REI In Your Car #1039 – How To Buy Your Own House as a Lease Option

Hosted by: Joe McCall

Hey, what's going on, Joe McCall, REI In Your Car podcast. This episode, I'm going to be talking about how you can buy your own personal residence as a lease option, it's a great strategy and I've used it a couple of times. I want to tell you all about it. Cool.

All right. So I'm actually in my car right now driving to pick up Shawn McClosky. Some of you know, Shawn McClosky. He owns a business called Leadership Boardroom. It's a mastermind. I'm a part of it. It's awesome. It's really, really good. He lives just five minutes for me and his car is at the shop or something like that. I need to I told him I'd come pick him up and take him to the shop.

So anyway, I thought I'd do a little episode here about something real simple. You know, I've used lease options for years and years for my investment properties, and I've used them also a couple of times for my own personal residence.

And let me tell you kind of how it started. I was doing some marketing. A seller called me and said, hey, I want to sell my house. They had two mortgage payments. Most of the lease options we do. It's because the seller doesn't want to be a long distance landlord. They don't want to be a landlord, period. And maybe they have two mortgage payments or something's going on where they want to sell it but can't maybe they can't sell it for as cheap as they want to or whatever and they don't want to rent it out. So anyway, this guy called me and said, I want to sell this house. And I looked at it and I said, well, you know, you owe too much on it. And I said, why don't you just, you know, sell it listed on the MLS and sell it? And he didn't want to pay the commissions and he would have had to come to closing with money. But even then, I think they would have been fine because he made enough money. He was a pilot. He made good money. And I said, well, what if he thought about maybe doing a lease purchase? I could lease it from you and buy it. And he says, well, yeah, that might work. And I said, you know what? I said, I think I might even have a buyer for it already. He said, really? Said, Yeah, who? And he said and then I said, Me, I think so.

And right. I was a great area, suburban area. And it's a great little community and it's a big house for four or five bedrooms, finished walk out basement, about 4500 square feet on a cul de sac and a great community. And so I looked at it. My wife liked it. And this was at a time, too, by the way, because we could not get a mortgage. We had a short sale on our credit from about three or four years previously. And it was just really hard to being self-employed. I made good money, but it was hard being self-employed with a ding on

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your credit from a few years ago, too, it was really hard to get a mortgage. So and I think this might have been right into the jumbo category of loans. I'm not sure about that. But anyway, it wasn't going to be in the cards for us to get a traditional mortgage. So the guy said, yeah, sure, he'd be willing to do a lease purchase on it.

So I think we put down one month's rent for an option deposit. That was it. And then we we leased the property for, I think three years and it turned out we didn't want to buy it. OK, so we walked away. Not a big deal. And in fact, it was at a time when prices were pretty flat. Maybe they were falling. So if we would have bought it, we might have had to pay more for it than it was worth. I don't remember at the time, but it was just a really good deal. Is great neighborhood. My some of my older kids still miss some of the younger friends that they made there. But anyway, it was a great experience, but we just decided we didn't want to buy it. We wanted something that was more private. We wanted something that backed the trees, that was on bigger acreage, more property and something that was just more private and a little closer on the other side of the river, little closer to the city where we wanted to be closer to our church and stuff like that.

So anyway, fast forward a couple of years and we were at a place where we could get a mortgage, but we wanted to get a jumbo loan. We wanted to buy a nicer, more expensive property. And just again, I mean, you could have enough cash in the bank to buy the house with cash, but banks just make it so difficult to borrow money. So I had a hard time. I just needed like six or 12 months to fix a few things, to save up a bigger down payment to get this house we wanted to buy. But turns out we couldn't.

So anyway, I found a property for sale by owner that was really nice home, great property, right where we wanted it on three acres. And the seller had listed it for sale by owner and for a long time couldn't sell it and it needed some work anyway. We contacted him, just sent a simple text message, said, hey, we interested in your house, but you wouldn't be interested in maybe leasing it for a year or so first and then selling it, would you? And guess what he said. Yeah, go look at it.

So anyway, it's a long story, but just wanted to let you know. But there are some real simple, easy ways to find these deals. And I want to show you in a minute here how to find these types of properties that you can. This option for yourself.

All right, so I wanted to talk a little bit more about how to find these deals to lease option for your own personal residence. And sometimes, you know, it just happens through the regular course of your marketing, as you're doing marketing, as you're sending out postcards or whatever. You might find a house

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that you actually want for yourself and you make a lease option offer on it. You can move it. All right. It's a great way.

