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WEALTH DRAGONS

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About the authors

John Lee started in property at the age of 21 and has bought over 154 properties for himself and for other investors. His goals were to never work again, become a full time entrepreneur and own a Lamborghini.

He achieved this at the age of 27. John is also a Property Mentor, inspirational speaker and has helped thousands of like-minded people achieve their property goals.

John is a property expert on Inside Property Radio, Your Property Network Magazine, co-host on Loveproperty.org, founder of propertycow.co.uk, Founder of Deal Closer, and founder of his property buying company Complete In 28 Days Ltd.

John's claim to fame was when he landed a part in the hit TV show "Little Britain".

John Lee is known for his unique and creative negotiation style that has contributed to his multi-million pound portfolio. To find out more about John do a search on you tube for John Lee Property or visit http://www.propertycow.co.uk

Vincent Wong is the founder of Network Property Buyers and Network Property Investment.co.uk.

A well respected figure in the BMV circuit, Vincent has generated more than 30,000 Below Market Value property leads in the last 24 months and helped hundreds of investors buy properties with little or no money down.

Apart from his own multi-million pound property portfolio and expertise in internet marketing, Vincent’s specialty is acquiring properties using lease options.

He and John Lee have taught many investors how to buy properties using no mortgages and money in their very successful courses.

Find out more about Vincent’s below market value leads and lease options course at

Quick look inside

Contents

Introduction

This book is the new way forwrad for property people locked out of financing deals and making money, by the attitude of the banks and building societies to risk following the recession.

Each chapter explains in easy to follow language how to reinvent your property business as a consultancy selling viable solutions to home owners in desperate need of financial assistance.

To rise like a phoenix from the ashes of the UK property market, you need to learn new skills and apply new skills.

Buying Property Without Cash – A Step-by-Step Guide equips you with everything you need to know to take your property business forward.

Using this book

This book is not designed to read from cover-to-cover, although you can if you wish. It's a reference guide for your property business.

> **Part 1** explains the underlying principles of property options and how they work.
>
> **Part 2** is a practical guide to applying the theory of property options from Part 1 to your real life business leads
>
> **Part 3** provides template agreements and contracts for property option deals.

The idea is that you can dip in to any chapter to read up on a particular topic without having to read the entire book. Along the way, you will find lots of examples and explanations to help you find out what you need to know to make property options work for you.

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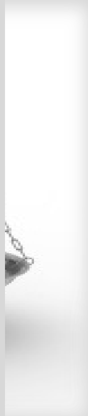


Chapter 1

Understanding How Property Deals Work

In this chapter:

- ***Setting the value of a property***
- ***Identifying who runs property deals***
- ***Bridging the property cash gap***
- ***Where bridging all falls down***

Buying a property is a well-trodden path for new investors or those with experience and a well-established portfolio behind them. Every time an investor wants to buy a property, he or she sets out on the same journey –

- Negotiating a price,
- Arranging a mortgage,
- Instructing a valuation and a solicitor,
- Waiting for a mortgage offer,
- Exchanging contracts
- Completing the purchase

This chain reaction has an expert involved at every strep along the way – the estate agent, mortgage brokers, solicitors, valuers, and lenders.

Property people sagely talk about buyers' and sellers' markets, but the person in control of every property deal is the surveyor.

After all the viewing, haggling, form filling and waiting, the power of making and breaking the deal lies withy the surveyor or valuer – the terms are interchangeable.

No matter how much cash the buyer has, no matter how desperate the seller is to sell, the deal will not go ahead until the valuer has set the price of the property.

From there, the lender decides how much to lend – the loan-to-value.

This knock-on effect from setting the price is whether the buyer can afford to proceed if the mortgage is not as much as he or she hoped to receive.

Setting A Property's Value

A bank or building society will only accept a property valuation if the surveyor is an accredited member of the Royal Institution of Chartered Surveyors (RICS).

You can easily tell because if the surveyor is a RICS member, they will have the initials FRICS or ARICS after their name to denote they are a fellow or associate of the organisation.

RICS has a 'red book' laying out the rules of valuing a property that every surveyor should follow. The idea is that every surveyor should more or less arrive at the same value for a property by following this magic formula.

The formula includes providing 'comparables'. These are prices of similar properties within a few hundred yards of the property under valuation were sold at in the past six months.

Banks and building societies use RICS surveyors to value properties for two reasons –

- They have a professional qualification and laid down procedure for valuing property
- They have professional indemnity insurance that means the lender can sue if they get the value wrong and the house is repossessed and sold a loss further down the line

Identifying Who Runs Property Deals

The surveyor is the person in the driving seat of a traditional property deal with a mortgage.

He – and for some reason, it's nearly always a he – is tasked to give an objective view of the property's value on the day of inspection regardless of the purchase price and any speculative views of the market.

This all sounds good and proper in theory, but in practice, this is not how the process works.

Many surveyors simply tell the lender the property is worth the purchase price regardless of the true market value on the basis of what a reasonable buyer agrees to pay is what a property is worth.

Cynics might also suggest that the surveyor down values a property to protect their firms from potential claims against their indemnity insurance.

Bridging That Property Cash Gap

Property investors are business people and the aim of business is to make as much profit as possible for the least outlay.

If you do have to risk money on a deal, then the golden rule is it's better to risk some else's – like that of a bank or building society – rather than your own.

The first property professionals contrived 'no money down' deals to build their portfolios. Then as cash they could draw out of their investments hit the 'glass ceiling' of 85% of the property value, they looked to the 'below market value' solution.

No money down deals

The basic fact to remember about most 'no money down' deals is they only work in a time of property inflation – like the rising market the UK has recently experienced.

Many property owners started by remortgaging their own home to raise the deposit on a rental property – generally 15% plus costs.

The mortgage lender would then offer a loan of the lowest of up to 85% of the purchase price or the valuation.

This was fine providing the surveyor valued the property at the purchase price.

Now, the proud new owner of a buy-to-let property would sit back for a while and let the rising property market increase the value enough to remortgage to take out the cash for a deposit on another buy-to-let.

Meanwhile, the value of the property owner's home has also increased enough during the same period to draw another deposit. Our new property owner now has the deposits to buy two more buy-to-lets.

This is how professional property owners quickly built £1 million plus property portfolios.

Below market value deals

Below market value or 'BMV' deals are the dark side of property investment. These deals revolve around bridging loans, designed as short-term loans to ease difficulties of a property deal if the timing somewhere in a property chain is slightly uncoordinated.

Bridging loans come in two formats:

> ***Open bridging*** – The property purchase goes ahead with a loan before the buyer has a mortgage. This form of bridging is often used for buying at auction, below market value or for properties that are not mortgagable because they need renovating.
>
> As soon as the property is ready for remortgage, the bridging loan is paid off.

> ***Closed bridging –*** This is the technique for buying a below market value property.
>
> The bridging funds are used to pay the seller the agreed price while the property is simultaneously remortgaged by a bank or building society at the higher open market valuation.

Sometimes property people call this 'instant remortgaging'. The difference between open and closed bridging is having a mortgage offer already in place before taking out the bridging loan.

In financial terms, having a mortgage in place for closed bridging is called an example 'exit route'. Another exit route could include selling a property or other assets to realise cash.

EXAMPLE

Jack agrees to buy a property that a surveyor has valued at £100,000 from Jill for £80,000 with a closed bridging loan.

Jack then instantly remortgages with a building society at 85% loan-to-value and receives £85,000. Jack pays £80,000 to the bridging lender and has cash back of £5,000 tax-free.

Where Bridging All Falls Down

Banks and building societies have worked hard to stop bridging deals – no lenders will currently become a party to a closed bridging deal and lenders have imposed a six-month moratorium on remortgaging open bridging deals with no guarantee of having a mortgage offer when the six months are up.

The risk of bridging leaving a property investor high and dry with 4% a month fees to pay the bridging lender makes no financial sense.

Chapter 2

Taking Control Of Your Property Deals

In this chapter:

- ***Clearing out the old ways***
- ***Becoming a property chameleon***
- ***Owning property is an illusion***
- ***Checking out your lease options***

If you are a property investor, it's enough to make you weep to see all the potential deals passing like ships in the night and having to let them go because you can't control the deal.

The valuation is the first deal breaker in a falling or stagnant property market.

If you pass that obstacle, then it's a sumo wrestle with the lender to try to extract some cash from their coffers.

Clearing out the old ways

The worst that can happen is an investor is caught in a loop of disappointment, putting together deals only to have them knocked back by surveyors and lenders. However, there is another way.

If a frontal assault fails, then property investors have to try a little finesse to bypass the problems to complete the deals.

The old strategies clearly don’t work in the current property market, so a perceptive investor must seek out those that do.

Becoming A Property Chameleon

One of the major issues of a recession is fear. Recession is not the end of the world, it’s a fundamental change in the arbitrary financial process we call the economy.

Fear comes from change. Property investors fear that falling prices will wipe them out and they cannot see past the old ways to move forward.

Others see recession as an opportunity and will do whatever they need to do to come out as a leaner, meaner, moneymaking machine.

These people are property chameleons who understand change and accept that they must evolve how they do business without fear.

Evolution is about survival of the fittest; so to survive the downturn you must evolve and join the property chameleons.

Reinventing yourself as a property consultant

Traditionally, sellers are wary of property people because they view them as predators looking to get one over on them and as profiteers trying to make money out of their misfortune.

Developing a new strategy for your property business as a problem solver for homeowners in financial hardship may involve playing an unfamiliar role, but play the part you must.

To succeed as a property investor, you need to evolve a new mindset, a new approach to how you conduct your business and look for new tools to take the control away from those deal breaking surveyors and lenders.

The Illusion Of Owning Property

Think about this. If you own a house and the mortgage debt is more than half the value, do you own the house or the debt?

Your answer is you own the property. After all, your name is on the title at the Land Registry and the mortgage.

OK. Stop paying the mortgage for three months and see who really owns the property.

A mortgage gives you rights over the property and those rights include having the right to sell and retain the proceeds after the mortgage is paid.

The point of this is property people should seek control not ownership.

Property options are a tool that can give you control of the property without the hassle of ownership, surveyors and mortgages.

Checking Out Your Options

Property options are a tried and tested financial strategy that you can see in action every day all over the world.

Property, precious metals, and commodities, like corn and oil, are traded with options often called 'futures'.

In the simplest terms, an option gives the buyer control over an asset and is a contract with the owner to deliver the asset to the person exercising the option, who is the buyer, at a given place, on a given day at a given price. *(See Chapter 3 – Technical Terms Explained)*

Options over property are nothing new. Investors have taken advantage of this tool to make money for 30 years or more.

The new breed of property investor

Now you have the basis of a new property business model and you are ready to rise like a phoenix from the ashes of the property market.

- With your new attitude, you are in a position to help people solve their property problems as an advisor.
- With your new strategy of taking control rather than ownership, you are ready to bypass the deal breaking surveyors and mortgage lenders
- With your new tool – the property option – you will soon have the knowledge to carry you new attitude and strategy to a successful and profitable conclusion.

The object is to reinvent yourself as a trusted advisor and consultant with knowledge you can impart to solve the financial problems of homeowners.

Chapter 3

Looking at Property Options Step-by-Step

In this chapter:

- ***Explaining option jargon***
- ***Calling and putting the option shots***
- ***In and out of the money***
- ***Putting a price on an option***

In your new role as an advisor, you have to learn some jargon and theory about property options and then how to apply that knowledge to structure deals.

Without a detailed knowledge of property options, as an investor you will miss potentially profitable investments if you do not know how to apply the theory to structuring deals.

Explaining Option Jargon

First comes the technical information – unfortunately you need to know the jargon.

Stick with it, because after the next heading, the technical terms are explained one at a time.

An option is an agreement between a property owner and an investor.

Generally, the owner gives the investor the right to buy a specified property at a fixed price.

This right can only be exercised during a specific period or on a specific day.

In almost every case, the investor will pay the owner a premium for granting the right.

