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It's still a viable option for those short on cash or credit

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Talk about being in the right place at the right time.

After many years as a renter and trying, but failing, to amass the money for a down payment on a purchase, Nilda Rodriguez, 51, thought she might never achieve her dream of becoming a homeowner.

But, last February she bought a \$150,000, two-bedroom, two-bathroom condominium in Elk Grove Village. Besides having \$8,000 in hand for the purchase, she didn't even have to move.

"I have a fourth-floor corner unit. No one is living on top of me and no one is next to me. It is the same unit I had as a renter," she said.

Rodriguez, who works as a quality engineer, acquired the money for her down payment by doing what she had for many years: paying rent.

Although their terms may vary widely, rent-to-own or lease purchases essentially are rental agreements with an option to buy the property at pre-negotiated terms.

With low interest rates and the availability of no-down-payment mortgages for the creditworthy, renting to own is less common today than a decade ago. Additionally, not everyone sees rent-to-own as the wisest path to homeownership.

But, it still is an option, especially for the entry-level buyer who may find it very difficult to accumulate a down payment, experts say.

The developer who converted Rodriguez's complex, 12 Oaks Condominiums, offered tenants -- and anyone else interested in buying a unit -- the opportunity to apply up to 10 months of rent payments toward the down payment.

Helping tenants overcome the financial hurdles to homeownership makes sense for the condo converter, said Rose Barnhart, managing member of Billy Bob Marketing LLC in Rolling Meadows, which converted Rodriguez's unit and is converting other apartment complexes to condos.

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"When you're a developer, your existing resident is your prime prospect," she said. "If they don't purchase, then you're stuck with a vacant apartment and you've got to work to get someone else in there. It's really the most economical thing for us to do: Work with the existing tenant."

The conversion of 12 Oaks at Elk Grove Village is complete. Barnhart's company also is converting 692 units at 12 Oaks of Woodfield Condominiums (formerly Woodfield Gardens) in Rolling Meadows, 60 units at 12 Oaks at Morningside Condominiums (formerly Morningside Apartments) in Hoffman Estates, and 176 units at 12 Oaks at River West Condominiums (formerly River West Apartments) in Mt. Prospect.

Barnhart works with AmeriDream to assist borrowers with down payments, which are awarded as gifts that do not have to be repaid. She said she works with the non-profit organization because developers are prohibited from giving buyers the money for down payments outright.

It works this way: AmeriDream grants the down payment from its pool of funds. The down payment is removed at closing from the developer or builder's proceeds and a \$300 fee is charged to the developer/builder.

Vicki Buresh, account executive for AmeriDream in Glenview, said about 20 percent of the units at 12 Oaks at Elk Grove Village were sold with down payment assistance from AmeriDream, which is based in Gaithersburg, Md.

"I think that's a pretty significant number," Buresh said.

Though 100 percent financing on home mortgages is more available in than the past, "there is traditionally a much higher credit rating associated with being able to get it," she said. "That's been a stumbling block for many people. It's still out of reach to many people."

The terms of rent-to-own deals vary widely.

"Every deal is a little different. Every state has different laws," said Gary Foreman, editor of The Dollar Stretcher, a Web site based in Bradenton, Fla.

Citing low mortgage interest rates and the increased availability of no-down-payment loans, Foreman said he does not see renting to own done as often as it was in the past.

"I think it was a more popular strategy 10 years ago," he said. "It enabled people to make a monthly payment, but not have to come up with the down payment."

Gail Lissner, vice president of Appraisal Research Counselors in Chicago, said that renting to own is still a viable proposition, particularly for entry-level housing.

"It's been around a long time -- as long as condo conversions have been around," she said. "Usually it is something you see with entry-level projects. It is helpful to people who have trouble coming up with the down payment."

Besides allowing some renters to acquire a down payment, renting to own also helps people who may need some time to improve their credit records.

The Sanctuary of Arlington Heights, a 96-unit condo conversion in the northwest suburb, is allowing tenants to put three to four months of rent payments toward their down payments.

"That's 100 percent of their rent. It's three or four thousand dollars. It's pretty generous," said Mary Corbett, president of Success Builders in Bloomingdale, which is marketing the conversion.

"Some people come in and they can do a straight buy. Others need to do a credit repair. They need a few months to show that they're moving forward with improving their credit," she said.

Steve Holland, president of New Millennium Mortgage in Naperville, is handling financing at the Sanctuary. He said renting to own makes sense for people who want to get into the housing market but have put it off for any number of reasons.

"There is a huge misconception out there that people should wait until they save for a down payment or wait for a raise or wait until they fix their credit," he said. "By getting into a rent-to-own situation, they can lock in on a sale price and then, when they close on the home, it might be worth more."

Barnhart said her company also works with tenants who need to improve their credit. "We will work with them over a 10- or 12-month period. It takes a lot of work and sometimes they fall off the wagon," she said.

Knowing that they can own a condo in less than a year, however, "provides a lot of motivation. They know that in 10 months they're going to have a nest egg" to apply to purchasing their unit, she said.

