



What is a Lease Option

In the vast world of real estate, as a property owner, you want as much knowledge and as many options to sell real estate as possible. Many times our know-how about different techniques and strategies can make the difference in concluding a profitable sale. We need to offer buyers additional or alternative opportunities and/or incentives and create win-win scenarios. Let's briefly explore something known as a Lease Option, Lease Purchase or a Rent-to-Own program.

What is a Lease Option?

Simply put, it's a lease with an option to buy. This means that you are going to sign a lease agreement to lease the property and you are going to sign an option agreement to purchase the home (at your option) at a particular time under the specific terms and conditions spelled out in the agreement.

A Lease Purchase is basically the same thing but you *have* to purchase the property instead of it being an *option*. Both are considered Rent-to-Own programs.

What are the Benefits to the Owner/Seller?

As a seller, you might find yourself without ready, willing, and able buyers for a particular price that you are not willing to compromise on, but you would be okay with getting that price later on. This is an appropriate situation to consider renting, with an option to sell for a specific price in the near future.

Or, you might have to move because of a job transfer but you don't have enough equity to cover the costs associated with the sale of your house. With a Lease Option you can rent your property right now and sell at a future, hopefully higher, price in order to cover your costs.

As an investor, you could Lease Option a property with the right to sub-lease, and in turn sub-lease it out with a Lease Option to an end-user for profit.

What are the Benefits to the Renter/Buyer?

The big advantage to the renter/buyer is that he or she will be able to live in the house before he or she has paid for it in full. This would be helpful for example if you like the house and want to buy it, but don't qualify for a loan at this time. If you figure it will take you two years for your credit to improve, you can negotiate a two year Lease Option.

Another benefit is when the renter/buyer is unsure about the direction of the market and does not want to pay today's price because of fear the market will drop and they will end up with a house that is worth less than what they paid for it. In this case the renter/buyer can secure a future price. If the market is above that price at the time of purchase you can buy the house and have immediate equity, or, if the market is below that price you can renegotiate or not purchase the property at all.

Example of a short term Lease Option

A short term Lease Option with credit repair is a great tool for maximizing profits. This option provides credit-challenged buyers with the opportunity to be able to purchase a house. Here is how it works: you just finished a Fix n' Flip and the house has been on the market for a while. You are not getting the price you want and you don't want to rent long term. You offer what I call a 6 month lease option with credit repair. This is where you look for buyers who are a hair away from qualifying for a loan. They have a derogatory

item on their credit report and need three additional months of pay stubs. You offer to pay for their credit repair, and rent them the house for six months during which time you get their credit repaired and voila.... Sold!

Conclusion

Rent to own programs are a valuable tool in the real estate toolbox. They especially become popular when credit is hard to come by and buyers as well as sellers are looking for alternative ways to purchase and sell real estate.

Good luck!

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As an investor himself, as well as a licensed Realtor®, Dimitri has over a decade of real estate experience. Dimitri's specialties include primary residences, second homes, investment properties, commercial properties and land. He has been recognized for being a Multi-million Dollar Producer, and is an accomplished Realtor® committed to superior results for his clients.

"Strive not to be a success but rather to be of value" Albert Einstein