The investor is not obliged to take up the right.

If they do not the option will expire at the end of the specified period and the premium will be lost.

Remember: in an option agreement:

- The potential loss to the owner is unlimited
- The loss to the investor is limited to the premium paid

Getting to grips with the technical terms

Grantor or writer – The person granting the option, sometimes called the ‘optioner’ or the ‘underwriter’. The grantor holds the property. For easy identification, this person is called the ’owner’ from here on

Grantee or purchaser – The person granted the option to buy the property. Again, for easy identification, this person is called the investor from now on.

Premium – A non-returnable fee paid by the investor to the seller. This is also called the ‘option fee’ or ‘option price’

Exercise price – The sale price agreed in the option. Also called the ‘strike price’

Asset price – The open market value of the property subject of the option. This is the only variable in the contract as the property price can rise or fall during the 'option period'

Option period – The period when the investor can exercise the option. This can vary between options.

European options generally have a fixed date at the end of the agreement that is the only time the option is exercised, but for an American option, the period is open for the life of the option.

Generally, lease options are American.

Expiry - The time and date specified as when the option agreement lapses

Calling And Putting The Option Shots

- ***A call option*** is an option that allows the investor to buy or call for the asset from the owner

- ***A put option*** is an option that allows the investor to sell or put an asset to the owner.

Most property options are call options – that means the owner gives the investor the right to buy a property without any obligation – so the investor can buy if the price is right, but let the contract lapse if it is not.

In And Out Of The Money

Remember – the sale price of the property or the exercise price is fixed in the option agreement, while the asset price is the open market value of the property that can fluctuate during the life of the option agreement.

- An option is ‘in the money’ if the exercise price is lower than the property price.

- An option is ‘out of the money’ if the exercise price is higher than the property price.

Putting A Price On An Option

If you are a mathematician who can solve equations at Nobel Prize level, then look up the option price modeling work carried out by Myron Scholes and Fischer Black.

If your math skills are a little less sharp, then valuing an option is a judgment call based around two factors that make up an option value:

- ***Intrinsic value*** – The difference between the market value and the exercise price

- ***Time value*** – For an American option, generally the principle is that the longer the option is open, the more chance the property has to increase in price. For a European option, this is more risky because the property price is set for payment at a specified time and date.

Remember – most property options are American call options.

The intrinsic value of a property call option is calculated as:

(Exercise price – Asset price)

This means if your exercise price for a property is £100,000 and the asset price is £120,000, the intrinsic value of the property option is (£100,000 - £120,000) = - £20,000

Congratulations! Your property option is in the money to the tune of £20,000. If you exercised the property option, the gross profit stands at £20,000.

For argument's sake, the asset price has dropped to £90,000. The intrinsic value is now (£100,000 - £90,000) = £10,000. Now your property option is out of the money, as the grantor would make £10,000 gross profit on the deal.

All is not lost because the property option still has to have the time value factored in.

If the property option has an option period of five years, the asset value can still rise during that time to put you back in the money.

To an investor, a property option is more valuable the longer the option period has to run and if the intrinsic value is higher than the asset price.

The premium bond

The premium is whatever you feel is right for the particular deal.

If you are the investor, then your premium is likely to be a nominal sum, like £1.

If you are not the owner but a tenant who is assigned an option by the investor, then some property options have a premium calculated as a multiple of a single month's rent - three months' rent is a popular choice.

The owner or investor might decide to set a premium as a percentage value of the exercise price.

What you charge is at your discretion and depends on the merits of each transaction.

Adding value with cash flow

Property options give an investor more than the potential of a future profit; they also generate a rental income cash flow.

If a property option generates a net rental profit of £100 a month over five years, this gives a potential £6,000 profit over the option period.

Totting up the potential profits

The full potential value of a property option is expressed as:
(Intrinsic value + net rental profit)

Going back to our property option above, if the intrinsic value of the option is £20,000 with a £6,000 net rental income profit, the total value of the property option to the grantee is, according to the formula above: £20,000 + £6,000) = £31,000

Fixing the exercise price

The price set for the property in the option depends on the strategy you adopt with the owner.

Chapter 4

Power Of Property Options In Action

In this chapter:

- ***Your property option toolkit***
- ***The power of property options***
- ***Spreading sandwich benefits around***

Flexibility is the keynote of a property option. As a newly invented property consultant, you can sit down with your client and negotiate a deal that suits you both without having to worry about surveyors or lenders torpedoing your agreement.

In Chapter 3, we deconstructed a property option to look under the bonnet at the technical terms and jargon.

Now, it's time to see just how to apply property options to real deals.

Your Property Option Toolkit

Property options come in three flavours –

- Purchase
- Lease
- Sandwich

Each option is a tool in your kit as a property consultant providing solutions for homeowners in financial difficulty.

Buying with a purchase option

A purchase option gives the investor an exclusive opportunity to buy a property for an agreed price by an agreed date.

The owner has no rights to any rental income from the property during the option period or any responsibility for the mortgage.

The objective of a purchase option is to buy time while locking the owner in to an agreement to sell The time the investment buys is generally related to a purpose connected with the deal, like going through planning, carrying out renovations or legal work.

The purchase option should have a clause obligating the owner to pay compensation if they break the agreement.

Taking control with a lease option

A lease option is the solution that investors talk about when they discuss buying a property without a mortgage or valuation for £1.

With a lease option, the investor controls the property without ownership.

In most cases, the owner moves out and the investor moves in a tenant.

The lease option is the tool you will probably use most as a property consultant.

Filling the sandwich option

This is a lease option plus. The objective is taking control of the property with a lease option and then granting a purchase option to a tenant buyer.

The exercise price set with the tenant buyer is higher than that agreed with the grantor, and you only exercise your option to buy at the same time as the tenant buyer exercises their option with you.

The difference between the two exercise prices is profit for the consultant.

This gives the property consultant the best of all worlds – the tenant buyer pays a premium to you plus rent that pays the mortgage and leaves a profit as cash flow.

If the tenant buyer does not have the cash for a lump sum premium, then consider charging a rent premium.

Some tenant buyers are very pleased to pay a rent premium to solve their financial problems like:

- Not having enough cash to place a deposit
- A poor credit record stops the tenant applying for a mortgage, but a long option period gives them time to clean up their credit file
- The tenant buyer wants the security of a permanent home, especially if they have a family and the property is in the catchment area of good schools.
- A sandwich option fixes the purchase price for when the tenant buyer is ready to go ahead with the deal

The Power Of Property Options

In your role as a property consultant assisting homeowners in financial hardship in mitigating their problems, you can see that property options are powerful tools for taking control of property deals.

Property options also give sellers and buyers immense advantages over traditional property deals controlled by surveyors and mortgage lenders.

Both sides can negotiate a property option solution that is mutually beneficial and directly resolves the issues that led to the homeowner inviting you to help in the first place.

Boosting your business

Property options cut out the middlemen that can undermine your property business and bring other benefits:

- ***Forget mortgages and valuations –*** a property option gives you control without ownership removing the need for borrowing
- ***No ownership means no conveyancing*** - just draw up a property option agreement covered by some standard searches.
- ***Speedy resolution –*** the owner can move out as soon as the option agreement is signed
- ***Flexible options –*** you and the owner can negotiate a deal that suits you
- ***Return on investment –*** the potential profits and cash flow are immense as the cash outlay is minimal
- ***Better conversion rates –*** as a property consultant resolving problems you will convert more leads in to successful deals than the predatory 'below market value' dealer
- ***Removing risk –*** you can pull out of a deal at any time without penalty

Easing financial problems for owners

Besides the business benefits options can bring in a falling or stagnant property market, as a property consultant, you are in a position to help homeowners who are often in significant debt and have nowhere else to turn other than repossession by their mortgage lender.

Property options are tools that can resolve common problems like repossession, mortgage arrears, negative equity and selling problem properties.

Problem properties might need extensive renovation or other remedial works to bring them up to a reasonable state.

Property options are also quick. They provide an almost instant solution in comparison with placing a property on the market, waiting for an offer and then going through conveyancing.

Spreading Sandwich Benefits Around

Rent-to-buy schemes are the bread and butter deals for applying the sandwich option.

The investor can sweeten the deal for the tenant buyer by agreeing to contribute some or the entire premium to build a mortgage deposit for when the tenant exercises the option.

Because the tenant buyer has bought in to an interest in the deal, the grantor is likely to have a more loyal tenant who is less likely to move on.

In turn, this is reflected in less likelihood of the tenant defaulting on the rent, as the assured shorthold tenancy agreement is tied to the property option agreement.

If the rent is not paid, then the tenant breaches the option contract and any accumulated premium towards the mortgage deposit is forfeited.

Another common clause in a rent-to-buy agreement is transferring the costs of maintaining a property to the tenant buyer, so the investor is not responsible for decorating or repairs.

Chapter 5

The Legals Have Landed

In this chapter:

- ***Investment risk checklist***
- ***Let your lawyer lay down the law***
- ***Empowering the Attorney***
- ***Managing your investment***
- ***Mortgages and purchase options***
- ***Registering your interest***

As an investor, you need to know the time and money you sink in to a deal will not go to waste – especially several years down the line. Agreeing a deal on handshake after discussing the details with a seller is one thing, but protecting your interests with a legally binding contract is another. Investors also need a Plan B – an exit route for when things start to go pear-shaped so any agreement should specifically spell out the responsibilities for both the investor and the seller.

Investment Risk Checklist

Here's a checklist of the top 10 risks to bear in mind when investing in a property option deal.

1. Make sure the investor has the right to let the property without breaching any mortgage terms especially because the investor is not the legal owner of the home.

2. Lay down who has responsibilities towards the tenant if the owner is declared bankrupt or the home is repossessed

3. Decide what happens to the property should the investor or owner die during the option period

4. Agree who is responsible for the costs of repairing any damage to the property during the option period. The owner should have building insurance that meets the terms of mortgage lender's terms and conditions

5. Have a plan for an exit route if adverse searches are returned that means the deal cannot complete when the option is exercised

6. Discuss the property option plan with all the owners of the property. They all have to be a party to any property option agreement

7. Consider what to do if the owner changes his or her mind in the option period

8. Discuss who should have power of attorney to make important decisions about the property should the owner go missing

9. Have a plan in place if the owner tries to sell the property to another buyer during the option period

10. Also have a contingency if the owner tries to borrow by putting the property up as security for a mortgage or loan during the option period

Let Your Lawyer Lay Down The Law

Setting up a property option deal has no requirement to employ a solicitor, but it's a good idea to have one oversee the deal to make sure you are protected and the agreement is binding.

Remember solicitors are often like your family doctor – they have a broad understanding of most legal matters but do not necessarily deal frequently with property option agreements.

An investor needs a solicitor who is well versed in drafting and closing these agreements. During your initial conversation, certain key points should arise to show the solicitor has the depth of knowledge and experience to handle a property option:

- They should be able to discuss the principles and mechanics of a property option
- A solicitor should be able to draft the paperwork to make a property option agreement formally binding and enforceable in court
- The documentation should not be a template but a flexible document that can be adapted to different option deals
- The solicitor should point out that you should undertake certain searches before signing the option and before exercising any agreement to purchase
- The documents should be lodged with the Land Registry
- The solicitor should be capable of completing the transaction if you exercise your option to buy

Clause and effect

Flexible property option agreements have clauses with specific terms and conditions you can add or delete from the standard agreement.

Remember – Once the investor and the owner sign a property option agreement, no changes can be made to the document without the written agreement of both parties.

Never add or take away any part of an option agreement without first discussing the implications with your solicitor.

