



RENT-TO-OWN 101

WHAT is Rent-To-Own and **WHY** it makes sense
to add this tool to your Real Estate arsenal

About Us

- Full Time Real Estate Investors Since 2006.
- Long Term Holds, Main Floor/Basement Suites, Rent-To-Own & Flips.
- Self-Manage 116 Doors With In-House Team (Edmonton, Sherwood Park, St. Albert, Stony Plain And Leduc).
- 24 Rent-To-Own Deals Over The Last 5 Years.
- **REIN “Rona Renovators Of The Year” and “Top Players” 5 years in a row from 2008 To 2012.**
- In 2011 We Were The **“West Coast Top Real Estate Investor Of The Year”**, Honor Awarded By **The Canadian Real Estate Wealth Magazine.**
- Avid Travelers.
- Our moto **“Simplify For Freedom”**

What We Will Cover

- What Is Rent-To-Own?
- Who Buys A Rent-To-Own Deal?
- 2 Different Rent-To-Own Models (Property First vs. Tenant First)
- Anatomy Of A Deal
- ROI Comparison: **Rent-To-Own vs Pure Rental**
- Rent-To-Own Pros And Cons
- Common Mistakes
- Questions

What Is Rent-To-Own?

- **Rent-To-Own** and **Lease-To-Own** are the same thing.
- A *Tenant-Buyer* rents the home for a pre-determined amount of time with the **Option To Purchase** the home at the end of the term.
- The *Tenant-Buyer* gives you a substantial initial **Option Credit** (down payment) towards the purchase of the home.
- The *Tenant-Buyer's* monthly payment is composed by two parts: the **Rent** and an **Option Credit** payment
- **Option Credit** is saved for them to help them build sufficient down payment to buy the house at the end of the **Rent-To-Own** term.

What Is Rent-To-Own?

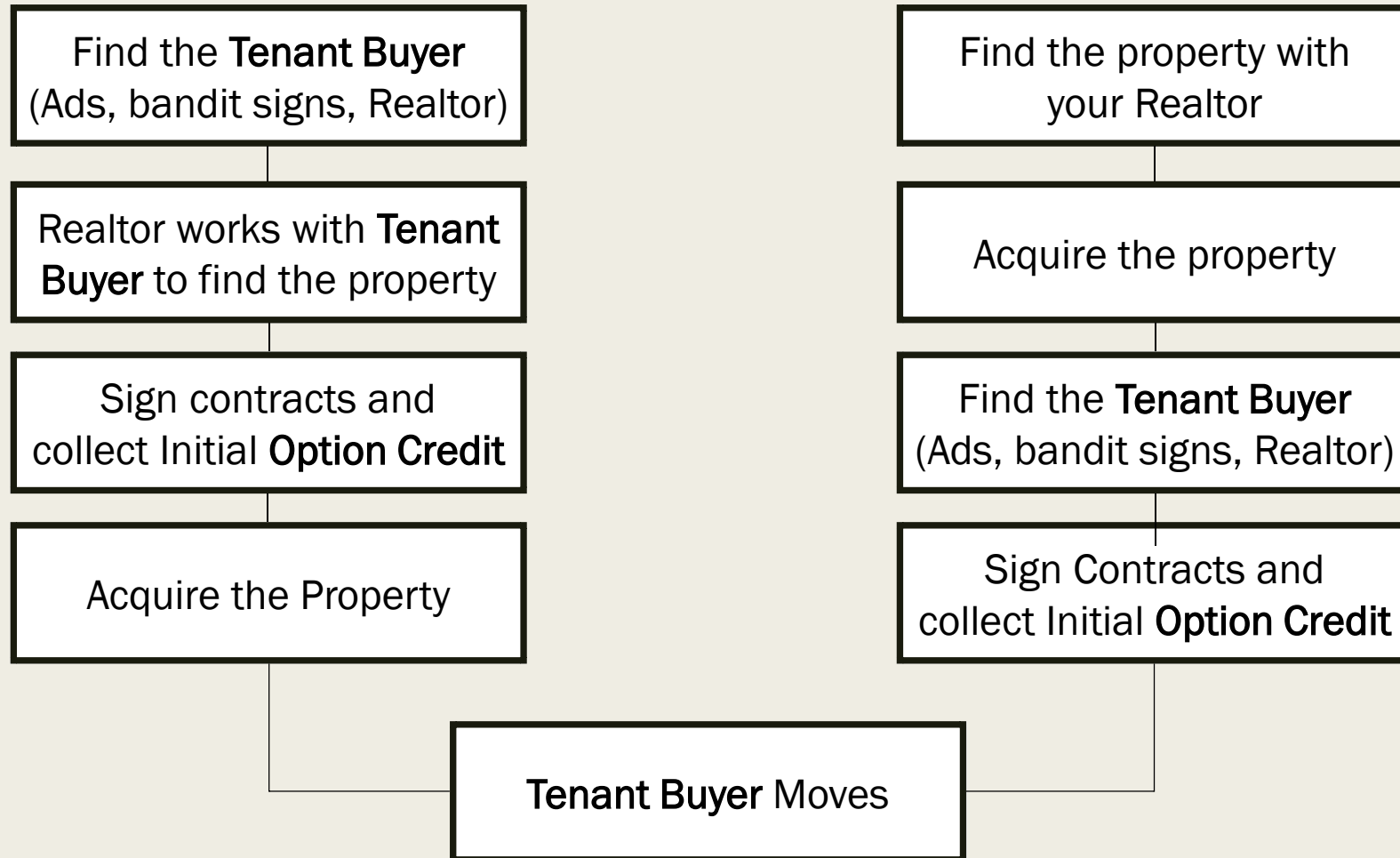
- *During the term the **Tenant-Buyer** is responsible to improve his/her credit working towards qualifying for a new mortgage to buy the home.*
- *In this type of agreement the **Tenant-Buyer** is totally responsible of all maintenance of the property.*
- *At the end of the term the **Tenant-Buyer** has the **Option** to buy the home or walk away.*
- Overall, **Rent-To-Own** is an advanced Real Estate Investment Strategy with Higher Profits and Higher Risks

