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## Rent Now, Buy Later: Is It Right For You?

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The slow track to home purchasing is making a resurgence in the current real estate market.



Real estate experts around the country have seen increased interest in rent-to-own options—an agreement that a prospective buyer will rent a home first and then decide if he wants to buy it down the line.

Homeowners who are having a hard time selling their place are driving the trend, in addition to buyers/renters (we'll call them buyers throughout the article) who are finding it harder to get a loan because of tighter mortgage lending practices.

"We've been seeing it happen more in the last 12 to 18 months," says Steve Earl, CEO of Real Estate Investors Club in Utah, "More so in the last six months. It's becoming more mainstream."

The option has advantages for both parties.

The seller gets some sort of income to help cover mortgage payments for a home that might otherwise be sitting empty.

As for buyers, it gives them time to correct any financial shortfall that is preventing them from qualifying for a mortgage—whether it's poor credit or a shortage of cash for a down payment.

Rent-to-own plans can vary, depending on the people involved, but here's how they generally work.

The buyer and seller will contractually agree on a transaction price for the house and then agree on a time frame for when the home would be purchased—typically between one and three years.

The buyer usually pays what is known as a option fee—a substantial amount of

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cash that is below what a down payment would be—for example, \$20,000 on a \$500,000 house. You do not have to qualify for a mortgage.

The fee goes towards the purchase price of the home when the time comes, but if the buyer opts out of the purchase, he loses all the money.

"You better be sure that this is the house that you want," says Valerie Torelli, owner of Torelli Realty in Costa Mesa, Calif.

Besides the option fee, the two parties also have to agree on what portion of the rent will go towards the purchase of the house. So for example, let's say the rent on that \$500,000 house is \$3,000 a month; maybe a thousand would go towards covering the purchase price.

Sweeter deals are being offered by developers in major cities who are having trouble selling apartments in new buildings.

In Midtown Miami, a large apartment complex in the Floridian city, customers can opt for a rent-to-buy option without even putting any money down. In addition, a year's worth of the rent goes towards the purchase of the apartment.

Up until the end of September, the same deal was being offered at 75 Wall Street, a luxury building in New York City's Financial District. The same for a neighboring building, 99 John Street.

Setting up an agreement can be complicated, which is why experts agree that the safest way to hash out the plan is through a professional—whether it be a lawyer or a real estate agent.

Among other things, experts recommend setting up an escrow account to which the buyer's payments are deposited to help insure that the seller is paying the mortgage.

"The seller could go into foreclosure and the buyer would never know," says Paula Moten, a VP of underwriting at Colonial National Mortgage. "That's the biggest risk to the buyer/renter."

There are risks, of course, for the seller, as well. Since the price of the home is agreed at the time of renting, the seller could lose out if the price of the home's market value increases.

On the other hand, buyers may have more leeway if the home's value drops below the agreed price.

Torelli recommends that buyers who have seen their home value drop negotiate the price of the home again. In her experience, sellers will usually budge because they don't want to deal with the expenses associated with getting the current tenant out of the home and putting it on the market again.

In the past, Earl estimates that 15 to 18 percent of people did not exercise their option to buy the property. In such cases, the owner has the right to ask the residents to leave, keep the option



A tower at the Midtown Miami complex which is offering rent-to-own options on some of their units.

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fee and put the home and the market again.

"There are several reasons people don't exercise their lease option," says Earl. "The biggest one is people don't get themselves in the position to buy. They didn't repair their credit, they didn't save enough money for the rest of the down payment. They just can't get themselves qualified."

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The other main reason people don't opt to buy: employment related issues. Some have to relocate, others lose their job and can't afford to buy the

home.

It's still early to tell if the renewed popularity of the rent-to-own option will end in more homes being bought, says Daniel Hedaya, executive vice president of Platinum Properties, a New York City brokerage that has been working with owners in the city's financial district entering the market.

"In three to four months we should see how these things are panning out," says Hedaya.

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c101 | Oct 17, 2009 08:18 AM ET

You want to know what signal "rent-to-own" signals to me?

1. The Buyer/Renter has lousy credit and doesn't pay their bills.
2. They won't pay me.
3. They will default on their agreement because they don't have the discipline to manage their finances properly.
4. They will likely abuse my property. So, I will have to repair it to get it ready to sell to a real buyer.
5. The whole thing will cost me time and money.
6. No Thanks!

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