

# What is a Lease Option/Purchase contract?

“Learn an alternative way to  
buy or sell Real Estate”



## **General definition**

Simply stated, a Lease Option/Purchase contract combines a basic lease contract with an option to purchase contract, which creates a Lease Option/Purchase contract.

Before I describe what a Lease Option/Purchase contract is in detail, I must first define a few simple basics for you.

## **What is a contract?**

A contract is an agreement between two or more persons (individuals, businesses, organizations, or government agencies) to do, or to refrain from doing, a particular thing in exchange for something of value.

## **What Are The Key Elements to a Binding Real Estate Contract?**

- 1. Offer and acceptance:** Original signatures with no alterations to the contract. If the original offer is marked up and initialed by the party receiving it, then signed, this is not an offer and acceptance, rather a counter-offer. Any final agreement should be reduced to a final writing and signed by both parties.
- 2. Consideration:** An item bargained for exchange of something of value. Money is the most common form of consideration, but a promise to perform (i.e. a promise to pay) is also satisfactory.
- 3. In writing:** A real estate contract must be in writing and it must:
  - *Identify the parties:* The full name of the parties must be on the contract.
  - *Identify the property:* At least the address, but preferably the legal description must be on the contract.
  - *Purchase price:* The amount of the sales price or a reasonably ascertainable figure (an appraisal to be completed at a future date) must be on the contract.
  - *Signatures:* A real estate contract must be signed to be enforceable.
  - *Legal purpose:* The contract is void if it calls for illegal action.

- *Competent parties:* Minors and those that are mentally impaired cannot enter into a contract.
- *Meeting of the minds:* Each side must be clear as to the essential details, rights, and obligations of the contract.

### **What is a Lease contract?**

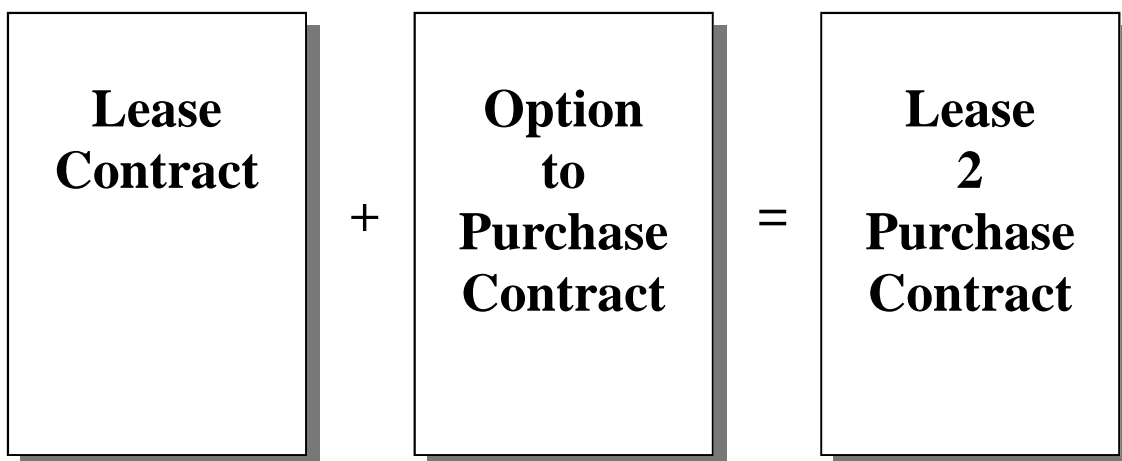
A lease contract is an agreement, usually written, between the owner of a property and an investor who desires to have temporary possession and control of a property. As a minimum, the agreement identifies the parties, the property, all consideration, the term of the rental and the amount of rent.

### **What is an Option contract?**

An option contract is defined as "a promise which meets the requirements for the formation of a contract and limits the promisor's power to revoke an offer." Or, quite simply, an option contract is a type of contract that protects the individual making the offer (the offeree) from a seller's (the offeror) ability to revoke the contract.

