

Working with Lease/Options (Part 1)

Just met with Brad and Jenny, a couple who recently attended one of Russ Whitney's free real estate investing dog-and-pony-shows in Atlanta. They came back ready to dive head first into lease/options.

Who is Russ Whitney and what is a "dog- and-pony show"? Russ is one of the top infomercial guys you see regularly on TV. He promises real estate investing wealth in a short period of time, **IF** you attend his **FREE** seminar. A "dog-and-pony show" is a free or nearly free event, and its sole purpose is to sell you that guru's real estate investing "system", at a "once in a lifetime price", but hurry because "there are only twenty left".

At Russ's event, Brad and Jenny were told that even though they don't have much money and have weak credit, they can still acquire investment property using lease/options. They wanted to know what we thought about buying property using lease/options.

Don't know how much Brad and Jenny liked our answer. You see, while Kim and I love using lease/options to **SELL** real estate, we think using lease/options to **BUY** real estate is a bad idea – *especially for new investors!*

NOTE: Please remember, our way of investing is just **A** way, not **THE** way. There is no **THE** way.

Before I tell you why we don't like using lease/options to buy property, let's first define lease/options.

What is a lease/option? The full name is actually *a lease with an option to purchase*. It means that a person (tenant/buyer) is leasing (renting) the owner's property and has the right to buy the owner's property within a pre-agreed-upon time frame, at a pre-agreed-upon price, and for pre-agreed-upon terms. For this right, the tenant/buyer pays the owner a non-refundable option fee. You'll also hear a lease/option called a "rent to own".

Normally, three main documents are used with lease/options: a lease agreement, an option agreement, and a purchase and sale agreement. Sometimes all three documents are combined into one big document.

Here is an example of a lease/option deal: Tom is a new real estate investor. He meets with a motivated seller. The seller agrees to Tom's sixty-cents-on-the-dollar purchase offer. Unfortunately, Tom doesn't have the money and/or credit to buy the property right now, nor has he learned how to do subject-to deals. So Tom lease/options the owner's property. For this option, he pays the property owner a non-refundable option fee.

The amount of the non-refundable option fee, lease payments, purchase price, and length of the option agreement are all negotiable.

So why don't we like using lease/options to buy real estate? For the following four reasons:

First, because of a lack of control. Simply put, a person who lease/options someone's property has no special rights. He is just a tenant, not a super tenant with the ability to leap tall buildings in a single bound. Having control of the property is critical if you want to be a successful real estate investor. By control, we mean that the property is in **YOUR** name! You own it!

Second, today the property owner is motivated and agrees to your sixty-cents-on-the-dollar offer. A year later, when you are ready to exercise your option to buy, what if the property owner is no longer a motivated seller? What if he refuses to sell you his property at the pre-agreed upon price? You can't *make* him sign the selling documents. So what do you do, sue him? How much will that cost and how long will it take?

Third, if you lease/option the seller's property and then lease/option the property to another tenant/buyer – this is known as a *sandwich lease/option* – you are now a landlord. Way too many investors become landlords **BEFORE** they know how to be landlords. This leads to many, many landlord/tenant headaches.

Fourth, when something needs to be repaired at the house, guess who is responsible for fixing it? Before **ANYONE** becomes a landlord, they should have a *minimum* of \$15,000 sitting in the bank just gathering dust. Why? Ask *any* landlord, he or she will be glad to tell you.

Next week, in part two, let's talk about how to **SELL** a property using lease/options.

If you want to learn more about real estate investing, or would like to be mailed a **FREE** copy of our 16 page monthly real estate investing newsletter, or would like information about our 1,500 member real estate investors group that meets monthly at the Holiday Inn in Cartersville, please visit our website at **www.REIoutpost.com**.