



Media Outlet: BiggerPockets

URL: <http://www.biggerpockets.com/articles/2205-housing-cents-when-a-lease-option-makes-sense>

Date: 4.10.10

Housing Cents: When A Lease Option Makes Sense

By: Kris Krohn

Nationwide housing prices continue their downward march, though at a slowing rate. Foreclosures were down nationally in January 2010, but still claimed a staggering 474,000 properties. Nevada was number one on the list with 1 in 76 property owners losing their homes.

The "blame game" has reached a fever pitch as politicians, bankers, and individuals each take pot shots at each other to assign responsibility. There is certainly enough fault to go around. However, individual consumers' lack of knowledge on housing, interest rates, contracts, and [financial markets](#) must claim part of the responsibility.

Consider a surprising trend - the average high school student thinks he/she will make \$145K a year in the work force. On the other hand, only 34 percent of teens understand credit card fees and the bankruptcy rate among 18 to 24 year olds has increased by 96% over the last ten years.

Consumer ignorance has implications for parents, teachers, schools, governments, and [financial](#) institutions. Perhaps some guidance is in order.

The statistics represent both tragedy for the families impacted, but also opportunity for investors who have stepped in to fill the gap. The average house hunter should know that although banks have been unable to absorb the blow to the housing market, the private sector is adjusting to create new opportunities from the ashes of the housing meltdown. This includes new ways for people to [afford](#) housing in an environment when traditional methods have failed.

Consider and compare the old and new ways of putting a roof over your head.

Rent an Apartment: The popular starter plan for singles or newlyweds, signing a lease on an apartment for six months to a year is common in most of the world. New York City claims the first tenant housing units in the U.S. back in 1839, mostly for poorer tenants. However, the Egyptians and Romans also utilized this form of housing. **When it Makes Sense:** When less space is needed; when a down payment is not available; when you need flexibility because of possible relocation, job, or other life changes. **Risk:** No return on investment.

Buy a Condo: You might consider condominium living like buying an apartment. You own the rooms in your home, but share common areas and services, like plumbing and heating. If you have common grounds, the tenant-owners association will likely maintain them. New laws in 1960 spurred the growth of condominium development in the U.S. **When it Makes Sense:** When you have a down payment; when you don't want yard work; when you want to grow equity; when you live in a big city. **Risk:** Possible lack of privacy with connected walls, lack of control over changes.

Rent a House: This is the same as renting an apartment, but more popular with growing families. The owner may be renting because they relocated, want to maintain flexibility or seek tax advantages. The

owner fixes things when they break or need maintenance, depending on the contract. **When it Makes Sense:** When you have no down payment to buy; when you want both flexibility and privacy; when you want to live in a specific area for job or schools. **Risks:** No equity. The owners may want to move back into the home.

Buy a House: The stand-alone dwelling is as old as mankind. With the current economic downturn, there are some real bargains out there now from banks, individuals, and investor groups. **When it Makes Sense:** When you have a substantial down payment; when you qualify for bank credit; when you need room for a growing family; when you want privacy, when you want to build equity; when you can plan long-term. **Risks:** You fix everything that breaks; you maintain paints, landscape, etc.; you assume risk of down market; may sell at a loss if forced to liquidate in a hurry.

Rent-to-Own (Lease Option): An agreement composed of a rental lease and a purchase agreement where the tenant has the option to purchase the property at a fixed price at a specified point of time in the future. While relatively new, this means of purchasing a stand-alone home has increased dramatically in popularity during the current housing/mortgage crisis. Investors seeking to diversify their [investment portfolios](#) are snapping up houses at below-market prices from banks or owners. Tenants choose this form of housing for all of the reasons to “buy a house” plus one, it may be the only way they can qualify to work towards home ownership. **When it Makes Sense:** When you have a down payment; When you want to build equity; When you have bad credit but need a large, private dwelling; When you want to renovate or change the house; When you want to lock in the sales price of the home. **Risks:** If you choose not to buy the home, you will lose equity. You most likely must fix things that break or need maintenance.

As with any transaction as large and important as housing, [due diligence](#) must be performed to choose a reputable firm or property owner. Just as there are many different people and circumstances, the choices for where to lay your head at night and kick up your feet with the family are changing to meet consumer needs.

By Kris Krohn, Founder of REIC and Author of The Strait Path to Real Estate Wealth