Other key points you may want to consider adding as a special clause to your property option agreement are:

- A break-out clause to determine what happens to the property option should the investor wish to terminate the agreement prior to the option period elapsing
- An exit clause allowing the investor to terminate the agreement if the owner fails to make monthly financial contributions as laid down in the property option or fails to meet other agreed criteria.
- The ability to increase the owner's monthly financial contributions in line with increasing interest rates and inflation
- A clause that allows the investor to extend the option period
- The option to buy can be exercised by giving notice in writing to any of the joint owners
- Once the option to buy notice is given, the deal must complete within 28 days or the seller could face legal action

Search and rescue

Your solicitor has a number of impartial searches at his or her disposal to give you the information you need to make a sensible investment decision about entering in to a property option agreement.

Searches are at available to protect you from yourself. Before launching in to the deal that seems too good to be true, stop a moment and consider why no one else has snapped the property up and listen to those alarm bells ringing.

Remember – you should conduct searches prior to signing your option agreement and again before exercising your option to buy to ensure nothing major has changed over the years your agreement has been in force. Each property deal needs considering on its own merits, but at the least, you should at least consider:

> ***Title search*** – this reveals the identity of the owners, any mortgages or other charges and whether a property is held in trust.
>
> ***Environmental search*** – Ensure the home and surrounding areas are not likely to have any hidden problems that may deter a future buyer

Other searches you can put on the list include:

> ***Local authority search*** – especially if the home has had a lot of improvements or extension to make sure the building complies with planning and building regulations
>
> ***Water search –*** gives details of water supply and sewage connection for a property
>
> ***Mining search –*** information about coal mining and ground stability

Remember this is by no means an exclusive list of specialist searches.

Legal advice for the owner

The owner has no obligation to consult a solicitor about entering in to a property option agreement, but it is advisable you give the seller a written notice advising that he or she should do so and they sign the notice so you can keep a copy for your file.

If the owner does consult a solicitor, the likely advice would be not to sign the agreement.

It is easy advice for the solicitor to give because if no action is taken, there is no comeback if anything goes wrong.

The solicitor's foremost thought is likely to be protecting his or her own back rather than considering the interests of the client.

An investor can help overcome an owner's objections in three ways:

1. Explain to the owner why the solicitor is advising against signing the agreement

2. Explain the agreement clause by clause to the owner so he or she feels more confident about the transaction

3. Point out the likely financial consequences of not proceeding given the owner's personal circumstances

If the owner insists on appointing a solicitor, consider finding one to act on their behalf and fund the fees.

Finalising a property option deal is as much about managing the owner's expectations of what the final outcome is likely to be as anything else.

Make sure in your role as a consultant that you are honest and forthright from the start and do not try to hide issues that you think are unpalatable – they will only return to haunt you later.

Empowering The Attorney

In a property option, obtaining power of attorney is important in case the owner disappears or becomes incapable of making decisions during the option period.

A lasting power of attorney is a legal document that the owner makes using a special form available from a solicitor or the Office of the Public Guardian (OPG)

The document allows the owner to appoint someone to make decisions about property and financial affairs or personal welfare. Obviously it's preferable for whoever has power of attorney to be someone close to the investor without creating a conflict of interest.

Power of attorney is only active once registered with the OPG.

Who can appoint an attorney?

Anyone aged 18 or over, with the capacity to do so, can appoint one or more attorneys to make decisions on their behalf. Power of attorney cannot be granted jointly, for instance by a husband and wife.

Why have a power of attorney?

If the owner has walked away from the deal or cannot be located when you want to exercise your option to buy, the power of attorney is actioned.

Bear in mind are that the power of attorney is not open for abuse, for instance by trying to raise cash against the property without prior agreement with the owner.

Also remember that the owner may rescind the power at any time.

Practical tips about appointing an attorney

When power of attorney is incorporated in to a property option, run a Land Registry search to confirm who owns the property and make sure each owner – generally up to four different people – appoint a separate attorney.

Hand setting up the power of attorney to your solicitor to ensure each legal step is carried out to the letter of the law.

People involved in appointing an attorney

Several people involved in making lasting power of attorney as a safeguard to the owner:

> ***Attorney*** - the person appointed to make decisions on behalf of the owner about property or financial affairs. The person chosen has to agree to take on the role
>
> ***Donor –*** the owner who appoints an attorney to make decisions on his or her behalf about property or financial affairs
>
> ***Named person*** – someone the owner picks to be notified when an application is made to register his or her power of attorney with the OPG. They can object to the registration if they have concerns. The named person is specified in the power of attorney form.
>
> ***Certificate provider -*** a person the owner must select to confirm the owner understands the power of attorney arrangements and that he or she was not under any pressure to make the agreement
>
> ***Witness -*** signs the power of attorney form to confirm they witnessed the owner or the attorney signing and dating the power of attorney forms

Managing Your Investment

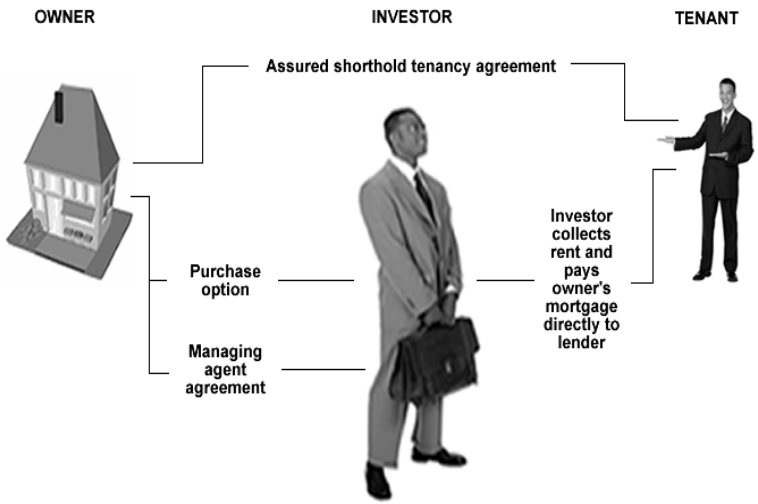
The business model for most property options is the investor snugly sitting between the owner and a tenant with two objectives in mind – an increasing property value to cash in by exercising the property option and cash flow coming from a tenant and/or an owner contribution towards costs.

The plan is good – but has disadvantages and advantages.

The investor cannot generally sublet the property and rent to the tenant, because legally, only an owner can grant an assured shorthold tenancy (AST) agreement. This is not a real problem, because the owner appoints the investor as a managing agent who then deals with the tenant and collects the rent on their behalf.

The next problem is what happens to the rent. If the owner grants the AST, then generally the rent is income to him or her. This means the investor has no cash flow nor any guarantee the mortgage is paid every month.

Again the managing agent agreement overcomes this issue by including a clause that allows the investor to pay the mortgage and retain any additional payment as cash flow. Putting a managing agent agreement in place also means that any changes to the owner's circumstances do not affect the business relationship between the investor and tenant.



BUSINESS RELATIONSHIPS: How the key players fit together in a property option business model

Who, why, what and when…

From the diagram, a property option agreement comes in three parts:

Purchase option agreement between the owner and investor

Managing agent agreement between the owner and investor

Assured Shorthold Tenancy agreement between the owner and tenant

Each agreement gives one or more parties to the transaction certain responsibilities towards each other:

- The investor has to pay the owner's mortgage direct to the lender regardless of whether the property has a tenant
- The investor must maintain the property and seek compensation from the tenant for any damage he or she may cause
- The owner and investor should have an open line of communication. It is in both their best interests as any changes in each other's circumstances can affect the other, and especially because the owner is still responsible for the property if the mortgage is in arrears or the investor does not take up the property option.
- The owner needs to maintain buildings insurance although generally the investor will reimburse the cost

Mortgages and purchase options

Neither the owner nor investor has any obligation to inform the owner's mortgage lender about any purchase option agreement unless the mortgage terms state otherwise.

The owner does need to get permission from the lender to let the property on an assured shorthold tenancy (AST) agreement. Depending on the lender, this may involve a small fee or adjustment to the mortgage interest rate.

Some practical tips to bear in mind about property options with mortgages are:

- The owner should switch the mortgage from capital and repayment to interest only to reduce the monthly mortgage payments
- If possible, the owner should remortgage to a buy-to-let mortgage as they are often at better rates than residential mortgages with added interest because the property is let
- If the owner needs cash to move on and you are not keen to include this in a premium, try a remortgage and do not forget to adjust the option price in line with the new debt on the property.

Registering your interest

Your solicitor must lodge the purchase option and management agreements with the Land Registry as soon as practicable after the owner and the investor sign them.

Filing these documents registers the investors interest against the property and stops anyone else selling or securing finance. The investor's interest will show on any Land Registry searches of the property.

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Chapter 6

How To Find The Deals

In this chapter:

- ***Leading the way to success***
- ***Taking the lead***
- ***Marketing your property business***
- ***The lead generation game***

A basic error is falling in to the trap that the property business is different from any other business. It is not.

To run an effective property business an investor needs to have the same raw materials as any other business – leads that are converted to sales.

This guide is not about how to start and run a property business, but how to use property options as a tool to convert leads that might otherwise end up on the scrapheap in to profitable sales.

Leading The Way To Success

In your new role as a property consultant, you are standing on the shoulders of the rest of the less well-informed property people thrashing about below you for business funded by mortgages based on valuations.

Now, you can apply your newly found knowledge and expertise to taking on leads they cannot convert in to sales – all you have to do is go to where the leads are.

Many investors successfully generate their own leads from a range of methods.

This is an opportunity for you because if those leads do not fall within their buying strategies, they are excess to requirements.

Chasing up excess leads

A good way of harvesting these leads is to offer a finder's fee to other investors for passing you leads that you convert in to sales.

Don't act condescending to these investors. Many run profitable and extensive businesses and with experience gained over many years as property professionals. If you want their business, you need to act professionally and present yourself as an established investor with keen negotiation skills who completes deals. *(See Chapter 8 – Closing The Deal)*

The rule here is do as you would be done by – you would expect that if you provided someone with free leads that the very least they would do is give you a regular update on any progress and pays commissions promptly. Just think how irritating you would find chasing up someone up for progress reports and money if you were handing over free leads.

Marketing Your Property Business

If you want to make contact with other investors, it's important that your business does not operate in a vacuum. You need to network on and offline to find contacts. Here are some places to start add your resource list:

Property Networking Events

Lots of groups hold regular meetings for property investors up and down the country. One of the largest is the monthly Berkshire Property Meet (http://www.berkshirepropertymeet.com)

Online property forums

The web has stacks of sites for landlords and property investors.

Wealth Dragons has a specialist forum dedicated to lease options and creative deal structuring (http://www.wealthdragons/forum)

Two of the most active property forums are:

- Property System (http://www.property-system.com)
- Singing Pig (http://www.singingpig.co.uk)

The problem is often the quality of advice offered. Lots of people on forums are only too pleased to share advice, but although they are well meaning, some tips could land you in trouble with the taxman.

Offline advertising

Copywriting and design are the keys to effective advertising.

Writing copy that grabs attention in a few words with a call to action – a line that tells the reader what to do next like "Call this number now to sell your house fast" is an art.

How many calls you receive will directly relate to how your ad is written.

Leafleting **-** is a highly targeted and effective advertising method that the internet cannot match. Good headlines and 'tight' copy that directly involves the reader are key elements of leaflets – along with simple and effective calls-to-action.

Leafleting can be directed at districts as small as specific postcodes as a cost-effective tool to reach the motivated sellers who match your buying strategy.

Classified ads - Cast eye over the classifieds in your local paper and look for ads headlined 'Cash For Property' or 'Facing Repossession'.

Companies looking for below-market-value deals are seeking to generate a large number of leads from motivated sellers who want to sell their home fast.
Targeting is not as precise as leafleting and the composition of design of the ad may make a great difference to the response.

The cost of newspaper advertising depends on whether you have display or classified advertising, how much space you buy and the prominence your ad has in the paper.

Most papers will discount the cost if you buy a longer running ad – like six weeks or three months.

Benchmarking advertising - Effective advertising involves split testing§§§§ – this is running at least an A and a B ad with different headlines and copy. The principle is to tag the ad with a reference that you ask the caller to give when they respond to the call to action.

