



Fee Simple -vs- Leasehold Ownership

Understanding the difference between Fee Simple and Leasehold Ownership.

Fee Simple Ownership:

Fee simple ownership is probably the most familiar form of ownership of residential property in California. Fee simple is also called fee simple absolute because it is the highest and most complete form of property ownership. A fee simple buyer acquires ownership of the entire property, including both the land and any buildings. The fee simple owner does not pay ground rents, but does pay real property taxes. The fee simple owner has the right to possess, use and dispose of the land as they see fit; they can sell it, trade it, lease it to others, give it away, or pass it to others upon death.

Leasehold Ownership:

Leasehold interest is created when a fee simple land-owner (lessor) enters into a ground lease contract or agreement with a lessee. Lease land typically consists of long term land leases that are commonly renewed well in advance of their expiration dates and can be subject to change. A lessee buys leasehold rights much the same as one buys fee simple rights; except that leasehold interests differ in several important aspects. First, the buyer of residential leasehold property does not own the land: they only have a right to use the land for a predetermined amount of time. Second, if leasehold real estate is transferred to a new owner, use of the land is limited to the remaining years on the original lease. At some point in the future when the lease runs out or is not renewed, the land returns to the lessor, known as reversion. And depending on the provisions of any surrender clause in the lease, buildings and other improvements on the land may also revert to the lessor. Lastly, the leased premises may be subject to restrictions contained in the lease; governing use, maintenance, and any alterations. However, each land lease is unique and should be reviewed for the specific terms affecting a particular property.



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