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Talking Lease Options

Hosted by: Joe McCall

Guest: Ray Shurman

Joe: Alright, what's up everybody? Joe McCall from the Real Estate Investing Mastery podcast and got a special guest here, real quick podcast. And I posted something the other day saying, Hey listen, who's done some lease option deals? I'd love to talk to you about them on the podcast. And Ray Shurman said, Hey man, I've done some, let's talk about it. I said, cool. So, I got him on here. Ray, how are you?

Ray: I'm doing well, Joe. Thank you for having me.

Joe: I'm glad you're here. So, you're from the Charlotte, North Carolina area, is that right?

Ray: Yes sir.

Joe: Cool. So, talk a little bit about how you got started in real estate first.

Ray: Okay, yes sir. I joined the army after high school. Got out 2015 at Fort Knox, Kentucky. Did IT, worked as an IT help desk. Got kind of bored, the nine to five, you know, didn't work for me. So, I looked for ways to make money without a nine to five. I came across real estate and wholesaling. Yeah. So, I did what is not really common... I burned my boat, quit my job because on YouTube they make it look so easy. Put the property under contract, sell your contract and boom, but it's a lot more than that, you know, just because it's simple doesn't make it easy.

Ray: So, I decided I'm going to make this work no matter what. So, I came across seller financing, lease options, came across some of your videos and...

Joe: What year was this?

Ray: So, this was 2016 so I've been doing this for a little over two years. So, yeah, came across lease options. My first deal was a sandwich lease option.

Joe: Love sandwiches, man, that's awesome!



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- Ray: You know, got cash flow down, payment up front and closed last year it was a two-year deal.
- Joe: Talk about the numbers on this deal, would ya? This is a deal you negotiated with the seller to lease option and then you found a tenant buyer to lease option it and buy it. Okay. So, what were the, what were the numbers?
- Ray: So, the numbers, you know, I was trying to wholesale it, but then, you know, once I found out about lease options, I came across a seller and said, Hey, I got another idea... how about I take over your mortgage payments, give you a nonrefundable down payment and a cash out within two years? And she was a landlord. I found out this strategy worked best for landlords because they are already in the mindset of taking payments terms. So, she agreed to a \$700 rent. I rented it out to the tenant buyer for \$1,000.
- Joe: So, you had \$300 cash flow to start out. Nice!
- Ray: Yeah, a three a hundred-dollar cash flow. Yeah. So, \$2,000 down. I like to go little bit above security deposit to make it, you know, look a little bit more sweet. So, we agreed to \$2,000 and sale price, I believe, was \$60,000. Yes, it was \$60,000.
- Joe: So, what did you buy it from the seller for and what did you sell it to the tenant buyer for?
- Ray: So, I sold it to the tenant buyer for \$80,000.
- Ray: Nice. There's a \$20,000 spread.
- Ray: Right. And I kind of screwed myself a little bit. The house was worth, ARB was like \$100,000. Yeah, I know. I got it... There was nothing wrong with the house. And that's the beauty of doing the lease options. You can work with nice house instead of distressed properties.
- Joe: Well, I love this because the seller, the seller accepted a cash offer, but you couldn't wholesale it. Right? Instead of just walking away, you offered something different. And so the how long did the tenant buyer rent the property from you?



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- Ray: A year and a half. You know, they gave \$8,000, put \$8,000 down, so I made \$6,000 and that took me less than a week.
- Joe: Good for you, man. So, like I thought you collected two grand from the tenant buyer, you collected \$8,000 from the tenant buyer and you paid the seller two thousand. You made a profit upfront of six grand. Did that have to go to a savings account, an escrow account, or that was your profit, wasn't it?
- Ray: My profit. However, the way I do lease option now is I don't spend any money on the, of the down payment because what could go wrong will go wrong. So, just in case the tenant buyer messes up the property for whatever reason, or decides to leave, I got the money in reserves to fall back on.
- Joe: Man, I was not as smart as you are when I was first getting started. So, that's smart. Good. Good for you. Alright. So, they already closed on it?
- Ray: Yes. They closed on it four months, four, five months ago.
- Joe: I love that though. I mean, you could've made more money. Right. But because you gave the tenant buyer enough cushion in there, they had a lot of incentive to want to fix their credit and to buy that house. Sometimes you gotta be careful about being too greedy because then the tenant buyer won't have any incentive to buy the house. Right?
- Ray: Right, right. And you know, they, once they move in, they remodel the house, they start working on the house. They had to email me first before doing it because they are still not the owner. Nine times out of ten the owner always tells me yes because when you improve the property, what happens is the value goes up.
- Joe: So, the tenant buyers fixed up the property themselves, right?
- Ray: Right. And the tenant buyer... that's the thing: my paperwork... I know, I came across your videos, you know, one page or two pages—keep it simple. I would like to keep it simple for me. But you know, doing this from what I learned, like people is not big fan of leases because of the things that went wrong when other people were trying to do it when they wasn't doing the right way. So, I want to make sure everybody is protected.