### **What is a Lease Purchase Contract?**

A Lease Purchase contract combines a basic lease contract with an option to purchase contract.



The tenant/buyer pays to the landlord/seller a nonrefundable option deposit that is credited, at closing, off the purchase price of the home or toward the buyer's down payments. The tenant/buyer then pays to the landlord/seller rent to compensate the landlord/seller for the tenant/buyer's use of the property.

Rent payments are made on a monthly basis. A portion of that monthly payment is often applied to the purchase price and/or the down payment of the home.

During the term of the lease, but before the option expires, the tenant/buyer has exclusive right to buy the home under the terms to which both parties have previously agreed.

## **Why You Should Consider a Lease Option/Purchase**

### **Features & Benefits**

Whether you are facing a tough Real Estate market, being transferred out-of-town, have no equity in your home, or you're facing tough financial times, a lease option/purchase will just about solve any of these problems.

Without a doubt, the Lease Option/Purchase contract is the quickest, easiest and least expensive way to buy, sell and invest in real estate. It replaces the typical adversarial relationship that usually exists between buyers and sellers with a win-win method of transferring real estate ownership. As a result, it is highly prized by those who know about its powerful features and benefits.

### **Features & Benefits For The Landlord/Seller**

If you don't need much cash up front (\$500 - \$20,000), the best way to get your full asking price and a higher than average monthly rent for your home is to offer it for sale on a Lease Option/Purchase. Since you're offering a huge value and attractive financing to assist the tenant/buyer, they tend to be willing to pay a higher sales price and higher than average rent. Tenant/buyers can easily understand the concept of trading price for time and value.

When you Lease Option/Purchase a home, you will receive a non-refundable option deposit from the buyer/tenant. This amount can be as much (or as little) as you wish. You will receive a majority of your profits at closing when, and if, the tenant/buyer exercises their option to buy. You also win if the tenant/buyer defaults or allows the option to expire as the option deposit is non-refundable. You can begin the whole process over again by collecting another option deposit from a different tenant/buyer.

The earnings potential for the landlord/seller is tremendous as a well-negotiated deal can reap profits at every stage of the game.

Here are some features and benefits for the landlord/seller:

- ***Top sales price, even if demand is low:*** You attract more buyers who are willing to pay a premium because of the exclusive financing terms and value you're offering.
- ***Higher than usual rent:*** You are flexible on your financing terms and are offering a tremendous value, therefore you can demand a higher than usual rent.
- ***Positive cash flow:*** Because of the fact you can demand a higher than usual rent, your positive cash flow will increase.
- ***Non-refundable option money:*** When a tenant/buyer executes (signs) a Lease Option/Purchase contract, you receive a non-refundable option deposit that is yours to keep should they default or decide not to buy.
- ***Highest quality tenants, minimum risk:*** Because you are renting to tenants who have a vested interest in your home, they think like homeowners and tend to take better care of it.
- ***Minimal maintenance, no land lording headaches:*** Tenants who have a vested interest and believe they are a homeowner feel a "pride of ownership" that encourages them to pay on time, perform routine maintenance and make improvements to your home.
- ***Tax shelter is held intact:*** Because you remain on the deed until the option is exercised, you maintain all of the tax benefits of ownership.
- ***Largest market of buyers:*** You are marketing your home not only to traditional buyers, but also to renters and investors. These three groups make up over 95% of people that buy real estate.
- ***No vacancies:*** When you advertise your home as a Lease Option/Purchase your phone will literally ring off the hook. Turnover time is typically days or weeks instead of months or even years.
- ***Peace of mind:*** It can be safer than conventional rentals because the quality of the tenants and their vested interest in your home. Another benefit is someone is living on-site who will watch and guard your home against fire, theft, vandalism, etc.

