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Why Rent-to-Buy May Be Your Best Deal

Creative financing can benefit buyer and seller



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In a market where home sales have stalled and many people have lost their jobs and -- sometimes -- their good credit, it pays to be creative. Of course, so-called creative financing is what got us into the [mortgage mess](#) in the first place. But the industry is taking a new look at an old strategy: lease options.

Lease/option agreements, also called rent-to-own or rent-to-buy, allow a buyer who can't immediately qualify for a mortgage or come up with a large down payment to live in the house he or she plans to buy. For an explanation of how these deals work, see our first installment, [The Real Estate Comeback You Haven't Heard Of](#).

Real estate and mortgage professionals say you should be wary -- very, very wary -- of these deals,

and in part three of this series, we'll go over the cons of this arrangement. But investors and buyers in many parts of the country *are* doing these deals. They say that, under the right conditions, they can be a win for both buyer and seller. Here's why:

For Property Owners

Reduced upkeep: Under most rent-to-buy agreements, the tenant is responsible for maintenance and upkeep. Because of this, says Kris Krohn, founder and president of real estate investment firm REIC in Orem, Utah, the property owner is relieved of maintenance tasks, while the tenant likely is taking better care of the home. "It relieves investors of most of the time and effort involved in rentals," he says.

Motivated buyers: A tenant who enters into such an agreement wants to buy the property in the first place. Every month, she accrues more equity in the property -- equity that would be lost if she backs out. So, every month, she becomes more motivated to care for the house and make the deal happen.

Getting a distressed property off the market: According to Tara-Nicholle Nelson, principle of [REThink Real Estate](#) and author of *The Savvy Woman's Homebuying Handbook*, rent-to-own is a great fallback strategy for an investor who's found he can't sell a property outright. If the deal does fall through sooner or later, market conditions may be more favorable at that time.

For Prospective Buyers

Time to save: The one- or two-year lease period allows prospective buyers time to save the money they'll need to purchase the property, while letting them enjoy it immediately.

Credit repair: Someone who's suffered a foreclosure or job loss but is now back on his feet still may not qualify for a mortgage. He can use the lease/option period to repair any dings on his credit report and build up a stable credit history.

According to Julie Broad, a partner in [Rev N You](#), a Vancouver, B.C. company that works with real estate investors, there are many other reasons why a buyer would do this kind of deal. For example, she says, "While going through a divorce, assets get tied up. Rent-to-own allows the split-up couple to build equity and move on with their lives while waiting for the divorce to settle." Entrepreneurs who don't have enough business history to qualify for a mortgage, as well as recent immigrants who haven't established credit, can keep moving toward owning a home, with their monthly payments helping to build equity in a property.

But these deals are *not* for everyone, and they hold special dangers for homebuyers. Stay tuned; tomorrow we'll tell you how not to get burned.