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Holiday homes without the hassle



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From Sofia to the South of France, growing numbers of Brits are looking abroad for property investment opportunities. But with inherent difficulties in managing a property rental when you're many hundreds of miles away, are there any other more hassle-free ways to get on the overseas property ladder?

In France there is and it appears to be getting increasingly popular. It's called the leaseback. According to Pierre et Vacances, a holiday company with a major presence in France, leasebacks, which are already popular with French buyers, are becoming increasingly popular in the UK. Last year, its London office sold 260 leasebacks on French properties to UK buyers.

So what exactly are they? The principle behind these schemes is relatively simple and the tax breaks can be attractive. With a leaseback you buy a property at its market value. You then lease it back to a management company which normally looks after matters such as upkeep and the payment of utility bills and insurance.

In order to get the generous tax breaks under French law, you have to sign up to a leaseback of at least nine years. Under this arrangement, the management company agrees to pay you an annual yield (sometimes there are guarantees underpinning these yields).

But the real sweetener to these deals is that you can get your VAT back. If you are buying a new property and sign up to at least a nine-year leaseback, VAT of 19.6 per cent of the purchase price is reimbursed. This incentive was put in place by the French government in the 1970s to encourage investment in holiday rental properties to support France's massive tourism industry. You can also get a VAT rebate if you renovate an existing property, although these rebates are usually less generous.

Recently a further tax incentive was introduced. Now, if you sell a leaseback property before the nine-year period is up, provided you sell it to another leaseback investor, the government will not seek to claw back its VAT rebate. Previously an early sale would have meant you had to pay back all or some of the VAT rebate.

So what about the numbers? According to Pierre et Vacances, a typical property under its leaseback scheme costs around €250,000, although prices range from as little as €70,000 for a studio in the Pyrenees to as much as €2.2m for a five-bed ski chalet in Courcheval.

If you opted for a €250,000 investment, this could buy you a two-bedroomed cottage in a Centre Parcs site in Moselle in Lorraine, south of Strasbourg. As this is both

a new development and a leaseback scheme, you effectively would not have to pay the standard VAT charge of 19.6 per cent.

Yields on these schemes vary depending on many factors such as the location or type of property. But, under P&V's schemes, a typical yield, after all costs, is around 4.5 per cent. If your mortgage is in euros, this should be enough to cover your mortgage costs but this will depend partly on how much you are borrowing.

What is more, this yield should hopefully rise over time as yields are usually linked to the "dwellings index of France". Over the past decade this has risen by around 3 per cent annually. Many schemes also offer "guarantees" that this yield will be paid regardless of whether your property attracts tenants or not, although potential investors should look closely at these guarantees as some are more valuable than others.

But what if you want to holiday in your property? If you want to spend several months a year there, then these schemes are probably not for you as this will have a very significant negative impact on your rental yield. Also if you plan to live in the property later, you should look elsewhere as leaseback properties are usually only suitable for holidays.

If you just want to stay a few weeks annually, however, then leasebacks can make sense. Taking three weeks in prime season might reduce a typical rental yield from 4.5 per cent to 3.8 per cent. On a typical property worth €250,000, this equates to around €1,750 for three weeks' stay. The only other cost you usually have to be aware of is council tax. In the above example, this would set you back around €600 to €700 a year.

At the end of the nine-year period, you are then free to negotiate another leaseback or sell your property. But how profitable these schemes will really end up being is mostly down to capital growth. And this of course is much more difficult to predict.

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