

PART 1

GETTING STARTED WITH RENT TO OWN

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CHAPTER 1

Rent to Own: An Overview

Over the years, rent to own in general has gained something of a bad rap. Typically, these days, the mention of “rent to own” brings to mind bunny-eared televisions, washer and dryer sets and living room furniture procured from a dodgy-looking, wide-windowed shop with signs offering “rent to own” on neon poster board. Only those who cannot afford their furniture would utilize such a scheme, and end up paying an absolute fortune in interest, usually far more than the rented unit is actually worth.

Renting to own a house is much, much different than renting to own a couch. First of all, rent to own in real estate does not cater to those who do not have the money to purchase a home. In fact, the opposite is true! The ideal rent-to-own candidate makes more than enough money to support their own mortgage payments, but cannot obtain a mortgage from the banks because of bruised credit or because the bank wants an exorbitant amount of money down, which they need time to save up. So, what exactly is rent to own in real estate, and what does it entail?

Rent to own (or lease to own—they are the same thing, just using different terminology) is a rental strategy with an option to purchase at the end of a predetermined period. In a rent-to-own scenario, the renter has a reason they’re unable to obtain financing at the moment—for example, bad credit or lack of a sufficient down payment. Yet, they want to make the transition to home ownership immediately, usually for personal or emotional reasons. The renters’ motivation could be anything from needing a bigger house for their expanding family, to wanting a yard for their dogs, even simply wanting to feel the satisfaction of home ownership and all of the benefits that come with it. Typically, the tenants are looking to stop renting and finally move into a place they can call their own. They don’t want to continue bouncing from rental to rental, and are looking to settle down once and for all.

More and more in this economy, we're seeing another type of rent-to-own tenant emerge—the kind who already own their house, but for some reason are about to lose it because of a drop in income. Often, the real reason is more simple: they have over-extended their credit.

Rent to own is a great strategy, when you're helping renters become home owners. It takes on a whole new meaning when you're saving a family from losing their home. Such deals are quick and easy and extremely profitable, not to mention they help everyone involved in a truly powerful way.

Had our friend Tim used a tenant-first rent-to-own scenario right from the start of his real estate investing career, he would have found his experience much different, for reasons you will discover throughout this book. Is it too late for Tim? Not at all. As you will see, Tim is about to have a chance meeting with me, and will turn his strategy around on its head.

WHY LISTEN TO ME?

Okay, fair question—why should you listen to me about rent to own?

I grew up watching my grandfather buy and sell property, and I learned from the things he did. At age 19, I bought my first property, and watched as the deal went south. With one bad deal under my belt, I took a job in sales at Canon, where I earned Top Sales President's Club. I was great at my job, but knew deep down I would never achieve what I wanted in five, 10, even 15 years. I returned to real estate investing, determined to do it right this time. In 2004, I purchased my second property—a duplex in Newmarket, Ont., but I quickly learned that managing multi-family properties was not the best strategy for me. Over the next four years, I purchased more property, but soon after realized that being a landlord was a lot of work! Managing three properties took up all of my time. Even after hiring a property manager, I still struggled to find time to make new acquisitions. Like our friend Tim, I took on everything myself. Exhausted and miserable, I quickly realized that to live my ideal lifestyle, I needed to focus on the things I did well, and create a network of others who could take care of the details, such as maintenance, so I would have more time to spend on the things I value—my family, my career and *my sanity!* There had to be a way to get my investments working for me so I would not have to work so hard on my investments.

HOW A STINKY, DIRTY, DISGUSTING BED MATTRESS CHANGED MY LIFE

When the tenants at my first investment property moved out and left behind the most putrid, disgusting mattress, I knew *there had to be an easier way!* Although I have dabbled in property flips, I knew flipping houses could never be the bread and butter of my investment portfolio. Shortly after, I purchased a rent-to-own property in Orangeville, Ont. This property was just like all the other investment properties in town, with one exception: the other investors were using a rent-to-own strategy and I was not. Consequently, they were receiving fantastic monthly cash flow and a great return on investment, and I was not. It was then that I knew I had to get into rent to own.

I implemented a traditional rent-to-own strategy with some of the properties I had, and found some success. But night after night I still found my blood pressure rising at the thought of purchasing a house on the speculation of a tenant wanting to own that house at the end of a rental period. The stress of trying to find tenants who would love my property enough to eventually own it—before the next mortgage payment was due—was doing my head in. Again, I found myself faced with the same dilemma as before, and again I searched for a better, easier, and less stressful way to invest.

