

## **The Rent Smart Lease/Purchase: An Investor's Perfect Bubble-Proof Hybrid Investment Model**

Most residential investment models resemble, and can be grouped into, one of two general categories—the “buy and flip” and “buy and hold” investment models. Yet each of these categories has a major flaw that puts investors’ returns at risk. In contrast, the *Buy Low, Rent Smart, Sell High* lease/purchase model offers investors an effective hybrid option.

### **“Buy and Flip” Model**

By definition, the “buy and flip” model is for the investor who seeks to purchase property at a discount, oftentimes improve the property, then sell the property quickly for immediate gain.

This model is ideal for investors who have no interest in landlording, as the “buy and flip” investor does not intend to seek a tenant for the property in advance of sale.

### **The Main Problem with this Model**

If a buyer does not come by quickly, the investor is faced with discounting the property and/or involving a real estate agent in the marketing of the property. Due to this possibility, most “buy and flip” investors need a discount of 25% or more, even after adjusting for the necessary repairs and improvement. With such high investor discounts, the pool of properties available with such significant discounts is often small.

*Simply put, the higher the discount the investor needs to make his or her model work, generally the fewer properties available at such a steep discount.*

### **“Buy and Hold” Model**

The “buy and hold” model is for the investor who seeks to hold property for the long term.

Many “buy and hold” investors envision funding their retirement years by selling the properties once the notes have been paid off, sometimes thirty years after purchase. A key benefit for these investors is that the need to acquire these properties at a significant investor discount is minimized, as the investors are seeking their primary return many years into the future. Thus, the supply of homes that meet their long-term investment model is often plentiful.

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## There are Two Main Issues with the “Buy and Hold” Model

First, missing are the opportunities for “cash windfalls” from the real estate during the “hold period.” Without the cash windfalls, funds to expand the portfolio generally must come from the investor’s day job, other investments, and sometimes partly from positive cash flow. Because of such “slow growth” characteristics, it is rare to find a pure “buy and hold” landlord with sizeable portfolios.

Second, many “buy and hold” landlords spend and exert so much time, effort, money, and energy in taking care of the repairs, maintenance, and high vacancies common with pure rental property. Some investors delegate this to a management company, and while this may save the investor time, it cuts into the profits as the management company must be paid for their work.

*The time, effort, money, and energy spent dealing with landlording issues often serves to minimize the investor’s ability to grow their portfolio to an impactful size. Worse, troublesome landlording experiences often sour new investors on real estate.*

## “Buy and Lease/Purchase” Model

A properly implemented “buy and lease/purchase” model takes the best of the “buy and flip” and “buy and hold” models. It also minimizes each model’s most glaring flaws.

First, most investors who use the lease/purchase model and our marketing materials will find they are able to “flip” some of their properties and sell others to their lease/purchase tenants. This allows the investor to generate the “cash windfalls” necessary for portfolio expansion, without the pressure of *having to sell* that is specific to the “buy and flip” model.

Additionally, the investor should be able to make purchases work with as little as 10–15% investor discount (much less than the typical “buy and flip” model), because the pressure and risk associated with *having to sell* quickly is no longer present.

Second, on the landlording side, most lease/purchase agreements transfer the repairs and maintenance responsibility to the tenant, as the tenant is not a typical renter but rather a “future homeowner.” The typical lease/purchase agreement can also be signed for a significantly longer term. Both these factors save the landlord much of the time, headache, and cost associated with upkeep and turnover common with most rentals.

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A final bonus is that even when the tenant does not exercise the purchase and vacates a property (either voluntarily or involuntarily), the properties are generally in much better condition than had the tenant been a typical renter.

### **What Do We Mean by “Fair” Lease/Purchase?**

Sadly, many investors have given lease/purchase a bad reputation by offering restrictive terms designed to minimize the lease/purchaser’s probability of exercising the purchase option, while “supposedly” maximizing the investor’s return.

We have found a correlation between offering attractive and reasonable option terms, and the profits available to the investor—our “win/win” philosophy. People are not stupid, and if the terms are not attractive, demand for the investor’s lease/purchases will be minimized. When offering fair and attractive terms, there should be higher demand for the lease/purchase, and the investor can be more selective among the available candidates.

Carrying this supposition further, higher quality tenants placed in the property mean less money and time spent landlording. That time and money can then be better spent expanding the investor’s portfolio to truly significant levels.

### **Does this “Buy and Flip” and “Buy and Hold” Hybrid Model Work in Practice?**

Implemented correctly and with the right properties, we can attest that an investor can manage a large portfolio of properties with minimal management time with the *Fair Lease/Purchase Hybrid*, what we refer to as “Renting Smart.” We have—and we’ve been able to do this while maintaining full-time day jobs. More importantly, since 2006 we have taught thousands of investors all over the country how to do exactly this. With the right plan in place, you too can make your real estate investments work for you.

Andy Heller is co-author of the Fortune Magazine recommended book, *Buy Low, Rent Smart, Sell High* and together with his partner, Scott Frank, have approximately 70 years of combined real estate investing experience. For more on the Fair Lease/Purchase and other Real Estate Investing tips, visit [www.regularriches.com](http://www.regularriches.com)