



KLEIN-BONN ADVISORS  
Wealth Through Real Estate

# INVESTORS GUIDE TO LEASEHOLD INVESTMENTS

PRESENTED BY: KB ADVISORS, LLC

# OVERVIEW

So you are a property investor thinking of investing in California?

Then, alongside some of the other differences in rules on purchasing property, you may have come across the terms 'leasehold' and 'freehold'. If you are not sure what they mean, this guide will explain each of these terms, as well as the advantages and disadvantages of each.



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# WHAT DOES FREEHOLD MEAN?

Freehold means that you are the **sole owner of a property**.

Houses or buildings: Freehold ownership means that you own the entirety of the building and, usually, the land it stands on.

Apartments: If you own the freehold for an apartment, then this will only include the 'internal' parts relating to your ownership; the common parts (such as the entrance, gardens, grounds, stairs and lifts, roof, loft and cellars) will be shared between all other apartment owners in a block.

If you own the freehold on a property, you can own it for as long as you wish and then hand it down to friends or relatives who may inherit the property in the future, without interference. The property will appear in your name on the land registry and this will be a major selling point in the future when you can transfer it to others.

Most houses in California are sold as freehold, unlike apartments and flats which are normally sold with short or long leasehold agreements.



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## ADVANTAGES OF FREEHOLD

You will not be asked to pay ground rent.

You have full control on the maintaining of the property

You won't be required by a landlord to contribute to potentially costly building repairs, maintenance and service charges

Sales with freehold are generally less complicated and involve less paperwork than complex leasehold agreements that may contain hidden restrictions.



1

You will have full responsibility for maintenance of the property and any repairs

2

It may take up more of your time to manage a freehold property

3

If repairs are expensive, then these will need to be paid for out of your own pocket rather than with the help of property occupiers

4

Buying the freehold on a leasehold property can be expensive.

## DISADVANTAGES OF FREEHOLD

## WHAT DOES LEASEHOLD MEAN?

Leasehold means that you own a lease on a property rather than own the property outright. A lease is, in effect, a license which permits you to use the building for a period of time. Like renting a property, you will need to follow certain rules and make regular payments to a landlord.

These payments are often called ground rents; they may also include service charges, depending on how a building is managed.

Investing in a leasehold property typically means that you are buying a lease which may last from 30 years to 999 years.



# WHAT DOES LEASEHOLD MEAN?

Some properties are sold with leases far shorter than this, so it is worth checking how long your lease is before buying, for two very important reasons:

1. The longer your lease, the more valuable your property is
2. If you want your children to inherit your property, then it is much better to own a lease which lasts for several hundred years.

Before purchasing a leasehold property, it is also important to check the conditions of the lease carefully.

Service charges can increase significantly over time on some leasehold properties and contributions to 'sinking funds' (funds to cover repairs and maintenance) can become points of conflict between landlords and residents.



## WHAT DOES LEASEHOLD MEAN?

If you own a leasehold apartment in a block, then the leaseholders may claim their rights to manage (RTM). This means they will take responsibility for the building management and appoint directors to oversee activities. In this instance, all the leaseholders (usually, but not always) automatically belong to the management company which is responsible for the building.

Any important decisions concerning the building as a whole, contribution to 'sinking funds' and service charges will be decided by a vote among residents rather than by a separate external management company or landlord which may not have the same interests in the residents. However, ownership of the property will still remain with the original owner or landlord.



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## ADVANTAGES OF LEASEHOLD

You can often share responsibility for maintenance and costs of repairs

Insurance and responsibility for the building ultimately falls upon the landlord

Leasehold properties are typically part of a larger block of properties where day-to-day management is taken care of. This can save time.



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1

You never fully own the property or have full control over it

2

There are many restrictions on your lease and rules likely to be set about pet ownership in the building, smoking and so on.

3

You may have little to no control of costs such as service charges and ground rents

4

Short leasehold properties are worth less than equivalent freehold properties

5

Short leasehold properties will, ultimately, be handed back to the landowner when the lease expires.

## DISADVANTAGES OF LEASEHOLD

# FREEHOLD OR LEASEHOLD – WHICH IS BETTER?

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From an investment point of view, a lot depends on the length of your lease. The longer the lease, the more the property will be worth.

