REIS #13 – Let's Evaluate A Lease Option Deal

Hosted by: *Joe McCall*

Welcome. This is the Real Estate Investing Mastery podcast. Hey, what's going on, guys? Joe McCall, hope you're doing well. This is REI Secrets. It's been a crazy day and this is REI Secrets and I am juicing today. So you're going to see me drink this ugly green stuff and I'm going to pretend I like it. That is so good.

I'm just kidding. It is actually really good. And so we'll see how today goes on this video. But again, I'm Joe McCall. This is my regular weekly webinar series called Secrets. And my goal in this webinar series is to teach you the marketing, automation and delegation side of this business as business comes down to a few simple things. And if you're good at that, you'll do really, really well and make a lot of money. Marketing, automation and delegation the three secrets to success in any real estate investing business.

That's my goal on this. I want to share with you the things that we're using, the tools, the tips, the tricks, technology that you can then turn around and duplicate, copy and paste, swipe and deploy in your own business as well. So glad you're here. This is going out to my YouTube audience, my Facebook audience, my awesome podcast listeners. I'm glad you guys are here on today's video. I'm going to be evaluating a lease option deal. Now I have spreadsheets and software and calculators that can do all of this stuff. I'm going to show you how to do it with an old fashioned pen and paper. So I'm going to be using an iPad and a pen. What are these called? Apple pens.

But I'm going to show you how I would evaluate a deal on my piece of paper, because sometimes, you know, we complicate things too much, don't we? And I'm guilty of that. I'm guilty of that. We look at we think we have to have we have to have all the software. We have to have all these latest and greatest tools. And we forget the fundamentals of this business and we complicate things too much. And when we complicate things, it tends to muddy up the waters. And we think that, you know, if we're just here's the thing. I got started with a pen and paper. I had like I got it right here. I use these lead sheets here, just a blank sheet.

And I had these manila folders. I had one folder for blank sheets, one folder for hot, one for one, one for leads. And every time a lead would come in, it would go into one of those four. And the hot folder I'd look at every day, a warm folder. I would look once a week and the cold one once a month. And I would just write down on there with a pen and paper. The next thing I had to do to the seller, send them an offer, follow up in 30 days, follow up in six months. And so that just pen and paper. Right. And then when I needed to fill out a contract, guess what I would do? I print a blank contract, get a pen, remember those things. And I would hand right into the contract, the date, the seller, the buyer, the purchase price and all of that.

And then I had twenty thousand different folders, not that many, but I had a lot of different folders for all the different deals that we did. And everything was just pen and paper. Now, I learned the more I started doing deals, the more I learned of what it's important to use technology. It's important to have a CRM like freedomsoft, a tool that you can use to manage all your leads, because if you don't, it's easy for things to fall through the cracks.

And the more business you do, the more important you realize that there's a simple philosophy you need to have in this business. No lead left behind. You can't leave behind any leads. You're throwing away money. You're wasting money if you're not following up with all of your sellers. And so what happens when you're doing the pen and paper method and you're relying too much on that? Right. You get lost and Post-it notes, you get lost in yellow legal pad of paper. And for me, it'd be two hours later after I had already talked to the seller and I'm sitting down on my notes and I can't read them. I'm like, oh my gosh, what did I say? What was I supposed to do?

Again, I had a note that I could read that said, send them an offer, but I couldn't remember the conversation. I couldn't whatever. Right. So you can also you need to have both, OK? And so what I want to do is I want to share my screen with you here. We're going to look at an example deal on Zillow when I want to show you two pieces of paper that I use when I'm doing a live workshop or boot camp or something, I will include this in the handouts. And I didn't think it was a big deal, but people loved it because they don't like people don't like using spreadsheets. Maybe you're not good with a spreadsheet. Maybe the Internet's not working. And I'm doing a workshops where you can have something on paper that helps you like evaluated deal, helps you figure out how to what to offer for it, and then helps you calculate the estimated profit on the deal. It just sometimes clicks and helps a lot of people make more sense out of this stuff. Does that make sense? Are you interested in that?

If you are typing the chat right now, appreciate it. Let me know. Kind of on the same page here. Cool. All right. Now I'm trying to do this. We'll see if it works. First thing is, I'm going to share my screen with you and we're going to look at some property on Zillow. So let's do that.

Let me share by the way, if you're again, if you're listening to this right now on a podcast, you can watch what I'm doing on my YouTube channel. So go to my YouTube channel and do a search for Joe McCall and find the series called REI Secrets. And you can see this video and watch me actually doing all this stuff.

OK, so here we are and Zoom, right. Somebody give me a city to look at. I'm just going to pick some cities in here that maybe one or two of you are in. And we can look at an example deal. Somebody just type in the chat. A deal. Indianapolis. I like Indianapolis. If I can spell it, there we go, Indianapolis and remove boundary, right, here we go. We have about three hundred and five results now and might need to do this in Safari because Zillow on Chrome doesn't work too well right now, because when I zoom in and out and change my filters, it doesn't refresh.

