

# **FREE Special Report:**

## **Factsheet on Purchasing a House with a Lease Option**

**This report is aimed at:**

- Purchasers
- Purchaser's Solicitors
- Purchaser's Conveyancers!

### **Fact Sheet on Purchasing a House with a Lease Option**

#### **Advantages of a Lease Option Agreement:**

- No bank or finance approval necessary. The seller (landlord-seller) provides the terms to pay instalment deposit payments towards the buyer's (tenant-buyer) eventual outright purchase within the period of the option agreement.
- Purchase price will not change. The purchase price is fixed when the option agreement is signed and cannot be changed, regardless of any increase in the value of the property.

#### **Short exchange. You don't need to wait on a bank or mortgage approval.**

- Try before you buy. The cost finding out the traditional way that the house or the area is not best for you can cost much more when you think about the purchase and selling costs combined, plus any redemption penalties that your lender may impose. These costs alone will probably far outweigh any option fees foregone because you still have the freedom of choice to change your mind on the purchase of the house.
- Buy at your leisure. The buyer may buy the house at any time during the term of the contract.
- Sell or get a mortgage. The tenant-buyer may sell or purchase the property at any time during the term of the option agreement.
- Establish a good credit rating.  
The buyer has time to establish savings history and credit worthiness to lenders, make extra savings towards a bank deposit, improve house value through (ownerapproved) renovations, or, in the case of migrants, complete the minimum residency required by many lenders.

#### **What are the steps I take in order to move into the house?**

1. You will need to complete an application form to take out a lease option on the property. An application fee is payable when the application is lodged. Instead of spending weeks and spending hundreds of pounds on building surveys and local searches, recent copies of these documents will already be available from us to present to your solicitor. We do not hide any information about the house.
2. We will ask you to provide us with a copy of your credit file report and all other references to support the information you've already given to us. What is important for us is to establish your personal and financial circumstances today in anticipation of you being in the likely position at a later date to buy the house from us.
3. Consult a solicitor or conveyancer for an explanation of the option agreement and Assured Shorthold Tenancy (AST) Agreement, to ensure that it represents the agreement reached with the landlord-seller for the purchase of the house. The solicitor or conveyancer will explain the title and option fees payable

4. Sign the AST and Option Agreement. To comply with our lender requirements, the AST shall be for a fixed period, and not exceeding 12 months. The buyer must request a renewal of the AST for any further extension for another fixed term.
5. Sign a Section 21 a Notice of Possession as a precautionary measure should the tenant-buyer fail to observe the terms of the AST, thus circumventing the need for the landlord-seller to wait a further 2 months before seeking repossession.
6. Pay the initial option fee (usually 3% of purchase price).
7. Complete the standing order authority for the direct debit of monthly payments, Le. monthly rent and option fee, from your bank account into the account of the managing agent representing the landlord-seller.
8. Our solicitors will then exchange the respective signed AST and Option to make the contract legally binding.
9. Move into the house on the Access Date specified in the AST.

#### **What are the Purchaser's Obligations?**

- Pay the combined monthly rent and option fee on time. Payments are due according to the time interval stipulated on the AST and option agreement. Maintaining timely payments is essential, as the landlord-seller has instructed its managing agent to make the monthly mortgage payments to the lender. Also, in order for the tenant-buyer to be well positioned to qualify for a future mortgage, a consistency of timely monthly payments is equally essential.
- Keep the house in good condition and repair. The purchaser must keep the house and garden in a neat, clean and tidy condition, which means removing rubbish, keeping the lawn mowed and not storing old cars on the premises.

The purchaser shall remain in control of the house. The purchaser cannot leave the house vacant in excess of 30 days.

- No demolition or alteration will be made to the house. The purchaser must maintain the property in good condition, and reasonable requests to do decorative improvements will be considered by the landlord-seller.

#### **Information on the Initial Deposit**

- Minimum deposit required. We always require an initial option fee, usually with a minimum of 3% of the purchase price. However, due to the demand and our ability to move you into your own home within weeks, not months, we often find the people are willing to pay more, as the option fee all goes towards their purchase deposit.
- Release of deposit funds to seller. In order to provide you with this unique opportunity, one condition is that all option fees are released to us when received from your solicitor. This is needed so that we can recoup some of our costs incurred on the house up to the point of sale to you. Don't forget that, in return, you will be living in your own home, and not waiting around in despair over whether the sale will go through or not, as what happens with a conventional sale.

#### **Information on the Option Fees**

- All option fees help increase the amount of your purchase deposit. In addition to the initial lump sum paid, the monthly option fees also add to the purchase deposit. Should you need to request an extended fixed period, then the lump sum option fee due at that time also goes towards your overall deposit by the time you are in a position to purchase. There is a renewal fee payable to cover the costs of having our solicitor renew the agreement

- **Payments are agreed in advance.** The financial commitment is known from the beginning with the lump sum option fees, monthly option fees, and rent all specified for the whole term of the Lease Option Agreement.
- **Purchase outright, with a mortgage, or even sell without buying.** The purchaser has the right to purchase the property at any stage during the lease option agreement by paying the balance that is outstanding at that time. This can be done by you paying us the balance in full, getting a mortgage with a bank, or even marketing the property for an outright sale to a 3<sup>rd</sup> party. There may be an administration fee payable upon purchase completion, at our discretion to cover any overhead charges incurred for the sale of the property. The purchaser can choose at the time whether to pay the fee, or add the fee to the purchase price.

#### What if the purchaser defaults?

- **What happens if the rent or instalments option fee are not paid on time?** If the rent or instalment option fee is late, then the instalment option fee for that period does not get credited to the eventual purchase of the house. Should these payments fall into arrears after 21 days of the due date, the option agreement will be in default. The tenancy, however, will continue to be in effect and can only be terminated as prescribed by the Landlord and Tenant Act. In order to later substantiate to a lender a regular payment history, it is in the buyer's interests to maintain timely payments.
- **What happens on termination of the tenancy?** The purchaser must vacate the house and leave it in a clean, orderly and broom-swept condition.
- **What happens to the option fees paid?** The intention of the seller from the outset is to sell the house, but all money paid towards the option fee is non-recoverable. This is no different to a traditional sale after exchange of contracts, where the buyer may pay a 10% deposit and fails to complete the purchase for whatever reason. The cost to the buyer in such circumstances with a lease option agreement is likely to be much less.

#### Summary

In many respects the lease option legally constitutes a purchase in the traditional sense, except that it is over an extended time period during which you may live in the property as a tenant until you exercise your right to purchase anytime during the option agreement at the agreed purchase price. Otherwise, the terms and conditions in many ways mirror that of traditional Contract of Sale.

*The information sheet is intended to assist people to understand the procedures involved in taking out a lease option for a purchase on a residential property. It includes a summary of some of the provisions of the Option agreement but does not purport to give legal advice and is not intended to modify the provision of the Option agreement. You are advised to obtain and rely on your own independent legal advice. You should understand that is the Option agreement and not the information sheet that governs the legal relationship between you and the seller of the property*