

Are there any advantages or disadvantages to the "Rent to Own" system when buying a home?

"Rent to Own" is a system inherited from the commercial sector and offers the most benefit to the seller. The only real advantage to the tenant or buyer is the ability to walk away from purchasing the home. In fact nearly 70% of tenants participating in rent to own programs do not exercise their option to purchase.

Rent to Own works as follows. You agree to purchase the home on or before a future date at a set price. Instead of a security deposit the prospective tenant will provide a down payment, usually twice the size of the typical security deposit for the same home. This down payment will go towards the future purchase price. During your tenancy a portion of your monthly payment (usually slightly higher than rent for the same home) will go towards the purchase price should you decide to purchase. If you do buy the home, on or before the option date, the payoff is reconciled and you are required to provide the difference - if you do not go through with the purchase on or before the option date, you surrender the initial down payment and all equity bought during tenancy. The owner keeps his home and you have no rights to it. Moreover at this future time, financing options can change dramatically thereby destroying an otherwise plausible exit strategy.

Lease with the Option to Buy was developed in the commercial market for people that identified the right property, but need time to ensure they can obtain the proper permits to do what they want to do with the land. If they did get the permits, great, if they did not, they are only out the initial money down and monthly payments, a much smaller loss than surrendering a earnest money deposit or working through a two year escrow.

If you have significant plans for the property you are looking to purchase, rent to own can make sense, but most use this as a first time homebuyer option as opposed to a standard purchase which is not recommended. The learning curve and changing future plans of a first time home buyer can be a serious pitfall in rent to own situations.