REI Secrets – Do More Deals By Giving Sellers Options

Hosted by: Joe McCall

Welcome. This is the Real Estate Investing Mastery podcast.

What's up, everybody, how are you doing, Joe McCall here, my secrets. This is my special weekly ARIA Secrets webinar that I do for you guys where I'm just going to come in and I love talking about marketing, automation and delegation. I believe there's three keys to success in this business. Right. Marketing, automation and delegation. And so my goal on these weekly webinars is to just teach you some stuff that we're doing now, things that we have found that are working and teach us some cool things. And so I hope you guys are doing well.

We are actually live right now in front of a studio audience. I'm just kidding. We're live in front of a bunch of people on Zoom, and I'm trying to broadcast this as we are live into the YouTube's in the Facebook. So I think we're still good. Oh, I am. There we go. What's up, Facebook and what is up YouTube. All right.

Now, today we're going to be talking about giving sellers options. And I think this is really important to understand, because if you want to do more deals, you need to give the sellers more options. And so many times investors struggle because they just only have one thing that they can give to a seller. And that's a cash offer at 60, 70 cents on the dollar. Even in this hot, competitive, crazy market, it's hard enough to do deals as it is. Right. And if all you know how to do is make a cash offer to a seller, you're going to struggle. And I don't want you to struggle. I want you to do deals. I want you to do more deals. And I'm going to show you here, hopefully I'm going to try to get my iPad to work. And if it doesn't work, then I will do it another way. And I think we're going to be good. Let me give you a little context here. When I was first getting started in real estate, I only really kind of knew how to do cash offers. And so I would make a cash offer to the seller. And I was also working full time so I couldn't go see the house. And when you're trying to negotiate a huge discount, 30, 40 cents on the dollar on a property that needs a lot of work, you kind of need to see it. You need to see the kind of work that needs to be done, what kind of condition it's in. You need to meet with the seller so you can build rapport with them and so that you can negotiate that big discount that you're going to need on a cash deal. And many times when you're doing that over the phone, it's a lot harder to do unless the seller is really motivated. So even the deals that we do virtually in other markets, we still send somebody to go look at the house. You're always going to do better. You're always going to do more deals when you can actually meet with the seller in person, face to face, belly button a belly button and build a rapport and negotiate with them there. And so you can point to the kitchen that needs to be replaced. You can point to the roof that needs to be fixed. And you can see all of this stuff when you're just doing deals over the phone, which is what I was trying to do because I was working my full time job at a family at home. I think I might even have even been working on my MBA at the time or something like I didn't have time to go look at houses. I didn't want to either. So I learned early on if I wanted to do more deals, I need to learn how to give the seller's options. I need to give them choices. And so I started falling in love with lease options back then in 2008, and I started giving the seller the cash offer. In addition to that, I would give them a lease option offer and I found that I started doing more deals. And I'm talking now, guys, about the difference between getting one out of 30 offers accepted to maybe two or three out of 30 offers accepted just by giving the seller's options. Wouldn't it be nice if with the same amount of marketing, the same number of leads that you're doing, you now can double or triple your deal flow just by giving them options? If you're tired of throwing away leads that don't have enough equity, aren't motivated enough, and just throwing those leads away, wouldn't it be nice now if you could give them something instead, something instead of a cash offer? So I just got off the phone with a particular friend of mine and his wife talking about a particular deal. And so there I'm going to talk about this deal here and I'm going to keep this I'm not going to pull up the address of the property. What I want to do here, my goal in this is to kind of open up your mind and see the different options that you can give to sellers and how we kind of structured this particular deal. And this is, I think, going to help you. I'm going to try to draw it out so you don't have to you can look at it and not worry about fancy spreadsheets or software calculator. Let's just do it on pen and paper or in my case and iPad and pen. And let's look at it this way right now. Let me say one more thing to when it comes to something offers an options to sellers. Sometimes people make the mistake of at the very beginning after your first talk to the seller, giving them too many options. And so sometimes you can make that mistake as well, where maybe a cash offer is not even on the table. So don't make the cash offer to that. Maybe there's no way they would ever do a lease option. So don't make that option to them or it could be there's good cash flow on this deal. You want to stay in the middle, so you want to don't give them a lease option assignment, which is a lease option assignment as a wholesaling lease option deal where you're just going to assign your lease option and be done and out of the deal. So I'm just saying, like, I typically do not give the seller three options or multiple. Option letter of intent until they've already said no or until I'm kind of at an impasse, I will usually present. This is important. Understand this one offer at a time. You want to give one offer at a time to the seller. So if a cash is what you most want to do and you feel like it is in their best interest, then give them a cash offer. If you feel like a lease option, you know they don't have enough equity and you want to offer a lease option, then give them the sandwich lease option first. Don't give them to lease option offers a lease option, sandwich lease option and a lease option assignment. If they say no to the sandwich lease option, then give them the wholesaling lease option. Right now, most of the time sellers, especially right now in this hot market, they're going to say no to all of your offers, OK, which is totally fine. However, you're going to find situations like the deal we're working on right now in St. Louis, where the seller is motivated and they're motivated for one simple reason, lost her job, two mortgage payments. And this is a house they've already moved out of. They already have another house and they don't have to sell this house to move in or buy or get a mortgage for this other house. They've already bought it, but they have lost their job and they are there. They don't let her know how much longer they're going to be able to make their mortgage payment of eleven hundred dollars a month. So there's a lot of opportunity now here. But the greed glands are starting to kick in with the seller and they're looking at market is wide hot right now. They're looking at Zillow. Zillow says it's worth last week it was worth two. Seventy five fixed up. Now Zillow says it's worth two eighty five. And they're like they're starting to get a little greed glands. They're starting to say, like, well, we want more for our property, kind of temporarily, conveniently forgetting about their motivating situation that they're in trying to find ways to make more money. All right.

