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LEASEHOLD

LEASEHOLD PROPERTY :

A leasehold property refers to the property on the land that is leased to the property purchaser for a specific duration, yet the ownership belongs to the original owner. Owners will be needed to pay to expand the lease at the termination of the lease duration. Several banks do not finance a property where the lease duration is lower than 30 years.

LESSOR :

The lessor is the owner of the land or land with the building. Lessor gives away possession of the property for utilisation of tenant (Lessee), on rent and on some specific terms and conditions. Lessor clutches the right to receive ground rent as well as the right to reversion of land.

LESSEE :

Lessee is the tenant of the property of Lessor. Lessee holds in leased out property, according to the terms and conditions declared in the lease agreement. Lessee has the right to erect buildings on the plot as well as the right to receive rent from such constructions.

DEVELOPMENT RIGHTS IN LEASEHOLD PROPERTIES

This execution is followed chiefly because of the scarcity of new land in and around these cities. The original owner of the leasehold land is generally the government or local developmental officials, and the duration of the lease is generally between 30 to 99 years. The owner can opt to expand the term to 999 years.

The uncommon figure of 99 years is regarded as an approximate period spanning three generations. This signifies that in case you were to purchase a property in a project that was constructed on leasehold land, you would continue to be its owner only for 99 years or for any other lease duration, and the official/government will remain the chief owner. Once the building of a project is finished, the developer will transfer the lease in the name of the society formed. It is his responsibility to construct the project and pass it over to the RWA (residents' welfare association). Till the RWA is established, the developer maintains the project.

RENEWAL OF LEASE

Leaseholders can expand a lease in case they have lived in a property for more than two years and there are less than 80 years left on the lease. It is always preferable to expand the lease earlier, as the closer the expiration of the lease, the more expensive it is to renew.

LEASEHOLD RESTRICTION

Most of the leaseholders must abide by the rules and regulations enforced by the property owner. Such rules need the leaseholder to ask for the permission of the freeholder regarding any new happening or action in the property. Such rules and regulations are known as 'leasehold restrictions'.

There are basically four types of lease.

- (i) Building lease.
- (ii) Occupational lease.
- (iii) Sub Lease .
- (iv) Lease for Life.

BUILDING LEASE :

This type of lease is the most general in which open land is provided on lease for construction of a building. Lease duration might be 40 years, 60 years, 99 years or 999 years. Term of 99 years or 999 years is called perpetual lease. In this type of lease, ground rent for land use is paid by Lessee to Lessor and rent from building on the plot is received by the Lessee. In Government agency lease, such as M.I.D.C. lease, full premium amount is primarily charged and yearly lease rent is fixed at token amount of Rs.1/- per year only. Although in private leases total rent is divided in two parts. Advance rent (Initial premium) and annual rent. Some of these leases have a provision of term renewal clause. If lease term is 99 years, it is renewed for furthermore 99 years term at revised rent or same rent. In some other lease, there is a clause which needs surrender of building constructed on the plot by Lessee to Lessor, free of cost, on maturity of lease. Value of rights of Lessor and Lessee would all be based upon these clauses and terms of lease.

OCCUPATIONAL LEASE :

This lease is for use of land and building together. It can be land with building or ownership flat, ownership office or even shop. Ownership of land and building both are with the Lessor. These are rented out for short term period of 3 years, 5 years or 10 years. There is generally a provision of increase in rent after one year or two years interval. In India these types of leases are less for residential premises due to Rent Control Act. However such lease is very common for the commercial premises.

SUB LEASE :

In this type of lease, Lessee has right to sub-let property as per terms of lease agreement. Lessee therefore grants sub-lease for a period which is one year less than period of main lease. If main lease is for 99 years period, sub-lease has 98 years period. Again lease rent fixed under sub-lease is always more than the lease rent payable by Lessee to the Head Lessor under principal lease. Under sub-lease, possession of property is with Sub Lessee only yet there are three parties interested in the total value of the property viz. Head Lessor, Lessee and Sub Lessee. Value of rights of each one will depend on rental value and terms of principal lease and sub lease.

LEASE FOR LIFE :

Under this type of lease, period of lease is directly linked (co-terminus) with the future life span of the Lessee. On the death of Lessee the lease comes to an end. This type of lease is not common in India. Depending upon lease conditions, value of interest of Lessor and Lessee would change. Value of Lessor's interest in property normally consists of two parts. Capitalised value of ground rent income for unexpired period of lease. Present value of the right of reversion of the property (Land or land with building) at the expiry of lease period. Value of Lessee's interest in the property may consist of one or two parts. Capitalised value of net rental income receivable from the building, for unexpired period of lease. As Lessee would lose the building on maturity, provision for

recoupment of capital invested in building should be made by selecting dual rate table.

If the plot is not fully developed but is under utilized, in such a case, the Lessee would also hold interest equivalent to the present worth of the unutilized land.

FREEHOLD AND LEASEHOLD COMPARISON

Particulars	Freehold	Leasehold
Sale of property	Less paperwork	More paperwork
Ownership	Indefinite	Renewed after the lease expiration date
Pricing	High – paperwork	Low-priced
Buyer status	Landlord	Lessee
Definition	The Buyer owns the premises	The landlord rents the premises to the buyer for a set period.
Deposit requirements	Lower deposits	Higher deposits
Financing	Easier financing	Complicated financing
Tenure	According to town planning officials	Maximum 99 years
Benefits	Full ownership	Renewable by the end of the term
	Transferable through generation	Lessor is mainly responsible for property maintenance

