



Street Smart Buyer Session # 6: Expired Listings and Lease Options Part One

Street Smart Buyer Session # 6: Expired Listings and Lease Options Part I

Welcome to week 6. Wow I can't believe it is already week six! We are just about halfway through the Street Smart Buyer Course! I hope you all had a great week!

Alright so let's review last week quickly. We went over the concept of:

Yellow Letter Campaigns

Bandit Signs

I Buy Houses Business Cards.

How to complete a standard Real Estate Purchase Contract.

All PDF Downloads are on the Website for Week #5. And for those who missed it, here is a picture of Bill Biko's Obnoxious and EFFECTIVE I BUY HOUSEZ (notice the spelling!!!) business Card.



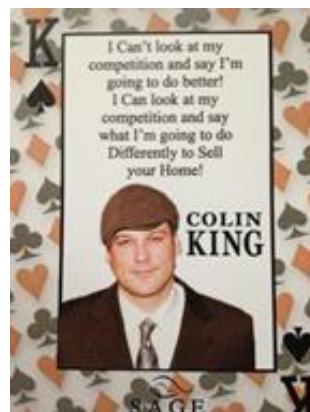
Expired Listings





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This is a business card of a Realtor I met shortly after I moved to the Okanagan in 2012 . It was at the Summer Hill Winery and there was a trade show. People were selling jewelry and purses, artwork, etc. Anyway, Colin was just hanging out there helping a friend with her booth. But he had put out his business cards and what I thought was so GREAT is they were Playing cards. You see our guest today is Colin King... And I knew I liked him because he had made a bold move... He had created one of the most unique business cards I had ever seen. I don't think he even remembers that... Because he meets lots of people all the time. And remember last week we talked about Business Cards and making sure you get people's attention??? Anyway, about a year later, remember how I said in Session #4 about Dialing for Dollars???? I had cold called a Mortgage broker using the same script YOU FOLKS have in your workbook. One of the Brokers was Matt. He phoned me back a couple weeks later with a deal. He explained he had a buyer who had seen 20 houses, found one, and couldn't qualify. And guess who was the poor realtor who showed that buyer 20 houses??? That's right; it was our special Guest Colin King. So we got this deal done. Colin was great to work with and he has helped me since.



So again, we talked in the last 2 weeks about finding deals. Well, I was able to purchase this house for no money down and without qualifying for financing because of Dialing the phone- I found Matt through Cold Calling. And I was already familiar with Colin because of his Clever Business Card. Be sure to get creative with your marketing! And pick up the phone! It can pay off! Now please note this WAS NOT from an expired listing. It is simply an example of how marketing really does work.





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Last session we had Colin on as a special guest. He had told me he had done a lot of deals through expired listings. It can be a way to find deals in real estate and motivated Sellers. AND have a Realtor do your work for you.

Expired Listings are houses that have been listed on the MLS (the Multiple listing System). This is a system that Realtors use in order to advertise properties for sale. Expired Listings have done just that- expired. Colin's opinion was that there are 2 main reasons a property never sells on the MLS. 1) Product and 2) Price.

1)Product- This typically means that perhaps a house isn't properly finished, or perhaps it needs updating such as new carpet, fixtures and paint, in order to "compete" with other similarly priced properties on the market.

2) Price this is where the Buyer is asking too much. This can happen for a couple reasons.

A. A person loves their home; they are an "emotional Seller". They THINK it deserves to be worth a certain amount of money. In situations such as these, a realtor will likely tell the sellers what their house is worth COMPARED to similar sales in the area. But if a person thinks their \$300,000 home is worth \$400,000, then the Realtor has an obligation to list it. Then, when other realtors look at the property and SEE that it is overpriced compared to other similar properties, they don't take their clients to see it, because they want to get their clients the best deal for their dollar. These are houses that you may see that are listed for too long. Maybe they are listed by 4 different realtors over the course of 18 months. They just don't sell.

B. A Person is overleveraged; in other words, the Debt on the Property is very close to or (in some cases) exceeds the Value of the property. These properties will face the same scrutiny as the "emotional seller". (Pssst! These are the properties we are looking for because WE can use TIME to our advantage to help someone out, and allow the mortgage to get paid down).

The only way to access expired listing is through a realtor. They can find the names, address and phone number of the owner of the property, how much the property was listed for. What it was bought or sold for IF IT was bought through the Multiple Listing System.

