

How to Control Real Estate Investments with No Money Down



I'm going to describe 2 real estate investment techniques in this short article, lease choices and sandwich leases. They are both excellent approaches for an investor to secure properties for rental income with little or no investment of their own cash.

Lease Option

The standard parts of a lease option method are a lease with regular monthly lease payments and an option to purchase the home at the end of the lease period. Let's go through an example to illustrate how it works. You're an investor who wishes to have a house as a rental property, but you're not sitting on enough cash for a deposit. You might even have a credit score that would make loaning too expensive.

With marketing with outlaw signs, paper and Craigslist ads, or just a word-of-mouth referral, you locate a highly encouraged property owner who hasn't had the ability to offer their home. They have had the house provided, however have actually been not able to sell. The home deserves \$100,000 in the present market, their mortgage balance is \$70,000, and their payments are \$525/month with taxes and insurance. One spouse has actually been laid off their task, and the other has found a better job so they have to move soon.

Here's exactly what our investor does:

- • Provides to lease their house for 3 years with lease payments equal to their house payments.
- • Pays them \$1500 as a non-refundable lease option payment to have the right, but NOT the responsibility, to purchase the house at the end of the lease for \$80,000.
- • With a verbal arrangement, the investor utilizes marketing or other techniques to find a tenant for the house who is willing to pay \$750/month to lease it. They will certainly sign a minimum of a one year lease.
- • Throughout the 3 year lease, the taxes and insurance coverage will continue to be as/is, with the escrow in the payment taking care of those items.
- • Cash out: $\$525 \times 3$ for first and last month lease payments and a down payment = $\$1575 + \1500 for the lease alternative payment = $\$3075$.
- • Cash in: $\$750 \times 3$ for initially, last & security deposit = $\$2250$.

This is the worst case money scenario, with the investor out of pocket \$825. However, they can have negotiated better with the seller and held off the down payment, or eliminated it completely; dropping the amount they would be out of pocket to around \$300. This isn't bad to control this house and lock in a rewarding purchase at the end. It's currently worth even more than the cost to be paid, and will likely appreciate during the 3 year lease. The \$250/month favorable cash flow will certainly amount to \$9000 over the 3 year period. So, even if the investor doesn't exercise their alternative to buy the home, they have made a nice earnings thinking about the small amount of money they have actually invested.

Sandwich Lease

The sandwich lease is simply as the name implies, two lease options with the investor in the middle. In this circumstance, the investor wishes to have the choice to purchase the home at a discount at the end of the lease duration, and they wish to find an occupant who wishes to buy the home however cannot due to credit troubles or a lack of money for a down payment. Most people in this scenario who want to own, are pleased to find the ideal home they can buy with a lease alternative, having time to enhance their credit and get the down payment together.

We're going to use the previous example, but rather of a regular occupant, the investor discovers somebody who wishes to lease-purchase or rent-to-own a home. All the numbers are the exact same, other than now the tenant buyer wants to own the home at the end of a 3 year matching lease period. The tenant buyer now not only pays the very first, last and security deposit up-front, however likewise a lease choice non-refundable payment for the right to buy the home at the end of the lease. Likewise, the tenant buyer concurs that if they do buy the house, the cost will be \$110,000. Now the cash flow for the investor resembles this:

- Same \$3075 heading out to the seller for the very first lease alternative.
- $\$750 \times 3 = \$2250 + \$1500$ lease alternative payment from tenant buyer can be found in = \$3750.
- Investor can likewise have actually requested a higher lease choice payment, however was happy with a \$675 positive cash flow when both discounts are signed.
- Seller makes \$675 up-front, \$250/month for 34 remaining months (first/last paid), and \$30,000 gross revenue by offering the house for \$110,000 but paying just \$80,000.
- Investor's gross profit is \$39,175 with absolutely no dollars of their money invested.

Another benefit of this method is that the tenant buyer is wanting to own the house and will take much better care of it. In truth, some investors are negotiating leases that require the renter to pay the first

\$100 or more of any repair works. As the insurance coverage and taxes are being paid in the original mortgage payment, costs are minimal.

If the investor wants to cover all the bases, they can pay the home loan payments directly, not letting the seller get into a position where they might default anyhow.

Lease options and sandwich leases are strategies used commonly by real estate investors to include homes to their portfolio and build month-to-month cash flow.