So let's do this. I'm going to go I'm going to copy that. I'm going to open up Safari. By the way, if some of you are noticing that, I don't know what's going on. If anybody you know, anybody at Zillow, tell them, hey, fix this. All right, now I am in Safari, OK? See, now when I can come in here, I can change the filter eighteen hundred to two thousand a month and it removes a bunch of them, which is nice, but it won't do that in Chrome. All right. So here I am. Typically when I'm doing a lease option, I like to go after houses that are listed for rent median priced rental properties, OK, maybe between twelve hundred and two thousand. So I'm not doing the real cheap ones. I'm not doing the real expensive ones either. I like three plus bedrooms because they're easier to sell and I like houses.

And you can also go in here and look at for sale by owner homes. I like for for sale by owners and I typically like to do in the Midwest like Indianapolis. I'll stay between one hundred thousand four hundred thousand and I will only typically do houses and make sure none of your other filters are acting up. There's none there now. Doesn't look like there's any right. But you need to click right here. Seventy nine other listings and then you can zoom out. All right. So there are one hundred and twenty nine for sale by owners in here. But let's go.

Let's look at the four rents. Let's look at something price between twelve fifty and seventeen fifty just to find a quick deal. All right. And these are all sorted by newest. So the newest ones are at the top. If I scroll down as I'm doing my marketing, I might not want to target somebody that's only had their rental up a couple of days. I might go to page seven. And so here are some properties that have been up for twenty one days, three weeks. So let's look at this one, for example, right here now.

This is first key home's first key is a big hedge fund property management company. But I don't know if that matters too much for our all intents and purposes here, it doesn't matter too much. I'm going to make an offer on this house anyway, and I want to show you how to do that. Right now. I'm going to share my screen and see if I can get this to work. I'm going to do stops here. I'm going to move my there and then I'm going to move this over here. So hold on here. Oh, I think this is going to work. Maybe not. We'll see. All right. Now I'm going to share my entire desktop. All right. So you should see this property here on Zillow. Right.

And you should see here this sheet. And there's two documents we're looking at here, going to copy paste.

OK, so what I have here, I have this sheet. Here is what I use to help calculate my offers. And this one is what I use to evaluate my offers. So if this is too small, let me know if you guys can see me. Oh, you know what Ed says here? This is interesting. I was just looking at Indy Properties, Properties, Indianapolis, Indiana. I saw a lot of price drops this week. All right. Yeah, OK, it's there.

o I'm going to walk through how to calculate a lease option offer with pen and paper, no software or any of that stuff. No spreadsheets. Here we go. We're going to write down the address then to get a blue pen here, five one three one Emmert drive in the Indiana four six two to one. I know my camera maybe blocking some of this. All right. You see my right in the address, right in their beds, bats and garage. This is a three bedroom, two bath. Just do this. Three bed, two bath. And it looks like a small two car garage. Square feet on this property is nine hundred and sixty eight square feet. Not huge mortgage balance. I don't know, mortgage payment. I don't know. Don't need to know that yet when I'm talking to the seller to try to find that out. Right.

So here we go. Now we need to determine the RV. I hope you guys can see this. And by the way, if you want these these sheets, you can get them PartnerWithJoe.net. That's my new seven dollar program where you can learn how to do deals and you get this there. Just use my apple pen to stir my green juice. It's gross, but I use the other end, not the end, where the thing gets screwed off. And on the other end, that juice is good, that juices good, that juice is good.

OK, so anyway, let's look to see if Zillow can give us the estimate, the estimate value. Sometimes it doesn't give it to you on a rental property, but that's OK. I'm going to show you what else we can do. Let me make this a little bigger. Sometimes I like to go to E praise. Now, e appraisals sometimes doesn't work, like there you go. But I'm just curious, is the appraisal work for anybody else? My spelling it wrong? Let's just Google it appraisal and it doesn't work. The appraisal used to give you the Zillow estimate. All right. Sometimes I like to go to I confess, I confess doesn't work either. All right. PropstreamJoe.com. It's amazing. Use it all day, every day. Good to go hear the details. Yeah, you're right, Kenneth. When you use props from your. Better info.

OK, so this hedge fund, CSMA out of Marietta, Georgia, it's own this house for five years and 10 months. But what am I looking for here? Estimated value right here. One fifty two nine 14. So let me show you my screen here. I can't get the Zello, but I have right here the prop stream. OK, I'm just going to write down what we just said. One fifty two nine one four. OK, let's look at another website. Let's look at Realtor Dotcom. You guys can still see my screen and all of that. Right. Let's paste this address in here. Open Door will give you an offer. Four hundred and sixty three thousand. Is that a good estimate of value? Maybe I'll see what else we can see here. Home value for here. Now, this might be hard to see. Let me try to zoom in a little bit.

