

# Lease Options – Why are they so awesome?

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## What is a Lease Option?

A lease option or often called ‘rent to own’ is simply a lease agreement with a 2<sup>nd</sup> contract as an option to purchase at a future date. For many years lease options have been win-win situations for sellers, buyers and investors. Especially in today’s market, where it is more difficult for buyers to get into a new home and sellers to sell their home. If you are having trouble buying a home, selling a home or are an investor you will want to consider lease options after reading this guide.

## Why Lease Options?

For a long time I did not consider lease options as a way to profit as a real estate investor. The recent bust in the housing economy has made me reconsider. Lease options are incredible, and in any market! They are great for sellers, buyers and investors. Here I list some benefits of lease options.

1. **Happens fast** – Selling a property can take months even years. Once the lease option contract is signed, the buyers can move in.
2. **Avoid or minimize agent fees** – Sellers do not have to pay 6% fees to agents, there are sometimes fees involved but not 6% of the purchase.
3. **Win-win for Buyers and Sellers** – Lease Options benefit both buyers and sellers in many ways.
4. **Vacancy and Maintenance are no longer issues for sellers** – Buyers move in and are responsible for maintenance. If they leave they lose their option payments and down payment.
5. **Investor benefits** – Many advantages exist for investors, they can make a great deal of money doing lease options.
6. **Buyers have time to qualify** - Buyers can build their credit strength during the lease term in order to qualify a loan and execute the purchase contract.

## Lease Option Benefits for Sellers

Many home owners would like to sell or need to sell but cannot in today's market. Maybe they cannot get what they owe, or they do not want to sell for so low or buyers have not been able to qualify. If they do not stay in the home, they usually rent. Here are a list of reasons why lease options are incredible for sellers.

1. **Higher sales price** – Buyers for lease options do not have the options as qualified buyers therefore a higher sales price can be obtained.
2. **Down payment** – A non refundable down payment can be negotiated into the contract that goes towards down payment.
3. **Rent + option payment** – In addition to rent, a non refundable monthly option payment can be negotiated into the contract that goes towards down payment.
4. **No vacancy worry** – Renters sometimes leave, lease option tenants almost never move out and create vacancy.
5. **No maintenance** – The buyers are responsible for property maintenance per the contract.
6. **No agent fees** – Sellers do not have to pay 6% agent fees when the purchase contract is executed.
7. **Keep down payment & option money** – If the buyers do not execute the purchase contract, the sellers keep the non refundable down payment and option payments. They have the option to renegotiate and are in a very good bargaining position.

## Lease Option Benefits for Buyers

Owning a home is a dream for many people, most people in fact. Obtaining loans is not so easy with the tight lending constraints and many settle and rent. Not so fast. A lease option is a great way to own a home of your own! Here are some benefits for buyers.

1. **Fullfill their dream** – Lease options allows many who cannot currently get approved for a loan to have a home of their own.
2. **Lock in purchase price** – In a down market like today, home values are eventually expected to go up. You can lock in your purchase price today with a lease option.
3. **Time to come up with down payment** – You can add to the down payment with monthly option payments over the lease term.
4. **Get qualified** – Buyers can improve their credit strength in order to get approved for a loan during the lease term.
5. **Buyers can walk away** – Buyers can walk away and not execute the purchase contract. It is almost like test driving the property.

## Lease Option Benefits for Investors

Lease options have tremendous benefits for investors especially in today's market where real estate transactions are lower and lending is tight. If you are renting a home, it may be a great idea to lease option. Here are some tremendous benefits, I am sure you will consider this as an exit strategy.

1. **Higher rents with option payments** – You get monthly rent and a monthly option payment that is non refundable if the buyer doesn't execute the purchase contract. If the buyer does execute the purchase contract the option payments go towards the purchase.
2. **Down Payment** – You also get a down payment that is non refundable if the buyer doesn't execute the purchase contract. If the buyer does execute the purchase contract the amount goes towards the purchase.
3. **No agent fees** – If the investor finds the lease option buyer then there are no agent fees involved. There are agents that do lease options but the fees will not be 6%.
4. **Higher sales price** – Lease option buyers do not have as many options as qualified buyers or cash buyers. Therefore they do not have as much bargaining power and the seller can negotiate a strong sales price.
5. **No vacancy issues** – Lease option buyers do not move as much as renters, it is very rare for them to move out in fact.
6. **No maintenance responsibility** – Sellers can make the lease option buyers responsible for maintenance, make sure to have home insurance and a home warranty to further mitigate maintenance risk.
7. **Different ways to make money** – Lease optioning a home you own is not the only way investors can make money with lease options. Consider a lease option service that brings together buyers and sellers for a fee, lease option sandwich, lease option assignment, find sellers that will lease options their home to you then rehab and flip, etc. You can even get fees referring people to credit repair agencies, agents, lenders, property managers, etc.

### **Tips for Lease Options contracts**

Here are some tips for sellers and buyers when negotiating a lease option. It always helps to consult an attorney to make sure everything is legit.

1. **Down payment** – sellers can negotiate high down payments and buyers can negotiate low. This amount will go towards the purchase of the home upon executing the purchase contract or is non refundable if the purchase contract is not executed.
2. **Option price** – sellers can negotiate a high monthly option price that goes towards the purchase of the home. Buyers can negotiate low option prices. Again, this amount is non refundable if the purchase contract is not executed.
3. **Term** – Negotiate a term that is convenient.
4. **Extensions** – If it makes sense, negotiate extensions.
5. **Trash and leave** – If a buyer gets turned down for a loan or for whatever reason cannot execute the purchase contract they may be soured. It is important to negotiate a clause that protects the seller in case the buyer trashes the home and leaves. Consult an attorney to make this legal and enforceable.

6. **Make buyers responsible for maintenance** – Absolutely without a doubt make the buyers responsible for maintenance.
7. **Get a home warranty** – Get a home warranty, always a smart idea.
8. **Have insurance** – Always have home insurance, buyers are recommended to have renters insurance during the lease term as well.

### **How Investors can make money with lease options**

If you are an active investor and have not considered lease options as a way to make money, you may want to. Here are just 6 ways you can profit from lease options.

1. **Charge fee to connect buyer and seller** – Find sellers who will lease option their home, then market the property and bring in a lease option buyer. Charge a fee for creating this win-win situation.
2. **Sandwich lease option** – Lease option a home from a seller, then lease option it with better terms to someone else and you keep the difference. You can get more down payment, higher option price, higher purchase price, etc.
3. **Lease Option assignment** – Lease option a home from a seller, then assign the lease option contract to another buyer for a fee.
4. **Lease Option properties currently owned** – Lease option homes you currently own to buyers.
5. **Lease option home as buyer, rehab and flip** – Lease option a home from a seller, complete rehab then flip.
6. **Referral fees** - You can even get fees referring people to credit repair agencies, agents, lenders, property managers, etc.