

Working with Lease Option (Part 3)

In our last two columns we discussed the ins and outs of lease/options. Today, let's look at an actual lease/option deal Kim and I recently completed. **NOTE:** If you missed our last two columns, you will find them on our website at www.REIoutpost.com. Click on "Articles", then on "Lease Options".

In the spring of 2004, we saw a house advertised in the foreclosure section of the local newspaper. We drove by and met with the homeowner. The homeowner told us she had been laid off five months before and could no longer make her mortgage payments. She told us she didn't know what to do.

Since the homeowner could not catch up her back payments, nor could she make her monthly mortgage payments, she agreed to sell us her house.

By selling her house, she would keep a foreclosure off of her record, plus she would make a little money from the sale of her house instead of losing everything.

Her house was a nice three bedroom, one bathroom all brick home in Cartersville. We estimated the property's value, after a little clean up and paint, to be approximately \$83,000. After some creative deal structuring, we were able to buy the property for \$42,000 **AND** put money in the seller's pocket. It was a win-win deal.

Our payments on the house, with taxes and insurance, were about \$305 per month.

Our exit strategy was to lease/option the property to a tenant/buyer.

After doing a little clean up and paint, we put a "Rent to Own" sign in the yard. We also passed out fliers in the neighborhood. Ten days and what seemed like a thousand phone calls later, a tenant/buyer was chosen.

The tenant/buyer agreed to a purchase price of \$79,000. He also agreed to pay all closing costs, and he agreed to buy the property in twenty-four months *or less*. He gave us a \$10 security deposit, a \$5,000 non-refundable option fee, and agreed to \$700 monthly rental payments.

We signed, among several other documents, a lease agreement, a non-refundable option agreement, and a purchase and sale agreement.

We agreed that all of the tenant/buyer's option fee would go toward the purchase price. We also agreed to credit \$50 of each month's on-time rental payments toward the purchase price. The tenant/buyer agreed to buy the property within twenty-four months. If he didn't, then he would forfeit his non-refundable option fee, his on-time rental payment credits, and move from the property.

Over the course of a year and a half, the tenant/buyer met regularly with his mortgage broker. They worked to improve the tenant/buyer's credit scores. Also during this time, he was late on a few rental payments, plus I had to repair the air conditioner and a few other odds and ends.

Finally the day arrived when the tenant/buyer was able to qualify for a new mortgage. On this day the tenant/buyer called to say he was ready to "exercise his option to purchase". This meant he was ready to buy the property.

We forwarded all the needed paperwork to the tenant/buyer's mortgage broker.

Even though the tenant/buyer didn't own the property, because he had lived in the property for more than twelve months, he was able to get a refinanced loan verse a new loan. A refinanced loan is easier to qualify for, quicker to get, and usually has lower closing costs.

Three weeks later we went to closing. The tenant/buyer was able to put down \$5,950. (\$5,000 option fee plus \$950 in rent credits) After signing the mortgage papers, he became the new owner of the property. After shaking hands, he left to celebrate.

This is a great example of how real estate investing can be a win-win deal whether you are buying or selling a property. Why not take a little time and learn how to do 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**.