Colin's suggestion was to be open and honest when asking a realtor to look for expired Listings. He recommends that you allow a realtor to approach anyone with an expired listing. And then



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Determine how to proceed as far as compensation. He explained that most realtors will have better luck talking to a seller, and negotiating a deal.

Here is my take... It is tough to ask a realtor to provide information that can take a lot of time and effort to get WITHOUT compensating him or her for their time. Researching Expired Listings will do just that. They will take time and effort. So you should be committed to working with a realtor if he or she is going to help find a deal for you.

This can depend on the market conditions as well. In a slow market, a Realtor will have more time to research expired Listings and knock on Doors. In a hot hot market, Realtors likely will not want to chase after people who are having tough time selling their house. Realtors are smart and are more likely to go after low hanging fruit.

This biggest obstacle here is the issue of Privacy. I know I certainly would not want a realtor to give MY information to someone. So that's the rub..... I recommend if you are going to use this strategy, you do so with a realtor.

So now we know a bit more about the ins and outs of Expired Listings.

If you have been “watching” a few houses in your area... you see that they have been on the market for a while, maybe a few different realtors have listed the property. Finally, you see that the sign goes down..... You can do this: Go to the door of the house and knock on it. If someone answers, introduce yourself and explain what you would like to do. You can say something like this:

“Hi my name is Julie. I actually live in the neighbourhood. I am also a real estate investor. Everyone knows it can sometimes be tough to sell your house. I actually work with a Coach on creative ways to sell houses even when a person doesn’t have any equity. Would it make sense for us to talk further?”

And the answer will either be yes or NO. If it is No. Then OH Well!



Remember- Always another Bus!



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If they say yes, then take them through the Motivated Seller Worksheet! You might have a deal in front of you. And you'll never wonder..... Remember:

**You miss
100%
of the shots
you don't take.**

- Wayne Gretzky

When Colin knocks on Doors, he takes 2 steps back (so as not to SCARE them), he always has a friendly smile on his face and he is well PRACTICED on what he wants to say. Also if the person is not home, he leaves his business card along with a hand written note. You can easily use your business card AND leave a Yellow Letter note. Or any kind of note. As long as it says "My name is Julie. I'm sorry I missed you. I would like to talk to you about buying your house. My phone number is 778 215 7653. You can call me or text me any time."

And See what Happens!!!

Leases



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Alright so let's get right into paperwork for Lease Options. First things first, this is my favourite and most used way to purchase property without qualifying for financing. When I first started in Real Estate, you could Assume Mortgages- sometimes for No money down- those were the most fun- and COULD be the most expensive!!!! But it did make it easy. And then over time, there was a lot of FRAUD happening, and a lot of assumable mortgages going into default. So the banks started putting restrictions on Assumable mortgages. You can still assume mortgages in some instances. But 99% of mortgages require qualification before you assume them. Keep in mind this can STILL be a strategy.

When I say I assumed mortgages, this is what I mean.... A seller would have a home with a mortgage in his or her name. I would ASSUME their mortgage- so it would go into my name, along with the Title of the property.

I speak often about “taking over someone’s financing”. THIS IS NOT WHAT I AM REFERRING to. When I say “Taking over someone’s financing” today, I mean in the form of a Lease Option Agreement. I agree to pay them to cover their financing expenses (their Mortgage payment). I also agree to pay the taxes, the insurance, and (if applicable) the Strata Fees. I either pay them every month and they pay these expenses OR, I set up Pre-Authorized Debit for these expenses to be withdrawn from my Bank account.

Street Smart Tip: If I make a payment every month to someone for their expenses, I make sure the Letter of Understanding (coming soon) states that the Seller must provide me with evidence that the Taxes, Insurance, and Mortgage payment are in good standing. The Mortgage can be

provided every month. The taxes and Insurance can be provided on an annual basis. This goes back to the old saying:

“Trust, but verify.”

-Reagan



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So I have good news and bad news. The bad news is there is technically no such thing as rent to own Paperwork. And if you somehow find Rent to Own Paperwork that you would like to use, just keep in mind that if you take that kind of paperwork to a Lawyer they will first have a little chuckle at your expense... And THEN they will walk you through the process of a Lease Option agreement. The Good News is that a Lease Option Agreement will let you get into real estate just as easily as I was able to when I first started- without qualifying at a bank and (hopefully) for low to no money down.

