

# Creative Deal Structuring

## **M: What is the difference between a Lease-Option, Subject-To, and Sandwich Lease Option?**

**Lease-Option:** A lease with an option to purchase allows an owner to rent a property to a tenant with the intention of the tenant buying the property during the lease period for an agreed upon price. If the contracts are drawn up properly, the owner faces no additional risks and should at the least have a stable tenant. The tenant faces no additional risks beyond loss of the non-refundable option consideration money, and if the real estate market appreciates rapidly has the opportunity to buy the house for much less than it is worth.

**Subject-To:** The title to a mortgaged real property is transferred to the buyer but the buyer is not personally liable for the payment of the amount due (the seller remains on the mortgage). However, the buyer must continue to make payments in order to keep the property. It will trigger the Due On Sale clause, and the bank may call the loan due.

**Sandwich Lease-Option:** An investor puts a lease-option on a property with the intention of lease-optioning it to a tenant/buyer for more money per month and total. Example:

A house worth approx. \$100k is lease-optioned by the investor from the owner on a 3 year lease at \$900 per month with \$1,000 non-refundable option consideration, and the option to purchase the property for \$90k. The investor finds a tenant/buyer willing to sign a 2 year lease at \$1,100 per month with \$2,000 non-refundable option consideration, and the option to purchase the house for \$105k. The investor makes \$1,000 up front, \$200 per month, and has the possible payday of another \$15k if the tenant/buyer exercises their option to buy the house.

Unique solution ID: #1695

Author: admin

Last update: 2016-05-19 15:46