

## **Leasehold in Hawaii**

The purchaser of leasehold property in Hawaii should be aware that they own the improvements made on the land, such as a condominium or a house, but they do not own the land.

The land is leased for a set period of time from the original date the development took place. Most leases fall within a time period from 50 to 90 years during which time the pre-stated raises and renegotiation dates may take place.

Renegotiation is done fair and equitable as outlined in the condominium documents. An appraisal of the land value free and clear of improvements will set the current price of the land. From this, a formula in the condo documents will calculate the new lease rent. At the time of renegotiation, the new lease rent raises and new renegotiation dates may be determined between the board of directors representing the lessees, and the land owner, the lessor.

Upon expiration of a leasehold property, three things could take place. The fee simple interest could be offered to the lessee, the lease could be extended with new lease rents and renegotiation dates, or the lessor can reclaim the land and the improvements thereon.

The upside of buying leasehold property is as follows: The combined lease payment and mortgage payment could be significantly less than the mortgage payment alone on a like fee simple property. When applying for a mortgage, the down payment would be significantly less. When the lease rent is set for a period of time, the property will most likely be appreciating whereas the lease rent stays the same until a raise level is reached or renegotiated.

The downside: as explained, there is an expiration date of the lease. The Lessor could take possession of the land and the improvements thereon. There also could be a loss of value as the expiration date approaches. This would make the property less marketable.

For the investor buyer, leasehold property can create a better return on their investment. The purchase price is less, the down payment is less, and the rental income could return a positive cash flow.

Things to consider when buying a leasehold property would be the time remaining on the lease, the renegotiation dates, and the likelihood of the fee simple interest being offered at a later date.

Leasehold property could well be the best buy for you!