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Lease Options In Real Estate SIMPLIFIED

Hosted by: Joe McCall

Welcome. This is the Real Estate Investing mastery podcast.

Hey, what's going on, guys? Joe McCall here and on this little video, I'm going to show you what a lease option deal is. I'm going to simplify the process. A lot of you have heard of lease options before, but you may not really understand what it is. You think it's just too complicated. I'm going to break that down and simplify the whole process in this video. Are you ready? All right. So first, a lot of you guys know I like to use mind maps. I want to show you in a little bit how you can get really cool things like this mind map and some calculators and some contracts and stuff like that for free. All right. So what is a lease option? It's really basically where you lease a property for a period of time; A nice house in a nice area with the option to buy it in the future.

So you lease the property for a year, two years, five years, 10 years with the option to buy it in the future at a predetermined price. You don't have to buy it, but you can if you want. You have the option to buy it. This is the ultimate control without ownership. I think it was Nelson Rockefeller who said "The secret to wealth and success is to own nothing and control everything". And that is exactly what a lease option is. So why lease option deals, you may say? Well, if you're doing a lot of real estate investing or if you're just getting into it and you're marketing, you probably maybe are getting a little discouraged because there are not very many motivated sellers that have a lot of equity. All these investors are targeting this small little pool of investors that are super motivated and have a lot of equity. But there are more motivated sellers with little to no equity and very few investors going after those deals. Small pool of sellers. Big pool of sellers. All right. Big pool of investors. Small pool of investors. So there's much less competition on more deals when you're looking at lease options. OK. And again, like I said, the secret to wealth is to own nothing, control everything. So lease option, though, allows you now the benefits of owning cash flowing, highly valued real estate without owning it, without putting any of your own money into the deal. You don't have to go out and get a bank loan, borrow any money, take over the mortgage, do complicated seller financing, have the seller deed the property to you and all that stuff. You don't need to do it right. OK.

There's three profit centers on a lease option deal cash now cash flow and cash later. The cash now is the option deposit money the tenant buyer puts down. He lives in the house. Typically they'll put in three to five percent. That money is refundable if and when they buy the house. But that money can go into hip pocket National Bank. All right. Now, I suggest if you do want a lease option, you save some of that money,



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set it aside so that you know you're not, if you need it later. But that doesn't have to go into an escrow account or a savings account or whatnot. Cash flow is the difference between what you're paying the seller and what you're collecting and rent from the tenant buyer. That could be anywhere from 300, 400 bucks a month or more. Cash later is the difference between what you're buying it from the seller for what you're selling it to the tenant buyer for.

OK. I'm gonna be talking about how to make sure you set up win-win-win deals for everybody involved in these situations. It's unlimited how many deals you can do. You don't need an experience. You don't any need money. So, again, you don't have to go like a traditional bank. They will limit how many mortgages that you can actually have. Right. Well, there is no limit to how many lease options you can do. Now, when would you use or when would you want to do a lease option? You might own a property that you want to sell, but maybe you don't have enough equity in it. Or if you're do, you're not willing to give it all away. So and you don't want to be a long distance landlord for it, for example. Right. So maybe you lease option your property now to somebody who wants to buy it, who's gonna take care of it better than a regular tenant would. And then they buy it and they don't. You don't have to pay any commissions to a realtor to help you sell it. You may have a rental property that you just want to sell. You're tired of dealing with the tenant headaches and hassles. And trust me, I've been there, done that.

When you compare a regular rental property with a tenant that they will call you every time the faucet leaks to a lease option property where the tenant fixes the faucet, where the tenant is more responsible, they want to buy the house, they put more money down into it. They're gonna take better care of the home. You know, it's much, much easier doing a lease option. Maybe you want to buy a property from a seller, but they don't have enough equity. Maybe it's in a good area. Good appreciating area. Let's say Colorado Springs, for example. Great market, right. The housing market will probably always go up in Colorado Springs just because it's such a good area. The college universities, the military bases that are there. Where it is and in the country. Just beautiful out there. Right. So like but maybe prices go up pretty steady steadily and consistently and maybe there's not enough equity for you to buy the house. But if you lease option it and you lock in a price now, you know, maybe in three to five years, it'll be worth a lot more and you have a lot more equity. So you can control that property without actually owning it.

