. Why would an investor want to do deals? Because I'm telling you, if you do a bunch of deals and you only make one or two or \$3,000 on each one, that's not bad money, but you're going to get burned out pretty quick. That's a lot of work for just a little bit of money.



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You want to make sure you're making at least five grand. I would shoot for 10 grand. You should shoot for \$10,000 on each deal that you do and when the seller wins, when the buyers, then you will win. And if you're doing this right, you'll still make 10 grand on these deals, minimum.

Alright guys, we'll see you on the other side. They don't forget to get my book at wlobook.com. I wrote a book on Wholesaling Lease Options. I gave you the three secrets to make more money doing lease options part time when you are in your full-time job. You can quit your job in 90 days or less like I did, so check that out. Wlobook.com. It's free. I just ask that you pay the shipping and handling and I'll send it out to you and I will see you guys later. Bye.