



## Bright Property Abroad

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## French Leaseback Explained

One of the best ways to invest in French properties is through the French government's Leaseback Programme, introduced to encourage development and investment in tourism infrastructure in France.

It guarantees you income from the property you buy, at a relatively low up-front cost to you. Normally all maintenance costs are covered, and in most cases you can use the property for 2 to 4 weeks per year yourself.

The principal points are summarised as follows:

- Purchase outright a new property – fully furnished Purchaser entitled to reclaim Vat (19.6%)
- Property is leased to a management company for 9 to 11 years
- Management company gives an index linked guaranteed rental return to purchaser – yield typically 3.5% to 5.0% of the net of Vat & furniture purchase price
- In some cases Purchaser has option to part use the property – taking a lower rental yield
- Finance of up to 80% of the Net of Vat & Furniture price can be arranged with a French Bank

### What does 'Leaseback' mean?

You buy the property outright but you agree to lease it to a property management group (typically a hotel chain or similar) for rental for a fixed number of years (minimum nine). In return, you are guaranteed a net return on the rental of between 3.5% and 5% after all management and operating expenses have been deducted (but before financing costs and local authority taxes). This return can be free of French income tax and is index linked. In other words, the return should increase over the term of the lease.

### Why was it introduced?

Because of the shortage of tourist accommodation in France, the French government introduced this program in order to encourage people to invest in tourist property.

### What are the benefits?

- VAT Refund - The French government will refund the VAT at 19.6%. In other words, you are buying a property at approx. 80% of its asking price.
- Low risk -Guaranteed rentals of up to 6% per year, index linked. Choice - The qualifying apartments are all over France, but principally in attractive areas for tourism.
- Potential capital appreciation- France is one of the last countries within Western Europe that to date was spared the property hype and hike, instead offering steady growths and returns. In the first 5 years French Capital Gains Tax is charged at just 16%, each year thereafter the rate reduces by 1.6% until in year 16 it has reached zero.
- Potential rental increase - With the rent received being linked to the cost of construction index, you may get an annual increase of your rental income (as an indication, the construction cost index has increased by an average of almost 2% per annum over the last 10 years).
- Practically no French tax on rental income -The combination of the mortgage interest deduction and the property amortising will, in most cases, relieve you from paying French income tax on the rental income.
- Easy financing- Subject to some income level criteria a French bank will lend up to 80% of the price.

### What if I want to sell within the lease period?

As you own your apartment outright, you can sell at anytime within the lease period. You will however sell the apartment with the lease agreement for the remaining period of the lease.

NB – If you sell your property before 20 years of ownership, the French government require you to reimburse some of the VAT you were refunded. The refundable amount is equal to one twentieth of the Vat refunded for each year of ownership less than 20 years. Normally Vat refunded can be reclaimed by new purchaser.