Who Buys A Rent-To-Own Deal?

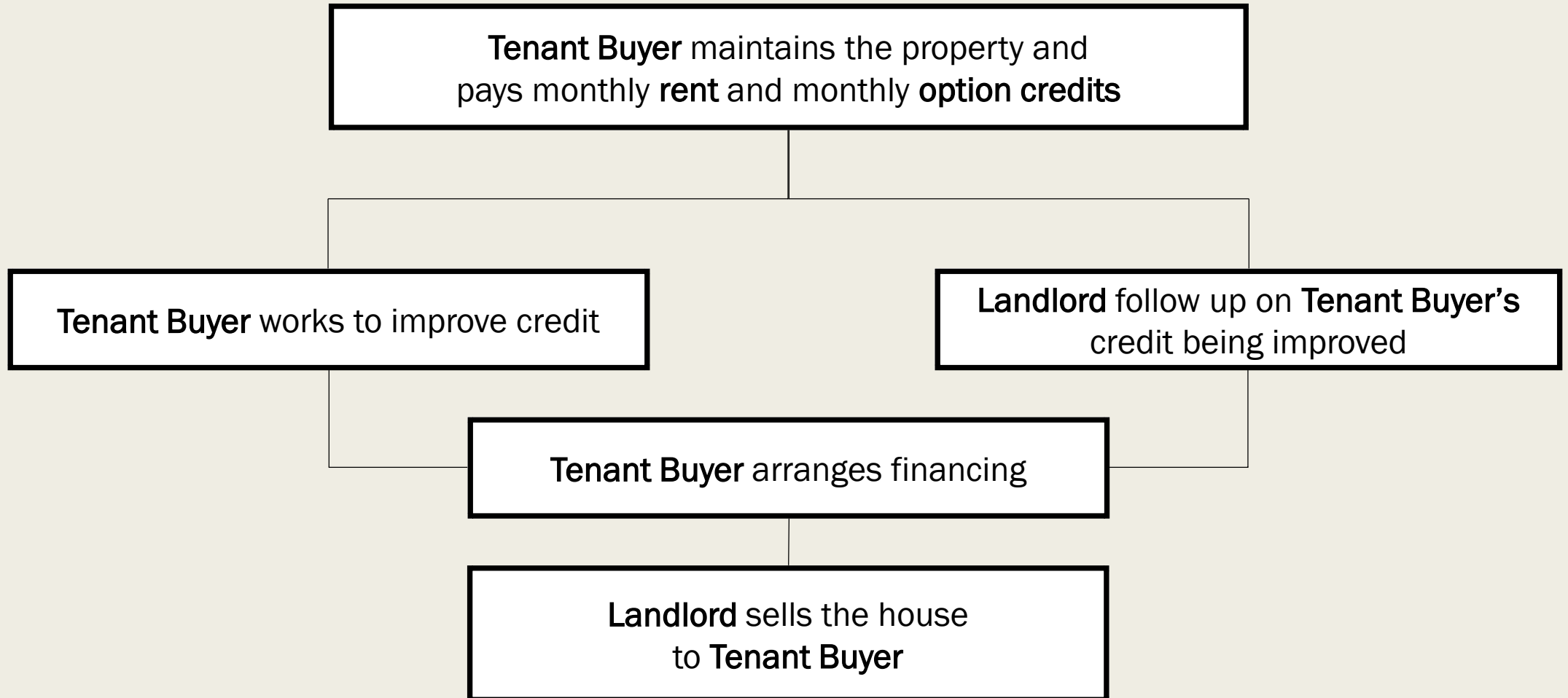
- *People with no previous credit history (new to the country or other situation...) but with enough down payment and a good job.*
- *People who have bruised credit (bad divorce, bankruptcy or other reasons) but have a good job and enough down payment.*
- *People who have one house and need to sell it before they can qualify for a second one.*
- *People who have not been long enough in their current jobs but have enough down payment and good income.*
- *Self-employed people.*

