

FRENCH LEASEBACKS

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INTRODUCING FRENCH LEASEBACKS

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- **Vat Refunded at 19.6%**

- **Index linked rental income**

- **Potential capital growth**

- **Agreed periods of free use**

Many people dream of owning a holiday home or investment property abroad, but are concerned by a whole host of potential ownership difficulties. There is however an established scheme in France which allows for both the purchase of a holiday home, and which also provides a guaranteed income year on year.

The leaseback scheme, or Residence de Tourisme, was established in France in 1976. It is a Government backed scheme designed to increase available tourist accommodation in France with a view to increasing income from tourism. It is open to non-residents and is becoming increasingly popular in the UK as either a pure investment with a guaranteed income, as a holiday home option, or indeed both.

The scheme works by purchasing a freehold property. You become the legal owner. The property is then leased back to the developer or a management company. Under the leaseback scheme the government also refunds to you the VAT normally charged on a new build properties (currently 19.6%).

The owner is then guaranteed a rental income throughout the period of the lease. The net return to the owner varies between developments but is typically between 3.8% to 4.5% This compares very favourably with a typical 20 year

fixed rate mortgage of around 3.75%, and variable rate mortgages which are lower. It can be seen how the rental income can be used in respect of the mortgage payments. Loans of between 75% and 85% are available depending upon circumstances. The rental yield is also index linked annually to construction costs, which means the rental income currently increases by approximately 2.5%.

As in the UK there are tax allowances in respect of mortgage payments which can be offset



Belle Plagne home of some excellent leaseback projects

against income. The lease typically lasts for between 9 and 11 years, after which the management company has the option to either renew, or the property can be sold, or rented out and held privately by the owner.

The purchaser/owner can also enjoy periods of usage free of charge through the year, depending upon the terms of the lease. These terms normally allows for between 4 and 6 weeks free usage each year. The management company is responsible for all the maintenance of the property including the maintenance of furnishings which are often included

in the purchase price. The developer is also responsible for insuring the building and its contents. It also pays for some of the property taxes and all the utility costs.

Naturally it is important to appreciate the potential pitfalls. Consideration should be given to the options available on completion of the lease. The risks of the developer or Management Company going into liquidation can be reduced by dealing with large well established companies with a proven track record. Remember that whatever happens you retain ownership of the property. It is also important to understand the differences between UK and French mortgages and legal structures.

However Leaseback offers the combination of purchasing a new select property, linked to a guaranteed rental income providing greater certainty in financial planning matters. It provides for an exciting investment opportunity that can also be enjoyed for periods throughout the year, or loaned to family and friends. In addition French property prices continue to appreciate by over 10% per annum, and there is therefore scope for capital growth.

Potential problems can be overcome by careful planning and appropriate advice and Affordable Homes in the Sun can assist in all areas from the selection of the right property and developer to sound financial advice

WHAT IS THE BEST LEASEBACK FOR YOU?

Buying a leaseback in France offers up a number of interesting but also exciting options.

Leasebacks are available in all parts of France which attract tourism, including ski and coastal resorts and cities.

Companies also offer different incentives depending on client interests and priorities.

If your leaseback property is a lifestyle as well as just a long term investment there a number of options available providing you are prepared to take a lower annual rental return.

For example if you are a keen skier and you would like to use your property for your own use there are schemes which will allow up to 6 weeks personal usage (normally 2 weeks Peak, 2 Mid and 2 low season).

However you must remember that your rental return will be reduced.

However other options do exist.

Patrimoine a large development company in the South of France have devised the 'Nomad Card' .

This card is given to all their owners of their investment leaseback properties and allows the owner 12 weeks of holidays in over 30 resorts across France including apartments and villas in the South of the country, Aquitaine, the mountains and countryside.



Owners of the nomad card have exclusive access to their own internet site and can plan their holidays knowing that the maximum cost per week will be 50 euros (including utilities).

Looking for the right leaseback will take some research but there are many

options for you to look at

Many investors have investigated cities in France undergoing rapid change and development and as a result properties in places such as Perpignan and Montpellier have sold well due to the potential of capital appreciation.

In the Alps many UK buyers look for high altitude and good communications. The popularity of Le Gets and Avoriaz (within an hour of Geneva) are a testament to this.

Others have a strong personal link to the area they purchase. For example St Foy has been discovered by many UK purchasers who love quieter resorts with a reputation for off piste excitement. Hence a large investment from UK buyers.

Whatever your decision our advice is do your research and decide what your property is going to be:- A lifestyle or pure investment, or a combination of both.