A lease option is just like it sounds. It is a Lease with an Option to Purchase Real estate. Now I'm going to get on my soap box for a minute here. Rent to Own (aka Lease Options) gets a really bad rap.... It's got a pretty bad reputation.

And that is because you only hear about the Negative in the Press. The media is in business of "bad news". So you're not going to hear about how I sold a house to a tenant buyer and left him with \$50,000 equity when it closed. You're not going to hear about how I allowed a Tenant Buyer to walk away with really any consequences from her house that she was contractually obligated to purchase from me. She was so relieved when she knew I wasn't going to sue her, or ruin her credit.

Again, legally there is no such thing as rent to own. But when people try to explain they are doing a Lease Option, they usually just say "Well, it's basically a rent to own." Have you ever seen a sign like this on the highway? Of course you have.



Business's do it all the time. Many times, a business will have an option to purchase a building for a predetermined amount OR for the value of the property at the time of renewal.... So why don't more people do this with their homes?!???? Ok I'm off my soap box.



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You need to use a standard Lease contract relevant to your jurisdiction or Region. These forms can also easily be found online also at Drug Stores, Grocery Stores.

I'm going to take you through a BC Residential Tenancy Form. Yes, I show you all BC Stuff but don't worry, every jurisdiction has these forms. I googled the one in Session #6 online. It was easy to find. And it's super easy to complete and to understand.

Just make sure you read through it a few times in order to make sure what you are signing and asking someone else to sign.

So we are going to go through it Step By Step in the sections that influence a lease Option the Most.

2. Length of Tenancy. This should be the same amount of times as the term of the least option. So if it is three years and it starts February 1, 2016. It will be Feb 1, 2016 to Feb 1, 2019

2. ii, The tenancy ends and the tenant must move out of the residence..... This could be beneficial in the case where you have to take the house back. And yes it does happen. I am very happy to say this has only happened to me once since 2002, but it does happen. And you want to make it as easy and seamless as possible. But we won't get into that right now.

Now one aspect of the **fixed amount** is that it can benefit you. If you pay a fixed amount, regardless of expenses increasing, you have a pre-determined amount of money you pay every month- so that's something to consider.

Periodic tenancy doesn't apply here. If it doesn't apply, simply leave it blank or complete it with Not Applicable.

Next is the rental amount and include what is included in the rent. Check off whatever is relevant.

And it may sound odd.... But yes, **YOU are the tenant.** Even though you may (or may not- most likely not), you are the tenant. You will basically be Sub-Letting this out to another Tenant or potentially a Tenant Buyer.

Security Deposits. I don't pay a security deposit as a Lease option buyer so I just leave it blank.

And I say **pet damage Deposit** is not applicable. I want to save as much money as I can up front. And if I am paying a down payment, it is described in the Option to Purchase Paperwork.



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Condition Inspection. I don't complete one with a Motivated Seller. They are usually happy to hand over the house as long as I agree to take over the expenses.

9. Assign or Sublet. I get written consent AHEAD of time to sublet the Property so that I have that covered. This is done through the Letter of Understanding which we will go over.

9 3) Emergency Repairs. I cross this out.... And everyone initials the changes. When I take over a property, I have to assume responsibility of things. Yes including a new roof or hot water tank if it needs one. Hopefully I have done a good enough inspection with a property inspector BEFORE I decide to buy it to determine if those kinds of repairs will be needed.

As far as their **contact information**- I still need it. I want to be able to reach them in case the need arises.

Now I'm going to skip down to **17. Additional Terms.** THIS is where I will attach an **Addendum.** It is the Letter of Understanding which outlines my responsibilities as the "Tenant".

The Lease or Rental Agreement is in place in the case that for whatever reason, you decide not to exercise your option to purchase. OR- if you have agreed to cover all the expenses and don't, then technically the "Landlord" or "Seller" can evict you or Dissolve the contract.

The Landlord is the Motivated Seller

The Tenant is you.

Everyone gets a copy of this agreement for their records and it also is included in the paperwork for the file for the Lawyer when he prepares the Paperwork for registration on title.

Option to Purchase

The purpose of an Option to Purchase is the right to reserve a property. Remember back when you were a kid and you wanted to be the first person to do something! And you would yell, "Dibs!" or "I called it!" Or "Shotgun!"- "Shotgun" refers to reserving the passenger front seat in the car. In fact my kids make me kind of crazy with "Shotgun". It's a constant battle especially since there are 5 of them and I am totally outnumbered.



