



What Is A Lease Option & How Do You Make Money With Them?

Hosted by: Joe McCall

What is up, everybody? What's going on, Joe McCall, Real Estate Investing Mastery podcast. REI In Your Car. I'm in my car right now, driving to go pick up my daughter at gymnastics, and I just wanted to record a quick little episode here. It's been a little while since I've done these, and I want to start doing some more again. I go through phases and I thought I would do a little series here on lease options. And I thought I would talk a little bit about this real quickly a summarized detailed podcast of like what is a lease option and why would you want to do a lease option? And then in future little episodes here, maybe today, tomorrow, I'll record some more talking about some common mistakes people make when doing lease options and how to avoid them.

And I'm also going to talk about what are the minimum criteria when you're looking at doing a lease option, deal with some of your minimum criteria that you need to make sure you are aware of. All right. So first of all, let me say this. If you are interested in learning more about lease options, it's my favorite way to get started in real estate. It's the best strategy, I think, for new beginning investors to get started. And even if you're experienced investor and you're tired of throwing away all the leads that maybe don't have enough equity or you don't know when you're talking to a seller, like, how do I actually get them the price that they want with the least amount of risk? And I would argue this all day long that I think I believe that lease options are the one of the least risky ways to do real estate deals. And I believe that pretty strongly.

But so if you want more information about that, you want to learn more about lease options. I want you to watch my webinar. I did a whole webinar teaching steps A through Z, how to do lease option deals, how to get more leads than you can handle for free, how to get deals under contract without negotiating with sellers and how to sell your deals lightning fast without even having a buyers list.

Go watch my webinar. SLOClass.com. SLO stands for simple lease options. So S as in Sam. SLOClass.com. Watch my webinar. I think you're gonna like it. Get a lot of value out of it.

So you know what is a lease option? Those of you don't know, it's real simple. It's where you lease a property with the option to buy it in the future for a predetermined price. So you have the option to buy it,



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not the obligation. And so I like to look at it as a control without ownership. I think it was Nelson Rockefeller that said the secret to success is to own nothing and control everything. And I want you to think about that. There is a place for owning things, right? Owning real estate. But what if you could get the same make the same amount of money from a property without actually owning it, where you could just control it and you can control property with an option or a lease option.

So an option is basically where you say, all right. I have the option to buy your house in six months or three years or five years for this specific price. OK. When you throw a lease option in the mix, you just say, all right, I'm going to have the option to buy your property for this price sometime in the next five years or whatever.

And in the meantime, I'm going to lease it from you, Mr. Seller, for, you know, eight hundred bucks a month and you're going to turn around and then sublease it for a thousand a month or eleven hundred a month. All right. So lease option is where you are leasing a property for a period of time, like two, three years with the option to buy it in the future at a certain price. Now, when you do a lease option, the cool thing about it is you can do what's called a sandwich lease option, where you stay in the middle, you have a contract with the seller, A to B, and I'm going to use simple round numbers where you have a contract with the seller.

The house is worth one hundred thousand dollars. You're going to lease option it from the seller for eighty thousand dollars and you're, let's say, eighty-five thousand dollars and you're going to pay the seller eight hundred dollars a month in rent. It rents for a thousand a month. You're going to rent it from the seller for 800. So you have an option to buy it in the future, and five years, three years, four, eighty five thousand dollars, you're going to turn around and put a tenant in it, you're going to sublease it to a tenant and you're going to rent it to them for a thousand bucks a month. You're paying the seller eight hundred, you're going to collect a thousand.

And you're going to also sell it to that tenant buyer for, let's just say, one hundred and five thousand. So you're gonna buy it for eighty five. You're gonna sell it for one hundred and five. So that's 20000-dollar spread. And you're gonna pay the seller. Eight hundred. You're going to rent it out for a thousand. That's a two hundred dollar a month cash flow. And so you total it up. You know, that's two hundred dollars a month. Times twelve months. That's twenty-four hundred a month. Forty-eight hundred dollars over two years. And you have a twenty thousand dollar back in.