Many Leaseback choices exist



“Investors in French leaseback properties have a range of choices from cities to the Alps”



LEASEBACKS FREQUENTLY ASKED QUESTIONS

Are French Leasebacks the same as Timeshares?

No, not at all. Timeshares mean that you simply get to use a property during set periods of the year. Unlike a French leaseback, with timeshares you are not the owner because once the term comes to an end, you are left with nothing. When you purchase a Leaseback property, you are the actual freehold owner of the property. You simply agree to rent it out to a particular tenant (a management company) for a period of usually 9 years. After the leaseback agreement ends, the property is yours to do with as you wish. The only similarity with timeshares is that during the lease, you can only use the property during specific timeframes agreed with the management company.

Are leaseback properties always new builds?

Generally, most leaseback schemes involve newly built apartments, although some major renovations or refurbishments can be included in the scheme. The scheme allows a full VAT refund if the development is brand new and you will also benefit from reduced notary fees.

What happens when the Leaseback period comes to an end?

You are free to live in the property or sell it on. If you do not wish to sell or live in your property, then you need to give the management company first choice on renewing the lease. Generally the easiest and most common decision is to sign a new commercial lease with the management company as the benefits of the scheme will still outweigh the inconvenience of letting it yourself.

Is my rental income guaranteed?

The rental income is guaranteed throughout the period and is usually paid quarterly in arrears. The rental companies who pay the rent are usually large holiday companies with substantial numbers of clients and property portfolios (for example Center Parcs).

These rentals are indexed to construction costs (the INSEE Index of Construction Costs) which means that every year as construction costs increase, your rental income increase as well. Your return is evaluated each year. The worst case scenario is that you always get your original guaranteed return.

What happens if I want more than my allocated weeks?

If you want extra weeks, above and beyond the number which has been allocated to you, then the majority of management companies offer these to you at discounted rates. In the case of one developer they offer you a 12 week 'Nomad Card' which allows you to stay in any of their 30+ resorts for a maximum cost of 50 euros per week (Excl July and August)

How much are the notary fees?

The notary fees are the same as in a classic purchase. If your leaseback purchase is a new build as are the majority on our site, then your notary fees will be around 2.5% - older resale properties (which are rarer in leasebacks) are around 7.5%

Would I make more money by buying a property outright and letting it myself?

Leasebacks are really a long term investment, to be seen as a means of earning you an extra income in the years to come. You could make more money by buying a property to rent out but you would not have the income guaranteed (particularly during those periods with low occupancy) and you would be responsible for all costs (including maintenance, changeover, laundry, cleaning, gardening, advertising, etc) as well as being responsible for such things as dealing with any emergencies that may arise. If you wished to use the services of a management company, they can take up to a half of

Your rental income in their fees. You would also not receive your VAT back or have other benefits such as furniture replaced etc.

Is the lease always for nine years ?

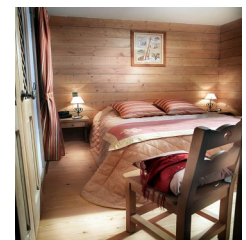
No, although nine years is the most common period, the leaseback companies can ask for any period from nine years (the minimum) upwards. Another common length for a lease is 11 years.

Could the management company become bankrupt ?

All leaseback companies are required by law to have professional indemnity insurance in order to protect you. Affordable Homes in the Sun minimises any risk by only using companies with a long established reputations



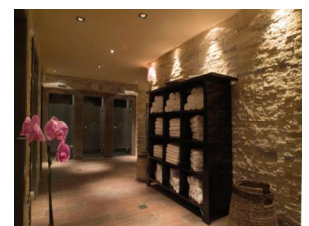
Stc Foy en Tarentaise Leaseback Apts



Internal Finishes at St Foy

"The French buy-to-let market, particularly the leaseback property sector, is reportedly attracting particular interest from global investors, due to the low-risk, hands-off, nature of this long-term French property investment vehicle."

Focus on France,
2010



Leaseback properties usually come with excellent secondary facilities including wellness

FRENCH MORTGAGES FAQ'S

Your questions answered

How much can I borrow?

Most banks will lend 80% of the price, with some lending 100%, plus the purchase costs.

Currently, all mortgages are status mortgages, meaning that the banks will look at your income and outgoings. Banks will allow you to spend up to a third of your gross monthly income, less any existing monthly repayments on loans. They will also take a proportion of existing and future rental into consideration.

What are current French rates?

The rates are generally 1-2% lower than UK interest rates. The Euro Interbank Offered Rate (EURIBOR) is used as the base rate, and generally there will be a margin of 0.5%-2% above this.

