

Easy ways for UK buyers of French property to speculate against the Euro

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Most Britons saw the acceptable rate for the euro as at least €1.40 to the pound. This was the initial exchange rate which persisted until the end of 2007. The steady decline in sterling during 2008 to near parity with the euro at the beginning of 2009 meant that far fewer Britons purchased in France because there had effectively been a one third price increase for Britons buying property in France. As a simple example, a property worth €300,000 used to cost £200,000 (at £1 = €1.5) and when sterling was at its weakest it cost £300,000 (£1 = €1). Small wonder that many potential UK purchasers decided not to cross the Channel.

Sterling collapsed end 2008 – when will this be reversed?

All this looks as though it is about to change in 2011 and, as with the devaluation of sterling, the devaluation of the euro is likely to be fast and brutal. It took just 2 months, November and December of 2008, for the pound to go from £1 = €1.30 to £1 = €1 a devaluation of 23%! Barring some major problem in the UK it seems likely that this will happen again but the other way round. The difficult question is predicting when. This article outlines ways in which UK buyers can hedge their bets and improve their chances of winning on the exchange rate.

What will happen to French property prices?

One matter which can be predicted is how the French property market will respond if there is a substantial devaluation of the euro against sterling. The first point to take on board is that British buyers buy in small specific areas of France. For higher value properties the two main areas are the Côte d'Azur and the alpine ski resorts. It is here that the most pronounced effect on prices will be seen early on if there is a euro devaluation and this will ripple out to other areas such as the Dordogne, Brittany and Languedoc. In these prime areas other buyers such as Russians and Americans will also have a major effect on the market and the currencies they use (dollar and Swiss Franc) are also appreciating against the euro.

The estate agents on the Côte d'Azur and in the alpine ski resorts deal with substantial numbers of British buyers and are very aware of the effect the sterling/euro exchange rate has on the market. Any substantial strengthening of sterling will lead to the estate agents and their seller clients increasing the price of properties for sale. It will also result in far more British buyers visiting the estate agents which will quickly become immediately noticeable in what are relatively small towns with a limited supply of stock. British buyers have been

holding back since the middle of 2008 so there is more than 2 years of UK pent up demand. Buyers buoyed by the strength of sterling will purchase the prime stock very quickly which will lead to far less attractive stock being offered to the 'second wave' of British buyers who will also be asked to pay substantially higher prices for a far less attractive product.

The estate agents will also be reluctant to spend large amounts of time with prospective buyers as there will be more demand for their services, and the estate agents with the best connections with sellers (rather than with buyers) will find themselves quickly in great demand. Television programmes on buying in France will become more frequent again and magazine and newspaper articles will start telling readers about what they can buy there. This is what happens at the start of a new cycle of property price increases.

What can buyers do now?

UK buyers with Sterling deposits who wish to take advantage of the current relative calm in the French market and seek to take advantage of the likely change in currency rates have a surprising number of options open to them. These can be listed as follows:-

1. Purchase the French property with a substantial euro mortgage. Wait for the euro devaluation to take place and then transfer your sterling deposit into euros and pay off the mortgage. This has the disadvantage that you will have to pay the interest on a euro mortgage and will have additional notaire's costs for registering the mortgage. You need to make sure that the mortgage can be repaid at any time without penalties.
2. Obtain a euro mortgage with a "back to back" sterling deposit. This is usually only possible on larger deals. Under this arrangement you deposit an amount in sterling with the bank in a "blocked" account and borrow in euros. You normally have to deposit more with the bank than you borrow in order to cover the bank against any further devaluation in sterling which may result in the bank not having sufficient security and resulting in a 'margin call' being made by the bank. Under this arrangement you pay the bank effectively a fee for this facility. Under these arrangements you usually do not give a mortgage on the property because the bank takes a mortgage over the sterling bank account, which is blocked and which is referred to as "cash collateral" in banking parlance. This saves on notaires costs. You can also use other security such as shares and bonds.
3. Purchase a property now by signing the necessary contract with a delayed completion date. The longer the completion date the better, especially if you can have a provision to serve notice on the seller to bring the completion date forward.

4. Purchase a property 'off plan' called a VEFA in France. Under this arrangement you will have to pay some money on exchange of contracts and make stage payments as the property is built. However, it is likely that final completion will only be at the earliest towards the end of 2011 and this means that you will have plenty of time to position yourself for some currency speculation. Of course, if there is any delay on the part of the developer – almost inevitable – this will be a situation in which, unusually, you will be quite relaxed, as this will enable you to have a longer period during which to speculate against the euro.
5. Make a *viager* purchase. Under this arrangement you typically pay a certain amount up front and then make monthly payments. The arrangement typically allows an elderly person to continue living in the property until they die. It is effectively a form of pension payment to an elderly person and is quite widespread in France. You will have to pay a certain amount up front and that will be done at the adverse sterling/euro rate. However, the later payments will all be in euros and if the euro declines you will be much better off. There is, obviously, the usual risk with the length of time the owner of the flat lives and this is an additional factor to take into account. It does allow you to do what in investment terms is called 'pound averaging' because you will be making the monthly payments over a number of years. This allows you to change sterling into euros either on a monthly basis, which amounts to pound averaging, or alternatively to make a lump sum move from sterling into euro when sterling is at what you perceive to be its strongest.

When will it be too late?

The key issue is to start thinking about how you would move on the market now, as when any euro devaluation takes place it will be too late because too many other people will be in the market as buyers and the sellers will quickly understand the position. There will be more publicity in the media and this will drive more interest. If you are planning to purchase in areas outside the Côte d'Azur and the prime ski resorts, you may have a little more time to move but this is unlikely to be more than a few months, as the ripple effect in the past has spread out very quickly and the areas in which British buyers purchase is relatively small.

In addition, British owners of properties, especially retired people who are currently under pressure to return to the UK because pension payments are made in sterling which has devalued considerably putting pressure on their income, will be less likely to sell once their pension income increases as a result of the euro devaluation. This will mean that many potential British sellers who are likely to be selling properties which will appeal to other British buyers, will no longer be in the market.

What about people already in France and in euros?

You need to think carefully about what happened to Sterling. It is probably best to hedge your bets. If you have all your money in euros or euro denominated funds including assurance vie products you may decide to see if you can get some of it switched into sterling. If you cannot do this it may be cheapest to cash these in and take any French tax hit so you can move your money out of the euro.

All this depends on what your plans are. If you plan never to return to the UK then you will typically be more relaxed about being in euros. If however you want to return to the UK then the opposite view may be better. Of course all this could never happen and Sterling could continue as is or weaken against the euro in which case the best thing would be to do nothing.

December 2010

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