

# FRANCE

## Commercial and Residential Investment Scene

By **Robert Browne**, Managing Partner, McKeever Rowan Solicitors

### Location Location Location

Possibly the best mantra in the world, or may be it's Spend Spend Spend. The *Location* theory is the same in France and everywhere else.

The greatest dilemma facing anyone considering a house purchase is whether they want to buy for leisure or to invest. The two options are radically different and the prospective purchaser needs to carefully consider the options before proceeding. Many people try and combine both and are in danger of falling between two stools.

### Investment

Not so long ago property in Ireland was (relatively) cheap and Germans and Dutch people bought up large tracts of Irish countryside. This trend changed and in the last 10 or 15 years Ireland became one of the most spendlust nations investing in property both here and abroad. Many economists (not just George Lee) expressed concern that the Celtic Tiger was solely property based. The Japanese went on a similar international spending spree about 15 years ago and perhaps a picture of Tokyo in 2008 will give us an indication of what the future holds for Europe.

Irish Investors spent over €6.8 billion on **Commercial** Property during 2005. Of

this, €5.1 billion was spent abroad. The Irish were the 7th largest inward investors in the US in 2005. This figure does not include the amount spent by Irish Investors on foreign **Residential** Property.

In 2007, Irish investors were the second biggest net investors in commercial property across Europe. A study published recently by Jones Lang LaSalle in the UK stated that Irish investment of €13.9 billion was put in to European property deals in 2007. France, a country of 60 million people, spent €10.8 billion in the same period. France was also one of the major sellers of investment properties last year. Investment in standard commercial real estate in France dropped by 57% in the year to 1st. October 2008.

According to the Irish Times of 3rd December 2008, the Irish spend abroad collapsed from €10 billion in 2007 to €2.1 billion in 2008. It stated that the slump was most evident in the UK market. Predictions in the same article suggest that Irish investment in Europe will fall by €3 billion to €800 million in 2008.

Just imagine where this country could be now if a fraction of that spending had been at home and pension fund or other tax relief made available for it.

The most likely source for all this Irish spending was equity release from Irish

property which appreciated in value over the past ten years, together with (at least) 100% leveraging.

Not only has the global credit crunch had an effect on this but also environmental issues. One of the influencing factors has been energy costs (and crises), which directly reflect the size of our carbon foot-print.

### Commercial Property

New legislation in France requires a vendor or landlord to provide an energy rating certificate to prospective tenants/purchasers setting out the annual cost of heating and lighting. This has become part of the bargaining tool in reaching a sale price or rent. The Irish position is similar with the new requirement as of 1st. January 2009, to produce a BER certificate when selling or renting a "dwelling or other building". The Irish system will simply grade buildings from A to G.

This is starting a trend in commercial properties (perhaps mirrored in Ireland where there is a move away from Georgiana) to purpose built offices. Other factors include traffic congestion and ease of access to public transport. I, personally, have been (privately) advocating a ban on private cars between the Dublin canals for many years. Traffic congestion is one of the problems which would be resolved by

such a ban, but we also need to consider what the future holds for city centres. In Paris, Hausmann's wide boulevards are narrowing, being filled in with trees, bus lanes and dedicated bicycle lanes which are physically separated from vehicular traffic.

Landmark retailers such as Bewleys have been priced out of Les Champs de Grafton Street, now the 5th most expensive retail street in the world.

One wonders what the future holds for the likes of Fitzwilliam Square and Grafton Street. Will Fitzwilliam Square follow in the footsteps of Mountjoy Square and become too expensive to live in and too difficult to travel to and too impractical to work in? Will Grafton Street become apostrophied by Golden Arches sandwiching phone shops and Spars?

The vacancy rate in the Office Market in the greater Paris area in 2008 is at a very

low 3%. Rents in general have commenced a very gentle slide in the last few months between a half and one percent, a trend that is expected to continue for the next 15 months anyway. There is a trend towards the inner suburbs and companies are less likely to exercise break clauses due to the high cost of relocating.


Offices are making a bee-line for purpose built developments at city centre transport hubs or at the Péripherique (Paris's M50).

The effect of the down-turn should be most dramatic on new developments as companies will be attracted to existing offices which are ready to go and which will not attract premium rents. This should benefit existing landlords where competition from new builds is stalled. The strongest markets will be purpose built offices in attractive transport hubs, either city centre or Péripherique.

