

# France entices apartment buyers to bare all

## Overseas property

Big discounts and price rises can be achieved, as long as you forgo all use, says Faith Glasgow

A new French property scheme is being offered to cash-rich UK investors looking for a secure long-term home for their money. Known as "bare ownership" – or "nue-propriété" in France – it has been part of the French property landscape for more than 200 years, but has not so far been promoted to foreign buyers.

Rather than appealing to investors seeking a holiday home across the Channel, bare ownership is a proposition for those who have at least €100,000 to invest for 15 to 17 years – and who are interested solely in capital uplift, rather than use of a property, during that time.

It takes its name from the legal distinction between "bare" ownership of a property and the right to use and benefit from it.

This distinction is one that French urban councils exploit to source additional housing. When a property developer seeks planning permission for a new scheme, a council may grant it in return for the use of a small number of units in the development on a fixed-term lease – typically of 15 years. The council can then let these units to top-tenants: senior

public-sector staff or company managers on secondment, for example. During that time, all maintenance costs, property taxes and related charges are the council's responsibility.

Clearly, developers cannot sell these properties to buyers who want to live in them, or to landlords seeking rental income. So they seek investors who are prepared to forgo all use of the property for the term of the lease.

To make buying an unusable, unrentable property worth an investor's while, the developer offers a dis-

'Notaries report capital appreciation of around 30 per cent over the past five years for apartments in Paris'

count of 40 to 50 per cent on the purchase price.

As François Marchand of Erna Low Property – which has just started to market the concept in the UK – explains, the discount amounts to "the equivalent of all updated rents, net of costs, taxes and charges, that the owner would have collected over the lease period if he or she had invested in full ownership".

At the end of the lease, the council renovates the apartment and hands it back to the owner with full rights of usage. At this point, the owner has three options: become a landlord

and rent the apartment out; live in the property; or sell it and pocket the profit.

Marchand outlines the following scenario: "If a property was for sale at €200,000, you would get a 40 per cent discount for bare ownership, so you'd pay €120,000. During the next 15 years, you would have no outgoings to pay on it. Assuming capital appreciation of 3 per cent a year, you'd be able to sell it after 15 years for €311,590 – a profit of €191,590, amounting to a 160 per cent return on your initial investment."

For French taxpayers, the scheme is even more appealing because there's no capital gains tax to pay after 15 years' of ownership. In addition, bare ownership of a property is not liable to French wealth tax (ISF), which currently affects people with more than €1.3m of assets.

Even so, there are other factors to consider before opting for bare ownership.

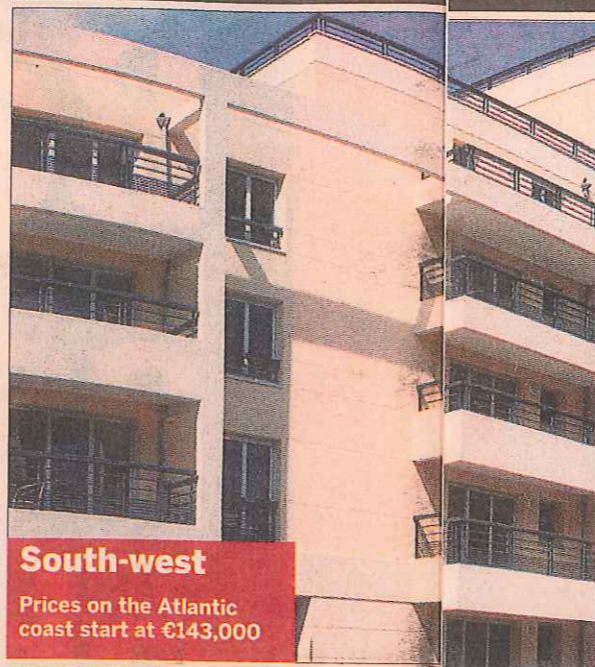
● **Costs:** You need to budget for a discounted price of between €100,000 and €300,000 (though you could pay more). There is no rental income to cover mortgage interest costs, so bare ownership is typically most attractive to cash-rich individuals.