This is, by the way, why you should never trust these things you see by these big companies here. They're saying they're offering one sixty three, but they're also saying here it's worth today, one forty to two hundred. So I'm going to write that down here on this right here. I'm gonna write down one forty two for five for all I'm doing again is trying to find the RV. OK, I'm just trying to determine the RV, the after repair value. Now the other cool thing about real True.com is you can go here and see more valuations and you have to claim the home like it's your own home. And I don't know if the log in. I've done this so many times. Realtor dot com must think I have one hundred homes, but I must show you why I like to do this here. Now if I zoom in a little bit, you can see over here, look at this, let me go all the way over to the right. Your crosshairs has to be right over here right now. Can you see right here? It gives me collateral analytics is one fifty four. So I'm going to go here. Dang it. You see how it moved. All right. So just trust me on this. We'll go here to here and collateral.

I'm just going to use collateral here, right? Collateral analytics is one fifty for any appraisal. Doesn't work. So I'm going to use core logic or logic. One forty to two hundred. And we'll look at Redfin here in a second. Let's just add another one. It's called A.M. says it's worth one fifty eight five five. Oh, OK, cool. Now let's go to Redfin. CEO of Redfin says, by the way, can a virtual assistant do this for you? Yes, you bet they can. Redfin may not be available in your area, but there you go. Redfin estimate one fifty three three five one fifty three three five five. Now, I've got how many, six different values. Now I just need to average them, OK, and I'm going to get an average. Now this is going to get you in the ballpark. It's not going to be exactly right, but it's going to get you in five, five to ten percent, which is good enough for me. This is just our initial offer. Someone opened up my calculator here and move this around. All right.

So now we've got one fifty four plus one forty to two hundred plus one fifty three three five five plus one fifty eight five five plus one fifty two nine one four plus one forty two four or five four equals. How do you do average. You divide it by whatever numbers is divided by six. There you go. So our average now is going to be one four nine two nine six one one four nine two nine six. That is the RV that I'm going to go with. That's my average repair value that I'm going to go with.

Now, the next thing we got to figure out is repairs, repairs. The way I typically calculate them is the square footage time, some kind of dollar per square foot. Now, if the seller if I'm just talking to seller on the phone and they say doesn't need repairs, I'm going to use five dollars a square foot. If it's cosmetics like paint and carpet, only ten bucks a square foot. If it's a major rehab, I might do twenty to thirty dollars a square foot. But we can look at these pictures here and it looks in really good shape. This is rent already, which is one of the reasons why I like making lease option offers on Zillow properties because they usually don't need much work right now. If it's a property we don't have pictures then yeah, then you would use something like ten bucks a square foot, five bucks a square foot, make that up or go make that go up or down depending on the market that you're in.

OK, so let's do zero. Otherwise you would do you would do nine sixty eight times five bucks a square foot equals I don't know what that is, five thousand bucks or something like that for repairs. But we're not do that, we're just going to do zero now the as is value. Here we go. The as is value is the RV minus repairs. So what would the House sell for today. What's it worth today. That's the as is value. That's the way I define it. RV minus repairs.

So we're going to do one forty nine to nine six minus zero equals. Let's just say the RV is one fifty two hundred fifty thousand. OK, now we need to know, we need to figure out what the market rents are. Now they are saying it's renting. They're asking fifteen, twenty five a month the rent zests if it gives it to you. Sometimes it does, sometimes it doesn't. They're doing thirteen, thirty five month. Well let's just let's see what we got here. Thirteen thirty five a month prop stream, we'll tell you what it will rent for, what they think it rent for, they're saying nine thirty seven. This is one of those things. You just kind of do a gut check.

Let's look at rental meter. This is a good tool. If you have never used it before, you should check it out. It's kind of free, but I think they something where they let you try it for free for a little while. So I'm going to put 15, 20. They want you to put in the rent that they're currently asking for and they're asking fifteen, twenty five and it's a three bedroom, two bath, click analyze and analyze. It's going to tell you what the average market's rents are. Fourteen hundred median thirteen ninety five at fifteen twenty five. That says your rent is reasonable.

So I'm just looking at this. They have good rental comes here. Another good source to check out for rental comps is a deal checked. I recommend you go to JoeMcCall.com and use the Deal Check. This is a tool I use. I believe this is it. Yes. Fifteen dollar discount. This is they have really good rental comps here. What this mainly is, is it's a way, it's reporting tool that you can use to analyze your deals that you can give to your potential buyers. And they can look they can look at it. It gives a report that you can send out and pricing. It's super ridiculous, cheap. Ten, twenty bucks a month. There's a free version as well. But the reason I bring them up is that they have really good rental comps. So here we are.