So obviously, you got to understand this, too. When you give a seller options, of course, they're going to want to sell their house for top dollar in seven days for all cash with no contingencies, without doing any work to it, without fixing it up. And even in this hot market right now, they can't do that. And this is a situation where this property needs a lot of work and the seller has forgotten how much work it actually needs. So we're going to I'm going to show you some numbers here and I'm going to walk through kind of what I was presenting to my friends about how they should talk to the seller. So I'm going to share my screen here. I don't think this will go very long. All right. So in this particular moment, I'm not an artist here, so I'm not going to try to draw anything fancy. But we have this house howzat. That's a window. That's a door. That's a chimney. And there's smoke. All right.

So this house is in St. Louis in a suburban area, OK? This house was probably built in the nineteen nineties. So it's kind of a newer subdivision type of an area. And the A R v, which is the after repair value is about two eighty five. I just want to make sure if you guys can in the chat type in. Can you see my screen. Let me know. You can see my, my screen here. The after repair value on this house to eighty five. All right, good. You guys can see it now. This house needs a lot of work. The carpet is really stained, the kitchen is outdated, the the walls are in bad shape. And to the non investor, they look at this. They're going to walk in this house and they're going to be they're going to they're going to have that, in fact. Right. It's kind of stinky, but really, it's just cosmetics. OK, but let's say I think this house I'm going to tell you, it's about twenty two hundred square feet. Oops. Twenty two hundred square feet. It's a four bedroom, two bath, two car garage right now in the St. Louis suburban area. That's pretty good. I mean, this this might be able to you might be able to get this up to three, ten. But it's in an area that's a little older. And in fact, what I think it was built in the eighties. So let's fix this here. I'm pretty sure it was built in the nineteen eighties. All right. So two eighty five fixed up. Now, this property needs about, I'm guessing just from what they've told me, about forty thousand dollars in repairs. Forty thousand dollars in repairs. So let's write this down for repairs. I typically like to do a property like this. Twenty five dollars a square foot. OK, so if you take twenty two hundred times twenty five a calculator, fifty five grand in repairs now I think that's actually kind of high. So let's make this twenty. And I just did a rehab on a two thousand dollar rental property and it was, we spent about 40 grand in it. So let's do for us do twenty dollars a square foot. And by the way, you can do this in freedom, soft as well. And I'm going to show you the Rehab Estimated and Freedom Song. So let's let's just say it's twenty bucks a square foot, OK, and that's going to be forty four thousand. Right. Let me just double check. Twenty two hundred times twenty, forty four grand in repairs. I feel pretty good about that. Now the seller owes. Let's just talk about what they owe. They owe about one nine. And their payments, p i t i principal taxes, interest and insurance, so that's the principal and interest, but then escrowed usually banks when there's a finding, when your loan, when you have a loan in a private escrow, taxes and insurance rate, that is eleven hundred a month and the rent's about seventeen hundred a month. Also what are you looking at here. I see cash flow write really good numbers there. Now the seller made the they're motivated. We kind of know what's going on.