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So you'll make what, twenty, twenty-five thousand dollars profit on that deal and you will not be using any of your own cash, any of your own money to work those kinds of deals. So there's a lot of different ways to structure it, different ways to do lease options. But it's important to think about this in terms of like a lease option. Deal has three profit centers. I call it cash now, cash flow and cash later.

So if I have a property with a seller, I have a contract to buy it for eighty five thousand, a lease option to buy it for eighty five thousand dollars in three years. I'm going to pay the seller eight hundred dollars a month in rent. Usually I'm would I've not put much down on that kind of property. I might put down 500 bucks, a thousand bucks. But that money comes from the tenant buyer. That tenant buyer that I put in the house is going to put down three to five grand. Right. So my cash now is a difference between what I pay the seller and what I'm collecting from the tenant buyer. So I might collect three grand from the tenant buyer and I might pay the seller a thousand. So my cash now is two thousand dollars. That's money that goes into hip pocket National Bank. I don't have to save that or put it in an escrow account or anything like that.

That's my money. I get to keep that. But that money. Yeah. If the tenant buyer buys a home, I'm going to credit them that money back if and when they buy the house. That make sense? Then the cash flow. Two hundred a month and then cash later. That's 20 grand a month. So in a typical Sandwich's lease option deal, you have to be in the B to C and the B is the investor. That's you. Am I getting too technical here?

Is this math getting too crazy? I don't know. But the whole point I wanted to bring up is when you do a lease option, it's a great way to get control of an investment property and make cash flow and cash profits in equity to get equity and cash flow in a deal without having to go out and get a mortgage. And the cool thing is, since it's just an option, you know, you're not going out getting a new mortgage, you're not even taking over an existing mortgage. You're not doing any kind of owner financing. You just have the option to buy the property. And it's very simple to do. It's very simple to do so. You know, again, I'm not on title. I'm not on the deed. I just have the option to buy the property.

You know, there is a difference between or sometimes there is a place for ownership and control. But, you know, if the deal goes bad, if the economy goes bad, I just think with an option, it's easier to get out of the deal than it is when you actually own it. All right. So I want to get to those kinds of details, but I'll talk a little bit here in a minute on the next podcast about some of the things you need to be aware of when you're making lease option offers some of the mistakes that you need to avoid how to make the right offers.



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But there's so many benefits to doing lease option deals. On my next podcast, we're going to talk about why lease options. And you know what? I'll just go tell you now. How about that? I'll give you two for one or twofer. A two for one. I'm just looking at my notes here, because I pulled over and I parked so I could be looking at my notes now. All right. But why lease options while you can you get to buy a property with little to nothing down, little to nothing down. Now, you may not be buying it upfront.

You're just lease optioning, but you're going to buy it. And here's the thing. I forgot to mention this. How do you make your money at the back end? How do you make your profit at the end? Well, you're going to need to do a double closing. You're going to need to buy it from the seller at 80 grand. Eighty-five grand. And you're going to turn around and sell it the same day to your buyer, your tenant buyer. Four hundred and five thousand. And there's different nuances and ways to do that.

But I teach that in my course. But you get to control a property with little to nothing down, and it's a good way to build a portfolio of nice homes. We're not talking about low end rental properties, nightmares from hell, where you've got a little fifty-thousand-dollar rental property that's cash flowing two or three hundred bucks a month. Now, I mean, you're just dealing with all of the nightmares and headaches, managing those cheap rental properties. You don't do that in a lease option because we're only doing nicer properties, properties where people want to live in these homes, you know. So when you're when you do a lease option and you put the tenant buyer in the house.

They have more of a homeowner's mentality. They want to buy it. And so we make them responsible for the day to day maintenance and repairs. And they're going to have just a different mentality. All right. So you were dealing with nice homes, nice homes. You don't want to do lease options on cheap, rundown rental properties in the hood. You know, typically you want to stay in the median price range. So there's a lot of advantages to that. You just get better tenants; you get better appreciation. You have less headaches, there's less maintenance. And you don't even have to do the maintenance. You just get people in the homes that want to buy these properties. So it's a great way also then to build long term wealth through cash now, cash flow and cash later.