They're saying the average is fourteen hundred. Back to my screen here. Let's just put fourteen hundred now. The rent that they're asking for is fifteen, twenty five. Sometimes you can go in here and see a price history and you can see previously what they asked for and rent. Now they this is weird. They listed for thirteen forty five in May, then they bumped it up and then they dropped it. So I'm going to go with them, I go with fourteen hundred a month because it's been on the market for three weeks, two or three weeks and they haven't rented it yet. Somewhere in here it'll show you how long it's been on Zillow days. Sixty three. So let's do fourteen hundred fourteen hundred.

Now there's a few things I want to just emphasize here. I don't care what the seller says, the properties work. I don't care what the seller thinks the property would rent for. I'm going to make an offer on the numbers that work for me. I don't care what they owe either. No, up here we don't have this right here right now. I mean, it's good if you can get the mortgage balance in the mortgage payment as you're talking to them. One of the ways I like to ask them that is, Mr. Seller, if if you don't mind me asking, do you own the house free and clear or is there a mortgage on it? Just see what he says. He says, no, we we have a mortgage on it. And you can say, well, listen, you don't have to tell me if you don't want, but when we close, we're going to need to know how much of a mortgage do we need to pay. OK, so what do you want, if you don't mind me asking, you see how much easier that is than just saying how much do you owe, what? Your mortgage payment. So we're going to have to know how much to pay off. So do you mind just telling me save us a little bit of time, we can close a little faster. OK, well the oh one twenty five. OK, and your mortgage payment, I'm going to guess is what about eleven hundred a month. Is that right. See what they say. They may say that's ten forty five a month. Pity. Pity is principal interest taxes and insurance.

So eventually you're going to want to know when you're making the offer. Not that it matters, but I'm saying you're going to, it helps to know what they owe because if they owe one sixty five, well you need to know if they owe only ten grand or they own it. Clear, maybe you can offer them owner finance. All right. So here we are back to this thing. All right. We're saying the Irv's about one fifty. The market rents about fourteen hundred. Now, here is the A to be offered. This is the all important A to be offered. This is what I'm going to be offering the seller.

You guys are still good. You can still see my screen here. Right. Prop stream will sometimes give you the mortgage balance, but it's not a hundred percent accurate. From where I wonder. I wonder if I have more hair on my chest now I can feel it just popping out. They say, oh, never mind. The option price is going to be the as is value times to certain percent. Most markets I'm going to do eighty five percent. If it's a really hot market, maybe it's in California. The house prices are real expensive. I might do ninety percent. It's a down market, I might do eighty percent.

But here's the point. With a cash offer, most investors are trying to get 60 to 70 percent. Right? Well, with a lease option, we can offer the seller more. So I typically like to do eighty five percent. So as is value times eighty five percent for us it's going to be let me do it here. One hundred and fifty times point eight five. Get my calculator. One hundred and fifty times point eight five one twenty seven five hundred. And the rent. This is important. I understand we typically want to get at least two hundred to three hundred a month in cash flow. OK, so you got to figure out, you need to know before going into these deals what your minimum cash flow, what is your minimum cash flow, what's your minimum cash flow?

For me it's three hundred bucks, OK. Three hundred bucks a month. I might do a two hundred dollars a month if it's a good property, good neighborhood. And I know I can sell it quickly. And there's a high demand for those kinds of homes. I might do two hundred, but so the market rent here fourteen hundred times point seventy five. That equals 10, 50 right now, what is the term I'm going to offer five years?

Now, there's one thing I forgot to put in here that's important to understand is the you also need to offer the option consideration or the the option deposit. Now, typically, what I like to do, I typically will offer one month's rent, so I will offer a thousand bucks or, you know, the market rent. See, they're thinking they're going to get fourteen fifteen hundred bucks a month for it. I might, I might offer them a fifteen hundred. Now when do I pay that. When do I pay. That depends. Sometimes I'll pay it right away because I know it's a smokin hot deal. Sometimes though I won't pay that until I actually get a buyer for the house. And that's something more advanced I talk about in the course. But I don't start paying rent typically until I have a tenant buyer. So I will put the contract out 60 days.

But again, it depends on the deal. If it's good cash flow, good numbers, I might. It's July 19th right now, I might say. OK, I'll make the payment August 1st if it's a smoking hot deal. Otherwise, I might say I'm going to make the payments Temba first and I'm going to give myself at least two, three or four weeks to find a buyer. So I might say this contract is contingent upon me finding a good qualified buyer to live in the house. If it's marginal. I'm I don't know if it's a good deal or not.