Maybe you can't get financing, you know, either. Maybe your credit's not good enough. Maybe you don't have enough money for a down payment. Maybe you own too many other houses and you want to start getting more cash flow and start building up your retirement portfolio and stuff like that. Well, you can do that with the lease option cause again, you're not limited by your credit score or you know, how good, how many how much money you can borrow and stuff like that. Maybe just for you personally, you want to rent a property for a little while before you buy it. So you can actually use a lease option for your own personal



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residents, and I'll be talking more about that in future videos. And I've done that several times, right? You just want to rent something. And if you decide, yeah, you know what? I like this area, I like this house, I want to buy it. Then you can do a lease option there.

Now, when it comes to lease options, it's important to do, to structure your lease options where everybody wins. The seller has to win. The buyer has to win. And the investor you have to win as well. I am strongly, strongly opposed to those people that get out there teaching that, you know, just put a tenant buyer in there, the first one that can pay you the most money. Hopefully they won't buy it so you can keep their option deposit money and get somebody else in there. No. You want to make sure that you only put tenant buyers in the homes that have a realistic chance of getting a mortgage and actually buying it in one or two years. Right. I want to give the seller a fair price. I want to sell it to my tenant buyer for a fair price. I'm not going to try to sell it to them for two hundred thousand dollars in four years when it's worth maybe a hundred and fifty thousand dollars today. You have to make be fair with this. And when you when the seller wins the buyer, you know, everybody wins. That's the goal of this. Right.

So but why would a seller want to do a lease option? Well, they can get a higher price for their home. Maybe they can't afford a realtor commission. Maybe they're upside down or they're facing foreclosure. They're worried about double mortgage payments. Right. They don't have to rent it to a regular tenant who's gonna trash it, not take care of it. They get to rent it to somebody who wants to buy it. They don't want to be a long distance landlord. They don't want to pay a property management company a ton of money. They don't. So they don't to worry about regular maintenance and repairs. And again, it's a great way for debt reduction to reduce the double mortgage payments and all of that right now.

Why would a buyer want to do it or a tenant buyer? Well, they get to try a house out before they buy it. Maybe you can structure some rent credits where they get some of that rent credited back to them, not as part of their down payment, because that's kind of hard to do, but like maybe towards seller concessions or closing costs or just to reduce the price of the home. Sometimes they can work for equity, right. So they can go into a house and fix it up. I have never fixed up a property that I sell on a lease option. Never touch it. I can just discount it. Give it to a tenant buyer who gets in there and fixes it up themselves. They'd rather fix it up themselves and pick the paint colors, pick the flooring, pick the cabinets and all of that. Right. So sometimes they can work for equity. They get to lock in a good price that gives them time to rebuild their credit. And they don't have to rent just for six months to a year and then move again when their credit's ready and they're ready to buy a house. They can actually rent while they're fixing their credit and getting a good mortgage and get into that house. Right. But it also gives them time to get a good mortgage, right? Because maybe because their credit score is too low right now, they can't get a good rate. All they need to



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do is, you know, pay off some credit cards, raise their score a little bit, and they can save a half a point or a point on some interest rate. So it gives them time to get a better mortgage and lower their payments.

Now, what are the benefits to an investor? Well, you get to buy a property with little to nothing down. It's the best way to build a nice portfolio of nice homes. We're not doing lease options with low grade rental properties in the hood. We're doing nice homes, nice areas, median price range. It's a great way to build long term wealth. Cash now, cash flow, cash later. Very little risk in these deals. Again, it's an option. Very little competition. Low overhead in this business. I'm spending very little money in marketing and these deals are easy to do virtually.