That way, over a period of time you can measure the effectiveness of one ad over another.

Bear in mind 'effectiveness' may relate to the area where the leaflet or ad campaign is run as well as the content of the ad.

Eventually, one ad will show a better return on investment than another, and you can drop the underperforming ad and then look at tweaking the best performing one to increase conversion rates.

Online marketing

Brand power has made the name Google synonymous with online advertising.

To understand how to advertise on Google, you need to understand how people search for information.

A whole industry has sprung up around manipulating Google keywords to push a web site higher up the search rankings.

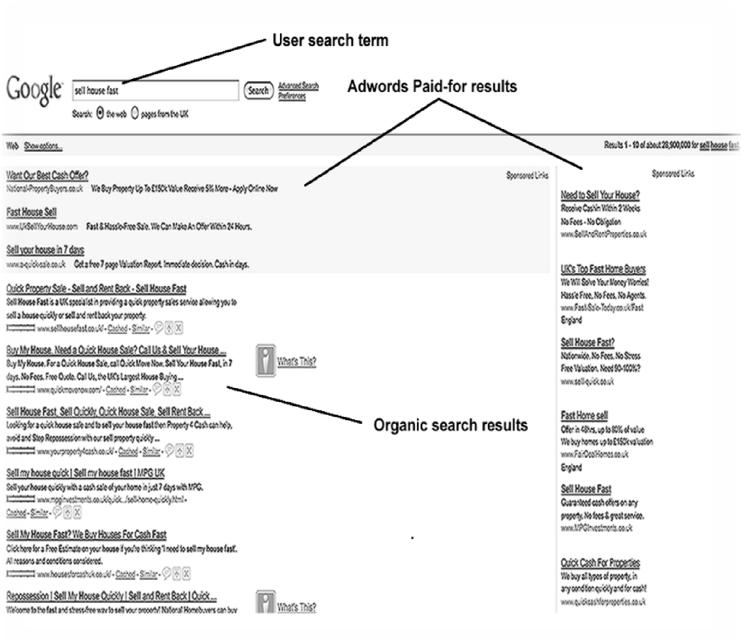
Investors should be aware of two online marketing strategies -

> ***Adwords***
>
> Adwords is a paid-for Google service for advertisers that turns up what Google describes as 'sponsored' links in the orange box at the top of the search results page and the small ads on the right side of the same page.
>
> The principle is writing a small classified ad with a call to action and then bid against other advertisers for the keywords to pay for displaying the ad on relevant pages when the keywords are searched by a user.
>
> For instance, if your keywords are 'sell house fast', 'sell property quick' or 'fast home sale', every time someone searched Google for information using those words, your ad would show providing your bid was one of the highest.
>
> This is a much-simplified explanation and Adwords is more sophisticated and allows better targeting, budgeting and other management tools.
>
> As with all advertising, investors need a cost-return analysis to show how much each lead and conversion costs in relation to the number of times the ad is shown.
>
> ***Search Engine Optimisation***
>
> Search engine optimisation (SEO) is a marketing strategy based around keywords in content on a web site.
>
> SEO is dubbed white, grey or black hat depending on how the web site tries to manipulate the Google search algorithm.

White is good, grey is so-so and black is bad and can lead to blacklisting your site.

The strategy tries to rank your web pages higher in Google organic searches than your competitors by the subtle use of keywords and publishing content on other sites with higher traffic that 'back link' to your site.

Organic searches are the results returned when a user types keywords in the Google search box.



GOOGLE GEOGRAPHY: Understanding the results returned from a keyword search for 'sell home fast'

Property professionals

Solicitors, mortgage brokers and estate agents always have clients on their books that need to sell quickly, are facing repossession or can't sell because chains break down.
Many will have arrangements with investors, but consider asking them to pass you leads. Brokers and estate agents may ask for a finder's fee.

Debt management agencies

Debt management businesses have many clients who have informal repayment arrangements with their creditors.

Unlike those under individual voluntary arrangements (IVA) or subject to bankruptcy, debt management clients generally still control their homes and other assets.

The aim of debt management is to keep their monthly outgoings as low as they can because they may face IVA or bankruptcy if they fall in to arrears.

Try discussing a deal with debt management agents. Let them add your property option strategy to their solutions for clients.

Taking The Lead

Listen to investors chatting and they will talk about hot and cold leads.

But just what makes a hot lead and if you have one, how do you know?

Experience says that only two or three in every hundred leads is 'hot', where the sellers have the pen ready when you walk in the door and just want to do the deal.

Cold leads are owners considering their options, and when you call them they will say they are 'shopping around' or something similar.

These make up about 25% of owners. Warm leads make up the rest – about 70% of all leads. These owners know they have a problem to face up to but may not have exhausted all their options.

The Lead Generation Game

The quickest way to gather property option leads is to buy them from companies or individuals who generate them as their main business.

Reputable lead generators will qualify the leads by asking a list of questions that will allow you to assess the property owner's motivation. The best candidates for property options are owners who do not want to consider a heavily discounted below-market-value deal or cannot consider this option due to lack of equity.

Stacking up the numbers

The more leads you can afford to put in the top of the funnel, the more deals that will dribble out the bottom.

A lot of results on dealing with bought leads are down to the investors negotiating skills (*See Chapter 8 – Closing The Deal*)

Wealth Dragons have come across many investors who have spent hundreds of pounds trying to generate business without success. Conversely, we know of investors who have spent less than £50 and closed deals with profits of tens of thousands.

Points to consider when buying leads

Below is a typical lead from the Wealth Dragons lead generation web site Network Property Investments that you can visit at http://www.networkpropertyinvestment.co.uk

Different lead providers have their own definitions for qualified leads and charge accordingly. Best advice is finding out exactly what you are buying and the cost before you commit yourself.

HOME PAGE ▶ **LEASE OPTION LEADS** LEAD ARCHIVE | DEAL ARCHIVE

Back to sale | Add to shopping Cart

Do you want a negotiation expert to convert this lead for you? Visit Deal Closer at www.deal-closer.co.uk.
If you need 100% No Money Down Finance, email to finance@networkpropertybuyers.co.uk for further details.

Reference ID :	24391
Enquiry date :	sale
WARRINGTON, Cheshire WA4-2, LEASE OPTION, 2-Bed Apart, JOB RELOCATION, OFF MARKET, LARGE LOFT SPACE, REF 24391	
Mr.	XXXX XXXXX
Email address :	XXXXXXXXXXXXXXXXXXXXXXXXXX
Contact number	
Home :	XXXXXXXXXXX
Work :	XXXXXXXXXXX
Mobile :	XXXXXXXXXXX
Address of property	
House / Flat number :	XXXXXXXXXXX
Street :	XXXXXXXXXXXXXXXXX
District	Grappenhall
Town :	Warrington
County :	Cheshire
Post Code :	WA4 - 2XX
Type Of Property :	Apartment
Number of bedrooms :	2
Number Of Bathrooms :	1
Number of separate toilets :	0
Number of reception rooms :	1
Garage:	none
Is there a garden?	None
Are there any nice or unique features of the property that may be of interest to the cash buyer? For example, fireplace, wood flooring, end of terrace, etc	Wood flooring throughout lounge and kitchen area with carpeted bedrooms. New redecorated bathroom and fantastic views over looks on the Manchester Ship canal to the front and no overlooked at the back. Also a top floor apartment with a large loft space. Includes off road parking and security entrance system.

The rule of thumb is an investor will pay more for better-qualified leads. Then compare overheads, a finder's fee may add up to 1 – 3% of a bought in or referred deal.

That might sound expensive but work out cost-effective against the time and cost involved in self-generated leads.

What is the general condition of your property?	Excellent
Is there anything you would like to add regarding the general condition of your property?	Redecorated throughout all rooms and in excellent condition
When was your property built approximately?	2004
Does your property have central heating?	Yes
Does your property have double glazing?	Yes
What is the structure of your property?	brick-built
Is your property ex-council or housing association?	No
Is your property in a block?	Yes
If it is in a block, are more than 50% of the flats privately owned	yes
If it is in a block, how many floors are there?	2
If it is in a block, on which floor is your property situated?	2
Is your property above shops that sell foods and drinks (e.g. restaurants, takeaways, etc)?	No
Is the property freehold or leasehold?	leasehold
If leasehold, how many years are there left?	not answered
Estimated value of property :	150000
Explain briefly how you arrived at this figure :	Estate agent valuation 2 months ago. 12 months ago the property was valued at £157000
Outstanding mortgage balance :	140000
What is the monthly achievable rental income for your property, if known? £	500

The good news is that our leads are even better qualified than what you see here – another page of detail is added and the whole package is just £25. This price and detailed qualification make these some of the best value for money leads available.

If you have doubts about your ability on closing the deal, Wealth Dragons can provide an expert negotiator and closer with years of experience converting hundreds of leads in to profitable deals to speak to the client on your behalf.

For more details of this service, visit our Deal Closer web site at http://www.dealcloser.co.uk.

As an example, one client bought a lead and asked Deal Closer to finalise the deal for £125 and completed a 30% below-market-deal with a £256 a month positive cash flow on a single bedroom flat in Hackney, London.

This is the last page of the qualification sheet from our web site.

achievable rental income for your property, if known? £	500
What's the reason for selling? :	Relocation due to work
How soon do you need to complete?	Less than one month
Do you wish to rent back the property?	No
If yes, how long do you wish to rent it back for?	Not applicable
Any loans secured on the property not already included in the mortgage balance?	No
Property currently on the market ?	No
If yes, how much is it on the market for?	
Has the price ever been reduced?	No
Based on the estimated value of your property of **£ 150000**, the most likely cash offer that you would receive from the buyer is **£ 105000**. Your cash buyer is ready to contact you to discuss this preliminary offer soon! However, we will need to ask you to confirm that you are serious about discussing this preliminary offer with this genuine buyer with **no obligation**.	
Are you able to confirm this?	No
If the answer is no, which of the three alternative offers that we have shown you would you b willing to consider? No, I would not consider any of the offers above, but I would like to discuss the possibility of selling my property without reducing the price using an instrument called Lease Option.	
Please provide further information you feel may be relevant for the cash buyer:	

Back to sale | Add to shopping Cart

Chapter 7

Structuring The Deal

In this chapter:

- ***5 rules for maximising profits***
- ***Solving other people's problems***
- ***Picking the right tool for the job***

As a property consultant, you may be a Good Samaritan but you are not a charity. Remember you are in business to make money, but if you can help someone in trouble along the way, then that's a bonus.

When considering a deal, you should focus on extracting potential profit.

Five Rules For Maximising Profits

Remember the variable in any property deal is the market value of the home.

An investor cannot influence the overall market, but can take precautions to protect against fluctuating prices.

1. Create instant intrinsic value by agreeing a below-market-value exercise price

2. Create more value by lengthening the option period. The longer the option period, the more headroom is available for the property price to rise.

3. Pay a notional premium to the owner – generally set at £1

4. Create cash flow by pulling in a tenant on a purchase option.

5. Have an exit strategy in mind

Solving Other People's Problems

OK. You have a good knowledge of the theory under the property option bonnet and know how to generate and qualify leads.

Now to put you on the road to becoming a complete property consultant, you need to know how to apply the theory to solve problems and structure deals.

In the end, for the owner everything comes down to money – or the lack of it.

They want to have their cake and eat it, in so much as they want top dollar for their property without facing up to their other financial woes.

You need to listen to the owner and empathise with their situation.

The top financial problems for homeowners

In no particular order of importance, these are the issues that crop up time after time: the property has

1. A mortgage and reasonable equity

2. A mortgage with little or no equity

3. A mortgage and is in negative equity

4. The owner needs cash to move on

5. No mortgage but needs equity release

Picking The Right Tool For The Job

Each financial problem has a property option solution. You know what you are looking for as an investor to maximise the profits from the deal.
After sitting down and chatting with the owner, you should know their driver for selling and what financial problems are preventing them from moving on.