Does that make sense? What I'm saying? So it's OK to do that. Now, if the seller objects, you've got to be really careful of tying up the property. You don't want to tie up the property hoping that you might find a buyer. So what I do then is I typically will say, listen, while I'm trying to find a good buyer to live in the house, you can still advertise the house. And if you sell it before I find a buyer, then just cancel my agreement. It's no big deal to cancel it any time. But once I find the tenant buyer, then there's more paperwork to sign and then we're good to go. We're going to stay. We're going to stick with this. Makes sense.

So here is my offer to the seller. My option price is going to be one twenty seven. The rent's going to be ten, 50 a month. I want to do five years. I'm going to put fifteen hundred dollars down. Now, here's the great thing about lease options, guys, that you don't get with cash deals on a cash deal, you typically can only negotiate one thing. What is that? You can typically only negotiate the the price. But with a lease option, you can negotiate five different things. You can negotiate the option price, the rent, the term, the option deposit. And there's also a fifth thing that you can negotiate rent credits.

Now, in this case, I'm doing zero. I'm not going to offer any. But let's say I'm I'm I'm asking the seller to sell it to me for one hundred and twenty seven thousand five hundred dollars sometime between now and in the next five years. Let's say they say, you know, that's not going to work. I need to get at least one thirty five. I mean, it's worth one fifty today. I, I need to I need at least one hundred and thirty five for I need one hundred and forty four.

Am I say, well you know what, I don't know if I could do that, but what if I could, what if I could get you Mr. Seller. One hundred forty thousand. Would you be willing to negotiate on the on the rent or the terms. Let me ask you, Mr. Stoller, what's more important to you? Is it more important to you to get the price that you want or the monthly rent? They might say, well, I just got to get that price. And I said, well, OK, maybe I can get you one forty five for, but instead of five years, I need to do ten years. Maybe they don't care some sellers. I sell them. Sometimes it's price or terms you can't have both. So if you want your price you've got to give me my terms. If the rent is more important to you because maybe your mortgage payment is thirteen hundred a month, or maybe you don't want to wait five years, you only want to wait two years. I could maybe do that if this price goes down. So if the seller says no, I have to get thirteen fifty a month, I can only do two years. And I said, well what if I could do that for you. We couldn't, you wouldn't be willing to negotiate on this option price and bring it down a little bit would you.

Or you could say something like this. What if I could get you thirteen fifty a month in rent and we could do this for three years? What would you want to do that would you be willing to sign this contract today? Can we do business today. I love that phrase. Right. I learned that from cloud nine. What if I could get you this? Could we do business today? But now you see with rent credits, I mean, with a lease option, you can negotiate these five things, the option price, the term, the option consideration, the rent and the rent credits.

Let's say they're stuck on this. They want a higher price. Maybe you can give me a higher price if they give you some rent credit. So every month you say, Mr. Seller, if I pay my rent on time, I'll get you one hundred and fifty thousand. If you give me a thousand dollars a month rent credit for five hundred dollars a month, you figure out what it's going to be over five years and you can say, listen, if I'm a second late, I will lose that five hundred dollars rent credit that might give them some more comfort that they would want right now. Some of you I see are saying this like, well, why would the seller agree to sell it to you for one twenty seven when they can just listed on the market for one fifty. Well guys really they maybe could list it for one fifty, but they're going to have to pay a lot of different things, like I don't have this on the screen here. I cover this in one of my calculators. And of course they're going to have to pay commissions. They're going to have to pay. There's. Maybe a little discount, they're going to pay closing costs are going to be carrying, costs are going to have to fix up. They're going to. The buyer is going to get an inspection is going to be things they have to fix from that.

So at the end of the day, typically, the seller is only going to walk away with eighty five, 90 percent of their original list price. So even if the seller did list it for one hundred and fifty thousand and being conservative, they're only going to walk away with nine ninety percent of that. They're only going to walk away with one thirty five anyway. So sometimes you just explain to the seller how much there really are going to walk away with. And sometimes I phrase it like, listen, what if I could get you the same equity you would get if you sold it. The realtor, would you be interested in that? Would that be fair? So as long as they're willing to wait for it, I'll give them the same equity they would get if they sold it to a realtor.

Now, I'll tell you this. I just rehabbed the house. I bought 40 grand into it, one of my rentals to fix it up and sell it. And it was a white hot market. I had multiple offers one weekend, but still after the inspection, the buyer came back and had about five thousand dollars worth of stuff for me to fix. And it was a single mom, you know, elderly. And I thought, well, you know, I felt kind of bad. So I agreed to give her, I think, like sixty five percent of whatever she was asking for. And I fixed a few things on my own. So even in this hot market, though, buyers is my point. They're coming back for inspection, especially if you start going through these these these companies like open door.

Where were we just looking at here? Who was making an offer on this price? I don't remember where it was. They were making an offer. Was it realtor.com. Yeah, they were saying one sixty three. I guarantee you a glass of green juice that is so yummy that they're going to come back with a list of five to ten thousand dollars and things that you need to fix before you sell it to them.

