

## **French 'Leaseback' explained:**

**Leaseback properties combine unprecedented and genuine long term rental Guarantees with very limited ownership costs and fixed finance repayments. There is no better vehicle for making a safe and predictable investment in bricks and mortar.**

### **Low risk 'Hands Off' property investments**

The Government incentivised 'leaseback' scheme has been around in various forms since 1976, it has proved itself as an efficient and attractive method of investing in property for many thousands of French nationals. However you do not need to be French resident to benefit from the advantages of investing this way. France is a mature property market with an established land registry system. In addition developers and management companies involved in promoting leaseback properties are generally large national or multinational businesses with many years of experience in this field. In most cases French banks, usually conservative in their approach to lending, are happy to lend investors the majority of the purchase price, underlining their confidence in the property, the developer and the lease agreement. As you will entrust your property to an established and professional management company you will not have any involvement in the day to day management of the property, you will simply be able to sit back, relax and receive your net rental income.

### **No Maintenance occasional holiday homes**

As well as appealing to investors leaseback can also be suitable for those wishing to combine investment with acquiring a holiday home. As many of the developments are tourist residences and designed specifically for their appeal to tourists then they are an ideal place to spend a few weeks each year. Depending on the lease agreement, in some cases you will be able to stay at your property for a specified amount of time each year, generally between 1 and 6 weeks – this will almost always result in a reduced rental yield, however many purchasers find that the balance between rental income with no running costs and personal enjoyment of their own property suits them perfectly.

### **Freehold purchase**

This is 'leaseback' and not Leasehold – as owner of the property you are the Freeholder and it is you who will grant a lease to the management company who will be your tenant.

### **Residential property**

These properties are residential in that they are designed for people to live in. However they are generally designed for short term stays and in most cases do not make suitable permanent homes.

### **Fully managed commercial lease agreements**

Although the property is classed as residential the lease agreement you enter into is based on commercial law, and investing in this type of property is deemed to be a commercial activity, this is one of the reasons you will receive a refund of the VAT amount paid. Your agreement will be with a substantial and professional management company who will then sub-let the property to generate its own profits while at the same time paying the ongoing expenses, insurance, utilities and day to day maintenance costs. Your lease agreement is not with the people who will use the property this means your tenancy agreement can be judged to be more secure than as in a traditional buy to let tenancy agreement where the person staying in the property is your tenant.

### **Long term rental guarantees**

There are few places in the world today where you can acquire brand new freehold property and benefit immediately on completion from genuine long term rental guarantees. The strength of both the market and the management companies combine to mean rental guarantees for 12 years and

longer are a reality in France. This is because in most cases the rental market for Leaseback properties is not driven by the strength or otherwise of the property market but by the Tourist Industry – this is an important point as tourism is France's most important revenue producer, France receives more visitors than any other nation on earth and as France is one of the worlds richest countries tourism is not just big business it is immense.

Rental guarantees are for a minimum of 9 years and yields range from around 3.5% to 5.5% based on the net purchase price and are always paid net of all management costs. In addition rental income is always indexed linked and will be reviewed either each year or every 3 years depending on the contract. Rental increases average around 2.5% p.a.

### **Tax incentives**

All new build property in France is subject to VAT at a rate of 19.6% in a non leaseback purchase this vat amount is absorbed in the price and most would never realise they are paying it. However as the Government wanted to encourage individuals to invest in this type of property (in order to provide much needed accommodation for tourists and visitors) the most obvious incentive they could give was to refund the VAT paid.

### **Built in Discount (VAT refund)**

The refund of the vat is effectively a discount on the actual purchase price of the property – as vat is added at 19.6% when deducted from the gross price it equates to a reduction of 16.4%. So each time you buy a leaseback you will receive 16.4% cash back. The vat refund is due after building completion and usually takes around 3 months to be processed by the Inland Revenue. Having said that in some cases the developers will improve the deal further by advancing the vat for you and claiming it back on your behalf, so you will not receive the vat refund because you did not pay it in the first place – this represents an instant discount.

This tax incentive is subject to conditions, the VAT refund is seen as an advance payment – in order to benefit fully you will need to hold the property for 20 years – e.g. if you receive a VAT refund of 20,000 euros this equates to 1,000 euros for each year (don't forget you receive this in advance) If at year 10 you sell the property then you will need to pay back to the French tax authority 10/20<sup>ths</sup> of the initial refund i.e. 10,000 euros. For this reason investing in leaseback should be seen as a medium to long term project. Having said that if you decide to sell at year 15 the 5/20ths you have to repay may be inconsequential compared to the potential 15 years of capital growth you will benefit from.

### **Easily financed (with low interest Euro Mortgages)**

The French banks believe leaseback property is a good investment and are usually prepared to lend up to 80% of the purchase price (subject to status) Mortgage rates are low between 3.5% and 4.5% and in some cases can be fixed for the entire term of the loan. Loans are almost always on a repayment basis (interest only loans without a repayment vehicle are not available in France)

### **Discounted purchase costs**

In most cases Leaseback properties are new build and as such benefit from on average a 50% reduction in purchase costs (Notary fees made up of various taxes and stamp duty) While existing property is subject to costs of around 7% of the purchase price new build developments typically have costs at around 3.5%.

**In conclusion French leaseback is a unique way to invest in a secure and stable property market and have the luxury of owning and in certain cases using a holiday home without the hassle. In addition it allows purchasers to plan their future with certainty - over a predetermined period rental income will pay back fixed interest borrowings and will create debt free income producing property assets over the medium to long term.**