But the seller made the comment just the other day. Well, first of all, let me say this. They had talked to my friends and said they would be willing to sell it for maybe to ten because they know it needs a lot of work. Right. But then the lady was looking at Zillow and where this was before it. Two seventy five. Zillow says it's worth about two seventy two. Seventy five. There's been some recent sales. The numbers have gone up. And so this Zillow value that all these sellers are looking at has gone up as well. And I'm just going to I've not looked at the comps too much. I'm just going to go with what Zillow says. It's pretty close, OK? And knowing this neighborhood, that sounds about right. So now the seller before was saying they'd be OK with two, 10 or something. Now they're kind of talking about they want to 20 or something like that. So they greed glands are kicking in. And so this is one of the things I told my friends. I said we always want to give the sellers options. OK, I recommend this. I mean, this is something that I think is the right thing to do, number one. But I also think it plays into your hand, into your negotiating hand, where you're and I'm not a sales expert here, but you are, in a sense, removing yourself from the outcome and it puts you in a stronger position when you're negotiating with sellers, because I'm not chasing them. All right?

I'm not chasing them. I've removed myself from the outcome, but I'm giving them options. And if they really want the most for this house, they should fix it up and sell it themselves. If they really want the most for this property, they should fix it up and sell it themselves. So I might say, OK, well, option one is fix it up and sell it yourself. OK, now what's involved with that? You need to make sure you let the seller know this is how you're going to get the most money for this property. But let's look at how much it's going to cost in reality, even in this crazy market, how much it's going to cost. So if you sell it for two eighty five, let's say that's the sale price, you're going to have to pay six percent commissions. OK, so let's look at that when we get my calculator here, two eighty five times point six, that's going to be seventeen thousand one hundred. You're also going to have to fix it up. We already said that's forty four grand, right. By the way, you've got to make sure you find a good this is what I'm telling the seller. You got to make sure you find a good contractor. You need to stay on top of them to make sure they're doing it right. You need to be sure you're inspecting the property and all of that stuff. Right. And that's going to take you at least two to three months. It's always going to take twice as long as you think it's going to take. And when I just did my rehab, I thought I could do it for 20 grand fairy tale. It's going to be more like it was going to it was 40 grand is what it turned out to be. So that's going to be two to three months. OK, now, you've also have carrying costs, right? That's one thing I do in here. You're going to have unknown's, contingency. There's always going to be something that you don't know about. And I like to use ten percent of the budget, the construction budget. So 10 percent of the construction budget is going to be another forty four hundred dollars. Sometimes I'll do that as the I do it a different way. I'm going to actually move that down a little bit here. Let's move that right down here. Right now, you're going to have carrying costs for two to three months. And if your mortgage payment is eleven hundred, that's, let's say three months. That's thirty three hundred dollars and carrying costs. Thirty three hundred and carrying costs. Normally in a normal market, you're going to talk about the seller. I mean the buyer is going to want some concessions. You're going to get an inspection, you're going to have to fix up some things. Right now it's not as crazy as it used to be just a year ago. But still, you should expect there's going to be things that the buyer is going to get an inspection are going to ask you to fix after you get it under contract. And usually we can call that inspection costs and it's usually one percent in a crate. In a normal market, it's like three percent. But let's just say it's one percent of that's that's three grand. That's going to be the inspector saying, hey, our FHA is going to say, hey, to sell this, you need to replace the water heater or you need to like I just had four on mine. The floor is a little one level in one spot. There was some rebar in the basement. Foundation wall was exposed. They wanted us to epoxy and cover that. Whatever it was they were asking me. This is after we accepted their offer. They were asking for like it was going to cost us about five grand to do all of this. So we said no to a couple of things and we said we'll just give you a credit for twenty five hundred dollars. And she was happy with that. And we've done OK. And then there's always going to be unknowns and contingencies carrying costs, closing costs, and on average that's going to be three percent. But let's just say because it's a hot market right now, let's just say it's two percent to two percent of two. Eighty five. That's fifty seven hundred dollars, by the way. Realtors should be. Showing all of this to sellers, but they typically don't. Sometimes when realtors show the net that they actually walk away with, they they only show the commissions and maybe some fix up costs. They don't show this carrying cost inspections, unknowns and things like that. OK, so let's subtract then all of this stuff. OK, so I'm going to do this right now on my calculator. Two eighty five minus seventeen thousand one hundred minus forty four thousand minus thirty three hundred minus three thousand minus fifty seven hundred equals to eleven nine hundred. And what do they owe on this property to remember they owe one ninety. So if you were to subtract what they owe, they would walk away the twenty one thousand nine hundred dollars in true net equity. OK. When I used to do a lot of subjects, I would walk through this exercise on a worksheet. I had this worksheet and it's in my course. I would walk through this to show them what their true net equity is.