● **Location:** These schemes tend to operate in busy cities – Nice, Lyon, Toulouse, Paris – where business is thriving and demand for smart apartments to rent or buy is well supported. That means the best bare ownership apartments are often quickly snapped

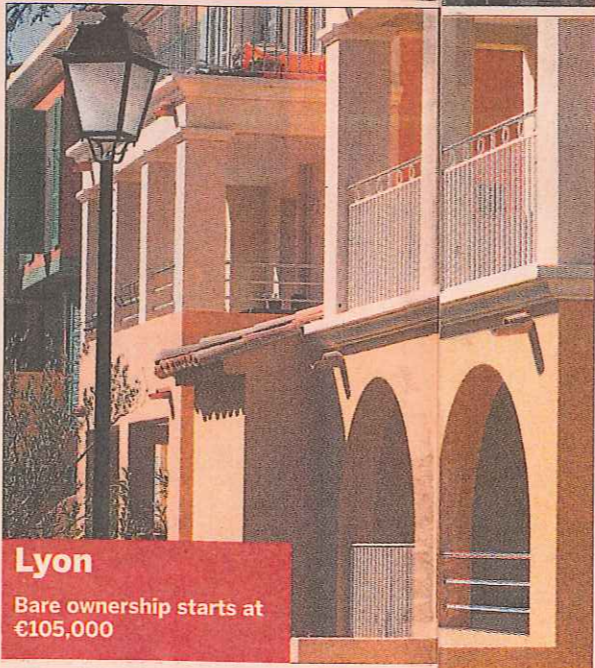
on the net wealth of households, minus any debts used to acquire an asset.

Under the proposals, fewer people will have to pay the wealth tax as the government plans to increase the threshold at which the tax becomes pay-

## Acquire some cachet



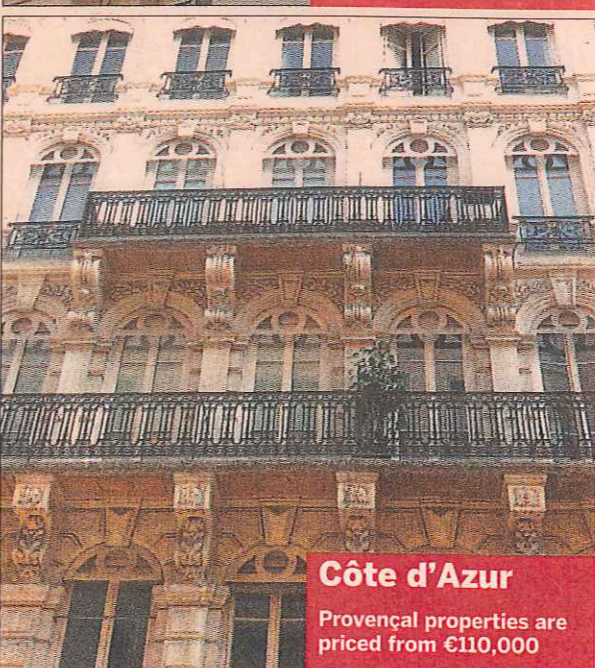
**South-west**  
Prices on the Atlantic coast start at €143,000



**Lyon**  
Bare ownership starts at €105,000



**Paris**  
Apartments on the Ile de France start at €178,300



**Côte d'Azur**  
Provençal properties are priced from €110,000

up by French buyers.

● **Early access:** You can sell before the 15 years is up but, as the lease will not have expired, you will only be selling the bare ownership – so the price will be based on the discounted price you paid, rather than the full market value.

● **Risk:** The most obvious

risk is that the property market fails to rise. But it is unlikely that there would be no growth over a 15-year period, and even more unlikely that prices would fall by more than the 40 per cent initial discount.

The official notary website – [www.paris.notaires.fr](http://www.paris.notaires.fr) – reports capital apprecia-

France who have previously avoided paying wealth tax by buying the property through an SCI – a company structure to which the shareholder advances a loan, in order to reduce its taxable value.