Now, go to the property options toolkit and select the right tool for providing a solution to the deal for both parties.

Strategy 1 – Something or nothing

This strategy is for properties with reasonable equity but where the owner does not have enough equity to discount for a below-market-value deal or is unwilling giving up cash to make a BMV deal work.

With this strategy set the exercise price between the owner's outstanding mortgage amount and the current market value.

This creates a win/win as you are building in a profit for the owner and still have room for one yourself.

The owner must realise that he or she will only receive their cash when the investor exercises the option to purchase.

Approaching the seller

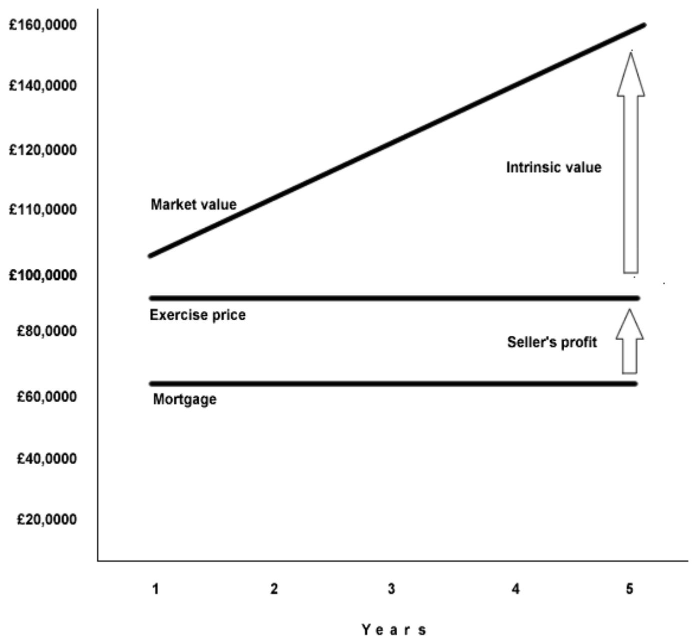
"If you sell your property today, you'll probably need to reduce the price at least once to attract any interest. That means that you are unlikely to get any money with the little equity in the property.

If you sign over the property to us with a lease option, you can move on quickly and if the option to buy is exercised, you will get a cash lump sum that you would not have if you sold your home on the open market today.

"If we don't exercise our option to buy by the end of the option period, you get the property back.

You will have benefitted from not paying the mortgage and how much do you think your property will be worth in 10 years?"

How it works – Looking at a deal in detail



This diagram shows how to set the exercise price for a property with a current value of £100,000 and a £65,000 mortgage.

The exercise price is set at £95,000, leaving the owner a potential £30,000 profit when the property is sold.

An intrinsic value of £5,000 is immediately built in for the investor and by taking a five-year option period; time is built in to allow the intrinsic value to increase in line with the home's market value.

How it works – a real life example

An owner had a house in Ilford, Essex. He needed to sell because he had bought a new house and wanted to move.

Due to falling house prices, the property would not shift and two mortgages were becoming a huge financial burden.

Despite equity in the property, the owner was not inclined to agree a below-market-value deal or walk away without any cash.

The property was valued at £200,000 with a £155,000 mortgage, costing £745 a month. The market rental was £950 per month. The owner accepted an offer of £175,000 over a seven-year option period.

A tenant was found within a week generating £205 month cash flow after costs. The owner stands to make £20,000 if the option to purchase is exercised in the seven-year period.

Strategy 2 – Owner walks away

This strategy is for properties with little or no equity. The exercise price is set to match the owner's outstanding mortgage.

In effect, the owner is washing this or her hands of the property and handing it to an investor. With a low intrinsic value at the start, investors should consider lengthening the option period to build a profit.

Also, discuss whether the owner should contribute towards costs to improve your cash flow.

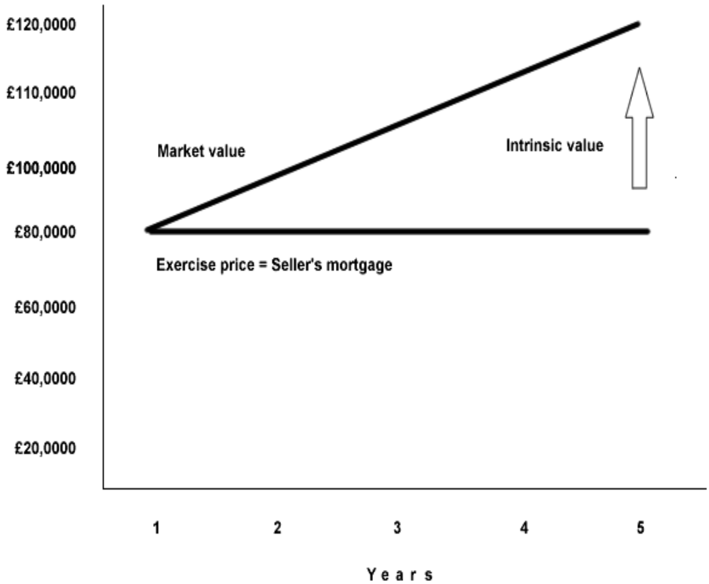
Approaching the seller

"Your property is a liability because you can't sell it because there is very little or negative equity. The longer you keep it, the longer the mortgage will drain your income.

"You can move on quickly by letting us take on the property and we might choose to buy the home in 10 years.

"The problem is the rent we can get for the property does not quite cover the mortgage, so we need a contribution from you to make up the shortfall of £200 a month. Although you will still pay £200 a month, your mortgage and loan payments drop by £800 and this gives you a chance to start afresh again."

How it works – Looking at a deal in detail



The diagram shows that the investor's profit comes from the increase it market value during the option period. Of course, if a tenant buyer is found, the premium paid also creates cash flow.

How it works – a real life example

An owner had a three bed terrace house in Motherwell valued at £75,000 with a mortgage of £58,000 and a secured loan of £17,000.

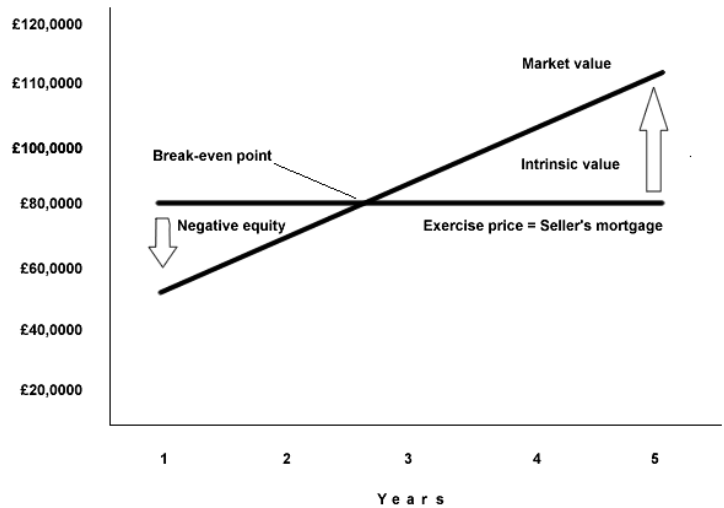
The owner accepted an offer of £75,000 over a 10-year option period. The monthly mortgage and loan payments added up to £536. The rental was £550 and the owner contributes £100 per month, giving us £114 per month cash flow.

In theory, the owner will not receive any cash out of the deal, but this is a case where you can play the Good Samaritan and at least refund the ongoing contribution the owner has made over the years.

Strategy 3 – Positives out of negative equity

Properties in negative equity should flag red lights for investors. The potential is there for a good profit, but good profits can bring higher risks.

First, the rent has to cover the mortgage and/or secured loan. Next, just because a property is in negative equity now does not mean it will stay in the doldrums when house prices pick up, especially if the owner has mismanaged his or her finances and you stop the borrowing.



Careful and considered uses of this strategy can make you stand out in the market among all the 'below market value predators' in your role as a property consultant.

How it works – Looking at a deal in detail

This diagram shows the investor has to play a property price waiting game. The exercise price is equal to the owner's mortgage and no intrinsic value is created at the start of the option period.

Eventually a tipping point comes along where the property moves from negative equity in to neutral equity and then the market price creates the intrinsic value.

Strategy 4 – Upfront cash

If the owner needs a cash lump sum to move on, but can't due to mortgage arrears or other debts.

Any cash the investor pays upfront is the option premium, and you will remember that one of our five focus points earlier in the chapter was keeping the premium down to £1.

If you feel the property has excellent potential for capital growth, then this option may be worth considering.

You need to run the return on investment test – any cash in the deal has to gain a superior return than investing the same amount of money somewhere else for the same time as the option period.

How it works – a real life example

An owner wanted to dispose of a three-bedroom end terrace house in Nottingham. The property was in good condition and valued at £100,000. The mortgage was £90,000 but £2,000 in arrears. The rental cash flow after costs was £150.

The owner agreed an exercise price of £90,000 after 10 years. The investment decision was based on receiving £150 per month rental profit totaling £18,000 over the 10 years.

That's an 800% return on the £2,000 invested plus any capital growth and premium option from a tenant buyer would be the icing on the cake.

Strategy 5 – Setting A Seller Up For Life

This is a popular strategy in the US for an owner who has no mortgage but wants an income. It's not strictly a property option deal, but still a useful tool.

You agree an exercise price that is close to the current full market value and the title is transferred to the investor, who becomes the legal owner of the property. No money changes hands, but the investor owes the former owner the agreed sale price of the property.

Approaching the seller

"I understand your property has no mortgage. You certainly don't want to give the property away at retirement to pay for care. I have a solution where you receive a cash lump sum and stay in the property rent free for as long as you wish. How does that sound to you?"

How it works – a real life example

An elderly seller has a home valued at £100,000 without any mortgage. The seller needs £20,000 cash and wants to stay in the house rent-free. The owner transfers the title to the investor.

The investor mortgages the property at 75% loan-to-value and releases £75,000 tax-free. After paying the seller's lump sum, the remaining £55,000 is banked and finances the monthly interest only mortgage repayments.

Depending on mortgage rates, this could pay the mortgage for between 10-15 years. If the owner wants to stay on for more than 15 years, undoubtedly the market value of the property will have increased to allow the release of further equity to allow the arrangement to continue.

Strategy 6 – Reducing Balance

This is a strategy for owners who have no mortgage and are unwilling to consider a substantial BMV deal. The owner does not live in the property and wants a regular income instead of a cash lump sum.

As an investor, put an option on the property. Put in a tenant and pay a percentage of the rent to the owner as his or her income. Don't forget to agree that any payments made to the seller are set off against the exercise price.

How it works – a real life example

A seller has an empty property with no mortgage. The market value is £100,000.

The investor takes an option on the property with an exercise price of £100,000 over a 10-year renewable term. The property is then let for £500 per month by the investor acting as the seller's agent.

The agreement specifies 80% of the rent is paid to the seller each month. Each time £400 is paid to the seller, the amount is debited against the exercise price of the property.

After five years, that adds up to £4,800 per year x 5, or £24,000. If the investor proceeds with the option, the purchase price is £100,000 (Exercise price) less £24,000 (Total payment to seller) or £76,000.

The benefit to the seller is they receive the full market value as the exercise price while receiving cash flow every month.

Chapter 8

Closing the Deal

In this chapter:

- ***9 negotiating basics***
- ***Power selling with best advice***
- ***The negotiator's survival kit***

For a lot of property people, the saying goes that a lead for a deal is only as good as the person negotiating with the seller however well it's qualified.

The skills of negotiation are pretty much the same for property options as below market value deals.

The main difference is the stance you take.

For a below market value deal, an investor is a white knight with a bag of cash ready to do the deal, but at a substantial discount on the property's market value.

Property options are different.

The investor is a consultant – a specialist in a specific area rather than a general investor who ducks and dives making money from buy-to-let, below-market-value properties and other projects.

Remember the first rule = however little you think you know about property options, you are likely to know a lot more on the subject than the owner you are speaking to.

