

Landlording (Buy and Hold)

How do lease-options work and what are the benefits?

A lease option is an arrangement with a buyer and a seller to exercise the option to buy a house after having rented it for a specific period. A portion of the rent would be applied toward the purchase if the option is exercised. This is referred to as rent credit, which most institutional lenders will accept as part of the down payment if rental payments exceed the market rent and if a valid lease-purchase agreement is in effect, a copy of which must be attached to the loan application.

If you are a seller, lease options can give you several advantages, especially in a slow market. These include a monthly rent higher than market rent, top-market value for the property and tax-free use of the option consideration until the option expires or is exercised. Also, the renter is more likely to treat the property like an owner, tax-free use of option consideration until the option expires or is exercised.

Read any lease-option arrangement carefully for details on transferring the option and other important concerns.

Unique solution ID: #1764

Author: admin

Last update: 2016-06-20 19:08