Check on line at the European Central Bank

What is the mortgage application process?

The process of receiving an offer can take anywhere from a few days, to two or three months depending on when you produce your documentation and how quickly we can achieve final approval from the bank.

Once you have decided on your French mortgage, you will need to send us the required supporting documentation. When the bank has a complete file, they will send you a final simulation, before sending the file to their lending committee for approval, before the loan offer is made.

Upon receiving the offer, you must wait a minimum of 10 days before sending it back - "a cooling-off period". You have one month to accept the offer. After you have accepted the offer, it is valid for up to eight months depending on the bank. You must complete the purchase of your property during this period. Extensions can be obtained in exceptional circumstances.

What is the Euribor?

The Euro Interbank Offered Rate is the rate at which French banks and institutions lend money to each other. This is usually the base rate at

the time plus a margin: for one month (+ 0.1), three months (+ 0.2), six months (+ 0.3) and 12 months (+ 0.4). Most French banks with a variable rate base their rate on the Euribor 3 month plus their margin.

What are the terms involved in getting a French mortgage?

The bank will charge a set-up fee, and will require you to take out their life assurance too. This varies from bank to bank. There is also "frais de garantie", a mortgage registration tax which varies from 2% for lower priced properties to 1.25% for those in a higher bracket.

Some banks will arrange an account for you, while others will expect you to do it yourself. Your Athena Mortgages consultant will advise you on this, and help you set one up if necessary.

All the costs above are laid out in our Mortgage Information sheet - which you receive with your quote from Athena Mortgages.

How can I secure the rate?

In order to secure the rate that you have been quoted, it is necessary to send us all the required documents for the loan application. Upon receipt we can forward them to the bank that day, and reserve the rate for you. Rates can change twice per month so speed is essential.

Can I borrow if I am self-employed?

Yes. There are several ways to present the information to the bank - your consultant will find the best option for you. What are the advantages of a French loan?

In general, the rates are 1-2% lower than comparable UK rates, and the interest on French loans is tax deductible. For investment purposes it is better that the exchange rate risk from sterling to Euro is on the monthly repayment, rather than the whole value of the property.

What are the early repayment penalties?

With a fixed rate loan the repayment penalty will be no more than 3% of the amount you are paying off early. There are generally no repayment

penalties for variable rate loans. Please check this on your mortgage offer.

What are the payment options during the construction of a property?

Most banks will offer the opportunity for you to pay interest only on the sums drawn down by the developer during the construction. Some banks will offer the opportunity of deferring all interest payments on the drawn down sums, and the addition of these sums to the loan amount. In effect, interest is accrued on the sums used by the developer, but the borrower does not pay them. These sums are added to the final loan amount. During this period the borrower will still pay life assurance. This period can last up to 36 months. Full payments can be deferred until the borrower receives rental income from a buy-to-let or leaseback.

Can I defer my payments?

We can generally arrange a payment holiday for up to three years. During this time the interest on the loan is accrued but not paid. Life assurance payments will be required during this time.

What is non resident income tax?

Income tax liability of 25% is charged for French non-residents, who are members of the EU. This liability can be offset against:

- Purchase costs
- Furniture
- Loan Interest
- 80% of value of property

It should be possible to avoid paying any French income tax, over a period of 20 years, as a non-resident - depending on how the purchase is structured.

What is the Capital Gains Tax rate?

16% for EU residents - it reduces by 10% a year, from years 5-15, so is effectively nil after 15 years. But please confirm your tax situation with a qualified advisor.



Biarritz Leaseback

"According to recent reports, the compound average appreciation in property values in France for the period 2000 - 2007 was 9.8% per year."

FT.com, 2010



FRENCH PROPERTY NEWS

October 2010

Transaction numbers increasing

Recent figures show that the transaction numbers are increasing in France, providing a knock-on effect on French house prices. The number of transactions annually stood at around 800,000 or more for the five years preceding 2007, before sales numbers across France began to fall. The main reason for these falls was a combination of very high interest rates and inflation just prior

to the financial crisis and the collapse of confidence thereafter.

This continued until the middle of 2009, when annual transaction numbers stood at just over 550,000. It is no surprise that as mortgage finance became more affordable, and the end of the world didn't materialise, people were drawn back to the market, especially as in some cases buying was cheaper than renting.

Since mid-2009, the number of completed house purchases in

France has risen by around 100,000 per year. The figure now stands at just under 650,000 with the v-shaped recovery continuing.

House prices have followed more or less exactly the same trend, with mid-2009 seeing prices start to rise again, and this upward trend has continued. While transaction levels remain below their peak, bargains and discounts will still be possible to find but these will become rarer as the market picks up again.