After all, they are looking to you to pull them out of the financial hole they are trapped in.

Nine Negotiating Basics

The following techniques are powerful negotiating tools that can quickly and easily help you take a position of control and authority in a discussion.

1. Make it easy for the owner to like you

Sometimes you will win a deal against competition simply because the owner likes you more than the rest and just prefers to do business with you.

The way to go is obvious – honesty is always the best policy and always have a smile and an 'open' body, that means your body language is sincere and friendly.

Some sales people even smile on the phone or swear by standing up on a call helps.

This might be that this makes them feel better rather than influencing the owner, but this improved state of mind will influence your voice, breathing, and speech.

2. Let the owner do the talking

Listen to what the owner is saying.

As he or she speaks, they will give verbal and non-verbal signals about their thinking over the deal and you can notice points and empathise to build a rapport.

Remember if you are doing all the talking, you are the one giving the owner signals about your strategy and approach.

Don't forget if you have a script, screw it up and throw it out so you don't sound insincere and robotic.

You are giving the owner a personal service and need to show you are interested and want to help if you can.

3. Conceal your needs

Don't forget that you are negotiating a business deal and focus on your key objectives *(See Five Rules for Maximising Profits – Chapter 7).*

Don't show the owner how much you want the deal and if you cannot come somewhere close to your objectives, and then walk away.

Deals are like buses – another one always comes along eventually. The owner needs you and your financial expertise more than you need him or her.

If you do walk away, always leave the door open for the owner to come back knocking if they want.

4. Dig out the facts

Boost your bargaining power by having data about the local area and property market at your fingertips.

Sit down and undertake some comprehensive research before you meet the owner. *(See Chapter 10 – 12 Steps To A Successful Property Options Deal – Step 1Taking the Lead)*

5. Don't blurt out your bottom line

Whatever the temptation, try to get a feel for what the owner is looking for out of a deal.

Managing expectations is part of negotiating. The owner's idea of what an investor may pay is often well out of line with reasonable expectation and market prices.

If the seller asks you outright for a price, you need to judge whether to make a pitch or deflect the question by asking what they would consider as an acceptable offer. If it's the same or less than what you had in mind, then go with it!

6. Learn how to handle objections

This goes back to stage two – let the owner do the talking. Logic says he or she would not invite and investor round to discuss financial problems if there was no motivation to do so.

It follows any objections stem from misunderstanding the nature of the deal or other concerns – like the owner may feel frustrated that they cannot get the deal they want.

Ask them to voice their concerns.

Paint a picture of their realistic financial situation. They have an option and it's up to them which way to go – the one hand they have your offer and on the other probably repossession and/or bankruptcy.

7. Stay in control

If you are a confident negotiator, you will know that letting the owner talk about their problems, life experience or favourite football team is all rapport building.

The owner may think they are in control, but your superior expertise and the fact the owner needs you only proves the real control of the deal lies with you.

Whoever is doing all the talking is the one revealing their needs and insecurity.

8. Rein in the emotions

You certainly don't want to give away your emotions – nor do you want to play a deadpan poke face. Try to keep the negotiations friendly but businesslike.

9. Buyer's remorse

Don't let the owner make a quick decision they may live to regret and well change their mind about. As we keep saying, manage expectations and timescale and don't make unrealistic or impossible promises.

Power Selling With Best Advice

This technique is the secret behind stepping up from a sales role to a trusted advisor.

Consultant Advisory Selling (CAS) is a change in role you need to adopt – the change is self-explanatory, you 'consult and advise' rather than sell.

A good example is shopping for medicine.

You can go in to the supermarket and help yourself from the shelves and you receive no advice.

You're just a customer and the supermarket is doing what it does best – selling to you.

Now go to a pharmacy and ask what is the best treatment for your ailment and the pharmacist will ask you certain questions about your symptoms and medical history before recommending what he considers the best solution to your problem.

You have consulted an expert who has given you best advice.

If necessary, the pharmacist would rather see you walk out without having made a sale rather than put your health at risk.

Asking the right questions

Consultants always qualify their lead – they have a list of questions, like the mortgage broker and his fact find that profiles the client's needs and helps give the best advice.

Some questions you might want to consider are:

- How can I help you?

  This is a lead in to the client's problem.

- Why have you come to a company like ours?

  Translate as what is your motivation

- What can you describe your financial circumstances?

  The 'fact find' profile so you can select the right strategy

- What solution are you looking for?

  Probe for some indication of the client's desired outcome

- If I could do this…then when you consider concluding the deal?

  Stress to give best advice you must come back with figures

Win/Win is the best result

Yes, you want to make a profit, but many owners are out there ready and willing to do a deal. The best result is an agreement where you and the owner both negotiate a solution that suits you both.

The best deals complete because both sides feel they are getting their needs fulfilled and some respect from the other guy.

If you leave the owner with the perception they have got what they wanted, the deal will go through a lot smoother than one where the owner has a bad feeling about the result. Don't forget you could both be working together for a good few years if you agree a deal.

The Negotiators Survival Kit

The Wealth Dragons have researched advanced negotiating techniques over the past few years after speaking with more than 3,000 motivated sellers.

This survival kit covers overcoming objections and closing deals under lots of different circumstances.

To find out more, email John Lee on john@wealthdragons.co.uk

Chapter 9

Advanced Strategies

In this chapter:

- ***Landing the deal of a lifetime***
- ***9 outside the box exit routes***
- ***Pick 'n' mix investment solutions***

Stop and think for a moment – how many investment leads have you thrown away in the past because you did not think they were viable?

The answer is bound to be a lot.

Now think how much this manual is worth to you – it's a key to a door that has untold riches on the other side.

Now you have the skills and tools at your disposal to turn a good percentage of those wasted leads in to profitable investment deals with property options.

This chapter looks at how to pick 'n' mix different option solutions to make great deals.

Landing the deal of a lifetime

This will happen to very few investors – but nevertheless, deals like this do happen.

Wealth Dragons had a student, Chris, who worked for a property company sourcing properties and land.

He sourced a deal for some barren land and paid a £5,000 option fee.

The company applied for planning permission for the land, which was granted. The option was sold on to a developer who paid £8 million.

In two years, the development was worth £33 million.

The moral of the story is property options are a fantastic money making tool for investors that can make the proverbial silk purse from a sow's ear.

9 Outside The Box Exit Routes

Property options are not pie in the sky, but proven methods the Wealth Dragons have used profitably many times.

These are real-life examples of deals we have completed:

1. *Building blocks*

A client is keen to close a deal but the property needs a good £10,000 spent on repairs before it's anywhere near a good enough standard to rent or sell.

This is where you need to look at joint ventures with local builders.

The deal is straightforward – ask the builder to fix the property at their expense, after all they can buy the raw materials at cost and are only spending out on labour.

In return offer a percentage of any rent received and proceeds of the future sale profits.

Many builders are only too pleased to take up the offer – especially if they are finding work hard to come by or do not have the cash to fund the projects out of their own pockets.

2. *Mortgage wrapping*

This strategy allows an investor to sell a property at full market value regardless of the market conditions.

Two reasons why first time buyers and others don't buy are:

1. Banks and building societies are too strict on mortgage lending criteria

2. Finding a substantial deposit it beyond their financial means

First time buyers are often the best candidates for this deal.

Helping first time buyers

The principle is simple. If a buyer cannot find a mortgage, then you use the sandwich option strategy *(See Chapter 4 Power of Property Options in Action)*

This allows the tenant buyer to take on a mortgage provided by the owner or investor. The rent premium builds a deposit on the tenant's behalf until the time when a mortgage becomes available. Providing the tenant buyer keeps paying the rent, they have a home for as long as they wish.

Raising a deposit

If a buyer can raise a mortgage but does not have enough deposit, then an investor can still complete a deal.

For example, an investor has a property worth £100,000 with an exercise option of £80,000. This gives the investor a £20,000 intrinsic value.

The investor sells the property at market value to the buyer who has a 90% loan to value mortgage and is £10,000 short of cash.

You 'gift' the £10,000 to the buyer and still make a £10,000 profit. Everyone concerned comes out a winner.

3. *Hammer home options at auctions*

Auctions are dangerous places for amateurs. Many prospective investors go to auctions because they don't know how to find below market value leads or use options and expect to pick up a property bargain.

If you stop and consider, a property auction is a great place to network because motivated buyers are drawn like flies to a honey pot.

If you have property to sell but the market is not favourable, as long as your intrinsic value exceeds the price the buyer is willing to pay, you can dispose of the property and make a profit.

This is another win/win because the buyer is undoubtedly picking up a better deal than he or she would have in the auction room.

4. *Don't bypass buy-to-let*

If an option deal is generating good buy-to-let profits and the intrinsic value is appreciating, then there is no need to grant a sandwich or purchase option to a third party.

Options are strategies to offer different solutions to owners and buyers in various financial circumstances.

No rule says that because you have an option to purchase a property that you have to have to pass an option on to someone else.

If you have a good property that produces good cash flow as a buy-to-let then keep it to yourself.

You can always grant an option at a later date.

5. *Flip don't flop*

A property option is a commodity that an investor can trade – just like an option on coffee, pork bellies or widgets.

Assigning your control of a deal to another investor for a fee is called 'flipping'. Some investors and property companies make their living flipping ready-made deals.

Valuing a flip deal

The value of an option depends on three factors:

- Intrinsic value – the difference between the exercise price and market value at any given time
- Time value – the length of the option period. The shorter the period, the less time the market value has to increase.
- Cash flow – the cash value of any premium and rental profit

Other investors might also consider location, type of property and the current state of the property market.

If you have a five-year option with an intrinsic value of £30,000 and a net cash flow of £10,000 over the five years, in theory the option is worth a maximum £40,000, providing the property is permanently let and minimal repairs are carried out.

An investor might consider paying £10,000 to buy you out of the deal, exercise the option and sell the property to take the intrinsic value of £30,000 less the £10,000 option fee as profit.

Conversely, if the deal has no current intrinsic value but returns £200 a month rental profit, a five-year option could give a maximum £12,000.

Selling this option for £2,000 gives you an instant cash return while your investor buyer picks up the rental profit over the option period plus any further capital appreciation.

Building your hot list

Like converting leads, flipping is a numbers game – the more investor contacts you have who are seeking packaged deals, the more likely you are to sell on property options and make a healthy profit. Start building a hot list of investors who are interested in taking on option deals. Then, you can package ready made deals as an exit strategy for some of your option deals.

6. *Throw a lifeline to drowning landlords*

Lots of landlords are struggling to make ends meet with the traditional buy-to-let business model because they have over-exposed themselves to borrowing to buy property.

Others cannot find tenants because reluctant landlords who have to buy to move are squeezing the market by creating an over supply of rental properties in some areas that drives down rental returns.

Property options give you the tools to joint venture with these landlords by taking over problem properties. For instance, you could use a property option linked with a house in multiple occupation solution *(See 'Go forth and Multiply!' later in this section)* to create a more optimal cash flow than renting on a standard assured shorthold tenancy agreement with a tenant.

7. *Switching your option to a BMV deal*

On signing the option, a property is worth £110,000 and you have agreed a five-year option period with an exercise price of £100,000.

After four years, the market value has increased to £150,000 – if you exercise your option you have a 33% below market value deal.

How does this work? Well, owner has a house valued at £110,000, which is the same as the mortgage owed. You agree a five-year option for £100,000 exercise price.

After four years, you exercise the option and take out a 75% loan to value buy-to-let mortgage of £112,500.

You pay off the mortgage and stick £12,500 in your pocket as a tax-free cash back.

8. *Go forth and multiply!*

Changing properties from a standard letting property to a house of multiple occupation (HMO) is a great way to maximise your rental potential.

Instead of one tenant paying £500 or so a month, the house is divided in to individual rooms sharing communal facilities that are rented out under their own agreements.

For example, a four-bedroom house with two reception and two bathrooms and an en suite can easily become five letting rooms.