So many sellers, they'll look at this and say, All right, well, if I if I could sell four to eighty five and I own one 90, that is what does that ninety five thousand dollars. I have ninety five thousand dollars in equity but they forget about fixed up costs, realtor commissions, carrying costs, inspection costs, unknown's and contingencies and things like that. On average, a seller has to pay 12 to 15 percent of what they sell it for. That's to subtract 12 to 15 percent to cover all of these things, not repairs. And that's what they truly get for the net for the true net equity. So when I used to do a lot of subject to, I would tell the seller, look, your true net equity is twenty one thousand nine hundred dollars. One of my options to the seller we used to be. I will make sure you get that twenty one thousand dollars if you're willing to wait for it. So I would buy their house subject to the existing mortgage and I would give them a I would buy subject to the existing mortgage of one ninety and I would give them a promissory note to give them twenty one thousand nine hundred dollars when the balloon when I buy it and cash them out in five years. That makes sense. So and I'll explain that in a minute here. But option number one, Mr Seller, if you want the most money, if you want to walk away with twenty one thousand nine hundred dollars, you need to fix it up yourself and list it and sell it with a realtor. Chances are most of the time they're going to realize, no, it's too much work. I can't do that. I can't manage rehab. And they're looking at this number here. They're lucky. They they'll they'll be able to fix it up and get it sold in three months. And a property that needs this much work, can they make three months of mortgage payments and not get a 30 day late on their credit? Probably not. So now I'm going to give the seller a second option, too, which is cash, which is what they want. They sellers, they want to sell it with cash. They want to be able to close quickly and just be done with it. OK, what's your what's your cash offer going to be? Well, we know our typical male formula. It's going to be RV minus repairs time 70 percent actually er I'm sorry, RV time, 70 percent minus repairs minus the and that's your maximum allowable offer. Now you're going to look at that and say the formula doesn't work anymore in this market. OK, fine. It doesn't. Maybe so then change this to eighty percent. Maybe if you're in San Diego 90 percent. I don't know, the formula still works. You just need to change this number. Now, let's just say let's make this in our case. Seventy five percent. I just don't here's the thing. You want to make sure you have a cushion. You want to make sure you have a margin for error, especially if you're going to be in the rehab business. If you feel comfortable doing your own rehab, you can swing your own hammer. You really understand the costs. All right, then maybe you could do 80 percent. But unless until you know what you're doing, stick with this 70 to 80 percent range. All right.

So in our example, the RV and I will let's do this in green to eighty five times. Seventy five percent equals two. Eighty five times point seventy five equals two. Thirteen seven fifty minus repairs, which was forty four grand. Right. Minus you always want to make at least a ten thousand dollar wholesale fee. So you take two thirteen minus forty four thousand minus ten grand wholesale fee. One fifty nine, seven fifty. Now remember what do they owe. One ninety. That's not going to work is it. Well doesn't matter sometimes. I still want to make this offer because it positions my other offers that much better.

But I'm not a charity. I'm not in this business to give away my profits. If I offered the seller what they owed, I'm not going to make any money on this thing. If I offered the seller cash what they owed. And you take let me just look at this number here. One 90 plus forty four grand plus commissions of seventeen grand. And I've got carrying costs and miscellaneous things for let's just say ten. If I'm out of the kindness of my heart, offer her one hundred ninety grand because nothing ever goes wrong. I'm going to do one 90 plus. Forty four plus. Seventeen thousand plus ten thousand troops, minus one, plus ten thousand. I'm going to be at two sixty one and then after I sell it for two eighty five, I won't make twenty four grand. Now, that's nothing to sneeze at. That's a lot of money. But twenty four grand just only making twenty four grand. That's not even ten percent. Twenty four thousand divided by two. Eighty five. That's only eight point four percent profit margin. Return on investment. That's about only about eight percent on the on that sale price. That's not enough cushion. There is way too much that could go wrong. Even in this hot market. There's way too much that could go wrong. You you don't want to you don't want to be in that area. You don't want to do that because twenty four grand is not enough to buy a house, fix it up, rehab it. Unless you know what you're doing right. And you've got a huge beast to feed. You've got a rehab machine engine coming that you need to feed, then you could do something like that. But if you're going to wholesale this deal and you want to make at least a ten grand wholesale fee, you need to buy it for one fifty nine and sell it for one sixty nine to a rehabber and you might be able to get away with maybe offering one sixty five. If you bought it for one sixty five and you sold it for one seventy five, you would need, you would be able to probably leave enough meat on the bone for another rehabber to come in there and fix it up. OK, so this is my option. Number two cash. I'm going to offer cash to the seller. Yeah. So you guys are asking me about closing costs and stuff. I figured closing costs in the closing cost right here were part of this unknown. So this is going to be two to three percent would be your closing costs and stuff. All right.