By the way, there's a lot of you guys listening to this and make good money doing deals. But the part of the problem is with being an entrepreneur is you're always trying to make the least. Well, let me let me say this way. You're always trying to report the least amount of income as possible. Why? So you pay less in taxes, right? So if you show less income, you have to pay less in taxes, which is great. It's not about what you make it. It's about what you keep. And well, when you are making good money, but you're writing off a lot of expenses as much as you can, you may not show enough money to the bank to get a good loan. And if you're making really good money, you want to buy a nice home, you want to get a jumbo loan, a million dollar house or something like that. Well, it's going to be hard getting a traditional mortgage, doing that and ask me how I know.

So it's sometimes really hard to get a mortgage. Like I said before, even if you had cash in the bank to buy, they're hard to get these mortgages. Well, what if I told you that a lot of these homeowners of these really nice high end homes are more flexible, more willing to do creative financing than your traditional homeowner of a smaller home? And this is so true. I've seen this over and over and over again. You're more likely if you're targeting nicer homes, you're more likely to find a seller willing to do a creative lease option or subject to our own refinancing. If they if it's a nicer house because, you know, they might already have another house. They're living in the they might already own this house free and clear. They would rather earn six, seven, eight percent on their money in that house secured by real estate than they would having that money sit in a bank account or in a CD or whatever. Right.

So the sellers are tend to be more open and flexible for doing these kinds of deals. And the pool of buyers are so much smaller in the in this higher in price range. So the pool of buyers are smaller and these homeowners are maybe not as motivated to need the cash. Now, they're more likely to do creative, be willing to do creative lease options and subject to an owner financing things like that, which is great for us. Right, because we can help these sellers now move their properties and get somebody in them who wants to buy them and is going to take better care of the properties than a typical landlord might. Does that make sense? What I'm saying there? All right.

So how do you find these deals? Well, a couple of ways I've done it was with direct mail and with going to Zillow and contacting rentals and for sale by owners. Hold on one second. OK, I realized I didn't have my microphone plugged into my phone. So now I have now I have my microphone attached to my phone. So hopefully you can hear me better. I'm now back at home and I'm going to be walking around my yard for just a minute as I finish up this episode here. OK, so one of the ways that we found him was with direct

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mail. And what we did is just through the course of our regular direct mail looking for deals, I found a seller that had a house they wanted to sell that wasn't actually what I mailed them on. It was another one. But anyway, the other thing that we do that works really well and I've done this with other people for other people, is you find a list of where you want to live. Right. And for us, we knew we wanted to live in this certain one or two zip codes. We wanted at least three acres. So what we did is we pulled a list. I think we use prop stream, I don't remember, but we pulled a list of all of the people that have owned properties over 10 years in these two zip codes that had at least three acres. And we sent them a yellow letter, a handwritten yellow letter. And I actually wrote the letter for my wife and my wife in her hand, said, hi, my husband and I are looking for a property that we can buy in this area. But we were wondering if you could you'd be willing to rent your property first for one or two years before we buy it. And if you're interested, call me. Thanks. And then she signed her name. And this is handwritten.

We did like seven hundred of these at the time and I was blown away by the response that we got. I don't remember the exact numbers, but it was around a one percent response rate. So we've got seven or ten calls, which is really good. And that's in the zip codes we were looking at on three plus acres, very happy with that number. The problem was all of these homes. They were on three acres, but the area that we're looking in is kind of hilly and there's a lot of bluffs and kind of bigger hills. And so a lot of these properties, their backyards were on a hill. They went straight back down or up. And so and they were surrounded by trees. There wasn't really much of a backyard. And if you've seen any of my videos, you see in our backyard, it's huge and it's very rare where we want to live to find a property with kind of flat back yard as big as we have it.

So anyway, we didn't want any of those particular homes that responded. That's why we found this house on Zillow. So the other thing that we did is we go to Zillow and we went and looked for homes in the price range we wanted in the area we wanted. And we just started sending text messages and phone calls to for sale by owners and rental properties, asking them if they were willing to lease their property for a year or two and then sell it. So that's it. And then once you get a seller that says, yeah, sure, maybe, you know, you go look at the house never once on any of my investment properties that I did lease options on or my own personal residences that I did lease options. I never once did the seller ever check my credit. And which is amazing. Right. The other thing I will say, too, though, it's different when I'm looking for an investment property, I'll very rarely put any money down. Right. But when it's for your own personal property, right. You're obviously you and your spouse, you're going to be a lot more picky about what you want. You have a lot less to choose from.

