

## Chapter 2 – Review of the Basics

What is a Lease Purchase (LP) anyway? Well a Lease Purchase is a Lease, an agreement to rent, where the Landlord gives possession and use of the premises to the person leasing it, for a specified period of time. Additionally, there is also a firm commitment to purchase the property at a future date. It can be spelled out in one document or two, and usually includes terms for both a lease and an agreement of sale.

So then, what is a Lease Option (LO)? In the Lease Option, there is still an agreement to Lease/Rent the property as in a Lease Purchase; however, there is **not a commitment** to purchase. You have agreed to provide (or receive) an exclusive **Right** to purchase the property: an **Option** to purchase, given a right of first refusal, without an obligation to execute a purchase. This arrangement also can be one document or two as in a Lease Purchase, with or without an agreement of sale.

It's important to understand the difference between these two transactions, since both have their place in your investing strategy. Often you may only want the option to buy a property, and just as often you may want it tighter, to have the actual commitment to purchase.

For example, perhaps you have found an opportunity to gain possession of a property without buying it so you can “flip it out” to another buyer. By taking a Lease Option on it and having the permission to assign (pass the contract over to another party), it can provide you with a low cost ability to transfer your right to buy the property to another buyer, for a fee from the new buyer, making a profit without ever owning the property.

I always prefer to have a lease purchase agreement (firm purchase agreement) whenever I want to rehab a property, to reduce my risk of losing it after putting significant money into any improvements.

# Chapter 3 -- Advantages of a Lease Purchase/Lease Option

Now that you know the difference between a Lease Purchase and a Lease Option let's talk about the pros and cons of each. Because the concepts are so similar for both the Lease Purchase and the Lease Option, even though one involves the full commitment to purchase, from this point forward I'm going to use the terms lease purchase and lease option in very similar context. Just keep in mind that the major difference is the final commitment to purchase and so your documents will reflect that commitment when you execute paperwork.

Here's a list of advantages of the Lease Purchase/Lease Option:

1. Gains both possession and use of the property
2. Gains control
3. Generates potentially larger profits
4. Offers greater flexibility
5. Creates high leverage – can buy more/flip more
6. Helps sell a hard-to-sell property
7. Helps those that are unable to purchase a property but want to be a homeowner, and finally,
8. Creates a win/win for everyone!

**Gains possession and use --** A Lease Purchase is a fantastic way to gain possession of a property for use. By gaining possession and ALWAYS including assignment rights, you have the ability to “flip” the paperwork to another potential buyer/renter without having ever owned it! Let me give you an example: Let's say you find a property that is vacant in your neighborhood. You're seeing that it has been empty for quite a while, the grass is growing too high, there's a broken window and it's starting to look a bit shabby. You call the owner (go to public records at your local courthouse and search by address if not listed for sale), and tell him that you would like to rent to own the property and would he be open to discussing that possibility.

Now you're probably saying, why would the owner be willing to do that? Well for starters, he may be paying a mortgage on that empty property, or, it could be that the insurance has expired because many insurance companies won't cover a vacant property for long periods of time. Or if they do, the policies can be quite expensive and not cover some important needs, like vandalism. He may be a long distance owner and can't spend the money or the time to get back to the property to deal with all that needs to be done to fix it up, rent it or sell it. The owner may have died and the property is tied up in the estate with no funds to fix it up for a quick sale. There can be a million reasons why he may be anxious to have someone in the house, or someone buy it or both! And you will never know unless you ask.

Now, remember your investing strategy: A, buy and flip; B, buy and hold; C, buy and hold for appreciation. What's your strategy for this place? Evaluate it to work at least for A and B. If it is just a good C (great potential appreciation, but negative cashflow), only accept that strategy if you can support a negative cashflow situation indefinitely! So, let's assume it works... and you've done your homework (which we'll discuss in more detail in our examples later).

Now you are able to take possession of the property for little or nothing down, and for very little monthly commitment, while you pretty the place up and find a buyer offering a higher purchase price than what you would have to pay; and/or a renter paying a higher rental amount than you are paying. You find that person, make the proper deal and now can either use the existing paperwork to transfer your right-to-buy to them, or you can purchase the property knowing you have a ready made lease/purchase tenant for your new property! Can you see how awesome that can be? This is a win/win for everyone!

The original owner gets what he wanted; you get a profit and/or cashflow for your work of fixing it up a bit and finding a buyer/tenant, without significant investment or risk. And the buyer wins by getting a freshly renovated property, either outright as a purchase, or better yet, with the ability to lease it to own. So you gained control, possession and use, got a

larger profit because you didn't have to endure a double settlement by buying the property outright then selling it to someone else. You could do multiple properties, and gain more leverage yourself, because you didn't have to spend so much capital. And you might even have moved a hard-to-sell property because you spruced it up and offered it creatively to someone who may be willing to overlook some warts because they are able to lease purchase. So again, can you see why that's a win/win/win?

**Gains control** – by creating the Lease Purchase agreement you have secured possession of the property so you can fix it up and re-rent it or sell it.

**Generates potentially larger profits** – when you purchase a property outright, you of course, have a settlement with all the relevant charges. These can be as high as 10% of the purchase price in many states: 5-10% commission if a realtor is involved; 1 to 2 % property transfer tax; as well as any financing costs. With a lease purchase, I have been able to eliminate at least one set of closing costs, thus creating a higher profit margin. Sometimes I have even been able to avoid any closing costs. I did a lease purchase to gain control of the property and sold my option prior to having to purchase the property myself. If you are willing to share that with the previous owner, you both make out! (More on that in future examples.)

**Offers greater flexibility** – Having a lease purchase on the property gives you more room to negotiate price, because of the larger profit potential we just talked about. You will also be able to do more properties if you don't have all that capital tied up. You have quicker access to properties since no settlements, inspections, etc., are delaying the process. (Although there are some inspections I never do without).

**Creates high leverage** – this goes hand in hand with the flexibility advantage. As I mentioned, with less money tied up, more properties can be acquired.

**Helps sell a hard-to-sell property** – so far we have been talking mostly about acquiring a property with a Lease Purchase process. However, you can also use a Lease Purchase to dispose of a hard-to-sell property. Sometimes people who cannot purchase a house outright are more open to less attractive property locations if you are flexible with them to achieve home ownership. I have been able to often transact a property that otherwise may have sat on the market (especially on a busy road for example), because I was willing to work with a more challenged buyer. Especially in a down market with tighter credit requirements, there are more and more buyers who are unable to get a mortgage but are stable, credit worthy people with whom you could work out a lease purchase to satisfy you, them and the ultimate lender.

**Creates a win/win** – all of these reasons certainly create a positive situation for you in your real estate business. But when you can also help someone else, that just makes your business more meaningful and you are more necessary in the business of real estate. Always work through the details so that both parties win and your success rate will skyrocket. Plus don't be surprised if you also start getting more referrals than you can handle!