David Anderson of Sykes

law, says the government has proposed to close a loophole that meant property bought via an SCI was exempt from wealth tax. He says the loophole has been used widely on properties bought by foreigners for prices over €10m.

tion of around 30 per cent over the past five years for apartments in Paris, even during a European property downturn.

A more realistic risk is the opportunity cost: you could have put your money into a more lucrative investment. But you would probably have to accept more risk if you did. In relative terms, bare ownership is likely to be a lower-risk asset, as there is little danger of a French council going bankrupt and defaulting on its obligations.

● **Tax:** Martin Rimmer, tax manager at consultants the Fry Group, explains that the double taxation agreement between the UK and France means UK taxpayers may be liable to capital gains tax (CGT) at 18 or 28 per cent in the UK if they sell.

But if owners can occupy the property as a main residence for a while, some CGT relief can be accrued.

● **Alternatives:** Anyone considering an investment in French property can enter leaseback schemes, where investors buy apartments in tourist areas that are then leased to a management company for short-term holiday lets. Leaseback enables investors to buy new apartments at a discount to market value through the refund of VAT at 19.6 per cent. But while bare ownership is an investment based on pure capital appreciation, leaseback allows the option of a certain number of weeks' use each year, plus a guaranteed annual rental return.

## Directors' Deals

BUY	Sector	Deal
3i	Financial Serv.	May
888	Travel & Leisure	May
Avanti Communications	Mobile Telecoms	May
Aviva	Life Insurance	May
Braemar Shipping Services	Ind. Transport	May
Centrica	Multi - Utilities	May
CLS	Real Estate	May
Cobra	Insurance	May
Colt	Fixed-Line Comms	May
Hammerson	REITs	May
Informa	Media	May
Jardine Matheson	Gen. Industrials	May
JXX Oil & Gas	Oil & Gas Prod	May
KBC Advanced Technologies	Oil Services	May
Mouchel	Support Services	May
Norseman Gold	Mining	May
Office2Office	Support Services	May
Petroceltic International	Oil & Gas Prod	May
Restaurant	Travel & Leisure	May
Scottish American Investment	Equity Inv.	May
STM	Financial Serv.	May
Symphony International	Financial Serv.	May
Volvere	Financial Serv.	May
Zincor Resources	Mining	May
SELL	Sector	Deal
Aberdeen Asset Mgmt	Financial Serv.	May
Beazley	Insurance	May
British American Tobacco	Tobacco	May
Caledon Resources	Mining	May
Computacenter	Software & Comp	May
Elektron	Electrical Equip	May
Ltd	Insurance	May
ICAP	Financial Serv.	May
ITE	Media	May
Jupiter Fund Management	Financial Serv.	May
M Winkworth	Real Estate	May

Source: [www.directorsdeals.com](http://www.directorsdeals.com)

Directors at 3i, the country's largest venture capitalist group, appear confident about the future: a pair of them have just doubled their collective holding. Shares in the company lost ground in the first quarter, but had recovered to 281p last Thursday when the pair made their trade – on the back of strong growth forecasts and the near doubling of 3i's investments in the year to the end of March.

This recovery put the shares back to the price at which William Mesdaglast bought in July, and he is already in profit on his 2000

Shares in 888 further this year suffered a slump in 2010. Since then the gaming group's directors have traded on the market when they did, John Anderson's Thursday trade in January 2008 was particularly well timed, having joined the company in 2007. He has chosen not to trade since, but Amos Pickel, the first director to trade on the market when he bought shares to give a 10 per cent stake in the company, has

## French to close property

### Second homes

By Tanya Powley

The French government has made moves to close down a loophole that enables wealthy purchasers of

reform to wealth tax has been welcomed, tax experts have warned that a number of the other proposals included in the finance bill will detrimentally affect non-residents who own a French holiday home.

At the lower end of the

mortgage and are forced to pay bank fees plus interest," says Anderson.

Veronique Moujon, head of estate planning at Gordon Blair, a law firm based in Monaco, says homeowners should wait until the draft proposals become