

INVESTMENT AND WEALTH PLANNING

QUESTIONS & ANSWERS –

Q. I am currently looking at investing in a leaseback property in France. Are there any down sides to this type of investment?

A. There are always potential downsides to making investments be they in property or stocks and shares or indeed other assets backed investments. However, having a clear objective in mind, understanding your attitude to risk and researching your target investment is a good start.

Some background on leaseback schemes may be of help. The French government introduced the leaseback scheme or ‘residence de tourisms’ in 1986 as a way to encouraging people to buy holiday accommodation for let to tourists. This had the effect of boosting tourism revenues and construction activity in this area.

The leaseback scheme is operated in many different overseas markets. In the French market the leaseback is: (1) the purchase of a freehold property, (2) Where a ‘holiday Company’ will take a lease on the properties and (3) pay a guaranteed rental to the new owner. The lease will be paid on a period over 9-11 years on a fixed rental, which is normally inflation linked. You will be paid the rent by the company regardless or not if they rent out the property at all times. It is for this reason that the strength and reputation of the operating /holiday company is a very important factor.

The additional benefit to the leaseback scheme in France is that you are not liable for VAT (TVA). This benefit offered by the French government offers a considerable saving of up to 19.6% of the purchase price. In effect you purchase the property at a saving of almost 20% (19.6%) below the market value, but you must keep the property in the scheme for at least 20 years to benefit fully.

Actual rental income or yields vary, but in most cases they will be marginally above the cost of borrowing when property management fees are taking into account. Also, location

and potential capital appreciation will be a key factor in determining rents or returns. In addition, if you decide to use the apartment for two or three weeks a year this may impact on rental income.

In relation to your investment decision, in the past, French property has not been a particularly good investment as prices have only tended to rise in line with inflation. While the market has heated up recently, prices have moved up from a low base and you will need to take a personal view on future rises.

The leaseback option gives a combination of relatively low risk, depending on the operating company and location, and potential for steady returns. However, in the main overall returns are more in line with deposit account products as opposed to property based investments due to rents being more secure.