Now, remember, we were looking at this. We were looking at this true the true net equity the seller has. If I was doing a subject to, I might give the seller, listen, I'll give you your twenty one thousand nine hundred dollars true equity if you're willing to wait for it. I asked the seller some times this question, what if if I would give you the same equity you would get with if you sold with the realtor? Would that be fair if I were to give you the same equity you would get if you sold with a realtor? Would that be fair? A lot of times they'll say yes. So another option might be option three would be sub to subject to. Now, I'm not the I used to do a lot of subject choose. I'm not the expert at it as much as that. Guys like Paiste Maubee or Viña Jones, by the way, just texted me while I was live here. I mean, I'm going to be doing a class real soon here Saturday workshop with Viña talking about subject, but I would do here maybe something like the same equity. I'm going to write this out as if you sold with a realtor. OK, so I put in these this would be the terms. This would be the terms of my subject to offer to the seller, OK, I would say would take over existing mortgage one ninety. So I would start making your payments in today's June twenty second and start making your payments August 1st, maybe, maybe even July 1st, depending on how sweet of a deal it is. And I will give you your equity. What did I say. Twenty one thousand nine hundred twenty one thousand nine hundred in five years. And that would be a promissory note. I don't know how to spell promissory note. A zero percent interest, zero payments. All right.

So I would basically give them a twenty one thousand nine hundred dollars promissory note due in five years and five year balloon was zero percent interest, zero payments. I wouldn't be making any payments on that if they wanted. You could go down this other. I used to offer sellers multiple options of subject to and I would say something like if you want if you wanted cash now like this, sometimes they're going to want cash now to move out. I would say, all right, I'll give you five thousand cash now and your equity later would be ten thousand. So that would total fifteen thousand. So that makes sense. I would say, listen, I'll give you cash, I'll give you five grand now and I'll give you ten later in five years at zero percent interest zero payments. That makes sense what I'm saying there. So I would give the seller if you want some cash now, I'll give you some of your equity. I'll give you fifteen grand of your equity right now. Another option you could give to the seller, option number four would might be a lease option. OK, now, again, I'm not necessarily giving the seller all of these options at once. And the way I typically do my lease options, I like to do sandwich lease options. Typically my rule of thumb there is I want to at least let me fix this here. I want at least 15 percent equity and at least twenty five percent cash flow. Let me tell you what that what I mean by that. So typically the way I like to do it is the as is value is what, two eighty five minus forty four thousand twenty five minus forty four thousand.

So the as is value is about two forty one and I want at least 15 percent equity times that by eighty five percent to go for eight fifty. That would be my option price and my rent is going to be eleven hundred a month. So I'm just going to make a payment. I'm going to make their mortgage payment of eleven hundred a month and my term, I'm going to try to get five years and my option consideration is going to be I'll give them we give them twenty five hundred dollars. So we give them twenty five hundred dollars. All right. Makes sense.

Option price two or four payments of eleven hundred five years. Option consideration of twenty five hundred dollars. Now let's just review these options again real quick here so you can kind of see what I'm talking about. Option number one, I always give this to the seller, fix it up, sell it yourself that way again. They can never accuse you of taking advantage of them because you gave them the options. You told them if you want to make the most money, fix it up and sell it yourself. I contrives realtors I can recommend to you. Maybe they can help you. Option number two, I'll buy it for cash, but I'm going to buy it for you. But let me highlight these things so I can look at it later here. Option number one, fix it up, sell it yourself. You're going to walk away with about twenty one thousand nine hundred true net equity. Option number two is cash and I'll buy it for one sixty. One sixty you could do is subject to in the way I like to do, subject to when I'm presenting my offer is I'll give you the same equity you would get. The same equity you'd get is if you sold what the realtor and I'd walk through all of those costs and I'll show them that they have about twenty one thousand nine hundred and true equity.