Instead of charging about £1,000 month rent, charge £75 a room a week – do the sums - a year at £1,000 per month is £12,000, five room s at £75 a week is 5 x 52 x £75 = £19,500 a year.
Converting to an HMO is not as simple as clicking your fingers – many local councils have the concept tied up tight in red tape to stop landlords converting property to HMOs.

Unfortunately, this manual does not have the space to go in to all the rules and regulations regarding HMOs, so let's leave it at making you aware of the additional option.

9. *Tenant buyers and property options*

Tenant buyers have had their fair share of mentions throughout this guide.

A tenant buyer is someone granted a purchase option by the investor while they live and rent the property themselves.

Remember a tenant buyer does not have to be a sandwich option, you could already own a property and grant the tenant and option to buy.

Granting options gives tenants incentives to look after your property and pay the rent.

Pick 'N' Mix Investment Solutions

Now Wealth Dragons has completed almost 300 property deals, a system has evolved out of our business that empowers an investor to take control and make money out of property.

The process is a toolkit of cash and option alternatives that can be used standalone or in conjunction with another solution.

These solutions are not commandments but guidelines to allow investors to think flexibly about their property deals and the best approach to take under the circumstances presented.

Just stopping a moment to use some imagination, investors can structure deals literally hundreds of ways.

Chapter 10

Twelve Steps To A Successful Option Deal

In this chapter:

- ***Your 12 step action plan***
- ***Sandwich options***
- ***Exercising your option***

As a property investor offering solutions to homeowners in financial hardship, you need to know your business inside out.

All the knowledge and skills to make your property options consultancy work are laid out in the previous chapters.

Now, this section takes the information and walks through handling a deal from receiving the lead to completing the property option transaction.

Your 12 Step Action Plan

Step 1 – Taking The Lead

Unless you are very familiar with the area, don't pick up the phone straight away to speak to the owner.

Check online to see if the property is on the market – Rightmove (http://www.rightmove.co.uk) is a good place to start.

You can find out house prices from Mouseprice (http://www.mouseprice.com), which also lists how long the property has been on the market and whether the price has changed.

More local information about the district – like crime, schools, amenities etc – is on UpMyStreet (http://www.upmystreet.co.uk).

Don't forget to check out the Land Registry where you can buy a report on the property for £4.00. (http://www.landregistry.gov.uk)

Besides the modestly priced Land Registry report, the other sites are free.

Searching the postcode on Google is worth considering as well – it will bring up general information about the area.

Step 2 – Qualifying the lead

If you have bought a lead, all this work has probably already been done, but you still need to speak with the owner to build a rapport and just chat through the information to satisfy yourself that everything is correct and maybe to expand some points.

From this you can consider if this is a property you want to buy, and if so, what strategy you intend to use.

Remember, the objective of this call is to introduce you as a property consultant who can resolve the owner's financial problems.

You need to confirm information to enable you to make an informed business decision about the deal.

Do not make an offer or indicate an estimate at this stage.

If the owner has received an offer, you need to know how much, and what his or her opinion is of the proposal.

Step 3 – Put a deal together

Using your research and qualifying information, run the numbers for the deal and see if they work for you and the owner.

Referring to the property option strategies in *Chapter 8 Closing the Deal*, work out the best deal for you and the owner and make notes why you consider these strategies as solutions.

Step 4 - Negotiation

This is the key to the deal – putting the offer to the owner together with an explanation of how the deal works.

This is the point where you have to start managing expectations without losing rapport.

The owner may be underwhelmed with your offer, even if it is the best he or she has received.

You don't want an instant decision – but be prepared to wait some weeks and to explain the process in detail several times to some owners.

Step 5 – Refusal or acceptance

At some time, the owner will either accept or decline your offer.

If the owner declines, ask why to make sure he or she understands the deal.

If the owner accepts the offer, then you need to instruct your solicitor to draft the contract and other agreements.

Some investors request the owner signs a purchase option agreement that will be replaced by a full agreement.

Many also ask the owner to pay some sort of deposit at this stage to stop them pulling out of the deal.

Step 6 – Due diligence on owner

While the solicitor is drafting the documents, confirm the owner's financial circumstances by asking them to give you original and up-to-date mortgage and loan statements, including the outstanding balances.

Step 7 – Documents ready

Once the agreements are available from the solicitor, sit down and go through each clause with the owner.

If you and the owner have a good rapport, you may find the owner will not consult a solicitor.

Step 8 – Owner signs documents

If the owner is ready to proceed, he or she should sign and date the documents.

Do not sign the documents yourself. You must wait for the results of any searches to make confirm ownership and to satisfy any other issues that may have arisen.

Step 9 – Sorting out third parties

Make sure the owner gets a direct debit mandate form for you to pay the mortgage and written permission to let from the mortgage lender.

Step 10 – Search and sign

If the search results have all come back with satisfactory results, sign the documentation.

Step 11 – Register documents

Your solicitor should lodge the signed documents with the Land Registry. Make sure you have paid the premium and have proof of payment. The easiest way is to make a bank transfer so the transaction is recorded.

Step 12 – Deal completed

The property is now under your control and the owner should leave the property on an agreed date.

Filling The Sandwich Option

This is where the deal really starts coming together to provide a potential profit.

Once you control the property and have permission to let from the mortgage lender via the owner, start phase B of your property option plan.

The idea is you have control of the property and the owner moves out. You then set up a purchase option agreement with a tenant-buyer that allows them to rent the property with the aim of buying outright.

Remember – only the owner can enter in to an agreement with a tenant, so you act as managing agent (*See the section Managing Your Investment in Chapter 5*)

Spreading the risk

The sandwich option has some risk – the tenant may fall in to rent arrears or fails to complete the purchase after exercising their option.

Insert a clause in to the tenant's option agreement that voids the contract if the terms of the tenancy agreement are breached or the tenant fails to pay the rent.

This leaves the way open to evict the tenant and to look for a new tenant buyer – and of course, you collect a premium from them to ease your cash flow

The other problem is exercising your option to buy at the same time as the tenant – bearing in mind the tenant's mortgage could be withdrawn or the deal may fall through at any time leaving you obligated to buy the property without an exit route.

One way round this is a conditional contract that is triggered when the tenant has a mortgage offer and pays a non-refundable deposit. Generally, the deposit is set at 10% of the purchase price. This does not solve the problem, but at least compensates and off sets some of the finance involved.

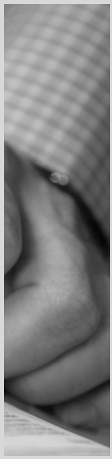
Exercising Your Purchase Option

If you decide to exercise your right to buy, a notice needs serving on the owner.

Over a long period – say 5 or 10 years – you may have lost contact with the owner, which is why a lasting power of attorney is set up on completion of the deal (*See Empowering Your Attorney in Chapter 5*)

Before exercising the right, don't forget to repeat the searches to ensure you still want to proceed with the purchase.

on



Chapter 11

Sample Property Option Documents

In this chapter:

- ***Purchase Option Agreement***
- ***Option Agreement***
- ***Option Notice***
- ***Management Agreement***

Reading through these documents will give you some idea of how simple and straightforward it is to set up a property option deal.

Just a word of warning, these documents and their contents comply with the law at the time of going to press, but sometimes, legal processes are subject to change at short notice.

Investors are welcome to base their own property option documents on these templates but should ask a solicitor to check them through before implementing any action based up on them.

DATED : 20

[ ] (1)

[ ](2)

OPTION AGREEMENT
Re: [ ]

Chelmsford Office
Bervale House,
35-37 Moulsham Street,
Chelmsford,
Essex. CM2 0HY
Central Switchboard: 01245 216050
Central Fax: 01245 280620
Email: Info@AlexanderLawyersLLP.com

THIS AGREEMENT is made the day of 2009
B E T W E E N:

(A) "the Sellers": the individuals and/or companies specified in the First Schedule hereto

(B) “the Buyers” [ ]

WHEREBY IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

In this Agreement the following expressions shall unless the context otherwise require have the following meanings:

1:1 "the Expiry Date" means the date specified in the Second Schedule hereto

1:2 "the General Conditions" means the Standard Conditions of Sale (Fourth Edition)

1:3 "the Option" means the option to purchase the Property, which is exercisable by the Buyers in the manner described in Clause 3 hereof

1:4 “the Option Price” means the sum specified as the Option Price in the Second Schedule hereto

1:5 "the Option Notice" means the notice served by the Buyers pursuant to Clause 3 hereof and in the form annexed hereto (Annex 1)

1:6 "the Property" means the property described in the Third Schedule hereto

1:7 "the Purchase Price" means the sum specified as the Purchase Price in the Second Schedule hereto

1:8 "the Title" means the title number specified in the Third Schedule hereto

1:9 "VAT" means Value Added Tax or any equivalent tax which may at any time during the currency of this Agreement be imposed in substitution therefore or in addition thereto

1:10 “the Defect” means one or more of the following:-

(i) an adverse search result

(ii) an adverse survey result

which in either case would prevent the Buyers from obtaining the maximum mortgage advance possible in respect of the property in question and/or would or may result in unforeseen financial expenditure in respect of the property in question and/or would have the effect that a prudent purchaser of the property in question would be advised by an experienced residential conveyancer not to proceed to purchase the property in question and/or to renegotiate the purchase price in respect thereof and for the purposes of this clause “the Buyers” shall include any person intending to purchase the Property from the Buyer

1:11 “the Defect Period” means the period commencing upon the date of service of the Option Notice and ending twenty-one days after (but not including) such date

1:12 words importing one gender shall be construed as importing any other gender

1:13 words importing the singular shall be construed as importing the plural and vice versa

1:14 where any party comprises more than one person the obligations and liabilities of that party under this Agreement shall be the joint and several obligations and liabilities of those persons

1:15 the clause headings do not form part of this Agreement and shall not be taken into account in its construction or interpretation.

2. RECITALS

The Sellers have agreed in consideration of the Option Price paid by the Buyers to the Sellers (the receipt whereof the Sellers hereby acknowledge) to grant the Buyers the Option subject to the terms and conditions set out in this Agreement

3. AGREEMENT

3:1 Conditional upon the Buyers serving the Option Notice upon the Sellers at any time before the Expiry Date the Sellers shall sell and the Buyers shall purchase the Property for the title already deduced free from encumbrances at the Purchase Price provided that :-

3:1:1 At any time during the Defect Period the Buyer shall be entitled to serve notice in writing upon the Sellers specifying that the Property is subject to a Defect (such notice to specify in reasonable detail the nature of the Defect) and upon service of such notice the Contract created by service of the Option Notice shall be deemed rescinded and/or null and void

3:2 For the avoidance of doubt the Buyers shall be entitled to assign or otherwise deal with the benefit of this Agreement and the Seller shall in the event that the Option Notice is served transfer the Property to the Buyers or as they shall direct

4. COMPLETION

The date for completion of the sale pursuant to the exercise of the Option shall be the earlier of 28 days after (but not including) the date of service of the Option Notice upon the Sellers provided that if such date shall not be a working day then the date for completion shall be the first working day after such date or the date specified in the Option Notice

5. DEPOSIT

No deposit shall be payable (for the avoidance of doubt) to the intent that the option price shall be deemed to be the normal deposit payable and hence shall be treated as such on completion and accordingly deducted from amounts due and payable upon completion.

6. CAPACITY

The Sellers will transfer the Property with full title guarantee.