Hour after hour, I would run the scenario over in my head, trying to find the weak part of my investing plan. What was making the process so difficult? Then it hit me: all of my stress was coming from the act of finding the tenant! If only there was a way to purchase the investment property *after* I had the tenant...

At that moment, the proverbial light bulb came on above my head, and an idea was born—one that led to my success and that of many other investors since.

Now, I own more than 50 doors. For the last three years, I have been a full-time real estate investor and was recently dubbed “The Versatile Investor” by *Canadian Real Estate* magazine. Each week, I help thousands of independent investors explore their real estate investing potential through my weekly ezine, *The Secrets of Savvy Investors*. I live in a \$1-million house in High Park in Toronto and enjoy beautiful afternoons with my wife and daughter, enjoying the kind of lifestyle and peace of mind a regular day job could never provide.

WHY DO I CHOOSE A RENT-TO-OWN STRATEGY?

Whenever the real estate market takes off, stores are flooded with books, tapes and courses promising to make you rich. During times of economic crisis, investors are shown ways to become rich from investing in foreclosed property. Some find great financial success using these concepts. Most are not so lucky. The difference between these “bandwagon” strategies and rent to own is that rent to own will work in *any* market. As I write this book, times are tough for everyone. An “economic crisis” is in full swing, and people are losing their jobs, homes and financial security. When the market bounces back, the divide between those who survived and those who sank will be enormous. But those who have already implemented a rent-to-own strategy in some capacity are realizing cash flow *despite the market!*

No matter the year or economic situation as you read this, it’s a great time to get started in rent to own. This strategy will ensure that, regardless of what happens with the economy in the future, you will thrive.

My mission with this book is to show you a proven way to succeed in real estate investing that will allow you to gain positive monthly cash flow in any market. You will enjoy an appreciation gain at the end of the investment, while having a clearly mapped exit strategy right from the start. These three aspects alone (positive monthly cash flow, appreciation and an exit strategy) will ensure success in real estate investing, and rent to own has them all—and more!

Real estate investing can be intimidating for new and seasoned investors alike. If you’re a newcomer, I commit to showing you how to get started in a way that will ensure your success now and in the years to come. If you’re a more experienced investor, perhaps with a few properties in your portfolio, I vow to show you a method with which you will maximize profits plus an exit strategy for your properties that are not yielding the desired cash flow. All of this is laid out in a step-by-step plan to help you get started quickly with little or no money (no, really!) with a simple, duplicable process that has been proven not only by me but by thousands of investors across the nation.

There are a number of benefits to rent to own, and we will explore these in the next chapter. However, the advantages of this strategy and the reasons I personally choose rent to own are two separate things.

What I value most in business are integrity investments in which everyone involved benefits. I value time with my family and having a laugh with my friends. Being in charge of my day from start to end is a huge perk: as my own boss, I typically enjoy every moment of my day. Stress is typically a huge factor in a regular job, and simply eliminating the pressure involved with deadlines, co-workers and bosses is worth every mistake I've made along the way. I also avoid any stress involved with tenants, which you will see illustrated in the pages to come. I make my own hours, and never have to put my life on hold (like our poor friend Tim) to run out and deal with tenant issues.

I am no different than you; in fact, if you met me in person you would probably never guess I have achieved such success in real estate investing. I tell you these things not to brag or to toot my own horn, but to encourage you and assure you that because I found success with this system, you can too, regardless of your job title, social status or personality type, your previous investing experience or your IQ.

Seasoned investor switches to tenant-first rent to own, never turns back

Mary had investments all over Ontario. The time commitment was extreme and the return on investment wasn't even that good. One night, after a clump of her hair fell out, she switched to the tenant-first strategy and used the investment vehicle on her existing properties, as well as her new acquisitions. The ease of tenant-first rent to own was enough to sell Mary on the strategy for good. Now, she spends weekends at the cottage, afternoons with her daughter and evenings reading in her large Jacuzzi. Mary vows she will never return to regular investing, that tenant-first rent to own is too easy, and strangely addictive. She has closed eight rent-to-own deals, currently has three on the go, and shows no intention of stopping anytime soon!