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For example, if Mr Jones puts his apartment up for sale with a 50-year lease and Mrs Smith puts her identical apartment for sale with a 99-year lease. Mr Jones will only sell his apartment for 70% of the value Mrs Smith will get on her sale.

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Longer-term leases, such as the popular 999-year leasehold period, will see little difference in resale value in the foreseeable future - for example, the price for which you could sell next year will be very similar to the price if you sold in 20 years (disregarding inflation, etc). In theory there will be a problem for your distant ancestors in the next millennium but there will be little to be concerned about in your lifetime.



# FREEHOLD OR LEASEHOLD – WHICH IS BETTER?

From an investment point of view, blocks of apartments or commercial units in California will generally have some form of leasehold agreement attached to them so, aside from future value, it is always worth checking restrictions on what you can and cannot do without the permission of the landlord.

As long as you look carefully at the costs, responsibilities and obligations involved with your leasehold and include them in your return-on-investment calculations, there is no reason not to consider a leasehold property — unless the costs of ownership outweigh your returns



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It is sometimes possible to extend your lease, even at the point of sale. However, this can be expensive and requires legal advice from an expert in this area.

**EXTENDING YOUR LEASE**



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BUYING THE  
FREEHOLD ON  
YOUR  
LEASEHOLD  
PROPERTY

If you think that freehold sounds better than leasehold, you may have the right to purchase the freehold. This is known as 'enfranchisement'. Again, specialist legal advice is required to explore your options in this area.



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The differences between leasehold and freehold will affect your likely future return-on-investment. It is important, therefore, to consider how purchasing freehold or leasehold fits with your current investment strategy:

A leasehold property is by its nature a diminishing asset; but the longer your lease is, the more value it will hold in the longer term.

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If you are an investor who likes to be in full control of your assets, then freehold can often be the better option.

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**SUMMARY**



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# GROVER BEACH LEASEHOLD INVESTMENT

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# GROVER BEACH OVERVIEW

Tap Into Grover Beach's Medical Cannabis Cultivation Leasehold Opportunity to acquire "leasehold interests" in a city approved KB Advisors, LLC is pleased to announce the I03I Eligible Griffin Lease Hold investment opportunity for rental returns in a commercial warehouse located at:

750 Farroll Street, Grover Beach, CA 93433

Investment Per Unit	\$250,000.00
Monthly Rent Per Unit	\$ 6,250.00
Annual Gross Rent	\$ 75,000.00
Gross Cap Rate (Before Management Fees)	15.0%
Remaining Ownership Units Available	6



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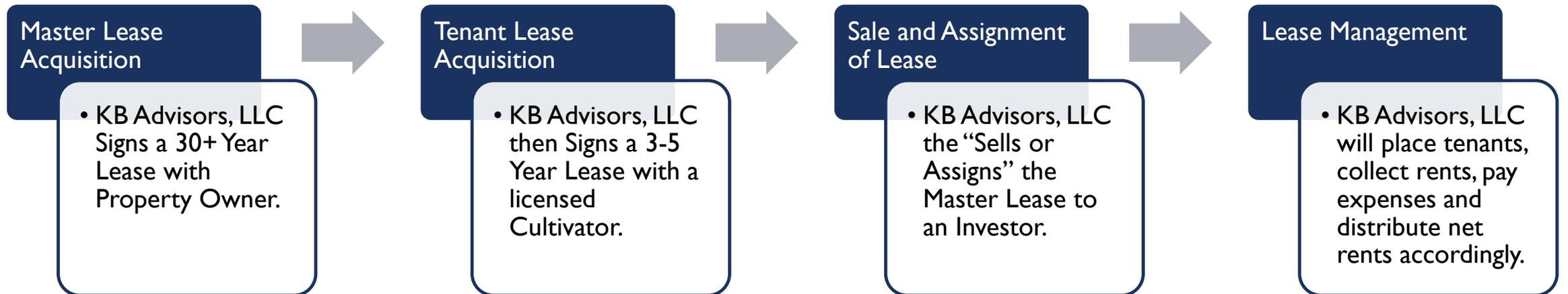
# GROVER BEACH INVESTOR EXAMPLE

The total Leasehold Purchase is for a 3 year term. Here's how returns would be calculated if multiple investors contributed to the total in a joint purchase.

