

Advanced Buying Techniques (Part 1)

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This column is written the day after February's foreclosure auction. On the first Tuesday of each month, you will find us in front of Bartow County's courthouse, along with about fifteen other real estate investors. Yesterday, a new investor asked, "Are foreclosure auctions the best way to buy investment property?" My answer was, "They can be, but often times they're not."

Most people are aware of only one way to buy property: You find a property you want to own, make an offer, it gets accepted, apply for a mortgage, and go to the closing. Bammo, you own the property. However, we use this type of closing technique only once out of every twenty or thirty deals.

Over the course of the next few weeks, we will write a series of columns discussing five advanced buying techniques that many real estate investors commonly use to buy property. They are: Sandwich Lease/Options, Subject To Deals, Short Sales, Foreclosures, and REOs.

First, a word of warning: No education is dangerous for any real estate investor; however, *bad* education is usually even more dangerous. There are far too many REI (real estate investing) "gurus" who tout some really crazy buying techniques. Before you use *any* advanced buying technique, meet with a real estate attorney - *who has a thorough understanding of investment real estate* - and discuss the pros and cons of each technique with him or her.

Sandwich Lease/Options

What is a Lease/Option? A buyer agrees to Lease (rent) a property from a seller for a certain period of time - usually one or two years. At the end of the Lease, the buyer has the *option* to buy the property for a pre-determined price. In addition, it's common practice for the buyer to give the seller a Non-Refundable Option Fee at the beginning of the Lease. If the buyer exercises his Option to buy the property, it is customary to have some or all of the buyer's Option Fee applied toward the purchase of the property. It is also common to have part of each month's on-time Lease payment applied toward the purchase of the property.

How can an investor use *Sandwich Lease/Options* to buy property? An investor Lease/Options a property from a seller. Next, the investor turns around and Lease/Options the property to another potential buyer. For example: An investor Lease/Options a property for two years at \$750/month with a \$500 Option Fee for a sales price of \$80,000. Next the investor Lease/Options the property to another buyer for 1 year at \$900/month with a \$2,000 Option Fee at a sales price of \$95,000. In other words there is a Lease/Option on each side with the investor in the middle - thus a "Sandwich" Lease/Option.

As you can see, on the surface this technique looks to be a great way to buy investment property.

Our thoughts? We love to *sell* a property using a Lease/Option. It can be great for a buyer who wants to buy a property but can't currently qualify for a favorable mortgage.

However, a Sandwich Lease/Option is a terrible technique for investors to use - *especially new real estate investors* - to buy a property. Why? Because so many things can go wrong that are out of the investor's control. For example: What if the investor faithfully sends his monthly payments to the seller, but the seller doesn't send payments to their mortgage company, and the property goes into foreclosure? Or what if the seller declares bankruptcy and the property is lost? Or what if the seller is sued and the property in question gets attached to a \$50,000 judgment? Or what if the investor exercises his right to buy the property, but the seller refuses to sell at the price on which was previously agreed? Are you ready for a long and expensive court battle?

For these reasons, we think it is best for investors to "Get the Deed" (get the Warranty Deed in their name) when doing a deal.

Stay tuned for more advanced buying techniques in next week's column.