

What you need to know about the French leaseback scheme

by Henry Powell-Jones

The leaseback concept was created by the French government in 1976 to encourage the supply of good-quality accommodation in the most popular tourist destinations throughout France. It was a forward thinking initiative designed to help France keep pace with its rapidly growing tourist industry and has proved enduringly popular. The idea was (and still is) that, by encouraging this sort of enterprise, the government could stimulate regional economies, which would then impact the economy as a whole.

How does it work?

In a typical leaseback scheme you buy a property such as a ski chalet or beach apartment in an area popular with tourists. The property is usually sold off-plan and you sign a commercial lease at the outset. This commits you to letting out that property through a predefined management company for a fixed period of between 9 and 11 years, which is automatically renewed unless

you negotiate to reclaim year-round usage. You can often use the property yourself, with different packages offering a fixed number of days each year. You could even use the property for up to six months each year, but of course the rental income would be reduced.

The advantage is that this rental income is guaranteed by the management company, meaning that you do not have to worry about rental voids. The management company also looks after the upkeep of the property and manages any problems, meaning that your investment will be completely 'hands off'.

When the commercial lease period comes to an end a new one can be negotiated with the developer, but the property could also be used by the owner or be sold. However, at the end of the agreed period, the developer usually has the right to renew the contract and, if you refuse, you must pay an agreed level of compensation. On the one hand this can seem unfair but, on the other, you know that the property will be

maintained and looked after for another agreed period of guaranteed income.

The process

The first thing that you will need to do is to sign a reservation contract and pay a deposit of between 2% and 5%. If you are buying prior to or during construction then you would generally purchase in the form of a VEFA (vente en état future d'achèvement). In a nutshell this is the sale of property as it will be, once completed. The good news is that French law offers good protection for buyers of VEFA property. The ownership of the land passes to the buyer on execution of the 'Acte de Vente' (Act of Sale) at the outset, but ownership of the actual property is only gradually transferred as its construction progresses.

Facts and figures – buying

You would typically put down a 20% deposit and borrow 80% of the value of the property (although it is sometimes possible to obtain up to 100% finance these days). You will also need to find

roughly 4% in fees, but a real bonus is that the VAT, which is currently 19.6%, is refunded by the French government. You need to bear in mind that this rebate can take up to six months, although some developers will bridge this gap themselves and offer you the instant discount. Another important point to consider is that the full VAT rebate is only available on a new build; if you want to buy a refurbished property your VAT discount will be less or non-existent.

Running costs, potential problems and exit strategy

You will receive a guaranteed return on your investment in the form of rental income. The net yield is usually between 4% and 5% and is linked to the French construction index, which typically varies according to inflation between 1% and 4%. Investors often pay an annual maintenance fee, which will cover all ongoing costs such as the fridge breaking down or furniture damage. If interest rates rise the yield will obviously lower unless fixed, but the opposite is also true. The mortgage interest rates in France currently vary between 5% and 6% and are usually capital and repayment only, although interest-only mortgages are possible.

By buying into a leaseback scheme you are committing yourself to paying a percentage of the management charges of the development. There will also be tax to pay and, although the tax allowances for these schemes are generous, it is worth consulting a tax expert or a French accountant. One great benefit is that, if the property is sold after 15 years, there will be no capital gains tax to pay in France.

Finally, look for 'inelastic supply', and by that I mean a market where demand is strong and there is limited supply; you don't want to be trying to sell in a marketplace saturated with other leaseback properties.

Is it a good idea?

The French leaseback scheme is a great option for those people wanting a low-risk, long-term investment. It's ideal as part of a pension plan, with excellent security and good potential for capital growth, as well as having tax incentives in the form of a VAT rebate and capital

gains tax benefits. It can form part of a retirement or lifestyle plan and is completely hassle-free once it's up and running. If you are thinking of investing in a leaseback scheme you should, of course, make sure you understand all of the hidden costs and do both your research and the maths first! If it's in a ski resort make sure that it's in one of the higher resorts to minimise any effects of climate change, and if it's on the coast make sure that the local infrastructure

will support the development and that the area will be a tourist draw. If you make the right choice the French leaseback scheme is a fantastic investment as it offers little money down, no hassle and good long-term capital growth. The French leaseback scheme continues to be popular over 30 years after its launch because so many parties benefit from the arrangement: government, developers, investors and tourists alike.

Why Invest in a Leaseback Scheme?

- 19.6% cashback
- Guaranteed rental income
- 10 - 15% per annum capital growth
- Low money down
- Pension alternative
- Low risk

