

## **LEASE OPTIONS HAVE THEIR PLACE**

**By Rod Herman – All Rights Reserved**

Buying or selling real estate is full of options...including one that few buyers or sellers ever think about -- particularly in a market like we've been in for the past few years. I'm talking about a *lease-option*.

It's not the ideal tool for every purchase or sale, but given the right situation, it offers buyers who might otherwise not be able to buy an opportunity to do so.

The term "option" is enough to cause many home sellers or buyers to wince. It sounds confusing and complicated. Many think of it as something that's used mainly in multi-million dollar commercial, industrial, or land transactions involving huge real estate conglomerates and holding companies.

Few buyers or sellers ever think of it as a useful tool for an individual residential buyer or seller. Yet, as those who've taken the time to understand how a lease-option works will tell you, it can be the difference between a successful transaction that benefits both parties and a deal that never quite comes together.

There are a number of circumstances where a lease-option can be the perfect way of eliminating financial or time constraints that might otherwise create an insurmountable roadblock.

Consider the dilemma facing many first-time buyers. They have enough income to qualify, but not enough cash to cover the down payment and closing costs. A lease-option might be the ideal answer. If it's structured the right way, the buyers can continue to rent, but begin building equity so they'll soon be in a position to purchase the home outright.

In some instances, a lease-option can also help a seller who's found another home but can't proceed on that sale without first selling his existing one. He might have enough in the bank to come up with the down payment on the new home, but if he can't afford to make two house payments every month, he's in a holding pattern until the existing home sells.

In this market, there haven't been too many instances where sellers have been forced to keep their homes on the market for months and months on end before selling. Most mainstream-type homes have sold relatively quickly due to the strong demand.

Nevertheless, even in this market, a handful of homes have stayed on the market for four, five, six months or more, usually due to some inherent drawback. In a situation such as a seller needs to move and is tired of waiting for the right buyer, a lease-option may be something worth considering.

Let me explain how a lease-option works. In simple terms, the person who wants to buy, starts off as a tenant and enters into a simultaneous agreement to purchase the home for a pre-determined price at a given point in the future.

The buyer/tenant puts a sizeable deposit down at the time the lease begins. As long as he exercises his option and completes the purchase as agreed, the option money is applied towards the purchase price. However, if he changes his mind and elects not to exercise the option, he forfeits the entire option deposit.

And that deposit can be sizeable. In most instances, it's substantially larger than the normal good faith deposit to escrow that occurs in a typical real estate sale. That's because without such a deposit, a lease-option would heavily favor a buyer.

You see, in a lease-option, once the agreement is signed, the buyer is the one who gets to call all the shots. He can buy or he can walk away. The seller's hands are tied. If the buyer wants to buy, he has to sell...and at the price and terms that were agreed to originally.

The deposit, though, is the great equalizer. It forces the buyer to think very carefully about what he could lose by choosing not exercising the option.

That's why a buyer who's thinking about entering into a lease-option should not do so with the intent of 'test driving' the home for a few months. He should be very convinced that this is the right home for him. He should have every intention of completing the sale. Otherwise, he stands to lose a good portion of the funds he's saved to purchase a home.

Some lease options allow for a portion of the tenant's monthly payments to accumulate and be applied towards the down payment at the time the option is exercised. Some even permit the tenant to make improvements or modifications to property before title transfers.

Lease-options aren't for everyone. But for a buyer who's almost ready to buy but needs to raise a little more cash or clear up a few credit items, it can mean the difference between owning and renting. Likewise, for a seller who's ready to move but is missing one piece of puzzle, it may be just the answer.

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