

Leasehold vs. Fee Simple Properties

There are two common types of land tenure in Hawaii, leasehold and fee simple. A homebuyer's decision to purchase one type over the other can be based off of a number of factors. Here are a few to consider when shopping for a home.

LEASEHOLD

First of all, definition

Leasehold properties are real estate that buyers (lessee) would lease and pay rent for a specific time period.

A residential lease may be up to 40 to 60 years, with the rent fixed for the first 20 to 30 years.



At the end of the fixed period (renegotiation date), the lease rent would be adjusted. At the end of the lease contract, the land could revert back to the landowner (lessor) or, if offered, the lessee could purchase the fee.

FEE SIMPLE

Fee simple properties are real estate that buyers purchase outright. The buyers will have the right of use and enjoyment of the land indefinitely.



Owners of leasehold and fee simple properties both pay:

- mortgage
- property taxes
- association/maintenance fees
- insurance, as needed

In addition, leasehold property owners also pay:

- lease rent

History of leasehold properties in Hawaii

“Somewhat unique to Hawaii, leasehold properties grew out of the large trusts created during the Kingdom of Hawaii (think Bishop Estate, Campbell Estate and others), which once owned most of the privately held land in the Islands. Soaring real estate values in the second half of the 20th Century, coupled with legal action to force conversion from leasehold to fee simple, meant most of the state's single-family homes had converted to the fee simple option by the 1990s.

“Since condos were not subject to the mandatory conversion laws, some remained as leasehold.”

Source: <http://www.hawaiibusiness.com/leasehold-properties-a-deal-or-a-drain/>

Considerations when buying leasehold

- What are the lease terms?
 - length of fixed period
 - length of lease
 - renegotiation date
 - lease rent
- Will a loan be required to buy the leasehold property?
 - Check with the lender. Mortgage companies usually require the lease period to be at least five years past the length of the loan.
- Is the fee available to sale?

Source: 1) <http://www.hawaiibusiness.com/leasehold-properties-a-deal-or-a-drain/>, 2) <http://the.honoluluadvertiser.com/article/2006/Feb/09/bz/FP602090312.html>, 3) <http://support.narrpr.com/hc/en-us/articles/204963340-What-are-Leasehold-and-Fee-Simple-properties-in-Hawaii->

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March 2017