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The Ultimate Rent to Own Investment Strategy

Hosted by: Joe McCall

Welcome. This is the Real Estate Investing mastery podcast.

Hey, what's up? I'm Joe McCall and in this little video I'll show you the ultimate rent to own strategy and how you can make a lot of money using lease options. Are you ready? So some of the videos I've done, I've done a lot of these and you've seen it before. What is a lease option? Lease options where you basically lease a property with the option to buy it at a predetermined price sometime in the future.

So for an example, you have a seller that has a house. It's worth two hundred thousand dollars and they owe \$180000 and their payments are maybe fifteen hundred a month, but that property will rent for seventeen or eighteen hundred dollars a month. So there's about two to three hundred dollars a month in cash flow, about twenty thousand dollars in equity. And the seller had a job transfer, they had a divorce. Something happened where they have to move. But there's not enough money for them to. There's not enough equity for them to take your all cash offer. If you're gonna make a cash offer, it's worth two hundred thousand. Maybe you need five to 10 grand in cosmetic work. You know, you're going to have to offer something down around 150 hundred, hundred sixty to make it work for you. Right. If you're a rehabber or you're a wholesaler or your flipper.

But what if I told you that with a lease option you could actually give the seller the same equity, if not more equity that they would get if they sold it with a realtor, that seller who's got to move. Something happened in their situation and they have to leave the house or they don't want to be a long-distance landlord. They don't have very many options. They could sell it with the realtor, but any equity that they have might have thought that they had is all of a sudden gone. Sometimes a lot of sellers, you know, they want to sell it. They list it with the realtor.

They actually have to come to closing with money to pay the commissions, to pay all the closing costs, to pay all of the different costs. If you look at the expenses that are involved with selling a property with a realtor, the traditional way you're looking at sometimes 12 to 15 percent of the price of the home goes towards things like reducing the price of the



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home. Commissions, inspections, repairs, closing costs, a bunch of different things. So anyway, there is a seller that's motivated.

You know, they don't want to be a long-distance landlord. They're freaking out. They're like, how? What am I gonna do? They've already moved or they're going to move. And there's not enough equity. They don't want to just rent it out and be a long-distance landlord. You come along and say, hey, listen, maybe I could lease your property with an option to buy it in the future. The seller owes 180 on it. You offer the seller maybe one eighty-one eighty-five. Give them a little bit. Right. Their payments are fifteen hundred. You know it can rent for seventeen, eighteen hundred. So you offered to pay the seller fifteen hundred dollars a month and rent to help cover their mortgage payment. And you negotiate maybe a three to five year term. All right.

So that's your agreement with the seller that I call it the A to B you have an agreement with the seller to buy it for one eighty-five, to rent it for fifteen hundred a month. And you're gonna do that for probably three to five years. Now how do you make money on that, you say. Well there's lots of different ways you can make lease options and make money on lease options. But on this particular deal let's say we're gonna do a sandwich lease option. Well then I could maybe advertise and sell that house for two hundred and ten thousand two hundred fifteen thousand dollars in maybe three to five years. And I could rent it out for about eighteen hundred a month.

So there's three profit centers in a sandwich lease option deal like this. There's cash now, cash flow and cash later. Okay. Cash now. Cash flow and cash later. So I give the seller a contract to lease option. I'm going to stay in the middle and then I'm going to sublease it out and find it to another tenant buyer who's going to come in and take my place or not. I'm sorry. Not take my place. I'm going to stay in the middle. I'm getting ahead of myself because that's another lease option strategy. So anyway, I'm going to pay the seller fifteen hundred. I'm going to rent it out for eighteen hundred. How much is that. Three hundred dollars a month. I'm going to give the seller maybe a couple hundred bucks upfront, but I'm going to collect probably about seven to eight thousand dollars upfront from the tenant buyer and then the equity spread at the back end. I'm gonna sell it let's say for two fifteen, I'm going to buy it for two eighty five.

What's my equity spread there? About \$30,000. Right. So these deals can be very, very profitable. You can actually get all the benefits of owning investment property. Right.



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Without actually getting a loan, without getting a mortgage, without actually going out and borrowing money to buy that deal. You can now have an investment property that can make you a lot of money. All right. You understand?

So there's about three or four ways to make money on a lease option deal. The first one I just kind of explained was the sandwich lease option strategy where you're going to stay in the middle. You get cash now, cash flow and cash later. You get the cash now from the money that tenant buyer puts down upfront. And that's you know, let's say you give the seller a thousand bucks, you collect seven or eight thousand dollars from the tenant buyer. That's about a six or seven thousand dollars spread that you get up front. You can do whatever you want with that money. I suggest you save at least half of it for future unforeseen circumstances. Right.

You get cash flow of a couple of three hundred dollars a month. Okay. And then the difference at the back in what you sell offer and what you buy it for could be about \$30,000. So in this particular deal, you might make about forty, forty five thousand dollars profit without ever even taking ownership, taking over the deed, getting owner financing, getting bank financing or anything like that, not borrowing any private money. You can make very good money on that kind of a lease option deal.