5 TIPS FOR BUYING A SKI CHALET

1 Choose the right resort –With hundreds of resorts dotted across the Alps, the choice can seem daunting. Think about what you want from a resort: the reliability of the snow (check the altitude), variety of runs, access to off-piste, number of ski lifts, cost of ski passes, availability of lessons and the all important apres ski facilities.

If possible take time to visit your favourite resorts, speak with local residents and other property owners to get a feel for what life is really like in the area – both in winter and summer.

2 How are you going to get there?

The volcanic ash cloud earlier this year affected many skiers travel plans with flights from the UK to popular Alpine access airports such as Geneva and Grenoble

suspended. Reaching your ski property by air is often the cheapest, easiest and quickest way however owning a home near train stations such as Moutiers, Aime-La-Plagne or Bourg St Maurice which are served in only 7 hours by the Eurostar ski train direct from St Pancras International offers you and potential renters greater choice.

3 What to buy? The Alps offers a wide range of property types from purpose built apartments to grand chalets of traditional design.

Of course what you choose to purchase will be influenced by your budget but most buyers opt for affordable apartments located in purpose-built developments close to the resort.



The View from the development

4 Maximise your investment

Unless you are relocating to the Alps, your ski property will most likely stand empty for some periods of time. Why not maximise your investment by renting the property out either directly or via a management agency?

Purchasing a leaseback ski property is a very popular option as it allows you to enjoy personal usage as well as a guaranteed income as the property is rented out by experienced management companies to holiday makers year round.

5 Consider finance options – Contrary to popular belief, owning a ski property in the Alps can be affordable. Mortgages are widely available through brokers such as Athena Mortgages who arrange 1 in 5 mortgages for property in the Alps. Leaseback properties also offer finance packages, in some cases up to 100%, this combined with the rental guarantee makes them even more attractive to buyers.

A typical studio apartment will sleep 2 people and a one bedroom, 4 people with kitchen, bathroom and a ski locker for storage. Consider the location of the desired development; is it truly ski-in ski-out? How far is it to the lifts and essential amenities?



A St Foy Leaseback development

Sale and lease-back is equivalent to a French state-sponsored buy-to-let scheme.

The big difference being that it operates within a set framework and instead of adopting a get rich quick mentality, aims to be a low risk long-term investment.”

Thisis-Money.co.uk, 2010

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**WORKING TO FIND THE RIGHT
PROPERTY INVESTMENT FOR YOU**

Applying for your French mortgage



A number of documents are required for your mortgage application. We've listed everything you'll need below – we advise making a start on gathering them as soon as possible.

List of required documents to apply for a French Mortgage

PERSONAL DETAILS

- Copy of all borrowers' passports
- Copy of marriage certificate if applicable
- Copy of divorce agreement if applicable
- Proof of home address (utility bill, council tax, etc)

PROPERTY DETAILS

Copy of signed reservation contract

FINANCIAL DETAILS

- Proof of personal contribution (savings account, bonds etc)
- Last 3 months bank statements, for each borrower, for all accounts.
- Proof of any extra income. You will need to provide tax returns showing rental income, pensions and dividends.
- If you are not a home owner you must provide your rental agreement and proof of the rent you pay.
- If you have other loans, you must provide monthly statements showing the loan amount, monthly payments, and the loan expiry date.
- If you pay council tax, you must provide the statement or invoice.

EMPLOYMENT DETAILS – EMPLOYED BORROWERS

- Last 3 months pay-slips
- Last 2 P60s

EMPLOYMENT DETAILS – SELF-EMPLOYED BORROWERS

- Last 2 Tax Form 11s for Irish borrowers
- Certified accountant's letter stating income for last 2 years
- Last 3 years company accounts

APPLICATION FORMS

- Mortgage application forms
- Life insurance questionnaire
- French bank account application form

Mortgage applications will be handled quickly and easily if you can provide all of the above. It will take longer if you don't supply these documents. Banks may ask for extra documents, but the above covers most applications.

Affordable Homes in the Sun Ltd are proud to be associated with Richard Stalley Investments.

All of Affordable Homes in the Sun development teams in France are considered to be the very best and this includes Pierre Vacances, La Grange—Patrimoine, Terresens and Patrimoine

We believe in finding our clients the right leaseback whether it is a pure financial decision or a combination of lifestyle and financial investment.

Our promise to you is that we will work tirelessly in your interests to find the very best properties for you and your family.

Kim Eeles—Managing Director Affordable Homes in the Sun



Belle Plagne



Le Gets



St Foy