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- Ray: So, my paperwork consists of 20 documents for both seller, myself and buyers and this disclosures that need to be signed. I also pay directly to lender. I never give the money to the seller. Some of them I put, like say the mortgage for the seller mortgage is \$700, they rent to me for \$1,000. I will pay the mortgage directly. Then give them a paper called the letter to the lender saying that they are require a property management company states that payments coming from me or statements. So, I like to make sure the lenders are getting paid because from what I heard is some sellers don't pay to the mortgage company and when they end up foreclosed cause the tenant buyer's not doing what they supposed to do, they end up losing the house. So a little example like that. I can go all day.
- Joe: Oh man, that's so important because you've got to make sure the mortgage is being paid. If they're going into foreclosure, like all of a sudden the tenant buyer's going to look at you and say, what's going on and then it can be your fault. Nice. Alright, so how much total profit did you make on that deal approximately?
- Ray: That's a total profit for \$300 a year... About \$14,000.
- Joe: Well, not including the money you got also up front. So, you made a \$20,000 spread plus about \$3,600 a year in cashflow, right? I think you said 18 months, right? A year and a half?
- Ray: Right, 18 months. A year and a half.
- Joe: So, 20 plus 30... So, you made \$25K on the deal.
- Ray: Yes, sir. I did.
- Joe: Gross profit, right? Now you might've had some, did you have some closing expenses, closing costs or whatnot?
- Ray: Oh, no. The tenant buyer covered the closing costs.
- Joe: The tenant buyer pays the closing.
- Ray: I don't think I can ever get that lucky again, but on that one...
- Joe: You can get that lucky again. Nice! Good for you.



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Ray: Because I left so much room in that bill. So, they were fine with paying the closing.

New Speaker: Yeah. Nice. Of course. I always say that you've got to make sure that the tenant buyer has some incentive to want to buy it. They've got some room in it. How did you find that deal?

Ray: So, I found that deal through Zillow, for rent by owners.

Joe: So, you contacted the for rent by owner?

Ray: No, actually that one was for sale. Yeah. She was a landlord looking to get out of the business. Had a bad tenant and she got tired of it. So, she was trying to get rid of her properties and I told her, Hey, you know, I'll do the wholesale thing and I can buy your house. Give me 30 days to close, this and that, look for a buyer. But it didn't work out that way. So, yeah.

Joe: Well, I love, I love me some Zillow leads, you know, because they're, they're just great ways to find the owners. But that's so cool. I hope people listening to this understand what you just did. Like, found a seller that wanted to sell but couldn't, you'd tried to buy it, tried to make a cash offer, didn't work out. So, you just didn't walk away. You offered them something different. You offered them...

Joe: Cool. So, what are you doing now? You've done more deals since?

Ray: So, now I specialize, you know, ever since I found out this really works, you know, you have some sellers that can sell and a buyer that can buy and that will happen no matter what the market looks like. The market goes up and down, there will always be problems. So now I focus on lease options. That's the only thing I focus. I've watched more of your videos and I find deals by expired listings for rent by owners' agents. Now we actually work with agents and say, Hey, I can pay up to 3% commission if your listing is about to expire, you know, if a seller agrees to do a lease option, I pay up to 3% upfront.

Ray: Now trick, the trick about this is I don't, it's not coming out of my money. They coming from the down payment, the option fee from tenant buyers. So, you know, there's many ways of doing this. I'm also, I do this thing, we talked about this yesterday called fixer upper lease option.



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Joe: Yeah. Talk about that. So, fixer upper lease option?

Ray: That's a FULO for short.

Joe: I like that.

Ray: Yes sir. Fixer upper lease option is where instead of going to the bank or private money lender and get cash, you know, cash out the seller, you can lease it for a couple of months, six months or a year and fix up the property and then resell it and cash the seller out. Now that would save you interest, actual closing costs. I never borrow from a private lender, but from what I heard from my investors that fix and flip, that saved them a lot of money and now that money don't have to be tied up, they can do a million of these as possible.