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And so one of our lease option homes, we didn't put any money down except maybe one month's rent. The other one, we did put a significant down payment down because we knew we wanted to buy this house is exactly what we wanted, what we were looking for. And so if you find a house that you really do want to buy and you really, really love, just be prepared. You've got to have the money to put sizable down payment down, OK? And so you're more likely to get a seller to say yes to you to do creative financing, lease option or whatever, if you can put down 10, 20 percent. So just be prepared for that. And if you're looking for homes in that higher in price range, just need to be prepared for that.

OK, the rest of the paperwork, you know, when we did the contract, both the deals, the homeowners were a little more educated right there and they weren't like super drop dead motivated, but like the little more educated. So we used the standard realtors contracts just to give them a more comfort, a better comfort level. We used standard realtor contracts. I use the regular realtors lease and a regular purchase and sale agreement from a realtor. And we just put the closing date two or three years in the future. That's all we did when with the broker language and stuff like that for the who the agent is and all that, we just crossed it out with a Sharpie and wrote in non brokered transaction, non brokered transaction. And then we use the title company to help close the deal and. Well, they didn't let me rewind. There's nothing to close. Right? We're just leasing the property with the option to buy it. But for me, I wanted to make sure we were protected. So I paid a title company to do a quick title search on the properties to make sure they weren't over encumbered. OK, one of the properties was free and clear. The other one had a normal mortgage on it. But I wanted to make sure they weren't like over encumbered with five million dollars of Lean's and judgments or whatnot. Right. So both houses were fine. And then we also filed and recorded our lease option contracts in the county records to cloud the title.

So we filed a memorandum of option in the county. Records to the title company helped with that. And so what that does is it just it will prevent the seller from selling the property or even refinancing it because you have a claim on the title. OK, makes sense. And I think we might have done on one on our first deal. I think we might have done a power of attorney like a limited power of attorney who did not do that on the second one. But, you know, if you have my course simple, these options, I teach you how to do lease options in there for investment purposes, but you can also use that same the same contracts for your own personal residences. And guys, I'm just telling you, you'll be blown away if you can if you're already doing a hundred grand a year, which isn't that hard for in real estate. Right. You can afford a very, very nice home. But chances are if you're self-employed, you're not showing enough reportable income yet. But you know how to find sellers. You know how to find deals, start going out and looking for nicer homes and start asking these homeowners of these nicer, bigger homes if they would be willing to own or finance or at least purchase for a little while and you'll be blown away.

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How many sellers will say, yes, a higher percentage of sellers will say yes on those higher end homes than they will in the normal lower end homes. So that makes sense what I'm saying there and. Yeah, it's cool and I just it's it's crazy when you as I've been talking more and more about this in my investor circle, friends, circle of friends, people who make a lot of money, high net worth or whatever, you'll be shocked how many of them actually don't own a house, don't want to own a house or for whatever reason, because they take a lot of business risks. They have things in the past that prevent them from getting an actual traditional mortgage. How many of them that I'm talking about here are actually doing creative things like owner financing or subject to or lease options? So, yeah, I mean, even there's there's crazy guys like Grant Cardone who talk about rent where you live and own where you rent.

So sometimes depending on how you got talked to in tax accountant and all that, but sometimes it's not a good idea to own the house you're living in. You should be renting it. And especially if you can use part of the property for your business, you can write a lot of it off. And I don't understand all that stuff, but yeah, cool. I hope that's helpful for some of you guys.

I hope some of you that are looking to get into a nicer, bigger home and you're feeling like, you know, I can't get a mortgage that I need right now. There is a lot of opportunity out there on the higher end homes and you can find some great deals buying them creatively for your own personal residence. I have so many stories of students doing this, and so I hope that helps.

If you'd like more information on how to do lease options, I have a webinar where you can go check it out at SLOclass.com For simple, simple, easy options. SLOclass.com And if you go to that and register for the webinar and watch it online, I have a book that I'm going to give to you for free at the end of the webinar. It's called I'm looking at it right here. It's a really good book called Simple Lease Options. The easiest and fastest way to do more deals in any market. And you're going to get that book for free just by going to the webinar.

So go check it out. SLOclass.com And we'll see you guys later. Take care. Bye bye.

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