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Anyway, An Option is just like that- only there's a whole bunch of paperwork involved.

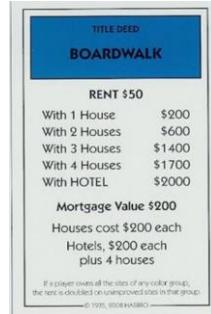
An Option to purchase gives the Buyer and only the Buyer the Option to purchase a property on a Certain Day for a certain price.

****SIDE NOTE****

An Option to Purchase Real Estate Should always be registered on Title. Always. Otherwise you really have nothing. Anything can happen to the property without your knowledge if the Option is not registered. The Seller can sell it to someone else; a second mortgage could be put on the property without you knowing which could wipe out your equity. So many things can happen. And Options can be registered. So make sure when you do an Option to purchase that you make sure it is registered on title.



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A lot of people don't do this. An alarming amount of people don't register paperwork or Options to Purchase on Title. People buying and selling \$500,000.00, \$600,000.00, even \$700,000.00 homes. I find that really risky.

Please refer to the PDF Download on the website for Session #7:

The Option to Purchase basically describes the details of the deal.

****SIDENOTE**** I will tell you now, ahead of time, that once you Complete this Option to Purchase paperwork, and send it into your Lawyer's office- They will likely draft one of their own. It has happened to me every time I have done a deal like this. And the primary reason is that the lawyer is acting on YOUR behalf. So although you have provided them with a great piece of paperwork, the lawyer needs to prepare the paperwork so he or she can discuss it with another lawyer (acting on behalf of the Seller or Buyer). Also, an Option needs to be registered on title. And all the lawyers I have dealt with (and there have been a lot) have drafted their own.

A WORD of Caution about this!!! You need to READ anything a lawyer prepares regardless of your paperwork. Whatever he or she prepares will be what Everyone Signs (again) for registration on title. If there is anything on the option that you



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don't understand or is not congruent with your understanding of the agreement, you need to bring it to your lawyer's attention so that he or she can explain the details OR make whatever changes are needed.

Also: THIS can be a process- a lot of back and forth. The details are important. And an Option to Purchase is not a typical way to purchase or Sell Residential Real Estate. So prepare to be Patient when it comes to these kinds of deals.

Now, the Option to Purchase follows a similar thread as the Real Estate Purchase contract we went over in session #5. Most of the details are in the Option to Purchase as well.

Option to Purchase Details:

It describes the Parties only instead of Buyer and Seller, the Buyer is the "Optionee". The Seller is the "Optionor".

2. **Land-** legal land description, municipal address, strata, PID if you are in BC
3. **Included Items-** the real estate purchase contract. This is where you would also add any non- typical extras like furnishings, or Tree houses/ playhouses/ unattached sheds/ hot tub

Term of the Option: It has a beginning Date- usually the same start as the Lease term and End Date- that is the day that they Exercise their Option. It should coincide with the Closing date or Possession date on the Real Estate Purchase contract.

b. This talks about an Extension- I recommend an extension for the following reasons:

The buyer is close to getting financing but needs a little more time

The property is not at the value of the agreed upon Purchase price.



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In either case- An extension may be necessary and you need to make sure and get it in writing.

5. This is all about the Optionor's financing. This is a situation where obviously the Optionor (the Seller) is keeping the financing in place. The Optionor needs to keep the Mortgage current or in good standing. In other words the Mortgage needs to be paid every month.

This section also describes how the Optionee can step in and remedy the situation if the Optionor does (for whatever reason) let the Mortgage go into DEFAULT.

*** NOTICE the Letter of Understanding***** One of the Addendums in the Letter of Understanding that I use is the following:

The Seller must provide a mortgage statement to the buyer confirming that the Mortage (Mortgage #123ABC) is in good standing. With online access these days, it is easy and simple to request a mortgage statement as often as you like

The other way you can make sure that the mortgage is in good standing is by paying it YOURSELF. Now, these can be different in different regions. In BC, the mortgage must be paid by the Mortgage owner. It cannot be paid by a 3rd party. In AB, I have been able to set up Pre Authorized Debit for everyone I have bought properties through a lease option. I like this better because I KNOW that the payments are current FIRST hand.

