

# Rent to Buy Schemes



Rent to Buy Schemes are becoming more popular in the current market. Two members provide details of the type of scheme they are operating.

## How a rent to buy can ignite your housing market

By **Adrian Haythornthwaite** BSc MIAVI FSCS FRICS, Sherry FitzGerald Haythornthwaite, Wexford

For many decades as a regional estate agent, I have been qualifying prospective purchasers by asking them to get their loans organised first before they attempt to purchase a house. I never realised how many people I had said this to until I got a response from the rent to buy initiative.

The rent to buy scheme we used was created over the recent months where we had a developer with some 25 houses not sold out of the first 75 built.

The first 50 units were occupied and the development has space for a further 525 in the coming years. We reasoned that if we could get a prospective purchaser into the house and enjoying the location at least we would know who our buyers were in the future.

### The scheme we came up with worked as follows.

We would hold a price of €195,000 on a three bed roomed un-furnished house for three years. We would rent this house to a prospective purchaser at a rental of €750 per month and take this rent off the purchase price.

To make things interesting we would enhance a purchase in that if they completed a deal within the first year there was a bonus reduction of €10,000 and if they only completed a deal within the second year, this bonus was reduced to €5,000.

With the benefit of reflection and having experienced these transactions, we believe that the important parts are that the price has to be credible as does the rent. We received very little comment about the bonus element and we put this down to the prospective purchasers not believing that they were able to close it in a year anyway.

Our deal called for an up-front non returnable payment of €2250 and the prospective purchasers were moving into an un-furnished house without

floor coverings. The house was, however, painted and came with a kitchen and fireplace.

I suppose the net point is that we have turned 20 houses from being empty into a rent roll of €180,000 with the prospect of sales in the future of at least €3.36 million in a difficult market.

The other net point is that we have uncovered a huge demand. One girl said when she read our ad she worked out that she had paid €32,000 in rent over four years and she started to cry. Then she got mad! Then she came into the office to do something about it. As a property salesman, I can tell you that it doesn't get a whole lot better than this. If I was just to sell to the people who I have identified through the rent to buy as looking for houses I would have two years sales in the pipeline.

On the detail, our legal advice was to attend to the occupation of the houses by means of a caretaker's agreement which travels with the purchase option and this in turn is the document that describes how payments will be deducted from the price and how the property is to be minded. Our solicitors have copyrighted the documentation used. We were advised that the houses would be treated as new when they are sold in three years time as a deed has not been stamped. We were also advised that the VAT situation is that a twentieth of the VAT normally due from the sale is payable for each year of the letting. Any or all of this advice could be incorrect and it would be prudent for members to seek their own legal advice before embarking on a rent to buy scheme. However it is the best we have to go on.

We document the condition of the house with a photographic record when the prospective purchaser moves in. Their solicitor has checked the booklet of title also before they move in so that they can complete their purchase

should they choose to do so at any point in the next three years. In the event of them choosing to not purchase the house all they have to do is give it back to us in the condition that they received it.

This is an interesting part of the transaction. If, for example, it turns out that the law on stamp duty changes and it becomes expensive for the prospective purchaser to do business, they can walk away. If the value falls or rises, they can walk away or complete. These are the terms of the deal

we implemented and we have made a lot of sales both on the rent to buy arrangements and directly as a result of the publicity. In many ways, the rent to buy arrangement very clearly says that our client is standing over his product and his price.

Buyers seem to like it; it gets things going with the development and creates sales. ■

## Rent to buy is a classic example of "It does exactly what it says on the tin"!

By **Jackie Cohalan** MIAVI, Cohalan Downing, Cork

This option allows you to rent the house that you intend to buy where all money paid as rent is reimbursed when you buy the unit.

The hook for most people who have gone into this scheme is that it puts an end to dead rent money. It is a straightforward arrangement, they choose the house they wish to rent and eventually buy, sign a standard lease agreement, pay security deposit and first month's rent and move in.

They also sign a one page Option letter that summarises the details of the house, the maximum purchase price and confirms that should they exercise their option to buy, all rent paid to date will be reimbursed. This letter is also signed by the developer. The developer cannot choose to "not sell" to them after the time period nor can he force them to purchase. The prospective buyer must provide a letter from their bank/broker verifying that they will qualify for a mortgage.

The house comes with a fitted kitchen including appliances, fireplace, wardrobes, all flooring and tiling but thereafter is unfurnished. The rent is above the going rate to encourage them to save more and keep the rent close to the eventual mortgage repayment. All this brings a positive psychological attachment to the house.

The profile of a "rent to buyer" varies. The majority are first time buyers with paltry savings but we also have people who are unable to obtain mortgages at this time due to a blip on their credit history, such as old unpaid bills, or insufficient accounts because they are self-employed or, in the case of immigrants or returning emigrants, a skimpy credit history.

It is important to note that this is not about price, reducing the price of a house does not make it easier to buy, they still have the savings shortfall or credit history blip that only time solves.

In addition, people who are due a windfall such as

an inheritance and people recently separated who have yet to go through the legal division of assets have been availing of this option.

It makes sense for all of these people to take up this option. These are genuine purchasers who intend and will be able to purchase a house in the future but don't want to waste money renting.

For the developer, it brings activity to the site, and provides an income from their standing stock, which helps their cash flow.

The simplest way to illustrate how it works is to give some examples. ■

### Example 1: Single professional

No savings as long-term renter

Apartment Price €220k

Rent €950 per month

By end of year 1 has "saved" €11,400

By end of year 2 has "saved" €22,800

By end of year 3 has "saved" €34,200

92% mortgage - €202,400

Could effectively buy after 19 months

85% mortgage - €187,000

Can buy at end of 3 years

She is IN her home now!

Without rent to buy she could not purchase any house.

### Example 2: Couple with 1 child, both working

Small savings of €9000

3 bed townhouse price €279k

Rent €1100 per month

By end of year 1 will have "saved" €13,200

By end of year 2 will have "saved" €26,400

By end of year 3 will have "saved" €39,600

92% mortgage - €256,680

Could effectively buy in 13 months

85% mortgage - €237,150

Could effectively buy in 29 months

They are IN their home now!

Castlelake development.

