

Ground Lease

What is a ground lease?

A long-term real estate lease in which a landowner leases the land to a tenant, while the tenant develops, owns, and operates the improvements on the property during the lease term. At the end of the lease, ownership of the land and typically the improvements reverts back to the landowner, unless otherwise negotiated. Key characteristics of ground leases include:



Long lease term

Typically 30 to 99 years, allowing the tenant time to recoup investment



Landowner receives stable income

Ground rent is usually fixed with periodic escalations



Tenant is responsible for development

Tenant pays for construction, maintenance, taxes, insurance, and operating expenses



Improvements revert to the landowner

At lease end, the land and improvements revert to the landowner unless extended or purchased

Landowner Benefits

- ✓ Retain long-term ownership of the land
- ✓ Generate contractual rental income, subject to tenant and market risk
- ✓ Avoid development and operational risk
- ✓ Potential to receive a fully improved property at lease end

Tenant Benefits

- ✓ Lower upfront land acquisition costs
- ✓ Ability to develop prime locations
- ✓ Long-term control of the site
- ✓ Potential tax advantages compared to land ownership

Ground Lease Risks

Ground leases carry risks for both parties. Tenants face financing challenges, rising costs, limited control over land use, and uncertainty at lease expiration, while landowners risk property devaluation, tenant default, and potential disputes over improvements or lease terms.

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