

AUSTRALIAN HOME PARTNERS (AHP)

LEASE OPTION

How it works

OVERVIEW

Lease Option

Lease/ options (or Rent to Buy) have been an alternative method of selling real property in Australia for more than 100 years.

It is particularly useful for sellers where...

- The home needs renovations
- The location is slow for sales
- The owner's mortgage is higher than the current sale value
- The owner wishes to receive a higher rate of return than selling for cash and investing the proceeds

BENEFITS

Benefits for Buyers

- Allows time to meet strict bank lending criteria
- Opportunity for home ownership
- Possibility of doing approved renovations and increasing the asset value
- Weekly deposit saving as percentage of rent paid

Benefits for Sellers

- A better result when selling in a difficult market
- No agent commissions or property management fees to pay
- A sale price fixed on commencement
- If the purchase option isn't exercised, Seller retains all the option payments
- No exclusive agency or restrictions on dealing with other parties until lease/option in place
- You retain the title to the property until the option is exercised and the sale is completed

THE PROCESS

The steps to the result

1. Proposal
2. Heads of agreement
3. Contract
4. Implementation

1. Proposal

Australian Home partners presents a written proposal to the property owner, outlining the price offered, the rent amount and the option payments, together with the proposed term of the agreement.

2. Heads of Agreement (HOA)

Following acceptance of the initial proposal, this non-binding document provides the preliminary outline of the proposed agreement. It authorises Australian Home Partners to offer the home for lease option to its clients.

Owners are free to continue to offer a property for sale or rent through other means until a lease/option contract is in place. It is a requirement for owners to advise Australian Home Partners if the property is no longer available, eg it has been let, sold or withdrawn.

3. Contract

Upon selection of a Tenant/Buyer by Australian Home Partners, lease and option annexure forms are prepared for execution. It is recommended that the Seller and Tenant/Buyer seek advice from a legal practitioner prior to signing.

4. Implementation

On signing by all parties, AHP manages the tenancy and records the option payments as credit toward the purchase.

FREQUENTLY ASKED QUESTIONS

1. Is there any cost to the seller?

No fees are charged to Sellers.

2. How does AHP make money?

In return for establishing and managing the agreement, AHP charges a higher sale price to the Buyer on settlement. This figure may include monies paid by the Buyer at the beginning, during and at the completion of sale.

3. What if the Buyer doesn't obtain finance and buy?

All rent and option monies paid are non-refundable. The Seller can elect to instruct AHP to establish a new agreement or can withdraw the home from the program.

4. Who pays the rates, maintenance and insurance?

These costs cannot be passed to a tenant. The Seller continues to bear these costs from rent payments, the same as with any normal tenancy agreement.

5. How is the future value (strike price) established?

A full market appraisal plus trend analysis is carried out in order to estimate the value in the agreed time frame. This estimate is used as a basis for negotiation prior to commencement of the agreement.

6. Does AHP arrange finance?

No. AHP carries out an analysis of the Buyer's current financial position and prospects of obtaining finance, usually in collaboration with advice from a registered broker.

7. What if the tenant doesn't pay, or damages the home?

The remedies available under the Residential Tenancies Act apply. As in any tenancy, we check rental histories and TICA database, as well as the employment situation. It is a requirement that Landlord protection insurance is maintained by the Owner for the term of the agreement.

8. How is rent calculated?

A market appraisal of similar properties is carried out prior to commencement. A review is performed at the end of each financial year with calculations based on the CPI increase, if any.

9. How long is the lease/option period?

There is no set period as this depends on the Buyer's circumstances. For a Buyer to be ready to obtain finance they must have accrued enough deposit to satisfy a lender, and they must have a clean credit history and sufficient income to service the loan. Most commonly this period is 24 months, but can be more or less depending on the Buyers circumstances

10. Am I obliged to accept the terms if they don't suit me?

No. Once we have a HOA signed, we put the property details out to existing Buyers and/or advertise on various websites. When we have a qualified buyer, we present a firm proposal for your approval. Only then is formal legal documentation prepared for execution.