## Tenant/Buyer Features & Benefits

If you are in the market to buy a home, you are probably aware of the advantages home ownership provides (tax shelter, appreciation, security, etc). If you are actively seeking homes for sale on a Lease Option/Purchase agreement, you are either (1) a very smart renter, (2) a very smart real estate investor, (3) not ready to make a commitment, (4) cannot yet purchase a home through conventional means or (5) any combination of the aforementioned.

The Lease Option/Purchase contract provides you with many features and benefits, but perhaps the most powerful one is the rate at which you accumulate equity. Compare any lender's loan amortization schedule to that of a Lease Option/Purchase contract and you'll quickly see that the Lease Option/Purchase contract wins hands down, every time. Moreover, the buying power of a Lease Option/Purchase contract can quickly and easily land you a home that you could only dream of buying the conventional way.

Here are some features and benefits for the tenant/buyer:

- ***Faster equity growth:*** Equity accumulates much faster, five times or more than with conventional financing through a bank or lender.
- ***Option money is credited towards purchase:*** When you sign a Lease Option/Purchase contract, you will pay the seller an option deposit. This money is your vested interest in the home and will be fully (100%) credited to you when you buy the home. Remember, your money will not be refunded to you if you do not close on the home.

***Minimum cash out of pocket:*** When you purchase a home the conventional way, you typically must pay at least 5% down plus closing costs and prepaid fees. When you buy with a Lease Option/Purchase, you only pay the first month's rent and a non-refundable deposit. This will save you between 25% and 85% every time you buy a home.

- ***Profits from appreciation:*** Since the sales price is locked in before closing (as specified in your agreement), any increase in property value will mean that your equity (what you owe minus what it's worth) is increasing in the home. (Remember your tenant has agreed to a higher amount than you and the seller have.)
- ***Possible sale for a profit:*** If you are allowed to sell (assign) your option (it will be in your agreement), you may sell it to a third party for a profit. Always include an assign clause. See lease example included.
- ***Credit problems okay:*** Qualification restrictions simply do not exist. You will be approved at the sole discretion of the landlord/seller.
- ***No lengthy escrows or mortgage approvals:*** Your approval will be based solely at the discretion of the landlord/seller instead of a lender who can take up to a month (or longer) to render a decision.
- ***Control of the home:*** You will be put in full legal control of the home for a specified period of time without actually having to own it.
- ***No taxes, less liability:*** Since you do not own the home yet, you will not have to pay property taxes and your liability exposure will be dramatically reduced.
- ***Quick move in time:*** You can typically take possession of the home in a week or less, instead of conventional move in times of one to three months, after your offer was accepted.
- ***Maximum leverage:*** You are spending very little money to control a potentially very expensive and very profitable piece of real estate.
- ***Minimal maintenance:*** Large maintenance problems or any maintenance problems that exceed a certain amount of money can be delegated to the landlord/seller. Agreements can vary.
- ***Privacy:*** Your name will not be on the deed or in the public records until you exercise your option to buy.
- ***Peace of mind:*** You will have full control of the home and can maintain or improve it however you wish. Major changes sometimes need approval from the seller.

## **Investor Features & Benefits**

As an investor, you will receive the exact same features and benefits as the landlord/seller or the tenant/buyer, depending on which role you take in the transaction.

Furthermore, as an investor you're probably aware of the principles of leverage (the use of borrowed funds to improve ones capacity and to increase the rate of return on an investment). With the Lease Option/Purchase contract, you can buy (control) properties for literally no money down without using a lender or going through a lengthy loan approval process.

If you're interested in selling your home lightning fast, and for top dollar, here are the nuts and bolts...

The Lease Option/Purchase contract will NOT work for sellers who need large amounts of cash up front. This is what I mean by "large amounts of cash up front": if they can live with a signed contract and a small deposit from you, and wait for the rest of their profit for a period of 6 months to sometimes 15 years, the Lease Option/Purchase contract is exactly what they need.

Let's say a seller's home has been on the market for 6 months with no offers.