So back here to this deal, there we are now sometimes if the seller says no to a this is a this is my sandwich lease option offer here. This is a sandwich. Actually, let me do this right here instead, OK? This is a sandwich lease option and I'm hungry. Sandwich sounds really good right now. That's a sandwich lease option offer. This right here is a wholesaling lease option offers. Sometimes I don't present both to the seller until after I've already presented this to them. If I presented this to them and they say no, or if I know they don't have enough equity, then I'm going to present this wholesaling lease option offered to them. So when it comes to wholesaling lease option offer, it's really simple. I'm going to give them whatever price they want as long as they're willing to wait for. And so the as is value on this house was one fifty.

All right, I'll give them let me do blue ink here. I'll give them one fifty and the market rent fourteen hundred and term two years. And then don't forget the option deposit. I'll give them one hundred bucks. OK, so that's my wholesaling lease option offer fifteen one hundred fifty thousand four hundred a month in rent two years. One hundred dollar option. You might be saying well where do you make your money from that I make my money from that, from the assignment fee. So I will assign that to those are my two offers. I will assign that to the tenant buyer for five grand. I'll be done and out of the deal. You understand that. So this is how with a pen and paper guys, maybe I'll make this bigger for you. Oh, that looks fancy. A little bigger there.

This is how you make a lease option offer to a seller. Let me move this over. OK, we go and take a screenshot if you can put this into your own word document or whatever you first need to determine the RV. You need to decide what the house is worth and just take the average of all of these things and you get the average of of what the property's worth. Then you need to estimate repairs and repairs. Just square foot time, some kind of dollar per square foot thing. Five dollars. Ten dollars. Twenty dollars. Thirty dollars zero dollars. OK, now you get your asses value, you take the RV minus repairs. So we just determine here the RV is about one fifty. Now you need to find the market rents. And I just like to go to rental meter, perhaps dream Zillow kind of get a gut check. They're asking fifteen hundred for it. I feel good. About fourteen hundred. One thing you could do is you can look to see what are similar properties renting for right now in Zillow. So come up with some kind of number that would work.

And now you're going to have two offers. You're going to have a sandwich lease option offer in a wholesaling lease option. OK, back. Let me you can have a sandwich lease option offer and a wholesaling lease option also. And remember, there's five things you can negotiate with the sellers, right? You can negotiate the option price, the rent term, the down payment or the rent credits. Now, I usually present the sandwich lease option off of first of the stuff because that's where you're going to make the most money.

On the next page, I'll show you how much money we would make on this deal. You're going to make thirty something grand on this, right? If they say no to that, then I'll do the whole sealing this option. But remember how we calculate the option price we take the as is value times. Eighty five percent now maybe you could do 90 percent if it's a hot market, but no more than that. You need to have equity in these deals and you need to have cash flow. So I like to have at least twenty five percent of the rent for cash. Now, what is my cash flow on this thing if I'm going to rent it out? This is really good. I didn't talk about this.

What's my cash flow on this property? Well, it's, what, three fifty a month, isn't it? That's my cash flow. Three fifty a month. I like that. Now maybe I can go up or down a little bit. Maybe the seller. I can pay them eleven hundred a month. That makes it better for them, so I'll still be making three hundred dollars a month in cash. Long term, I want to do five years. You want to do three to five years, max. Why? Because you need to give the time. You need to give time to the buyer to actually buy the house and try to get five years by option consideration or a down payment to the to the seller's usually one month's rent. Now they say no to that or they want to negotiate the rent or the term or the price or the down payment. I can negotiate any of those things. If they give me something else, I'll give them something. If they give me something in return. Makes sense. They say no to that. Then you can do the wholesaling lease option offer or the assignment will give the seller whatever price they want. I'll give the market rent and I'll put just maybe ten to one hundred bucks down.

Now how do I make my money on this thing? That's real simple. I make my money on this thing by bumping the price up. I'll advertise it for one hundred and fifty five thousand dollars and I keep that five thousand dollars as my assignment fee and I'm done and I'm out of the deal. That makes sense. That's a great way to make a quick buck. All right.

So now let's evaluate this deal. Let's say this deal is a the seller says yes to the sandwich, this option. OK, let's look at this evaluation worksheet here. Make this sideways. Maybe you can see a little better. We good there. We're going about the property here. We're going to put in the numbers, as is value, the asking price of rents, mortgage balance, appreciation. We're going to look at some comps. This is where we're going to put in the deal with the seller. This is the A to be, and this is where we're going to figure out some appreciation than our deal with the tenant buyer. This is going to be our B to C, so we have the A to B, let me show you here the A, B, the deal with the tenant buyer is going to be the B to C, so it makes sense.