When I got started doing lease options well, before I started doing lease options, I got tired of being on the phone and go into houses with all these sellers and trying to negotiate huge fat discounts for a cash offer. But when I started doing lease options, it was so much easier because I could close these deals over the phone and I don't tie up the property when I first get it under contract because I want to make sure I can find a good tenant buyer for it. So the seller, I let them go ahead and continue advertising. If they sell it before I do they can cancel my contract and they don't owe me anything. So you can see how much easier it is to negotiate these deals over the phone.

And by the way, as the market is slowing down now, lease options are becoming easier to do as the market is slowing down because there's more motivated sellers, maybe they don't have much equity. And believe it or not, trust me, guys, I've seen the studies on this. There are a lot of markets right now where there are 10 to 15, sometimes 20 percent of homeowners have little to no equity in. Some of them have negative equity. We're starting to see an increase in that again. And as that trend continues, because we're due for a recession, it may not be as big as it was before, but as that trend continues and the housing market is slowing down, you're going to see it becoming easier and easier to do lease option deals. All right.

Now let's go through an example deal real quick, shall we? Just real quick. There's a property here in Zillow, and I just looked it up in Nashville, Tennessee. This is a nice house. It's listed for rent. And guess what? It's vacant. Most of the lease deals that I like to do lease options on are just like this. They're nice. They don't need any work and they're vacant. The seller may not be motivated now, I don't know, it might be listed with a property management company. That's OK. And they're asking two thousand dollars a month. This is a nice area of town. This is a good median price rent. And so let's say I contact the owner and then I say, hey, do you want to sell your rental? He says, Yeah. And so then I might offer him to see what he wants to sell it for. And, you know, his price for cash is way too high. My cash offers way too low. So then I can offer him a lease option. Well, maybe what if I could get you that price? Would you be willing to rent it for a few years and then sell it? See what you know? Maybe not. And see what they say.



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And I will show you two different ways that you can do this. So I have a calculator right here. This is just a simple spreadsheet that I created. And when I'm going to show you a link here to get to my webinar SLOclass.com. But when you get on my webinar, I'm going to give you at the end this spreadsheet. You can actually take this and use it for your own deals. So this particular property, I just did this real quick. When I find the ARV, the after repair value of a property, I just take all of the free. You can see over here the Zillow appraisal, Redfin Property, Realtor, Real Quest Express, just those I just take like their estimated values and I couldn't find them on all of them, but I just average those estimates out. Like, I'm not too concerned yet about like getting it really, really narrow and right. This is just my initial offer to the seller. So approximately if you average these, it's worth about two hundred fifty six thousand dollars today. Right. So I put that right here. If I'm going to make a cash offer, you're going to want to be at 70 cents on the dollar. Now, I did 75 cents because this is Nashville. Maybe it's a little more expensive, but when you're making a cash offer for regular wholesale deal, you know, the typical male formula, they ARV times 70 percent minus repairs, minus your wholesale fee. That's your cash offer.

Well, in this example, if I was going to give this seller a cash offer, it would be about one hundred and eighty two thousand seven hundred fifty dollars, which if a house is worth 257 and it's fixed up and it's nice, what's the chances of seller saying yes to that? Slim to none. So I might offer them a little bit more. I might offer them two twenty three five ninety on a sandwich lease option where I stay in the middle, or I might offer them two forty five on a lease option assignment. So the way I just figured that out is and I'm just skimming over this really, really quickly. I understand, but I won't explain more of this on the webinar that I'm going to invite you to in a minute. But the market rents about nineteen ninety five, two thousand dollar price range.

When I do a sandwich lease option, I'm staying in the middle. I want at least 25 percent of the rent for cash flow. So twenty five percent is about five hundred dollars. I want about fifteen, 12 to 15 percent in equity and I want about five years. I'll put \$2000 down on this. So I'm gonna offer the seller on a lease option. Two hundred twenty four thousand dollars. Fifteen hundred dollars a month in rent. Two thousand down for five years. What if they say no to that? Well, then I can give them another option. I can give them whatever price they want as long as they're willing to wait for it. So I'll give the seller. Let's just say they want 250. I'll give the seller 250 two thousand month and rent. I'll put \$10 down as an option deposit cause there has to be something that you put down. And I'll do it for two years.