However, it has always worked out for me to get a copy on a quarterly basis about the mortgage as well. Just make sure you do that!

6. HST (and all sales tax) only applies to provinces that have it AND is only for new builds. This might be the case if you are purchasing as a lease option from a Developer. There are plenty of developers who at one time or another have been



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sitting on VACANT inventory. This is very expensive inventory. So you might very well find motivated Sellers in the form of a Developer, or a builder of new houses.

7. Option Consideration: These are the Deposits or Credits toward the Down Payment or Purchase of the property. In most cases, there is an up-front down payment. In some cases there is not. However much money is put down is addressed here. For example, if you put \$3,000 down on a property, that is the Option Deposit. Also, if a portion of your monthly payment is credited toward the Purchase of the Property, this is also where it is described and addressed. For instance, if you pay \$1200 per month to the Seller and \$200 per month is a Down Payment Credit or Option Credit, by the end of one year, the total amount of money put toward the Option to purchase (the Purchase price) would be \$2,400 in a year.

Example:

Down payment: \$3,000.00

Monthly Option Deposit (Down Payment Credit) \$200 per month

Term: 36 Months

Total over 36 Months: \$7,200.00

Original Down Payment: \$3,000.00

Total Down Payment plus Down Payment Credit by end of Term: \$10,200.00

- a. The sum due at the end of the term is whatever the balance of the purchase price is.

Example: Purchase Price: \$100,000

Total Due at End of Term: \$89,800.00



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8. Credit toward Purchase or Forfeiture of Option Amount:

This is where you talk about what happens if the buyer does not fulfill the contract. For instance, if YOU are the Buyer and you don't pay the Seller for 2 months, or you don't do necessary repairs to the property, the paperwork can become null and void. Also, if you are the buyer and you are not able to Purchase the property at the time of purchase (the Option date), all or part of your down payments are non-refundable unless agreed upon in writing by both parties.

9. Land Maintenance and Repairs: It is the Optionee (the Buyer)'s responsibility to repair anything that is needed including big ticket items like roof, windows, flooring, and furnace.

10. Improvements..... It is also clearly stated that any work that is done that is MAJOR repair must be Okayed by the Optionor (the Seller) in WRITING and must be done properly with permits and to the standard Code of Building, electrical, plumbing, etc. I other words you can't hire your brother to do plumbing if he is not a ticketed plumber.

11. Notice to exercise Option. I am not too sticky on this. I usually reach out to my Option buyers and let them know that closing time is coming up, and to make sure their affairs are in order to they can get financing. However, the person you are buying from may want a written notice 90 days head of the end of the term that you do in fact intend to Exercise your option. In some cases, if notice is not properly given, it can dissolve the contract. So you need to be careful with this section. In fact, I usually leave it out.

a. This section talks about how the Option can only be exercised if the Optionee (the Buyer) has complied with the contract. For instance, if the buyer misses 2 payments or is late and the contract specifies that all payments must be

made on time, it can make this contract null and void. In most cases, the Seller wants to sell. The buyer wants to buy and everyone wants to move on. But you



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need to know and understanding these components to the paperwork just in case. Always hope for the best but prepare for the worst.

12. Financing: The Buyer should be preparing to get financing at least 3 months in advance of Closing. That way, everyone can deal with any potential issues that might arise with plenty of time to spare. Keep in mind, however, that lending rules can change over the course of 90 days. So make sure you are ready to handle last minute issues. Because it can happen.

13. Closing Procedure: This section describes how things should flow when the property is finally going to change hands after the term. It is basically here to make sure that paperwork is complete in a timely manner, that lawyers have the paperwork so they can do their jobs with enough time to get what needs to be done completed.

14. Title: This simply talks about how the Title will change from the Seller (the Optionor) to the Buyer (the Optionees) name at the end of the term and that there cannot be anything on Title to prevent that from happening. There can be no liens or caveats or mortgages- that Title shall be clear.

15. Risk. This relates to insurance. Insurance needs to be kept in place for the building, and that the Buyer (if moving in during the term) must get a Tenants package to protect their belongings. If you are planning on renting it to ANOTHER- then you would insist that the Tenant YOU rent to has their own Rental Insurance for protecting their contents.