And so my option for them would be not I wouldn't be giving them a price. This is important to understand. I would not present I would not be presenting the subject to to them in terms of I buy from you for this. I'm just telling them I'm going to buy it from you, for you. I'm going to give you the same equity you would get if you sold the realtor. I'm going to give you twenty one thousand dollars in equity in five years. I'm going to take over your mortgage. I'll start making your mortgage payments. So really, if I'm buying it for two hundred and twelve thousand dollars. Right, I'm buying it for twelve, but I'm not positioning it that way. It's they're thinking it's worth two eighty five and I'm making them ridiculously low off of it to eleven. I'm just selling. I'm going to give you the same equity you would get if you sold it. The realtor, you're just gonna have to wait for it. Does that make sense. Oh it's my son. My son just texted me. They were they're flying to San Diego and they just had they just landed in Salt Lake City. So this is the first time my two sons are seventeen and sixteen have flown by themselves and they're flying to see grandma in San Diego. And they're saying it was good. Nothing eventful to report. We are still in our seats on the on the plane. I'm just nervous. My my wife and I have been kind of a nervous wreck. They're 16 and 17 year old boys. I mean, they're almost adults. And why are we freaked out about this? We're not doing the the thing where the the flight attendant has to stay with them the whole time and they get a wristband and a name badge and all of that. We're not doing that. So they haven't they have an hour and a half layover in Salt Lake City. And so we'll be ending this soon because I want to give them a call in a minute. All right.

So you understand option three subject to they're going to give them the same equity they'd sell if they sold it. The realtor. I'm not positioning it. I'm not giving them a price. I'm just telling them I'm going to give you twenty one your equity in five years. If they wanted some cash now, I might say. All right, well, I'll give you five grand now. And instead of giving you twenty one thousand, I'll give you fifteen thousand for your equity. I'll give you five thousand now. Ten thousand later. Does that make sense. So that's another way you could position the substitute then the other option is the lease option. Option. OK, and you can see a lot of these, the price kind of goes up depending on the longer they're willing to wait for the sandwich lease option. I'm going to do eighty five percent of the as is value. So I'm, I give them twenty five, minus four. I'm going to offer them two or four. Eight fifty. My option price to a forty fifty. I'm going to offer them eleven hundred a month and rent five years. Twenty five hundred dollars down. Now I might be willing. This is a great thing about lease options because I can negotiate several things in this country. Let me show you. Hold on here. Let me show you the different things I can negotiate, I can negotiate the option price, the rent, the term or the option consideration. And there's actually even a fifth thing that I can negotiate. Right. And that's going to be rent credits. So once we get down this road and there may be open to doing a lease option, but you know what? They're stuck on this price. They want something more. They want they want to twenty. What if they wanted to twenty on that.

Well, I could say I can get you to twenty, but instead of five years, we're going to need to do seven years instead of twenty five hundred down. I'm going to do zero instead of eleven hundred a month. I'll do a thousand a month. Let's say you know what they know it can rent for seventeen hundred. They want, they want twelve hundred a month.

And I'm asking all right I can get you twelve hundred a month in rent. If we instead of five years do eight years instead of two or five we'll do one ninety five so I can negotiate or even better sometimes you could do rent credit so they, if they want an extra two hundred a month in rent I might say. All right, well I can get you two hundred extra month and I'll pay you thirteen hundred. But what if you gave me. You always have to give and take. I'll give you something if you give me something back. What's the phrase I like to use. What if I could. What would you do then. Know what. How does it go in my lease options, of course, I talk about this a lot in negotiating and talking with sellers and I forget the phrase that I uses, but I'll come back to me in a minute if then it's kind of like an if then statement. All right. If I could get you thirteen hundred a month in rent, would you give me two hundred dollars a month rent credit at the end if I pay your rent on time.

So if I'm a second late I will not get that rent credit. So I'm going to have an incentive to pay the rent on time every month. So I'll give you thirteen hundred. You give me a two hundred dollar credit if I pay the rent on time every month. So the cool thing about lease options now is you can negotiate these five different things. The option price to rent the terms, the option consideration, the rent. What's most important to the seller? If the seller wants more money down, maybe I'll do that. Lower the price a little bit, get some rent credits, extend the term, lower the rent. So it just what's most important to the seller price or terms, price or terms. All right.

Now some of you are asking this property needs a lot of work. What are you going to do? Are you going to fix it up? So if I did a lease option, option number four on it or if I did a subject to on it, would I go in and do all the work? I don't know. Probably not. And I've done this a lot. I've done a lot of lease options where I bought it, didn't do any work to it, just cleaned it up. And then I turned around and advertised it as a handyman special. So whether you're buying it on a lease option or buying it on a subject to or even buying it with bank financing, I would still probably turn around and sell it as a lease option. Handyman special lease option right now. What would I do? Let's say let's just look at some numbers here. Right. So the our of this house is two eighty five and the repairs, I figure if I'm going to do it myself, they're going to be forty four grand for the rehab. I mean a contractor. Right. So that puts the as is value at two forty one. Right now the house is worth two eighty five fixed up so I'm going to advertise it. This is what I'm advertising. Let me two different color here. This is probably what I would do. An advertiser as a handyman special lease option. I would do five years. Why are all right.