Rent-To-Own Models

(Tenant First vs. Property First)



Different Rent-To-Own Models (Tenant First vs. House First)



Anatomy Of A Rent-To-Own Deal





The Purchase

Purchase Price	318,000
20% Down Payment	63,600
Legal Closing Costs	1,500
Renovations (Garage & 3 rd Bedroom)	13,000
Total Initial Investment	\$ 78,100

Mortgage Terms

\$254,400 Loan (80% LTV)

2.84% Interest Rate

30 Year Amortization

2 Years Fixed Term

\$1,051 Monthly Payment

Property Market Value after repairs **\$340,000**

Placing The Tenant Buyers



Initial Option Credit \$20,000 (Front End \$)

Property Market Value \$340,000

Option Purchase Price @ 2 Year Term \$367,744
(4% appreciation per year)

Monthly Rent \$1,850

Monthly Option Credit \$300

Rent-To-Own Cashflow Over Term

	Monthly	Over Term (24 months)
Property Income		
Rent	1,850	44,400
Option Credit	300	7,200
Total Income	2,150	51,600
Property Expenses		
Mortgage Payment	1,051	25,218
Taxes	238	5,712
Insurance	85	2,035
Total Expenses	1,374	32,965
Total Cashflow	\$ 776	\$ 18,635

Tenant-Buyer Qualification - End Of Term

Option Purchase Price	367,744	} Property Appraised at \$355,000 } \$27,200, 7.4% of Purchase Price
Minus Initial Option Credit	(20,000)	
Minus Monthly Option Credits Over Term (\$300x24)	(7,200)	
Balance Owing to Landlord	340,544	
Minus Selling Legal Fees & Adjustments	(1,787)	
Minus Principal Balance Owing	(243,269)	
Minus Initial Down Payment	(63,600)	
Minus Initial Renos & Legal Expenses	(14,500)	
Total Cash at Back End	\$ 17,387	

Profit Over The Term (24 Months)

Front End - Initial Option Credit	20,000
During Term - Monthly Rent & Option Credit Cashflow	18,635
Back End- Sales Proceeds After Legal & Adjustments	17,387
Total Profit Over The Term	\$ 56,022

Total Cost Of Property Minus Selling Price	33,457
Cashflow From Pure Rent	11,435
Mortgage Principal Paid Down	11,131
Total Profit Over The Term	\$ 56,022

$$\begin{aligned}\text{ROI} &= \text{Profit} / \text{Initial Investment} \\ &= \$56,022 / \$78,100 \\ &= 72\% \text{ over 24 months} \\ &\quad \mathbf{36\% \text{ per year}}\end{aligned}$$

Let's Compare vs. Pure Rent Deal...



