Owning a house is something that most of us who do not own a house yet dream about. However, the challenge that most of us face is the cost of owning a house. Vendors normally require to be paid in full, therefore, if we want purchase a house we must a have cash at hand, which is very difficult given the going rate of houses.

Another option is through mortgage financing, we have to go to lenders so that they can give us the money to buy the houses that we desire. However, lenders have conditions, which at times pose a challenge. Some of the conditions include depositing twenty percent of the purchase price before they can advance you the loan to buy the house of your dream.

However, in difficult times, where money is tight, people may not have enough to put as deposit or down payment. Thus they may find a house of their dreams but owing to the difficult times, they are not able to realize their dreams.

There is another option, which may benefit both the prospective buyers as well as the sellers of the houses. The said option is Lease-purchase agreement or rent-to-own agreement.

Lease purchase agreement is basically an agreement where a potential buyer leases a property with the intention of buying the same. In this type of agreement, the potential buyer gets to move in the property while working to complete the purchase of that property.

What happens in this type of agreement is that the potential buyer agrees to rent the property for a set amount of time before exercising the option to purchase the property.

Key Terms in Lease Purchase Agreement

Option Money

Usually in a lease- purchase agreement, the potential buyer pays the seller a one-time, non-refundable fee called option money or option consideration. Payment of this non refundable fee gives the potential buyer the option to purchase the house in the future. Normally the amount option money to be paid is agreed by the parties basing on the percentage of the purchase price. In some jurisdictions, it ranges from 2%-7% of the purchase price. Again in some contracts, parties agree to apply some of the option money to the purchase price at the conclusion of the purchase.

The wording of the option clause in the agreement is important since some contracts owing to their wording, may give the potential buyer the right to buy, without the obligation to buy when the agreement expires. Thus if the potential buyer decides not to buy the house the option simply expires. But the wording of some agreements confers the right to buy as well as imposing an obligation to buy when the lease expire. The obligation to buy imposed in such agreements may be legally enforced by the seller if the potential buyer changes his mind at the expiration of the agreement.

Purchase Price

Normally, the contract will specify how and when the purchase price of the property will be determined. It could be when the contract is signed; in such circumstances it is usually higher than current market price. It could also be determined when the lease expires basing on the market price at that future point in time.

Rent

Rent is paid in accordance with the contract during the subsistence of the lease as specified in the agreement. In many lease-purchase agreements, a percentage of the rent payment is applied to the purchase price. In such type of agreements, the rent charged by the seller is slightly higher than the normal rate to accommodate the rent credit the buyer receives. This percentage of the rent which is applied to purchase price is also referred to as rent premium.

Maintenance

This will depend on the terms of the contract; potential buyer may be responsible for maintaining the property and paying for any repairs. However, the seller may retain these obligations since in all manner and sense the house is still his.

Purchasing the Property

The whole idea of having a lease-purchase agreement is that the potential buyer can put his financial affairs in order during the subsistence of the lease so that when the lease expires he completes the purchase of the house. If the potential buyer decides not to purchase the property or is unable to secure financing at the end of the lease term, the option expires. In such a situation, the buyer loses any money paid up to that point, including the option money and any rent credit earned.

And if the agreement had an obligation to purchase, legal processes may be followed by the seller to enforce the obligation.

Ideal Candidates for Lease-Purchase Agreements

Lease purchase Agreement is an appropriate tool for those who want to own property but are not financially ready to become property owners. The lease purchase agreement gives them an option of getting their finances in order while at the same time locking in the property they would like to own. And if option money and/or rent premium goes towards the purchase price, they also get to build some credit which will be deducted from the purchase price at the time of closing.

To sum it up, lease purchase agreement allows potential buyers to move into the house they intend to purchase while getting their finances in order. However, it is not without risks, potential buyers could end up losing money if they do not end up buying the house at the expiration of the lease. Potential buyers also need to be aware, in advance, of the terms of the agreements which can make the agreement become void before they commit to it lest they find themselves evicted for breach of those terms.

The author is a Legal Officer with ABC Attorneys.