



Leaseback Explained

The leaseback scheme was introduced some years ago by the French government as an incentive for buyers of new property to release their properties onto the rental market.

Rather than have second home owners using their property for just a few weeks of the year and leaving it empty for long periods, the government wanted to increase apartment availability in high demand tourist areas. This would be a huge boost to tourism in the area – resorts would be busier in low season as well as high, and local businesses such as restaurants and shops would be more profitable.

You buy the property from the developer and you are the freeholder, able to sell at any time you wish. You then lease it back to a major French management / holiday company who rent your property out to holidaymakers and give you a fully guaranteed rental income. You do not have to worry about finding tenants, key holding, cleaning, maintenance etc ... ALL these are the responsibility of the management company and paid for by them, giving you a completely safe, hands off, guaranteed investment income which is index linked.

In addition to this, the French government will refund to you the VAT element in the purchase, which in France amounts to 19.6% of the purchase price of new property, giving you a post purchase cash windfall and instant equity in your property.

You will also have the option of either a number of weeks use of the property, or perhaps use of the property with a reduction on the public rental rates. You may also be able to spend time at other developments around France or other countries where the management company looks after properties.

Mortgages are easily available for these properties – French banks realise that leasebacks are a good safe investment. For the investors amongst you, mortgage rates vary, so do the guaranteed rental yields on the various developments, but as a very general rule, assuming a 5% yield you would need to make a 30% investment in the property for the guaranteed rental to cover mortgage costs.

IMPORTANT LEASEBACK POINTS

- Well located residences in high demand tourist areas, so good capital appreciation.
- Residences always have good facilities to attract holidaymakers.
- Government refunds the VAT (19.6% of the purchase price of new property).
- Long term (usually 9-12 years renewable), guaranteed rental income net of all charges (except tax foncière).
- Your apartment is fully furnished and maintained by the management company.
- Mortgages of 80% of the full VAT inclusive price or even more available.

Purchase Procedure

The legalities of buying a property in France are very different to the UK or Ireland. The notaire does not work for the seller or the buyer, but is answerable to the French Ministry of Justice and it is his job to facilitate a fair and legal transfer of the property. It is not therefore necessary to appoint your own legal representative in France, but you may do so, and they will share the notaire's fees.

Should you wish to have the added peace of mind of having a full English speaking service with translation of all contracts and legal and taxation advice throughout we can supply you with a quote from our recommended company.

If you are interested in buying a leaseback property, we cannot stress strongly enough that you have to act quickly. Once you have identified a development and apartment that you would like you would normally call us to put an option on the apartment for a few days. This is not an option whilst you decide whether or not to buy, but a few days given to UK purchasers for them to arrange the transfer of the deposit (usually 5%) to the notaire handling the sale. This is an option not afforded to French buyers who would have to pay the deposit immediately!



Leaseback developments are *very* popular with French, British and Irish investors and many projects will be 70% sold within hours of the launch. They are sold off plan (apart from renovation projects) so there are usually no sales offices or show homes. To accompany your deposit payment you will send an “Etat Civil” or personal information form to the notaire. You will be sent a reservations contract to sign and return, which will include a “clause suspensive” stating that should you fail to obtain any necessary mortgage, you will have your deposit returned. French property transaction laws are very strict and at all times your money is safely held in a notaire’s “compte special”, an escrow account.

The notaire will then carry out his work, much as a UK solicitor would do and around two or three months later you will be asked to sign the “Acte de Vente”, the final contract – either by attending the notaire’s office or by power of attorney arranged through a notary public in your own country. Note that this will almost certainly be before a stone has been laid. This is the normal practice with off plan property purchases in France. Stage payments are then due as the building progresses. If a mortgage has been arranged the bank will take care of these payments automatically. Depending on the mortgage company, interest payments can be reduced and partly deferred until building completion, but any interest payments made will hopefully be more than compensated for by the capital appreciation in the property.

Once the building is complete you will begin to receive your rental income, and apply for the rebate of VAT.