Condo conversions are not the only place where renting to own is possible.

The newspaper classified ads were how Linda and Alan Smolek found a five-bedroom house in southwest suburban Alsip. They agreed last fall to rent the house with an option to buy it.

"I'm renting right now because that's the best thing for me," said Linda Smolek. "But we have the option to buy it [in a year], and the price for the house is set."

Though they may not buy the brick and cedar bi-level for a year, they and the owner have agreed that the purchase price will be \$275,000. The Smoleks also can back out of the deal in a year.

Renting to own, or renting with an option to buy, can be a way for a prospective buyer to check out a neighborhood or house before they make the commitment to buy.

"You can become more familiar with the property. You may find out that what looked like a quiet street isn't or that the closets aren't as big as you thought they were or that you don't like your neighbors," said the Dollar Stretcher's Foreman.

Renting to own also may work for people who are undecided about their futures, he said.

In the Smoleks' case, Linda said they had sold their previous house because they had planned to retire to Florida. But Alan's job promised greater retirement benefits if he stayed longer in it. Now they are not sure when, or if, they will be moving to Florida.

"We don't know exactly what we're going to do," said Linda. "Thirty years ago, my husband said, 'When we retire, we're moving to Florida. It's been 30 years and we're still here.'"

The Smoleks are paying \$1,750 a month in rent. Their arrangement does not allow their rent go toward the purchase. However, the purchase price is set and they, and the owner, expect the house to appreciate in the next year.

"If they buy the property at \$275,000, I win," said J.T. Foxx, the owner. "Because I get cash flow [for the year] and a better tax advantage."

Foxx is president of the Second Chance Program, which has offices in Des Plaines and Lincolnshire.

Joerg Seifert, a real estate attorney in Elmhurst, said rent-to-own deals are "attractive to sellers because they can spread their capital gain out over several years," he said.

Some sellers may have special situations that make a rent-to-own situation attractive.

Carol Vicich, a real estate agent with L.W. Reddy in Elmhurst, cited, as an example, an elderly homeowner in a nursing home. A rent-to-own deal was arranged by his family because his house was in a living trust and could not be sold until he died.

Seifert cautioned, however, that there are hazards.

"There are dangers to look for. If a tenant is in default or misses a payment, they could lose everything that have put into it," he said.

He said the specifics of any contract should be reviewed by real estate attorneys for both parties.

"Don't sign anything until your attorney reviews it," he said. "A real estate attorney should be able to see if it is legitimate in just a few minutes."

Barnhart added that anyone buying a condo should consider what improvements the developer is putting into the property and should get a copy of the property report.

The "biggest problem" for people in a rent-to-own or rent-with-option situation "comes when people aren't changing their financial behavior so that they eventually can qualify for a mortgage," said Dru Bergman, interim executive director of the DuPage Homeownership Center.

She cautioned that people have to be aware of the specifics of their deal. They may, for instance, have to exercise their option to buy within a certain time period -- a year, two years or three. If they cannot qualify for a mortgage within the specified time and don't exercise their right to buy, they may lose the money that they have put toward the rent or down payment.

The center no longer offers a rent-to-own program because buyers are better served by improving their financial pictures first and then moving on to the next step of buying a house, Bergman said.

Instead of renting with the option to buy, she recommends that people start practicing for the reality of paying a mortgage as they rent by paying their rent plus putting an additional amount into savings or into reducing their debt.

"People don't always want to hear this because it's harder and they won't get the house they want right away," she said.

Mike Pappas, co-owner of JSC Investments LLC in LaGrange, said his rent-to-own deals require a tenant/buyer to put down 3 to 10 percent of the property's purchase price for the option to purchase the property.

"There's no security deposit. It [the option to purchase money] is non-refundable. It acts like a down payment. It's fully applied to the price," he said.

In addition, he applies a percentage of the monthly rent payment toward the purchase price, assuming the payment is received on time.

"I'll put 25 to 33 percent of the rent payment toward the purchase price. If they're late, they lose that credit. It gives them an incentive to pay on time," he said.

His tenant/buyers, he noted, are a bit different from those who do not have money for a down payment.

"It's typically people who have up to 10 percent [for a down payment] but have compromised credit. I will work with anyone, no matter what their credit, but that correlates to how much they need to put down," he said.

"There are people who have the money for a down payment, but because their credit is poor, the interest rate and the payments they would have [by buying] are high," he said.

Pappas also requires tenant/buyers to do household maintenance such as clearing drains and mowing the lawn -- a common arrangement in the rental of a house versus an apartment. Major repairs, such as replacing a furnace, would be his expense.

The Smoleks also do everyday household maintenance and have painted their home to their own tastes. If they move to Florida, Linda Smokel said they may sell the house to their two college-age sons. Though they do not know where their future will be, they said renting to own is better than renting.

"When you rent, all you have at the end of the year is a bunch of rent receipts," she said.

Being a homeowner, added Rodriguez "is beautiful. It is a good feeling."

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