And we're going to show you here what the purchase price B, the monthly payment to them to term the option consideration. Usually we set the purchase price with the buyer by about appreciated value times of ninety ninety five percent. So we want to give this, we want to give a good deal to the buyer. OK, and now here we're going to calculate our profit calculation. We're going to say outright a purchase price buyers. We're going to buy it from this seller for that and this will be our profit.

And then here's where we figure our cash flow and this is going to be a total profit on the deal cuz we ready for this. All right. So let's do the let's figure this out. The address was again, let me do blue here. Five one three one Emmert drive in the Indiana. Know you can't see my screen there in the Indiana zip for six two two one the as is value. Remember we determined that was going to be I think it was one one fifty. We just said it was one fifty. Pity we talked to the seller. It's ten forty five on principle interest taxes and insurance asking price the seller is wanting. They were asking for let's just say one forty market rents we determined are fourteen hundred the mortgage balance. What did we decide. They said it was one twenty five. The average appreciation in Indiana. Well I don't know.

Let's see what the Google says. If it's on the Internet, it must be right. Average appreciation. Marion County, Indiana. Average, you should say house appreciation. Marion County, Indiana. Sometimes Zillow has good stuff here. Wow. Look at that. Seventeen percent last year. That's pretty darn good. Is that sustainable? No. So this is where there's no hard and fast rule about this. You just kind of have to like, I don't know, what should we do? You can even go down to the zip code if you wanted to some times and you could say four, six, two to one. And so seventeen point six percent, they're predicting eight percent for the next year. Do you see what I'm talking about right there? So sometimes I like to be conservative. Let's just say it's let's do six percent.

How about that? It's always better to under promise and over deliver. Let's do six percent now. Three comps. Well, I like to look at comps. This is now I'm getting into I want to calculate my average my my potential profit on this deal. Let's go here to prop. I like prop stream for comps. Let's look at comps here now. This is where you can look at public record MLS or both. And sometimes you get to play with this to see if which one is better. And you can see it's got sometimes that gives an estimate. Sometimes it doesn't. I don't know. It's kind of weird, but stick with the MLS. I don't know if Marion County or Indianapolis is a disclosure state. All right.

So now we only have two is we need more. Let's do one mile radius. Now we got a lot more. Let's sort this by amount. And we can see your repriced in the last year between seven seventy four and eleven sixty two. And that's the square footage. So we're in the right size and I'm going to sort this by amount. And you can see here, OK, we're looking good. One seventy five one sixty nine one fifty seven point fifty one fifty one forty six. I feel good about that because I go here now let me back here my three comps. Let's do I know you can't see this right now but one fifty one seventy five. One sixty nine. One fifty seven. OK, so I just put those right there. I just want to see. All right, well if I'm going to we'll see it down here. The price that I'm going to be selling it to the ten buyer.

What's your gut check if you're trying to sell this house to the buyer? In one year for two hundred thousand dollars, it's probably not realistic, you're not setting the bar up for success if I'm going to try to sell it in one or two years for one eighty five. I don't know, maybe. See, I want the buyer to have a lot of incentive to want to buy the house when they can get ready for a mortgage. I want them to work hard at getting a mortgage. And you'll see why here in a minute, because the profits on these types of deals are really, really good. So the deal with the seller. Remember, we offered to give them what was right here, one twenty seven. Let's say we negotiate one 30. So deal with the seller one 30 monthly payment to the seller they're OK with. We offered ten fifty but their mortgage payment was ten forty five. Yeah.

So we've agreed to pay them enough to cover their mortgage payment by the way. Do you think I'm going to send the rent to the seller or their bank. I'm going to send the rent every month to the mortgage company term to agree to five years option consideration. I'm going to put down one month's rent. Fifteen hundred bucks by the way. Is that refundable? It's refundable. Well, it's refundable when I buy the house.

Now, let's look at appreciation here. We figured six percent right now. This is where you're going to have to bear with me here. So at the end of year one, what's the property going to be worth? We're saying it's going to be worth one 50, right. Someone put one 50 here times, one point six percent. So I'm going to go to my calculator. We move this over so you can kind of see what I'm doing here real good. You guys can still still see my screen if you're listening on the audio podcast. My apologies.

OK, one fifty times one point zero six one fifty nine one fifty nine times one point zero six one sixty eight five forty one sixty eight five forty times one point six one seventy eight six fifty to one seventy eight times one point zero six one eighty nine three seventy two one eighty nine three. Obviously there's spreadsheets and calculators that can make this all easier. So much easier for you. There we go. So, so figuring six percent appreciation over the next five years, the House is going to be worth two hundred thousand dollars at the end of five years. Not bad. Right now. Here is the deal with the tenant buyer. Remember, we're buying it from the seller for one thirty. We're going to sell it to ten. A buyer for what? Now, typically, what I like to do is I like to set this up in a two year time to OK.

