

Bare Ownership, a new approach to long term property investment

Francois Marchand, manager at Erna Low Property, explains bare ownership, a new approach to long term investment in French property which allows for greater tax benefits and for property to be purchased at hugely discounted prices.

Nue-propriété, or bare ownership is a term that is often used in French property law but few overseas buyers understand what it is or how it can be beneficial if they are making an investment purchase in France.

A private investor acquires a quality property for 50 to 60 % of its value, in bare ownership.

At the same time, a usufruct is acquired for a fixed term, normally 15 to 17 years, by an institutional investor who collects the rents and manages rental. Over the whole period, this investor is responsible for all costs, work and taxes.

At the end of the usufruct, the original investor automatically and free of charge, recovers full ownership of his property, maintained and renovated.

An investment in bare ownership offers the best outlook in performance in a fully secure climate. The buyer receives, in the form of an immediate reduction of 40% to 50% on the purchase price, the equivalent of all updated rents, net of costs, taxes and charges, that he would have collected over the period had he invested in full ownership.

There are no hidden expenses or risks. At the end of the temporary usufruct, the bare owner immediately becomes the full owner. The net gain results from the free and automatic recovery of the usufruct, to which is added the re-evaluation of the property over the whole period.

Usufruct

Usufruct is the legal term for the right to use and get the 'fruits' of a property. Here the clients do not have the usufruct of their property, hence the discount in price. The French institution has the right to use it, rent it, and therefore have all the rights to also pay the taxes, charges, etc. The net gain results

from the free and automatic recovery of the usufruct, to which is added the re-evaluation of the property over the whole period.

This means that at the end of the lease the owner of the property is getting his property back with the full right of usage. The property that he bought approximately 40% cheaper than the market price 15 years ago, would have accrued in capital over the whole period, not only the capital that he has originally invested but the whole amount.

The advantages

Under this type of purchase you can maximize your investment capacity and buy properties with an immediate reduction of 40 to 50% of the value of full ownership, with no risk of sacrificing quality.

It is an investment with no tenancy risks. Constraints caused by management, unpaid rent, etc are eliminated. Similarly, all management, maintenance, repair or renovation costs are contractually borne by the usufructuary.

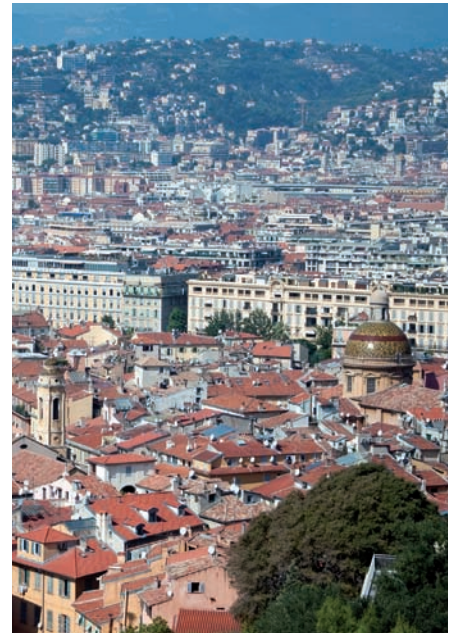
Also no minimum duration of ownership is required. At any time, you can sell your bare ownership of the property and keep the tax advantages acquired. At the end of the operation, it is up to you whether you sell, rent or occupy the property. The ENL Law of July 2006 provides that leases signed by the usufructuary are automatically terminated on the day the usufruct expires.

It also is a way of to optimise your tax situation. Investing in bare ownership gives rise to no tax consequences and can even generate attractive tax savings. As there is no rental income there is no additional income tax. There is also the possibility of deducting your mortgage interest from any existing or future rental income.

Bare ownership is not liable to French wealth tax (ISF) and the debt is deductible from taxable assets. The result is a net wealth tax saving. Property tax is payable by the usufructuary and there is complete exoneration of capital gains tax on resale after the fifteenth year.

Example

For an original investment of €120,000 for a property worth €200,000 (value of property at time of purchase), the capital appreciation over the 15 years of a conservative 3% will bring a total price of the property €311,590. So the original investment of €120,000 will bring a total benefit of €191,590 as no Capital



Old town, Nice

Gains Tax is payable in France after 15 years ownership.

Those choosing this kind of purchase are usually cash rich individuals but also French companies looking to increase their property portfolios.

It is possible to get out before the 15 years lease is up but the value of the property will be only a proportion of the initial amount paid for (not the 100% of full usufruct) and proportional to the years into the lease.

Anyone considering this would need to look at capital gains if selling within the 15 years in France and probably in UK too depending on the double taxation agreement. ♦

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