



Fee Simple ownership gives the purchaser the most complete form of ownership. They obtain ownership of the land, property, and all the improvements upon the land limited only by zoning laws and other agreements associated with the deed or association. There is no limit on the duration of ownership. The owner may pass the property on to their heirs via their will.

Leasehold ownership is an agreement with a fee simple landowner. The purchaser is purchasing the structure and improvements, but leasing the land beneath all the improvements. The right to occupy the land is limited to the terms of the lease and they must pay rent on the land.

How exactly does a leasehold work? The land owner sets a term for the lease and establishes conditions which are set forth in the leasehold agreement. The leaseholder makes an initial down payment, then agrees to pay monthly lease rent that is typically set for a certain number of years with the potential of annual increases. At the end of the leasehold agreement, the owner may:

- » Offer an extension or renewal of the lease.
- » Offer to sell his interest making the “fee available” for purchase in which case the leaseholder will have the option to make a one-time payment and become the fee simple owner.
- » Not offer another term in which case the leaseholder is expected to leave and have no further ties to the property.

Why does Hawai'i have so much leasehold property?

Leaseholds find their origins in two historical events: The Great Māhele in 1848, which was the start of private land ownership in Hawai'i, and The Kuleana Act in 1850, which established fee simple titles.

Fee Simple and Leasehold agreements have pros and cons depending on buyer strategy. When considering a leasehold property, it is important to always speak with an attorney who is well versed in leasehold contracts. However, below are the general features the ownership types offer:

FEE SIMPLE OWNERSHIP

- » Own the property indefinitely.
- » Responsible for any mortgage payments, property taxes, property upkeep, etc.
- » Have the ability to sell, rent, or pass the property to another owner by way of will or trust.
- » Have full rights to the property as long as they are within the zoning laws and agreements with other parties such as associations or neighborhood covenants.

LEASEHOLD OWNERSHIP

- » Have a less expensive purchase price, lowering your initial investment.
- » Once the lease term is up, it may be extended, renewed, or the owner may offer to sell his interest making the “fee available” for purchase.
- » If the owner decided not to offer another lease, the leaseholder will have to vacate the property and have no ties to it.
- » Usually has a longer lease term than a traditional rental lease.
- » Depending on the terms of the lease, the leaseholder may be responsible for property taxes.
- » The leaseholder is responsible for the upkeep of the property.