I remember the rent on this thing. Rents for seventeen hundred a month. Now there's two ways you could do this. You could do a work for equity credit. You could set the option price at two eighty five and if they buy it you'll deduct forty four grand. I prefer just to set the option price low. So what I'm going to do instead I'm going to say all right option price was do to sixty five Mr.. To Sixty. So this house is worth two. Eighty five fixed up market is appreciating. It's going up. I'm going to set the option, price it to sixty and I'm going to do the rent. Remember the rents are seventeen hundred a month. I'm going to do the rent at let's just say 15 fifty a month and the option consideration for the down payment. I'm going to want, I want to get at least seventy five hundred on this. Do you think, do you think I would find somebody that would take this property and fix it up themselves. Yes, I would get tons of calls. Every time I've done a handyman special lease option, I've been blown away by how many calls I actually get on the property because they're looking at this thinking, all right, well, it's there's about twenty five. They're looking at this thinking there's twenty five grand in equity there. I can get it fixed up and choose my own carpet, my own colors, my own counter tops. I can do the labor myself. I can probably just materials would be fifteen grand. You know, I might actually just looking at this I might lower this a little bit. Sometimes you just don't know and that's fine. You can always adjust the price if you're not getting any interest because you're asking way too much then lower the price. But they're looking at this thinking.

All right, well there's thirty grand in there that I could spend on in rehab. It's only going to cost me fifteen in materials and I can do all the work myself. They're looking at this as an incredible bargain and they get to pick their own colors, their own carpet, their own counter tops. They're going to love this. There's a lot of people out there that can fix it. These fix these homes up themselves. There's a lot of contractors that don't have the credit where they can get a mortgage right now, but they can come in and fix this house up. And my rent is one hundred and fifty dollars less a month. So they couldn't even even if they could get a mortgage, they're renting this for cheaper than they could if they got a mortgage and they couldn't get one anyway. And I want to make some I want to make sure they have some skin in the game. So I'm going to put seventy five hundred dollars down, which is nonrefundable. So what happens is you're going to you're going to get a lot of calls on this handyman special lease option and you're going to it's going to fly off the shelf.

You're going to get the look at this. I'm making it attractive. I'm giving them equity. I'm giving them low rent. I'm giving them five years. They get to fix it up themselves. And I am requiring some skin in the game. Now, this is the way it works. You need to make sure you spell it out and the lease option contract all the work that the tenant buyer has to do before they move in. And in St. Louis, we have an occupancy inspection. So the city has to inspect it. They have to. So it has to be inspected before they move in. They have to make sure they pull all the right permits and everything like that. Yeah, it's a great way. And what happens if they don't buy it in five years? Well, I get a house back that's in better shape than it was before. All right.

So I need to get going. I want to see. If there's any questions here before we wrap this up, let me just say one more thing. I wanted to explain this again. If I didn't already, I don't like giving sellers all of these options at once. Sometimes giving them all of these options at once can confuse them and overwhelm. So I like to give sellers just one option at a time. Number one, you should probably just listed and sell it with a realtor. I don't want to do that. I can't do that. I don't have the time. I don't have the patience. I don't have the money. I don't know how to do the real. All right. So I might be able to buy it from you for cash, but I can guarantee you it's going to be less than what you owe. And I'm not going to be your highest, best offer, but I can give you cash offer, whatever I said here, about one hundred and sixty hundred and seventy thousand. That wouldn't work for you, would it? No. One ninety, whatever. Like that one.

OK, so the other thing I could do is I could basically and I don't want to use technical jumbo language, I want to use simple language. I could take over your mortgage, I could start making your mortgage payments for you and I could fix it up and then buy it from you after I get it fixed up and after I sell it to somebody else. And there's there's so many different things that you can negotiate with the sellers. If they're at that point where they don't want the cash, they can't take the cash, they don't want to listen to the realtor. The next best alternative is I'll take over the mortgage. I'll fix the house up. I'll take all the risk of fixing the house up. All right.

