

Using Lease Options to Sell Investment Property

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In last week's column, we answered the question, "What are Lease Options?" We also talked about the risks of using Lease Options to buy investment property. If you would like a free copy of last week's column, please go to REIoutpost.com and click on "articles".

This week let's discuss the reason we love using Lease Options to sell investment real estate. In a word, the answer is "control". Using Lease Options to sell property gives us a lot of control, and control is the name of the game.

Let's begin by looking at how a normal real estate sales transaction takes place. First, the seller gets the property ready to sell and determines the asking price. Most folks have two sale prices in mind. One is the asking price; the second is the lowest price they are willing to accept.

Second, the property goes on the market. For this example we will say the asking price is \$100,000.

Third, someone interested in the property will make an offer. Let's say it is \$90,000.

Fourth, after some back and forth haggling, a deal will be struck. In this case, the agreed to price is \$93,000. This means the seller had to drop the price by \$7,000 in order to get the property under contract. Another way of looking at it is the seller lost \$7,000.

Question: How many weeks of work does it take for you to earn \$7,000? What would it be worth to you if you could almost always get your asking price? Better yet, what if you could get *more than* your asking price? Welcome to the world of Lease Options.

First, a word of warning, and please pay close attention to this: Lease Optioning your property to a tenant/buyer will make you a Landlord. Did you hear this? You will be a **Landlord!** Being a Landlord is enough to make full grown men run in fright.

Before you Lease Option your property to a tenant/buyer, take a Landlording class or two. Why? Because Landlords are made, not born. In addition, we recommend that before becoming a Landlord, you need to have a minimum of \$10,000 in the bank. Why? Last month we had to replace two heating and air units at properties we manage. The cost was \$6,000. What if the Investor had not had the \$6,000 in the bank? Do you think the tenants would have stayed, or a judge would have made them stay, in the house? No way!

Let's look at how selling a property using a Lease Option works. An Investor has a house that appraises for \$100,000. The mortgage payments are \$625/month, this includes insurance and taxes.

First the property is advertised as a Lease Option or a Rent to Own. The asking price is \$100,000 – the same as the appraised price. The monthly payments are \$825/month with \$50 of

each month's on-time payment going toward the purchase price. The Investor also asks for a \$5,000 Non-Refundable Option Fee. All of the Non-Refundable Option Fee will be applied to the purchase price.

Second, a prospective tenant/buyer calls wanting to see the property. The Investor agrees to meet with him. The prospective tenant/buyer's credit is a bit weak, plus he just started a new job three months ago. For these reasons, the prospective tenant/buyer can't qualify for a decent mortgage with an acceptable interest rate.

On the other hand, the prospective tenant/buyer doesn't want to throw all of his money away on rent. He is looking for a nice house that he can own in the near future. He also wants part of his monthly rental payments go toward the purchase price.

Third, the prospective tenant/buyer likes the house. It is a house he wants to own as soon as he can qualify for an acceptable mortgage.

Fourth, the prospective tenant/buyer wants a two year Lease Option and agrees to rental payments of \$825 per month. He agrees to a current purchase price of \$100,000. He also agrees that the property's price will increase by 4% per year – the current rate of appreciation in the area. In other words, if the prospective tenant/buyer waits the full two years to “exercise his Option to buy”, the purchase price will not be \$100,000, instead it will be \$108,160!

Fifth, after verifying all of the information on the tenant/buyer's Application Form, and all of the Lease Option documents have been signed, and the Non-Refundable Option Fee, Security Deposit, and first month's rental payment (in form of Certified Funds) are collected, the tenant/buyer moves into the house that he will buy in the near future. It's a Win-Win deal.

One last thing, if you plan to do Lease Options, be sure you use good forms and documents that will protect you. In other words, don't get them from an office supply store.

If you want to learn more about REI or would like information about our Real Estate Investors group, please visit our website at REIoutpost.com.