The cool thing about lease options to guys is there's very little risk. Very little risk because you're not owning the property and you're not using, you're not putting any of your own money. You're not signing for any loan or any debt. There's very little competition on these deals. You know, most investors, when they get a property where, you know, it's worth 100 and the seller owes 85 or the seller owes 90. There's not enough equity in there. There's nothing they can do. There's not even much equity to pay a realtor



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commission. Well, lease options are a great alternative for them. So most investors that you're competing with, they don't know what to do with those deals and they just throw those leads away.

The other thing that I like about this business doing lease options is there's very little overhead involved in the business. You can do these deals from anywhere in the world. All you need is a computer, a laptop, a phone, and just talk to sellers and you can do these lease option deals from literally anywhere in the world. How can I say that? Because I've done it. I've been there, done that. I have that T-shirt. I've done lease option deals, lots of them from Prague, from Spain, from France, Germany. I mean, I've done deals while traveling around Europe. I've done deals from an RV in the middle of national parks. So, yeah, you can definitely do deals anywhere.

And I have students that are doing deals as well from all over the world. Very little bit later. Very little marketing dollars that you need to spend. I find most of my lease option deals from landlords who are advertising rentals on Zillow. I do a lot of follow up with most of the deals come from follow up. But, you know, you get their phone numbers. You get these properties that are, guess what? They all have one thing in common, these rental properties on Zillow. They're vacant and they're nice. Right. They're nice, vacant rental properties. That landlord may not be interested now today in doing a lease option.

But if you follow up with them, that's where most your deals are going to come from. So these deals are easy to do virtually. I don't never go look at houses anymore. You know, I hire realtors to market my house is forming and find tenant buyers for me. So you can literally do these virtually. And you don't need to. You can do them in any market. You can do them from your backyard in five different states. If you want to.

All right. And there's one more benefit here I want to talk about. If you think about this kind of relates to very little competition, you think about it. There are so many sellers out there that have only a little bit of equity, but a lot of motivation. Right. There's this huge pool of sellers with a little equity and a lot of motivation, and there's very few investors going after those sellers.

But there is this little small pool of sellers who have a lot of equity and a lot of motivation and tons of competition for those leads. It's really imbalanced. OK, so you've got to think about that when you're doing your marketing and you're making offers to sellers. How do you stand out about the competition? What can you do with those leads that don't have much equity, but they have a lot of motivation?



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All right. So I'm going to give you on the next podcast, here are some keys to success when making lease option offers. How do you make sure that you're actually succeeding and not going to fail miserably when making offers to sellers? Let me challenge you with something here as I wrap this up, guys, again, and I say this a hundred times a day, but I think it's so important to reiterate your speed income in this business, whether you're doing lease options or owner financing or cash deals or foreclosures or rehabs or whatever, your speed income is directly proportional to the number of offers that you make. If you want to make a lot of money in this business, it's really, really simple.

Make offers. Your goal should be to make three offers a day. What kind of business would you have in three months, in six months, in a year from now if you're making three offers a day? Now some of you may be completely overwhelmed by that. You're like Joe. What? I don't even know how to make one offer. All right. Well, I get it. But when you learn how to make offers. Guys, it's so easy. It's really, really easy. Go check out my webinar at SLOClass.com. SLO stands for Simple Lease Options. SLOClass.com. Watch my webinar. I show you how I make offers.

And you know, I talk to sellers maybe three to five minutes. I talk to them a little bit about lease options, not very much. I don't try to sell it or convince them to do a lease option over the phone and I send a proposal that does the selling for me. My proposal that I send to them does the selling for me. And I just follow up the really easy deals to make offers on. So cool. Anything else, guys? I don't think so. I'm out of here. Go watch my webinar SLOClass.com. You guys take care.