Then the way that works, I don't want to get into all the details of this yet because I will on the webinar. But then I just sell that contract to a tenant buyer and then I'm done and out of the picture. That is how a lease option assignment works. Or you may have heard it called a wholesaling lease option. So again, I'm going through that really fast. I know this is a calculator that I use just to come up with three different quick



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offers, a cash offer, sandwich lease option offer, lease option assignment or a wholesaling lease option. And that's what I send to the sellers. OK. So that is a quick, quick example deal. I want to invite you real quick to a free webinar that I'm doing at SLOclass.com. SLOclass.com. I really believe this lease options are one of the fastest and easiest way to make money in real estate.

On this webinar, I'm going to teach you three things. We're going to show you literally how to get more leads than you can handle for free from these two different sources. I'm actually going to show you how you can actually start marketing right after the webinar. And I've given this presentation before. Right. Had people actually make appointments with sellers while I'm doing it right. So I'm going to show you then. Second thing is how you can actually offer the sellers whatever price they want. I'm gonna give you my calculator and I'm going to show you also how you can get the contracts for free, which is crazy.

Then I'm going to show you the fastest and easiest way to sell these lease option tenant buyers of properties to tenant buyers without a buyers list. I'm going to actually show you my checklist. I'm going to show you the things that are working best right now. And if you do these things that I show you on this webinar, if you haven't filled your lease option property with a good tenant buyer in three to four weeks, then something's wrong. I have testimonial after testimonial about how much easier it is to sell these deals than it was for trying to find cash buyers or landlords or rehabbers to wholesale your deals too. OK. Now again, guys, remember, you don't have to have any money to close on your lease option deals. To buy the deals, to sell the deals. You just need to invest time and consistent work.

OK, this is what this strategy is what allowed me to quit my job 10 years ago. I was working as a civil engineer for a big company building power plants. Got tired of traveling, got tired of working in my cubicle. And I just thought, I gotta get out of here. So I started wholesaling and it was good. I was making money. Wholesaling is when you flip a house for cash to another investor, you know? But yeah, I found it was really hard. I was having a lot of competition, spending a lot of money on marketing, throwing away a lot of leads that didn't have any equity. I started doing lease options and I thought, man, this is so much easier not to spend any money on marketing. I can now work with leads that other sellers are wholesalers are throwing away. And within three months of doing lease options, I quit my job. And I was making good money as an engineer back then, and that was when the economy was in a freefall. Everybody was freaking out in 2009.

You can also do lease option deals virtually from anywhere from anywhere in the world. And I been there, done that, have that T-shirt. I've done deals while traveling and living for in Prague for two to three months at a time, twice a living in an RV, traveling around the northwestern corner of the country for three months with my family and our four kids. So. And our dogs. So it's been great. You can do these deals from anywhere in the world, in the United States. You don't have to worry about going to see the house. You



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don't have to worry about the inspections and repairs and comps and ARV's and borrowing money. Your credit score, your experience and all that. These are some of the easiest deals to do.

And I'm even going to show you on this webinar how to buy your dream home as a lease option. Some of you guys are self-employed. Maybe you're a realtor. Maybe you, I don't know you're working for yourself. And because of your tax returns, you're not reporting enough income to get a good loan. Or maybe you have too much business debt out there. And so you struggle. You may have enough cash in the bank to buy the property, but the bank won't give you a loan on it, right? Well, the lease options allow you to find really nice dream properties that you can rent to own for a little while and then buy for your own self. And I've done that twice. It's awesome.

So if you're interested in this webinar again, go to SLOClass.com, SLOClass.com. And again on that webinar I'm gonna give you my calculator. I must show you how to get the contracts for free and all that good stuff. And I'm looking forward to seeing on the webinar. It'll be a lot of fun. Thanks. Hope you guys got something out of this video.