And so two years right here, the end of two years, the House is going to be worth one. Sixty eight five forty one sixty eight, five forty. Now also look at my instructions down here. Purchase price with the buyers. Determine if I take any appreciated value times ninety ninety five percent. I want that Tanabata to have some incentive to buy the house. So what if I did one sixty eight five forty times point ninety five percent. Now this is again just a rule of thumb. There's no you can do this differently if you want, but this is what I like to do. OK, so one sixty eight, five forty times ninety five percent is going to be one sixty one one one three. All right. So I'm going to set the purchase price on my BTC with ten a buyer at one hundred and sixty thousand monthly payments. Going to be what. Well whatever the rent is, the rents are fourteen hundred a month. Right.

So let's do fourteen hundred a month option consideration. Now this is really, really important. I understand you can get anywhere from three to five percent. If you lower the rent a little bit you might be able to get five percent. If you keep the rent to market rents, you might get three percent. What if.

Well, let's keep it. We'll try to get three percent on this thing. OK, so three percent one 60 times one point zero three one, 60 times point oh forty eight hundred bucks. I'm going to be able to get I'll get five grand from this easy. Now, again, that money can get credited back to the tenant buyer if and when they buy the house. Right. The buyer will get that money back if and when they buy the house in two years.

Now, let's look at my profit. What is my profit on this sandwich? Lease option deal. Real simple. The purchase price with the tenant buyer. Let's use let's use green purchase price with the tenant buyer is one sixty. You guys can see that. OK, good. Somebody is asking me where did I get one point six from one point six from was from this appreciation we keep on doing to get the higher price. You do one fifty times one point zero six then you do one fifty nine times one point six to get you this. That makes sense. That's, that's the appreciation. All right. Anyway, purchase price with the seller is what, one thirty? This is looking good to me. This is looking much better than a green juice. What's my profit. Thirty thousand dollars.

Now, what is my rent that I'm collecting from the tenant buyer? Fourteen hundred. What's the payment that I'm paying to the seller. Ten forty five. What's my cash flow. Three fifty five a month times. Twenty four months. Three fifty five times twenty four eighty. Five, 20, OK, so what's my total profit on this baby? Thirty eight thousand five hundred twenty dollars. Is that exciting? Is it exciting or what? That's exciting to see. Yes, that's real exciting. Joe, thank you so much for sharing that. All right. Try this one.

Try this. There you go. You should see just in the middle of the screen this thing right where to go. Hold on your. There it is. Now, this is the power of these options, guys. How much money did I put into this deal? None. How much did I do in repairs? None. Why is this thing doing that? I can't get rid of this thing. Let me stop here. Oh, there it is. I got it. Let's try this again. There it's gone. All right. So how much money do I put into this deal? None. The seller do a credit check on me? No, I have a seller. Ever done a credit check on me for at least, you know, not even for my personal residence.

OK, now you're saying, Joe. What do you mean, no money down? You did you put down with the seller right here. Fifteen hundred bucks. But you know what? Where did that money come from? It came from the buyer put down five grand, so put down five grand of that. I gave fifteen hundred to the seller. So what's my cash now profit on this deal. Let me put that right here in red cash now. Thirty five hundred. My cash flow. Three fifty a month, my cash later. Thirty thousand.

You see the power of that guys. The three profit centers and any good deal. Cash now. Cash flow. Cash later. Cash now cash flow. Cash later not cash. Now here I'm going to credit that buyer back that that five grand. If they buy the house, if they don't buy the house, just get another ten a buyer in there and collect another five thousand dollars. All right. The same with this. Fifteen hundred dollars. If and when I buy the house, the seller is going to credit that money back to me also. OK, cool.

That is it. I hope you guys understood that. And listen, if you want more information about how all this stuff works, the lease option, things, I want you to I want to invite you to my masterclass called Simple Lease Options. And I'm going to give you this book, this book you get for free when you go watch my webinar at SLOclass.com for simple lease options. SLOclass.com. You watch my webinar. And how do these lease option deals? You get this book for free by attending the webinar. By attending the webinar. And I walk through example deals and case studies just like this. OK, so appreciate you guys. I hope that helps kind of in analyzing a lease option deal with pen and paper.

Yeah, it might be easier to do it on a spreadsheet or a calculator or software, but I think this might help a lot of you guys just kind of visualize and see all that's where the numbers come from. That makes sense. Like somebody here still has a question. Your property, your your appreciation was six percent per year, but you multiply it by one point zero six. I still don't know why. Steven, just write it down. We figure one hundred thousand dollars, six percent appreciation. What's the price going to be in one year?

It's going to be one hundred and six thousand dollars. Right. When you get to that by taking one hundred thousand times one point zero six, that gets you one hundred and six thousand. It's a shortcut. OK, cool. All right. Got to go, guys. Appreciate you all very much.

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