



# Rent to Own overview For potential pilot project

## Background

Council requested that staff look into options for the City to support more tenant ownership through rent to own arrangements. Council suggested that landlords who sell to their tenants could receive an exemption from the City's rental registry, business license and inspection requirements.

## Common rent to own models

- Lease with option to purchase: tenant/buyer has the option to buy the home if they are able to pay the landlord/seller the price agreed upon in the contract (or negotiated at the time of sale) but there is less commitment if either party decides not to move forward.
- Lease purchase: tenant/buyer commits to buying the property and if they fall behind and are unable to complete the purchase, the landlord/seller may reclaim the property or sue for damages.

## Benefits for tenants

Rent to own arrangements can help tenants who are unable to save for significant down payments and who may have difficulty qualifying for a mortgage. Tenants also do not have to compete with other buyers on homes for sale. Tenants maintain stability by residing in the same home with reasonable assurance that they will live in the home long-term. Depending on how the agreement is set up, the tenant may also be able to lock in a purchase price and not be subject to fluctuating market conditions. A longer agreement term can provide the tenant time to address any credit concerns and locate financing options. Tenants have the opportunity to build generational wealth through access to homeownership.

## Benefits for landlords

Renting to tenants who plan to own the home may provide additional security for the landlord as there will be less frequent turnover and more assurance that the tenant will maintain their commitment to pay rent and care for the property. Landlords still have the same access to legal recourse if the tenant breaches the agreement. Landlords will not have to make cosmetic repairs or updates in preparation to list the home for sale. If landlords are considering eventually selling, this pilot program may help the landlord make the transition over time with support from the City.

A rent to own arrangement could help facilitate the transfer of assets from property owners who have had greater access to equity to tenants who are struggling to compete in the real estate market, while still providing a mutually beneficial relationship in the short-term.

## Concerns

Staff reviewed information and consulted legal aid organizations who advise tenants who have rent to own agreements. These sources revealed significant concerns, including scams or predatory arrangements that leave the tenant in a worse position than a traditional rental. In many rent to own arrangements, tenants may pay additional money upfront or add improvements but are still subject to the same landlord-tenant laws as any traditional rental situation. This can lead to evictions and cause the tenant to lose any additional investment. In many cases, tenants are responsible for repairs and

maintenance even though they have none of the benefits of ownership. In some situations, property owners know they won't be able to sell the property in its current condition and tenants may work toward purchasing a home that needs extensive repairs or cannot be financed. If the value of the property significantly increases over the lease period, landlords/sellers have an incentive to break the agreement, if the contract doesn't have a significant penalty for doing so. The landlord may lose potential revenue if their agreement with the tenant locks in a purchase price that is less than market value. There may be little financial incentive for landlords to sell to their tenants instead of collecting additional revenue from rent, so there could be relatively low interest in a pilot program.

### **Potential City support**

Some of the identified concerns may be mitigated through City support.

- A home inspection could be completed to ensure there are not significant repairs needed. Home inspections are estimated to cost approximately \$500-600.
- An appraisal could be completed to ensure a fair purchase price. Appraisals are estimated to cost, on average, \$800.
- The City could support each transaction by providing funding for the tenant to obtain legal assistance to draft a contract, or could contract with an organization to provide a template agreement and educational materials so both parties understand and can negotiate an agreement that meets their needs.
- Dispute resolution resources can help parties to resolve any conflicts that arise or negotiate the details of the contract.
- Funding to obtain a title report or guidance to complete a title search to check property ownership or liens (title report estimated to cost \$500-\$600).
- Funding support for repairs, energy efficiency upgrades, closing costs, or rent assistance in the event of a tenant emergency could be provided as additional incentives to participate in the program.

### **Next steps & Staff recommendation**

Due to the significant concerns expressed by tenant advocates, staff recommends that if the City pursues a rent to own pilot program and exemption from rental registry requirements, the City requires completion of a home inspection, appraisal, and title search, and a written agreement in order to qualify for the exemption. Staff recommends that the City budget approximately \$2,000 per transaction if the City provides funding support to complete the inspection, appraisal, and obtain a title report. Staff recommends adequate legal support be provided to draft an agreement, which could either be in the form of a template with additional educational materials, or individualized legal consultation. Staff recommends that the City contracts with a qualified legal services organization that is familiar with the potential pitfalls of these arrangements to ensure that tenants are protected from predatory arrangements.

### **Examples of other programs or policies**

Colorado enacted policy that governs rent to own contracts for manufactured homes, which provides some helpful considerations. The law outlines what must be included in a written agreement,

information that the seller must provide the buyer (such as proof of ownership), rights of the buyer (such as right to an inspection), termination and noncompliance clauses.

Colorado Revised Statutes [38-12-1401 — 38-12-1409](#)

Canada Mortgage and Housing Corp. (CMHC) offered \$200 million through the Affordable Housing Innovation Fund for housing providers interested in developing, testing and scaling innovative rent-to-own models and projects.

[Rent-to-Own Stream for Housing Providers | CMHC \(cmhc-schl.gc.ca\)](#)

[Creating nearly 17,000 homes for Canadians across the country | Prime Minister of Canada \(pm.gc.ca\)](#)

[Canada is buying into the rent-to-own concept. Here's how it works | CBC News](#)