

# Leasehold and freehold, forms of property ownership



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Owning a property is a cherished dream for most Zimbabweans. The property purchase process which involves selecting the right location, the right property and the right price also involves a critical aspect of selecting the appropriate ownership structure. Property can be owned primarily in two forms, leasehold and freehold with several other derivations from these two ownership structures. The main difference between these primary ownership options is the legal ownership of the property and to some extent the initial property investment required. Freehold ownership is the outright ownership of land and buildings. This is commonly known as having title deeds over the land and immovable property. This means there is perpetual land ownership; whereby the owner of the land has no time limit to property ownership. The owner with freehold thus does not pay property rent to anyone. This method of ownership is preferred mainly by mortgage lenders due to its perpetual ownership attraction. Freehold ownership is more attractive in times when property prices are falling coupled with low mortgage interest rates which create an enabling environment to own property. The option also allows future generations to enjoy the benefits of a property in perpetuity through inheritance. The freehold owner is also at liberty to let his property or refurbish it without seeking prior approval from anyone besides the city council or town planner when it comes to structural refurbishments. On the other hand, with leasehold, a person has the right to use buildings or land for a set period of time, usually in return for a ground rent or normal rent but does not ultimately own the land or buildings. At the end of a specified time, the property will be handed back to the freehold owner. This is common with residential flats, commercial buildings as well as farms. Most leasehold

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arrangements have clauses which allow leaseholders to either purchase the land and buildings at the end of their leases or to renew their existing leases. Since leasehold owners do not ultimately own the property, they are not in any position to mortgage or use that property as security. Leasehold is more attractive when the tenure of leasehold lasts more than the optimistic view of life expectancy, such that there would be no incentive in spending more to acquire freehold status on a property. The leasehold option is also attractive despite the restriction in the use of property, as it allows the leaseholder a certain degree of control and property use benefits approximating to that of direct ownership. Unlike the owner in a freehold scenario, the leaseholder is not tied to the property and holds no other interest apart from renting the premises. The leaseholder is therefore free to pursue alternative arrangements for his or her benefit upon expiration of the lease. Buying a property under leasehold is much cheaper compared to buying a property under freehold. The difference in cost stems from the fact that a buyer under leasehold is only buying the right to stay in a building or use of land over a specified period. This cost differential sets leasehold as a preferred ownership option for buyers with limited funding. The purchase price, with freehold, reflects the value of the land and buildings as well as intangible benefits attached to perpetual ownership of a property. With freehold, a buyer can use the property as they wish since they own it unlike in leasehold, where agreements and covenants dictate use of a property and one is bound to comply with the lease obligations for the duration of the lease. For buyers who intend to onward lease the property or land they would have purchased, the lower price offered by leasehold is usually attractive as it provides an opportunity for achieving a higher rental yield

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than in a similar freehold arrangement. However, the higher yield with leasehold merely compensates the buyer for the expiring lease. As the lease expires, the value of the property falls. Rental yields achieved under freehold on onward leasing arrangements are not as good as in the case of leasehold, because of the initial high cost of acquiring the property. Since a buyer owns the land and buildings in a freehold, it therefore implies that the owner is solely responsible for all the repairs and upkeep of that property. This is unlike leasehold, where the leasehold owner will only be responsible for particular repairs as dictated by the lease agreement. Prior consent has to be sought from the property owner, if ever a leaseholder desires to make any structural improvements to a property under a lease. The best ownership structure at the end of the day depends on many aspects. These aspects include the preference of the buyer, financial considerations, ownership options available on the market, property market trends and economic cycles.