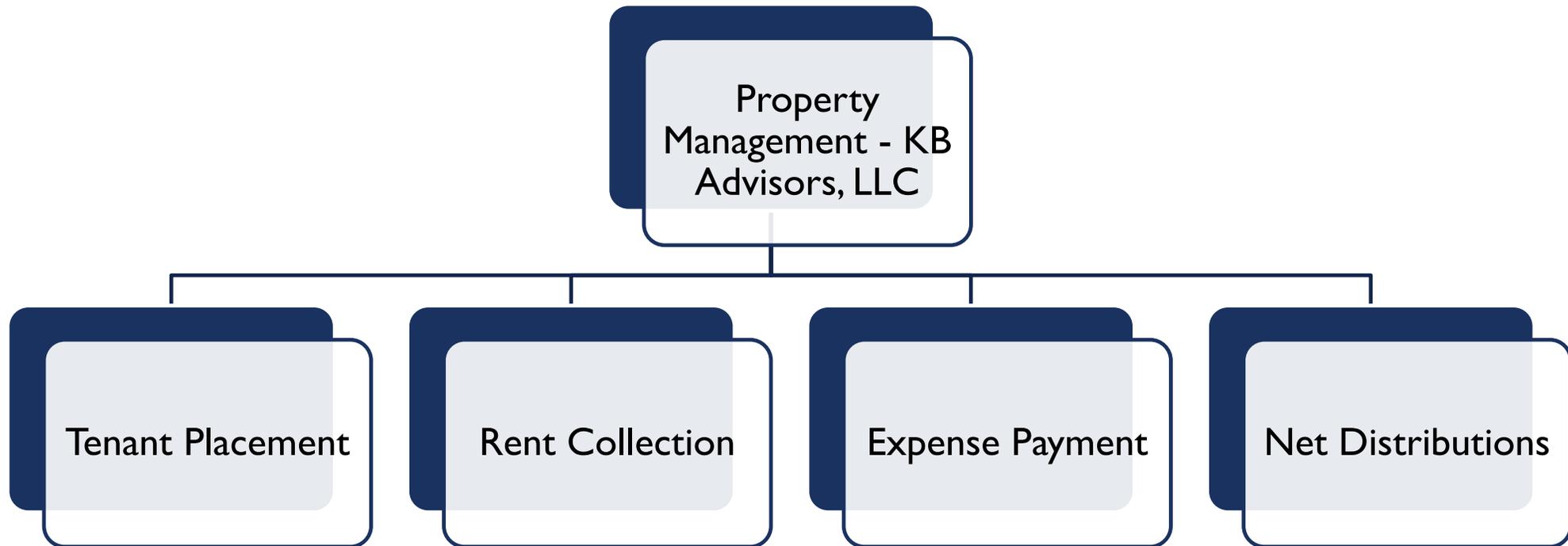
<b>CAPITAL CONTRIBUTIONS AND PROJECTED RETURNS</b>			
<b>Total Capital Investment</b>		<b>\$1,500,000.00</b>	
<b>Total Annual Return</b>		<b>\$225,000.00</b>	
<b>Total Return on Investment</b>		<b>15%</b>	
<b>Investor</b>	<b>\$25K Minimum</b>	<b>% of Return</b>	<b>Annual Return</b>
- Investor 1	\$500,000	33.33%	\$75,000.00
- Investor 2	\$250,000	16.67%	\$37,500.00
- Investor 3	\$250,000	16.67%	\$37,500.00
- Investor 4	\$250,000	16.67%	\$37,500.00
- Investor 5	\$250,000	16.67%	\$37,500.00
<b>Total</b>	<b>\$1,500,000</b>	<b>100.00%</b>	<b>\$225,000</b>



# HOW A LEASEHOLD INTEREST SALE OR ASSIGNMENT WORKS



# KB ADVISORS, LLC PROPERTY MANAGEMENT SERVICES



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# FREQUENTLY ASKED QUESTIONS



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**What is a Lease-Hold:** A leasehold estate is an ownership of a temporary right to hold land or property in which a lessee or a tenant holds rights of real property by some form of title from a lessor or landlord. The tenant holds equitable title.