The Purchase Is The Same

Purchase Price	318,000
20% Down Payment	63,600
Legal Closing Costs	1,500
Renovations (Garage & 3 rd Bedroom)	13,000
Total Initial Investment	\$ 78,100

Mortgage Terms

\$254,400 Loan (80% LTV)

2.84% Interest Rate

30 Year Amortization

2 Years Fixed Term

\$1,051 Monthly Payment

Rent Cashflow Over The Term

	Monthly Year 1	Monthly Year 2	Over Term 24 Months
Property Income			
Rent	1,850	1,950	45,600
Option Credit			-
Total Income	1,850	1,950	45,600
Property Expenses			
Mortgage Payment	1,051	1,051	25,218
Taxes	238	238	5,712
Insurance	85	85	2,035
Management 10%	185	195	4,560
Vacancy 5%	93	98	2,280
Repairs 5%	93	98	2,280
Total Expenses	1,744	1,764	42,085
Total Cash flow	\$ 106	\$ 186	\$ 3,515

Selling The Property - End Of Term

Property Appraised at \$355,000

Listing Price	\$ 365,000
Minus Buyers Discount 2%	(7,300)
Sold Price	\$ 357,700
Minus Real Estate Commission 7% on first \$100K+ 3% on balance+GST	(15,468)
Minus 3 Months Holding Cost (Mortgage, Taxes, Insurance, Utilities)	(4,571)
Minus Repairs	(3,000)
Minus Legal Costs	(1,787)
Minus Mortgage Principal Balance	(243,269)
Minus Your Initial Investment	(78,100)
Sale Proceeds Paid To You	\$ 11,505



Selling Costs

Total Profit Over The Term (24 Months)

Front End -	-
During Term - Cashflow	3,515
Back End - Sales Proceeds	11,505
Total Profit Over The Term	\$ 15,020

$$\begin{aligned}\text{ROI} &= \text{Profit} / \text{Initial Investment} \\ &= \$15,020 / \$78,100 \\ &= 19\% \text{ over 24 months} \\ &\quad \mathbf{9.5\% \text{ per year}}\end{aligned}$$

Rent-To-Own vs Pure Rental

(Over 24 Months)

Front End - Initial Option Credit	20,000
During Term - Monthly Rent & Option Credit Cashflow	18,635
Back End- Sales Proceeds After Legal & Adjustments	17,387
Total Profit Over The Term	\$ 56,022

$$\begin{aligned}\text{ROI} &= \text{Profit} / \text{Initial Investment} \\ &= \$56,022 / \$78,100 \\ &= 72\% \text{ over 24 months}\end{aligned}$$

36% per year

Front End -	-
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Back End - Sales Proceeds	11,505
Total Profit Over The Term	\$ 15,020

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9.5% per year

Rent-To-Own Pros And Cons

PROS

- Win-Win situation for everyone involved
- Cash in the front end, cashflow during the term and cash at the end of the term
- Higher cash-flow than in a typical rental
- Fix term exit strategy
- No realtor fees to sell the property
- Tenant-Buyer is fully responsible for all maintenance
- No need to deal with a property management company = no property manager fees
- Overall **higher profits** per project

CONS

- Need to constantly add properties to portfolio (killing the golden goose)
- Profits are taxed as active income
- More prone to legal issues
- Harder to evict Tenant-Buyers (RTDRS vs Queens Bench)
- Harder to find good Tenant-Buyers
- Property values can go down drastically
- Tenant-Buyer may not qualify
- Tenant-Buyer may abandon the house
- Tenant-Buyer may trash the house
- Not all lenders are open to Rent-to-own
- Overall **higher risks**

Rent-To-Own Common Mistakes

- Accepting low initial option credits. (Tenant-Buyer has not enough skin on the game)
- Buying odd houses (not vanilla: newer, 3 bedroom, 2 bathroom, garage, desirable neighbourhood)
- Buying expensive houses (above the average purchase price of the area)
- Placing Tenant Buyers who won't be able to qualify (really bad credit, high debts or not enough income to cover monthly payments)
- Not being aware of the direction of the Real Estate market
- Not considering mortgage payout penalties in calculations
- Using weak contracts or no contracts
- Calling "Deposit" what is only an "Option Credit"
- or calling "Buyer" a "Tenant Buyer" (a Tenant with the **Option** to buy)

Rent-To-Own Common Mistakes

- Rent-To-Own to friends, family or the sellers
- Going only after the money without having the Tenant Buyer's best interest in mind

Questions