Now there's also what I call assignment lease options or wholesaling lease option deal. Let's say the house is worth 200 and the seller owes 200. And the payments are eighteen hundred a month and it rents for eighteen hundred. There is no equity, there is no cash flow. How can you make a deal, make money on that kind of a deal? Well, what you do then is you sign it. You create a lease option agreement with the seller at whatever price they want. Whatever price they owe on it, as long as you have time, you can do it.

So you give the seller the lease option contract for two hundred thousand and eighteen hundred a month in rent. You turn around and you assign or you sell that contract to a tenant buyer who's going to take your place and you're gonna be out of the deals you can sell or assign that contract to a tenant buyer for an assignment fee of anywhere from five to ten thousand dollars. That's the lease option assignment. Do you believe there's other ways that you can make money with lease options as well? Yes. One of them is called the consulting strategy. Right. The seller says, you know what, I want to do a lease option. You make an offer. They say now you're making too much money. I don't want you to keep the



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option deposit. I want the money. So then you could say, well, listen, maybe I can teach you and show you how to do a lease option deal. You can hire me as a consultant.

And so I have students that do this. I've done it before. You can you can sell your services and your knowledge to that seller. They can pay. Usually you get about one to two months rent as a consulting fee and you just teach them how to do the lease option deal. In my course, I have agreements that you can do all of that. So you're not going to do any of the contracts or the paperwork, but you're going to just teach them everything that they need to do to do lease option on their own property. You're gonna show them the contracts that you have, but you also going to tell them you should get a local attorney to help you review those, et cetera, or you can show them where they can get local contracts. You know what I'm saying? But they have to do all the work. You can't do any of the work for them.

There is one more way that you can make money with lease option, and it's called just a straight options, so it's not really a lease option. It's just a straight up old-fashioned option agreement. And the cool thing about this is I use this when I've got a deal where I'm not sure if it's a good deal or not. The seller's motivated, but I don't know if I can actually sell this thing. So I'm going to give what I call a flexible option to the seller. I'm going to say, you know what? I think the house is worth two hundred today. You're willing to sell it for one seventy-five. I'm not sure if I can flip it. You know, based on what's going on. So I'm just gonna give you a straight up normal flex option. I call it a flex option and it says I have the option to buy your property anytime during the next six months for, you know, let's say one seventy-five, hundred seventy-five thousand dollars. And this option is non-exclusive.

So I'm not tying up the property. If the seller sells it before I exercise my option, that's fine. They can cancel it and they owe me nothing. So I write that in the contract. So there's absolutely no risk at all whatsoever to the seller and there's no risk to me either. I just have the option. The seller sells it before I do. That's fine. They can cancel my agreement, but if I find somebody that's willing to that wants to buy the property for 180. So I have it under an option for 175, they're willing to buy it for 180. I can assign or sell my option to that end buyer for \$5000 assignment fee. Or I could double close. I could double close, and buy it for 175, turnaround and sell it for 180 the same day. Now, that gets a little trickier. You may need some transactional funding or you may need to do some creative stuff. But if you work with a good local investor friendly title company, they will help you with that. Does that make sense?



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So again, you can do a sandwich lease option. There's cash now, cash flow and cash later to make about 30 to 40 thousand dollars on a sandwich lease option deal. There's a wholesaling lease options where you're just assigning the contract. You get a property under contract with the seller to lease option. You sell that contract to a tenant buyer and then you're out of the picture. And by the way, in that deal, too, I also don't lock it up. I don't take it off the market. I don't tie it up. If the seller sells it before I find a good tenant buyer, that's fine. They can cancel my agreement.

The third way you can make money with lease options is straight up old consulting. It's just normal consulting. You know, the seller will pay me a fee, maybe half upfront. The rest later I'll teach them how to do lease optional, consult with them as like a coach and they do it on their own. That's a consulting service, right? And then there is the straight up option where you get the property, because maybe it's not like it's not enough equity. You're unsure if you're gonna be able to sell it or what. You just don't know it's unsure. Then put it under a six-month option. The seller can cancel it if they sell it on their own or whatever. Sometimes you can even add on there that they have the right of first refusal. They give you the right of first refusal so that if they get a better offer. They're gonna give you a chance like a few days to make or beat that offer.

But anyway, that's a straight up option when you find a buyer willing to pay more for the property than what your option is. You can sell that option to them for a fee or you can double close or whatever. So I hope that makes sense. There's a lot of different ways to do lease options. And one of the other things that I love about lease options is I'm not just making one offer to the seller like I can make them an offer for cash or lease option or wholesaling lease option or consulting, maybe even owner financing. Now here's the cool thing. Let's say they want to do lease option, but they're stuck on their price. Well, I can get them that price if they're willing to negotiate on the rent or maybe the term or maybe the down payment, maybe some rent credits. If they're stuck on that rent because that's what their mortgage payment is, then maybe I can get them the rent that they want, but they can give me the price that I want or the term that I want.

So you can either negotiate price or terms and you find out from the seller what's more important. If they're stuck on their price, they give me my terms. If they're stuck on their terms, they give me my price. So you can give the seller options, you can say take this or this or this, it doesn't matter to me, pick one. That's the beautiful thing about this. All right. So I hope this has been helpful to you. I hope I've done a good job explaining it. But if you



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want more information, if you want actually see me with slides and all professional, do a class and a webinar on this, go to SLOclass.com S-L-O stands for simple lease options. Go to SLOclass.com.

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