And I just need you to carry the financing for a little bit, whether through lease option or subject to I'm going to get somebody in the house is going to fix it up. I'm going to manage it. I'm going to take care of home and take all the responsibilities. I'm going to guarantee that your mortgage is being paid every month. If the seller objects to that, you could still offer some kind of partnership with them. And I've done this before. I've told the seller, listen, if they object to my offer, no, it's not going to work. I say, listen, I understand. What would it be fair if we maybe share some of the future profits on the deal? Oh, now you've got the seller on your side and can partner with you on this deal. And so you can just structure where. Listen, we'll share some of the profits. I'll give you twenty five percent of my profits at the end of the day in three or four or five years. Then they're on your team. They're on your side. They're going to be less confrontational during their during the five years. You know, and I know one guy. I interviewed him on my podcast. His name is Rick, and he does this with every single deal he offers to split the profits, share the profits with the seller. But he it's not like he's losing money, though. He's just negotiating bigger discounts. He's negotiating a lower price and better terms because now he's sharing the profits with the seller. And it's much they're much easier to negotiate these deals. Right. Then you can get the sellers to be more willing to help you take pictures, give you extend the contracts if you need it, give you more time. Another thing that you can negotiate to, by the way, if they're if they're stuck on their price is you could say, all right, well, I can get you that price, but we're going to need to if they can't lower the rent or whatever you could say, I will give you that higher rent. I'll give you that higher price. Except if the house is vacant, you're going to have to make the mortgage payment. If the house is vacant or if the tenant I put in there doesn't pay the rent, you're going to have to still make the mortgage payment. Right. That's a way you could partner with the seller. You can say, listen, I'll we'll split the profits, but I need you to cover the mortgage. If the house is if I don't collect the rent, you'll need to cover the mortgage payment so you can do all of that is so negotiable. Isn't that cool? All right.

Just real quick, let's see if we've got a question. Good question. From and how do you pay the seller at the five year balloon? I'm a handyman special. All right. So a couple of things. You hopefully ideally, you get the tenant buyer that will then we'll be able to buy it with cash you out and you'll just do a double close to the buyer. We'll buy the house and then you'll sell. You may need to close on it first, take ownership of it and then turn around and sell it, but will be enough equity. You can get a private money, you can get transactional money, you can get hard money, you can get a bank loan. You may need to buy it subject to actually take the deed for two or three months to cover the seasoning issues and then sell it. Now, worst case. Worst case, the buyer you put in the house doesn't buy it in five years. Then what do you do? You could buy it. You could buy it yourself, because there's going to be a lot of equity in there, a lot of equity. You shouldn't have any problem getting bank financing or private money on that house. You could you could buy it yourself. You could go ahead. Maybe if you have six months left and you know you're not the buyer is not going to buy it. You could just listed on the MLS and you could sell it in five years. It'll probably be worth, I don't know, three twenty five. Three fifty. So you could sell it on the MLS. You can get bank financing or worst worst case, you just walk away. That's why I love about lease options. I have the option to buy it. I don't have to buy it. What if the market tanks, you know, and we go into deep depression or whatever? Well, I can just I just walk away, OK, that's the way it goes. You'd have to deed the property back to the seller if you bought it. Subject to what? If it's a lease option, you just let your lease and your option expire and the seller takes the property back. No harm, no foul. You've been getting five hundred dollars a month in cash flow for the last five years. Bam, there you go. All right.

So hope you guys are doing well. I hope you got some value out of that. Listen, if you want to know how more if you want to learn a little bit more about how to do these kinds of deals, I want to invite you to join Partner With Joe. If you're going to PartnerWithJoe.net, there's a 30 day course in there that shows you the fastest, easiest ways to do your first deal in 30 days or less. But go to PartnerWithJoe.net. I got some really cool things I'm going to give you. For free, if you're part of that, I have a software that helps you create these kinds of offers. I didn't even show you the software, but the software helps you create a cache of four different cash, offers different lease option, offers different financing offers, and that's included with the program.

So go check out PartnerWithJoe.net right now. And I also will lend money on your deals and might partner with you on some deals if you want. You don't have to partner with me, but go check out PartnerWithJoe.net. Now, if you've liked this, I just want to ask you to please subscribe to our YouTube channel, go to YouTube to search for Joe McCall. Watched my videos in there. I've got a lot of good stuff in there. I do these every week, if you like. What I've got here for you, go to YouTube, subscribe to the channel and really appreciate it and go check out PartnerWithJoe.Net.

If you subscribe to PartnerWithJoe.net, you'll get my book. I have a book called Secrets Daily Nuggets of Real Estate Investing Wisdom. You can get it if you join PartnerWithJoe.net, just seven bucks a month. It's a great book. OK, all right. There's so many good stuff in there. You guys go check it out. We'll see you guys.

I appreciate you all very much. Take care. Bye bye.