They're frustrated, so you decide to put an offer on the home for sale on a Lease Option/Purchase. This opens your doors to the largest market of eager buyers anywhere. Read this great but typical story about some people's challenges.

Along comes John the Buyer who is self employed. He was turned down by XYZ Mortgage Company because he needed to be self-employed for at least 12 more months.

John the Buyer pays all of his bills on time, earns a great income, and is very responsible but he can't get a mortgage to save his life. John the Buyer is dumbfounded at his predicament and is tired of throwing money away on rent.

John sees your ad in the paper or a yard sign and calls to make an appointment to see the house that you control. He loves it and wants to buy it! Yeah!

Since you're flexible on terms and are offering a tremendous value, John is willing to pay you full price for your option. He is able to put \$5,000 down, pay you more money per month than your lease option costs you, and he agrees to buy the home from you in 12-24 months. You draw up the paperwork, get the cash and close the deal.

Now you've got your portion of the non-refundable option deposit, a positive monthly cash flow, a written sales agreement for FULL asking price on your option to close within 12- 24 months... PLUS, since John is going to buy it, he will take care of the home as if it were his own!

You might be wondering, what if John decides not to buy your home? GREAT! We love it when that happens! You get to keep all of John's non-refundable option deposit PLUS we get to put the home back on the market so you can collect another large option deposit -- and probably even increase your sales price!

### **People Who Want to Keep Lease Option/Purchase a Secret From You**

Without a doubt, the largest industry in America and throughout the world is the Real Estate Industry. Each year hundreds of billions of dollars pass through the hands of buyers, sellers, investors, builders, contractors, some realtors, lenders, title companies and insurance companies just to name a few.

Below is a list of people who want to keep the features and benefits of the Lease Option/Purchase contract a secret from you because, to an uneducated individual in these professions, they think it takes money out of their pockets.

### **Lenders**

Lenders are the granddaddy of them all. They are the last people in the world who want to see you do a Lease Option/Purchase deal.

Their logic? Lenders believe that you will be bypassing their lengthy application approval process, their overburdening underwriting system, and their "mightier than tho" attitude. Unfortunately for you and me, this simply isn't true.

The fact is, if you're buying or selling a home on a Lease Option/Purchase, one of the parties in the transaction will eventually have to deal with a lender.

The bottom line is, uneducated lenders believe that the Lease Option/Purchase contract will take money out of their pockets. That is simply not true.

### **Real Estate Sales Agencies**

Here's an interesting one:

Most realtors will tell you that they either have never heard of a Lease Option/Purchase contract or that it's not something they recommend.

Why don't they recommend it? Most realtors believe that they won't receive their 6-7% Real Estate sales commission.

Repeat after me, "Mr. or Mrs. Realtor, your total commission will only be delayed, not sacrificed." There... that was easy.

I would like you to think for a moment about the types of businesses that are in your town... You might live in a large city where there are banks and real estate companies on practically every street corner. Even if you live in a small town, I'd bet that you will still find these banks and real estate companies everywhere. Am I right?

This report has covered the process of lease option. It has defined what a lease option is and how to use this very valuable way of controlling real estate.

You can control real estate with little to no money out of your pocket and is the fastest way you can achieve **financial freedom**.

### **In closing**

Let's look at an example of where some investors really don't get the whole picture, and this just might open your mind up to doing more deals. If I asked 10 people this question-

Would you pay \$125,000 for a home that truly is worth \$125,000 and Lease/Option it with no money down? 9 out of 10 of them will say no way! If I said would you Lease/Option it, if it were in an area that is appreciating at a rate of 8% per year? Maybe 2 more would say yes. But what if you looked further into the WHOLE deal and found out that the seller would give you 12 years to act on the property and your payments were \$1,000.00 per month but the rental average in the area is \$1,250.00, would you do it then?? They all say yes at that point.

My point is that you must know all the intricacies of each and every deal so you don't leave money on the table. This is a typical situation you will face as a Lease/Option investor or buyer. In any case good luck in any and all your endeavors!