If the property is severely damaged, this basically says that the Optionee (the Buyer) will be entitled to their Down Payment money back in the event the property is no longer fit to live in- as in the case of major earthquake, flood or fire.

16. Risk. This talks about how the Value of the property May or may not be what is agreed upon at the time of purchase. And this is a risk to both of them. For



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instance, if the Building declines substantially in value because of a slump in the market, that is a risk that the Buyer takes. On the other hand, if the value of the property increases substantially in value, that is the risk that the Seller takes. The Seller must “Stick to the agreement”. And honestly, that is a lot of fun. It’s great when a buyer walks into some equity. The more the better.

18. Assignment: This is where you might want to buy the property, and you might even get a great deal. But for whatever reason, you don’t want the deal anymore. But your paperwork is complete, everything is clear, and you have an Option to purchase in place. You may want to assign this deal to someone else and they will take over your obligation. This is only allowed if the Seller (the Optionor) has agreed to this in writing. And it’s only fair. After all, they have made a deal with YOU.... Not some stranger. If you do this you will need to make sure the Seller and the person you assign this contract to be familiar with each other.

20. Legal Representation: Straightforward. Everyone needs to have independent legal advice.

21-27. This is standard legal description for any contract.

Make sure you have a witness to these kinds of deals and that everyone signs and make sure everyone initials each page.

Letter of Understanding





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The great thing about Letter of Understanding is that it lays out the ground rules for the transaction in English, in words that everybody understands- Layman's terms.

I find that so much Legal Paperwork has really big words and I often felt (especially early on) like I just didn't get it. I just didn't understand it as well as I would have liked to.

I was introduced to Letter of Understanding by Robin Elliott back in 2008. I have used them very successfully ever since. Every time I have one and I am talking to a lawyer, we always use the Letter of Understanding as reference... Then he has to put what he needs to in the Paperwork that he prepares, so that it matches what the Letter Of understanding says.

Things to Include in a Letter of Understanding:

- Date, address of property, names of parties involved.
- Details about duties of the Seller and the Buyer
- Who is responsible for Maintenance?
- Who is responsible for Payment of mortgage, taxes, insurance amount

- Price of the Property and Completion Date
- Potential Extension (if one is necessary) clause.
- What happens in the even that there is a violation of the Letter of Understanding, Lease, or Option to Purchase?
- (Basically whatever Both Sides Want, these details should be included in the letter of Understanding)

The Lease, the Option to Purchase AND the Letter of Understanding are ALL included in the Lawyers File on the Property. Everyone involved should also have a clear copy of all paperwork in their records.

There is a Word Document with Examples of details about a Letter of Understanding. You can use it and modify it to suit your needs.

There is also a PDF version of an actual Letter of Understanding that I used recently. Please review all these examples so that you are ready to prepare a Letter of Understanding When you go to purchase a property.



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Also, YOU need to include a real estate purchase agreement. You include that one of the Conditions: "Subject to all conditions being met within the Attached Letter of Understanding Dated July 20, 2016 On or Before July 1, 2019 (EXAMPLE DATES)"

AND describe the closing date as the Option to Purchase Date.

A real estate purchase contract is important to have completed because banks RECOGNIZE this paperwork. And if it is familiar to the bank, then it is more likely that YOU will be able to obtain financing. It goes back to the Golden rule: "S/He who has the gold makes the rules".



Conclusion:

The Option to purchase is very handy. It can be a really useful way for you to acquire property without Qualifying for financing. The amount of money you pay as a down payment can (of course) vary depending on the situation.

For example: We had a Lease option that we just did a year ago and we had to put \$77,000 down on the house because that's what the seller needed. But they had great financing in place, it was easy to rent and cash flows \$400 per month.

Another property that I just did recently with one of my Coaching students went as follows. She only had to put \$7500 down and was able to secure an Option to purchase at today's value that won't close for 3 years. So she has secured it at \$180,000 to purchase and doesn't need to qualify for financing for 3 years. It cash flows \$150 per month and she only had to put down \$7,500 for a \$180,000 property. Every deal is different.



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This is the Paperwork we have covered so far. And every item below needs to be included in an Option to Purchase Real Estate.

- Real Estate Purchase Contract
- Lease Agreement
- Letter of Understanding
- Option to Purchase

The week After next week (because I am on vacation next week). Next week we are talking about Agreements for Sale, Buying properties “Subject to” AND more on how to find deals and EXAMPLES of deals.