7. MATTERS AFFECTING THE PROPERTY

The Property shall be sold:-

7:1 Subject to all covenants rights declarations or other matters specified in the Registers of the Title

7:2 Subject to all Local Land Charges (if any) and all resolutions restrictions requirements orders or notices (if any) and all resolutions restrictions requirements orders or notices (if any) of any local or other authority and all restrictions charges regulations designations agreements or liabilities affecting it by reason of any legislation or scheme

7:3 Subject to all matters revealed or which might reasonably be expected to be revealed by searches or enquiries which a prudent purchaser ought to make of any authority

8. TITLE

Title to the Property has been deduced in accordance with Section 110 of the Land Registration Act 1925 prior to the signing of this Deed and the Buyers shall not be entitled to raise any requisition on or objection to it otherwise than in respect of matters arising or disclosed after the date of this Deed and/or arising out of the usual purchasers searches made shortly prior to completion

9. INCORPORATION OF THE GENERAL CONDITIONS

Upon exercise of the Option the General Conditions will be incorporated in this agreement so far as they:-

9:1 apply to the sale by private treaty

9:2 are not inconsistent with the other clauses in this agreement

9:3 have not been modified or excluded by any of the other clauses in this agreement.

10. VAT

Any obligation to pay money unless otherwise stated refers to a sum exclusive of VAT and any VAT charged on it is payable in addition and at the time of payment the payee shall provide the payer with a proper VAT invoice

11. MANAGEMENT OF THE PROPERTY

The Sellers (save with the consent of the Buyer such consent not to be unreasonably withheld or delayed) shall not:-

11.1 grant or agree or suffer the grant of any further lease underlease tenancy or occupational licence formal or informal licence rights of occupation or other third party rights whatsoever relating to all or any part of the Property

11.2 transfer mortgage charge or otherwise enter into any disposition of the Property

12. REGISTRATION

12.1 The Sellers hereby consent to the Buyers registering an Agreed Notice at H.M Land Registry against the Title in the following terms:-

“Option Agreement dated in favour of

12.2 In view of the provisions of clause 11.2 above the parties hereto hereby apply to the Chief Land Registrar to enter a restriction in the Proprietorship Register of the title in the following form:-

"No disposition of the registered estate by the proprietor of the registered estate is to be registered without a certificate signed by of by their conveyancer that the provisions of clause 11 of an Option Agreement dated [ ] have been complied with"

13. GENERAL PROVISIONS

13:1 No representation warranty or condition either collaterally or directly or indirectly shall be made or implied howsoever arising either as to the state or condition of the Property which shall be sold (if the Option is validly exercised) in its existing condition

13:2 This Agreement will constitute the entire Contract between the parties and may only be varied or modified (whether by way of collateral contract or otherwise) in writing under the hand of the parties or their Solicitors

13:3 The Buyers acknowledge that they have not entered into this Agreement in reliance wholly or partly on any statement or representation made to them other than such (if any) as has been given by the Seller's Solicitors in any written reply to any enquiry made by or on behalf of the Buyers and/or contained in any correspondence between the solicitors for the Sellers and the Buyers relating thereto

13:4 Upon the Option being validly exercised the Property shall be sold subject to all matters which are by Section 70 of the Land Registration Act 1925 declared to be overriding interests

13:5 The terms and conditions of this Agreement shall not be deemed to merge on completion with the transfer of the Property but shall remain in full force and effect and binding upon the parties hereto notwithstanding that completion shall have taken place

13:6 To comply as far as is necessary with the provisions of the Law of Property (Miscellaneous Provisions) Act 1989 the Sellers appoint the Buyers their attorney for the purpose only of signing the Option Notice on behalf of the Sellers to the intent that the Option Notice shall be signed by both parties and comply with Section 2

14. SERVICE OF NOTICES

For the avoidance of any doubt it is hereby declared that any notice to be served upon the Sellers (including the Option Notice) may be validly given to and served on one of the Sellers individually

15. RIGHTS OF THIRD PARTIES

A person who is not a party to this Agreement will not have any rights under or in connection with it by virtue of the Contract (Rights of Third Parties) Act 1999

16. POWER OF ATTORNEY

As security for the Sellers performance of their obligations under this Agreement the Sellers hereby appoint   of
("the Attorney") to be their attorney to do the things and execute the documents hereinafter specified

16.1 The Attorney may receive from the Buyer the purchase price and all interest which becomes due in respect of it and give a receipt for it

16.2 The Attorney may in the Sellers name as their act and deed sign and deliver all necessary transfers of the Property to the Buyers or as they shall direct

16.3 The Attorney may execute and do all other documents and acts which the Attorney considers necessary or proper for or in connection with the transfer of the Property to the Buyers or as they direct

17. CONFIDENTIALITY

This Agreement and the terms thereof shall be confidential to the parties both before and after completion and except:-

17:1 with the authority of the other; or

17:2 so far as may be necessary for the proper performance of their obligations hereunder; or

17:3 as required by law or any relevant stock exchange ordered to do so by a court of competent jurisdiction H M Land Registry the Inland Revenue or Commissioners for Customs & Excise

neither party shall make or authorise the making of any announcement or publication concerning this agreement or any of its terms (either in whole or in part) nor any comment or statement relating thereto without the prior written consent of the other as to the form and content of any such announcement publication comment or statement

IN WITNESS whereof the parties hereto have executed and delivered this Agreement as a deed in all cases the day and year first before written.

THE FIRST SCHEDULE

The Sellers

THE SECOND SCHEDULE

The Buyers

the Expiry Date:

the Option Price:

the Purchase Price:

THE THIRD SCHEDULE
The Properties

ALL that [freehold] [leasehold] property shortly described below and registered at the Land Registry under title number specified below

Address
Title Number

SIGNED as a Deed by the said)
[ ])
in the presence of:-)

SIGNED as a Deed by the said)
[ ])
in the presence of:-)

ANNEX 1
OPTION NOTICE

TO: [Seller]

Re: [Property]

TAKE NOTICE that pursuant to clause 3 of an Option Agreement dated 2009 and made between inter alia Yourself (1) Ourself (2) WE HEREBY EXERCISE our option to purchase the above property or properties at the price referred to in clause 1.7 of the said Agreement.

Completion Date shall be the day of 20] [28 days after (but not including) the date hereof]

NAME AND ADDRESS
OF BUYER(S)

Countersignature

for and on behalf of the Seller

DATED: ______________________________ 20

[ ] (1)

-and-

[ ] (2)

MANAGEMENT AGREEMENT

Re:

Chelmsford Office
Bervale House,
35-37 Moulsham Street,
Chelmsford,
Essex. CM2 0HY

Central Switchboard: 01245 216050
Central Fax: 01245 280620

Email: Info@AlexanderLawyersLLP.com

MANAGEMENT AGREEMENT

THIS AGREEMENT is made on the day of 2009

BETWEEN:

(1) The individual(s) specified in the First Schedule hereto ("The Owners"); and

(2)
("The Manager").

1. DEFINITIONS

In this Agreement unless the content otherwise requires the following expressions shall have the following meanings:

"*The Effective Date*" means the date hereof

"*Insured Risks*" means the risks insured against being loss or damage by fire (including lightning and thunderbolt) storm tempest explosion aircraft (and things dropped therefrom) and aerial devices and impact civil commotion floods burst pipes and such other risks or perils as the Owners shall time to time determine but always including Architects and Surveyors fees VAT three years loss of rent hereunder and third party and property owners liability risks

"*Management*" means collection of all rental income from the property, attending to all routine maintenance and repairs (other than those arising out of insured risks or compliance with statutory requirements) and where possible to ensure that the Property is tenanted with formal shorthold tenancy agreements in place in respect thereof.

"*Monthly Payment*" means the total monthly mortgage repayments due for the Property.

"*The Property*" means the property specified in Schedule 2 hereto

"The Option Agreement" means an Option Agreement bearing even date herewith and made between the same parties as are parties to this Agreement

2. TERMS AGREED

2.1 Appointment

The Company hereby appoints the Manager to be and the Manager hereby agrees to act as manager of the Property. This appointment shall take effect from the Effective Date

2.2 Duties

2.2.1 During the continuance of its appointment the Manager shall :-

2.2.1.1 Pay to the Owners the Monthly Payment in arrears on the last working day of each calendar month such payment to be paid direct to the mortgagee for and on behalf of the Owners

2.2.1.2 Attend to management of the Property.

2.2.1.3 Keep the Owners informed of relevant matters affecting the Property

2.2.2 During the continuance of this Agreement the Owners shall: -

2.2.2.1 To insure or cause to be insured the Property for the Insured Risks

2.2.2.2 Be responsible for advising the Manager of any changes to the amount of the monthly payments payable to the Mortgagee and to the intent that if any shortfall arises as a result of the Owners failure to advise the Manager of any such changes their liability for payment of any shortfall shall rest with the Owners

2.2.2.3 Forward any monies received direct by the Owners from tenants of the Property after the date hereof immediately to the Manager

2.2.2.4 Provide all information, which the Manager shall reasonably require.

2.3 Fees

Subject to payment to the Owners of the Monthly Payment the Manager shall be entitled to retain all rents payable by the tenants of the Property in exchange for carrying out the duties defined herein.

2.4 Liability

The Owners shall ensure that there is promptly provided to the Manager all such information as shall be required to enable the Manager properly to perform his duties under this Agreement and no liability shall attach to the Manager by reason of his having acted or omitting to act where such action or omission resulted directly or indirectly from any failure or delay in providing such information.

2.5 Termination

2.5.1 This Agreement may be terminated at any time by the Manager by one month's notice in writing to the Owners or immediately by notice in writing to the Owners if at any time:-

2.5.1.1 The Owners shall in respect of an individual become bankrupt or unable to pay their debts or have no reasonable prospect of being able to pay their debts within the meaning of section 267 and 268 of the Insolvency Act 1986 in or in respect of a company goes into liquidation (except for a voluntary liquidation for the purpose of reconstruction or amalgamation upon terms previously approved in writing by the Manager);

2.5.1.2 The Owners shall commit a serious breach of the provisions of this Agreement and/or the Option Agreement and shall not have remedied that breach within thirty days after the service of notice requiring it to be remedied.

2.5.1.3 In the event of an Insured Risk occurring to the Property

2.5.2 This Agreement may be terminated by the Owners by one months notice in writing to the Manager if the Manager does not exercise the option in respect of the Property granted by the Option Agreement such notice being capable of being served at any time after the Expiry Date (as defined in the Option Agreement)

2.5.3 Subject to the provisions of clauses 2.5.1 and 2.5.2 above this Agreement shall continue in force until the expiry of three years from (but not including) the Effective Date.

2.6 Notices

Any notice to be given may be served by being left at or sent by recorded delivery to the address of the Owners or the Manager (as appropriate) as specified in this Agreement or such other address as either party may from time to time notify the other in writing and any such notice given by post shall be deemed to have been served (unless the contrary shall be proved) at the expiration of seventy-two hours after posting.

3. GENERAL

3.1 The parties hereto are not in partnership with each other.

3.2 This Agreement is for the benefit of the parties to it and is not intended to

3.3 This Agreement is confidential to the parties to it and each party shall take all proper and reasonable measures to ensure the confidentiality of all information disclosed to them directly or indirectly as a result of the provisions of this Agreement.

Schedule 1

The Owners

Schedule 2

The Properties

All that [freehold] [leasehold] property situate and known as

SIGNED as a Deed by the said)

[ ] in the)

presence of:-)

SIGNED as a Deed by the said)

[ ] in the)

presence of:-)

SIGNED as a Deed by the said)

[ ] in the)

presence of:-

SIGNED as a Deed by the said)

[ ]in the)

presence of:-)

Wealth Dragon Property Option Courses

Find out how to become a more effective property investor from the authors of this book at two property option courses:

Lease Options Intensive

This daylong course with Wealth Dragons Vincent Wong and John Lee will explain:

- The theory behind property options
- Lease options – risk management and legal framework
- Sandwich options and rent-to-own
- Lease options – looking at real-life deals
- Finding lease option leads
- Effective negotiation with sellers
- 11 advanced property option strategies

Lease Options Apprentice Day

If you have ever come away from a course and struggled to put the knowledge in to action because you needed to see the theory in action, then this is the course for you.

Wealth Dragons Vincent Wong and John Lee will demonstrate with live property option sales calls to sellers while you watch and listen.

Bookings and more information: Contact the Wealth Dragons by mailing info@wealthdragons.co.uk or visit www.wealthdragons.co.uk