

France's bid for offshore funds could hit UK property market

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The UK property market will face fresh competition for offshore investment money as funds in the Crown Dependencies will soon be able to invest in French property without prohibitive French tax charges.



The imminent removal of the annual 3% tax on gross value of French property by France, which currently applies to investors based in Jersey, Guernsey and the Isle of Man, may threaten any burgeoning stabilisation in the UK property market, says Sykes Anderson Solicitors.

Tax changes will reduce demand for UK investment properties and apply additional downward pressure on capital values in the UK market, which has been left reeling after 18 months of price declines, says the firm.

Companies and trustees managing investment funds in the three offshore territories will be able to invest directly in French properties without having to pay the prohibitive annual French tax of 3% of their open market value, bringing them inline with the tax treatment of UK entities for the first time.

The tax will be scrapped to prevent tax evasion and in anticipation of the move, funds which were earmarked for the UK residential and commercial property market have already been allocated for investment in France, according to Sykes.

The firm believes French property will provide added portfolio diversification for offshore investors, plus a currency hedge as investments are euro-denominated.

Listed French tourism property developer and manager, The Pierre & Vacances Group, has seen a sharp rise in enquires from the Crown Dependencies since the beginning of the year, as investors brace themselves to move once the tax is scrapped.

David Anderson, solicitor and chartered tax adviser at Sykes Anderson Solicitors, says the removal of the French tax will be a huge boost for the French property market but could have a negative effect on some parts of the UK property market.

"Soon, a pool of capital in the Channel Islands and Man will, for the first time, be able to flow, uninhibited, into France, with quality French property in good locations set to do particularly well," he says.

"So far, this looming tax change has passed largely under the radar, but even before its implementation it is already beginning to change the dynamics of the European property market."