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**What am I investing in?** An investment in a lease-hold is much like buying a rental property, but instead of owning a property by yourself, you own a fraction or a unit in a multi-unit property. As the owner of this rental unit, you are entitled to the income derived from the lease that is paid to the owner.

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**Example:** 750 Farroll Road is a 4,800 square foot leasehold that is being offered for \$250,000 for up to 6 units of ownership. The total annual leasehold return on investment is \$225,000.00 per year and will be divided by the number of units purchased in this investment. One ownership unit at \$250,000 will pay an annual return of \$37,500.

# FREQUENTLY ASKED QUESTIONS



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**What are the risks?** Investing in a leasehold is no different than investing in real estate. The typical investment risks include a changing market, tenant not paying rent, change in tax laws and uncorrelated market risks. The differences include that a leasehold is not an investment that can be leveraged, and the value of the real estate does not increase over time.

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**Who are the tenants?** The tenant is CannaCo California, LLC and/or other medicinal cannabis related entities specializing in cultivation, manufacturing, testing, or transportation industries. These tenants tend to be in a business with high-profit margins, low overhead and much demand. CannaCo California, LLC,s leaders have 16 years of industry experience and are one of only 141 licensed companies in SLO County who are licensed and eligible to produce.

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**How do I get Started:** Investing in the Grover Beach leasehold is no different than buying other real estate, with a few exceptions. After formalizing a purchase agreement, funds are wired into the Trust Account for the Custodian of the funds, Interactive Brokers. KB Advisors, LLC as property manager, will be the point of contact for investor questions. Rent payments will be released each Quarter January 5<sup>th</sup>, April 5<sup>th</sup>, July 5<sup>th</sup>, October 5<sup>th</sup>, for \$22,500 or the prorated month.

# FUNDING YOUR INVESTMENT WITH PROPERTY EQUITY



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- Due to the opportunity as presented, many investors are interested in leveraging existing assets such as real estate and brokerage accounts in these Lease Hold Investments. For those investors interested in getting a line of credit or doing a cash-out refinance, KB Advisors, can help facilitate the transaction.
- Since these investments are time sensitive, a typical 30-45-day conventional loan will not suffice. The process for time sensitive clients will be as follows:
  1. Client applies concurrently for both a line of credit and a conventional refinance at the same time. This will allow the client to close the first loan in 7 business days or less, while having a conventional loan in process at the bank, with a goal to refinance out the line of credit in 45 days or less (before a payment is even made)
  2. Day 1-7 Client submits lender required paperwork. Lender Funds loan or Line of Credit
  3. Day 8. Client invests Loan Proceeds into the Leasehold Investment, as if they provided cash

## CONTACT US

The good news is that the KB Advisors Team are all experienced property investors who have built up their own property portfolios from scratch. We are 100% certain that you will gain valuable information and advice from our team and, as such, you will be in a stronger position to make an informed choice.

We look forward to hearing from you and would like to take this opportunity to welcome you to the KB Advisors family.

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# SMALL PRINT

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## IMPORTANT INFORMATION

- We have prepared these sales particulars as a general guide to give a broad description of the property.
- They are not intended to constitute part of an offer or contract. We have not carried out a structural survey and the service, appliances and specific fittings have not been tested. All photographs, measurements, floor plans and distances referred to are given as a guide only and should not be relied upon for the purchase of carpets or any other fixtures or fittings.
- Lease details, service charges and ground rent (where applicable) are given as a guide only and should be checked and confirmed by your solicitor prior to exchange of contracts.
- The content relating to the past and/or current performance of an investment is not necessarily a guide to its performance in the future. The value of investments or income from them may go down as well as up. Prices quoted may be based on a conversion rate when the document was created and may vary. This is not a regulated investment for the purpose of the U.K. FSMA (2000), however as a registered member KB Advisors, LLC adheres to and follows the Code of Conduct of the Association of International Property Professionals (AIPP).



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