## Buy-to-Let and Leaseback developments

The first thing to get straight about Leaseback schemes in France is that the French Government does not guarantee leaseback schemes, no more than the Irish government underwrites the Seaside Resort Scheme.

The Leaseback scheme is a very simple financial arrangement with the French government. If you buy a newly built (or substantially renovated) property in France, the government will reimburse the first purchaser the VAT on building costs (currently 19.6%) after completion of the development, and after the (fully furnished) property is made available to let as a tourist residence with hotel-type services. The property must be available to rent to foreign tourists for a period of 20 years, and the tourists will be charged VAT on their holiday rent at 5.5%. So the government gets its VAT back, while



Ker Juliette is a lease back scheme in Pornichet (beside a famous French Resort called La Baule) in the Loire Atlantique area.

at the same time stimulating the construction industry, investment, and inward tourism. Normally, management companies will operate the tourist residence by taking a lease of the property from the owner and pay a guaranteed rent. The rent is calculated as a percentage of the purchase price, anywhere between 3% and 5%.

Leaseback can be an excellent investment provided you find the right area (see mantra, page 25) and get a "guarantee" from the right person. A guarantee is "a promise from someone to do something".

Before proceeding look very closely at who is making the promise and see does the picture change. How much would you pay Del Boy for a guarantee that this time next year you will be a millionaire? How much would you pay Warren Buffet for the same guarantee?

In the light of recent world events guarantees are no longer what they used to be. Times have changed, very suddenly.

If a leaseback property is sold in, **or is not available to rent** to foreign tourists for, the first 18 years then, in accordance with Article 210 of the second annex to the Code Général des Impôts, there may be a claw-back of the VAT on a scaled basis. The reimbursement is calculated as reducing by 5% per complete year of ownership.

Problems have arisen for a number of property owners recently which have received quite a bit of media coverage. A number of companies managing properties (tenants who have given guarantees to Irish investors) have not been able to meet rental payments and some have gone into liquidation. If this happens, apartment owners need to get together, get rid of the existing

management company, and identify a new company prepared to run the development on a commercial basis. Easier said than done perhaps, and it will be time consuming, but when you are in a corner you need to come out fighting.

The running of the properties is governed by a *Syndicat*, the body responsible for buildings and common areas (as distinct from the individual living units). All apartment owners automatically become members of the *Syndicat* and, as a group, they appoint a *syndic* who is not usually a co-owner himself. The *syndic* is usually appointed for 3 years at a time and is responsible for the day-to-day management of the building. A management committee (*conseil syndical*), which is made up of co-owners, is also appointed on an annual basis to help the *syndic* but this has a consultative rather than executive function. This is where the power base and the possible solutions lie.

The good news is that these may now be purchased through a Self Administered Pension Fund and as of November 2008, French banks are still lending 100% on some properties.

## Residential Property Investment

The recently elected, divorced, engaged and newly married President of France has abolished inheritance tax between spouses. I imagine his first wife was thrilled with this, but it proves that a scorned Frenchman doesn't get furious, he just gets even!

At the same time French law increased the tax free amount a child may inherit from a parent from €50,000 to €150,000, apparently to reflect the way the housing market has increased in recent years.

Some properties are sold in France on the basis that the occupier remains as a life tenant. This is known as **Viager**. The theory behind this type of investment is sound. It is an equity release scheme for the elderly, funded by the property speculator. The price and rent payable is calculated by reference to life expectancy statistics but we all know the lies associated with statistics. One French man thought he got a bargain when he purchased a house from a 77 year old woman on the Cote d'Azur. Unfortunately for him she lived to be 122 years old and she had the good grace to attend his funeral a number of years earlier.

## O for a beaker full of the warm South...

In recent years vines and shares in vineyards have been offered for sale. There is an appeal to Irish people to be associated with the Grands Vins de Bordeaux. The new generation of *Quinn* and *Doyle* has replaced the old one of *Lynch* and *Barton*.

On speaking to a French colleague in Paris recently he wanted to know how the *catastrophe* was going in Ireland. (It is only a *crisis* in France). I said that it was as much a French and European *catastrophe* as an Irish one. He corrected me and said we had a Celtic Hare, we had huge prosperity and therefore our decline or recession was of far greater effect than the French Tortoise where things have always been steady. I never thought about it like that but there never was a French property bubble and therefore, I expect that if there is to be a fall off in the value of French property, it will probably be quite gradual and relatively miniscule. ■