

## Working with Lease/Options (Part 2)

In last week's column we discussed why we don't like using lease/options to **BUY** real estate. Today, let's talk about why we love using lease/options to **SELL** real estate.

**NOTE:** If you missed last week's column, you will find it on our website at [www.REIoutpost.com](http://www.REIoutpost.com). Click on "Articles", then on "Lease Options".

So why do we love using lease/options to sell a property? For three main reasons:

First, because we stay in control of the property. Bottom line, whoever's name is on the Warranty Deed (the document that shows property ownership) controls the property. Control, in real estate investing, is the name of the game.

Second, rarely does a tenant/buyer haggle over the sale price of the property. In fact, in all of the years of doing lease/options, we've only had two or three people ever attempt to haggle over a property's purchase price.

So if the tenant/buyer is not interested in the purchase price, then what is he interested in? Normally all a tenant/buyer cares about is the monthly payments and the amount of the non-refundable option fee. For example, when you hear car lease commercials on the radio, do you ever hear them mention a purchase price? Nope, all they advertise is the option fee and monthly payment.

Why don't tenant/buyers negotiate the purchase price? The simple answer is they need you more than you need them. Here is what I mean; at any one time there are hundreds of houses for sale, so why don't they just buy a house instead of doing a lease/option? Usually it is because the tenant/buyer has weak credit. This means they don't qualify for a mortgage.

At the same time, many tenant/buyers are great folks, they just have weak credit. For a variety of reasons they don't want to live in a big apartment complex. They would prefer to live in a house in a nice, quiet, family neighborhood.

In addition, they don't want to throw their money down the drain paying rent. Instead, they want their money working for them and going toward the purchase of their own home. And here lies the problem. Take a look at the real estate section in your local paper. Count how many lease/option (i.e. rent to own) deals you see. Not many, I bet.

And it gets better. Call on each lease/option property advertised and get the property's address. Next, drive by each property. You will quickly discover that while some of the homes are nice, many are in pitiful shape. They are not the type of home in which you would want to live.

Of all the lease/option deals you see in the paper, only a few are actual deals. Bottom line, while at any one time there are only a few nice, affordable, lease/option properties on the market, there are many more folks looking for these types of properties. If you are

an investor offering one of these properties for lease/option, you will have very little trouble filling a vacancy, and as interest rates continue to rise, this is becoming doubly so.

Third, because of the non-refundable option fee.

What is a non-refundable option fee? It is a non-refundable fee paid by the tenant/buyer to the property owner. Why is this fee paid to the property owner? When a property owner agrees to lease/option his property to someone, he is giving up his right to sell his property to anyone else for the length of the option.

For example, let's say that today a property owner agreed to give a tenant/buyer a one year lease/option on his property for \$50,000. The very next day someone named Bill Gates offers the homeowner \$500,000 for the property. The property owner cannot sell his property to Bill Gates. Why not? Because the day before, he sold the tenant/buyer an option to buy his property.

For giving up some of his ownership rights, he is paid a non-refundable option fee by the tenant/buyer.

Next week let's look at an actual lease/option deal we did recently.

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](http://www.REIoutpost.com)**.