Joe: Find a property that needs a lot of work, right. Instead of going out and borrowing hard money or private money, you know, you just lease option from the seller for what, six months?

Ray: Well, up to a year. Well, up to two years. So, what I do is I try to go as long as I can with the seller just in case, I need more time, if the tenant buyer needs more time. So, that one was for two years. But the investor, I only do this when I... Now with a fixer upper lease option you only want to do this with people who have experience in fixer uppers. You know, you don't want to put a regular tenant buyer. They may not have experience; they may tear the property. So, you want to make sure... I do this with my investor friends. You know, my local REIA group that I know who are fixer uppers and it's saved them a lot of money.

Joe: Oh, this is cool, I like this angle. So, you're, you're not actually putting a tenant buyer in the house to fix it up. You're partnering with another rehabber that you already know has a good reputation.

Ray: And they can get in with little to no money down. And that way, like I always come in with zero down payment with the seller because the seller won't ask for a down payment. I always tell him this, I don't want to do a double down payment. Now double down payment is where you put money down to get into the property and then you had to put more money down to fix up the property. That's a double down payment. And when I talk to some their like, Oh yeah, makes sense. You know, so with the seller zero down but with



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the rehabber like \$1,000, \$2,000, \$3,000 so I made a couple of grand upfront and then get the rest when they fix it up and resell the house.

Joe: So, how do you split the profits after the property has been fixed up and is sold? How do you split the profits there?

Ray: So, say like just like how I come up with the sale price. Hey, I'll sell this to you for a hundred and then they buy from me for a hundred and I got with the seller like \$80K. So, it's like wholesaling.

Joe: Oh, I like that! So, they sell at hundred they keep?

Ray: Right. So, it's like wholesaling, but instead of getting cashed right now you can just get cashed out later on.

Joe: That is so brilliant, man. Because you know, if you're going to give the seller cash, you might give them, you might have to give them like 40 right? If they can do this kind of a creative lease option, you might be able to get them 60 or 70 right? Then you sell it to that, you lease option it to a rehabber, right? But it's still kind of like a sandwich lease option, right? That guy, that rehabber is going to pay you the rent that covers the mortgage, if there's a mortgage, that covers the mortgage, right, and so you're going to sell it to that rehabber for \$10K to \$20,000 profit, right? They're going to fix it up and then sell it for, hopefully they'll get like a 20 or \$30,000 profit on resale.

Ray: Right. And the thing is, I let the seller know, Hey, if for some reason the rehabbers don't finish or we don't pay you on time, then you get a nice house.

Joe: You can get a house back in better shape than it was. And you've been paying the rent every month.

Ray: Right. And also we also, what I also do is put the property into a trust so that the seller, the rehabber can have it in their name. And when they read... Something about a holding period, like they had to own the property for a couple of days or a couple of months before they can rent it.



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- Joe: Oh yeah. The rehab is because of the, yeah. What you're saying is FHA has certain rules. They have to own it for three months. 90 days. Right. So, you put it in a trust to kind of help with the seasoning issues going forward, right?
- Ray: That's correct.
- Joe: Good for you! That's smart.
- Ray: Yes sir. And so far, that's been working out. I've made a company called America's Second Chance, basically meaning we are a lease with the right to purchase. So, it's the lease option. But you say lease with the right purchase and we help people, again, hold the tenant buyer's hands with credit repair companies and mortgage lenders. So, so far everything's been going smooth with lease options.
- Joe: Oh, that's cool. Right, right. Thank you so much. Hey, listen, if somebody wants to get ahold of you, if they're in the Charlotte area, maybe want to partner with you on a deal or something, how can they get ahold of you, Ray?
- Ray: Yeah. So, go to www.America2ndChance.com.
- Joe: America2ndChance... is that with the number two?
- Ray: The number two and "nd" and then Chance.com.
- Joe: America2ndChance.com. Thank you, Ray. Are you on Twitter or Instagram or anything?
- Ray: On Facebook, YouTube. Yeah, Ray Shurman as you see here. Ray Sherman. We're looking at doing multiple markets, doing JV...
- Joe: Alright, right on.
- Ray: Hey, who knows? Maybe one day I'll call you and we can do deals.
- Joe: Thank you, Ray. Hey, listen everybody really quick. If you want my book to learn a little bit about what Ray's talking about, you can get this book for free at WLObook.com. WLObook.com. It's about wholesaling lease options; and you can also go watch my



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webinar. SLOclass.com. Simple lease options, SLOclass.com. Alright. Ray, thanks a lot, man. We'll see you, take care.

Ray: Thank you.

Joe: Bye bye.