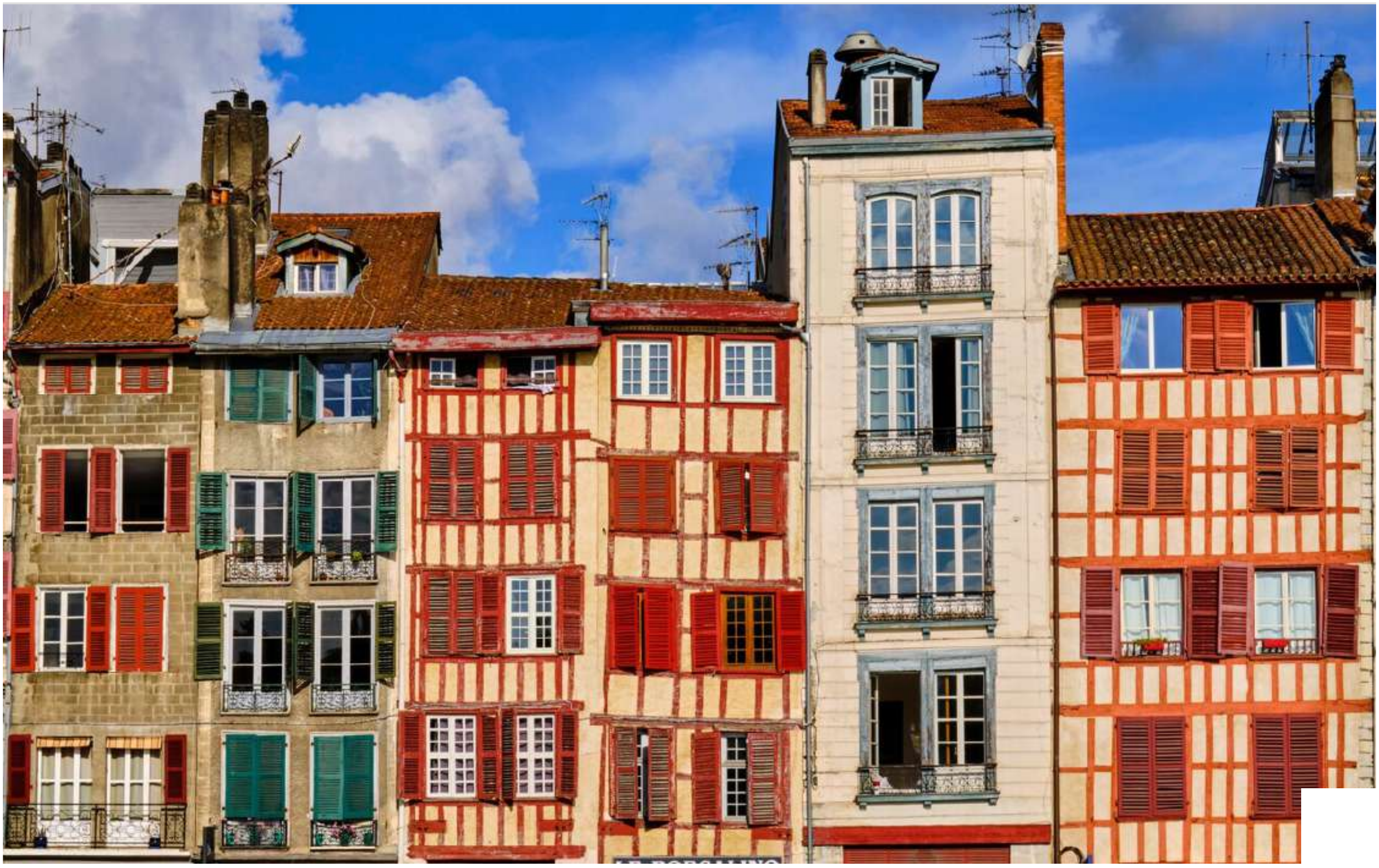
Buy to let



Forget buy-to-let Britain – and build your empire in France

If you're ready and willing to tackle French rental rules, you can still earn high yields

By Ruth Bloomfield

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Imagine buying an investment property for well below the average UK house price, and paying a mortgage interest rate of 3-4pc, rather than the 6pc or so charged by British banks.

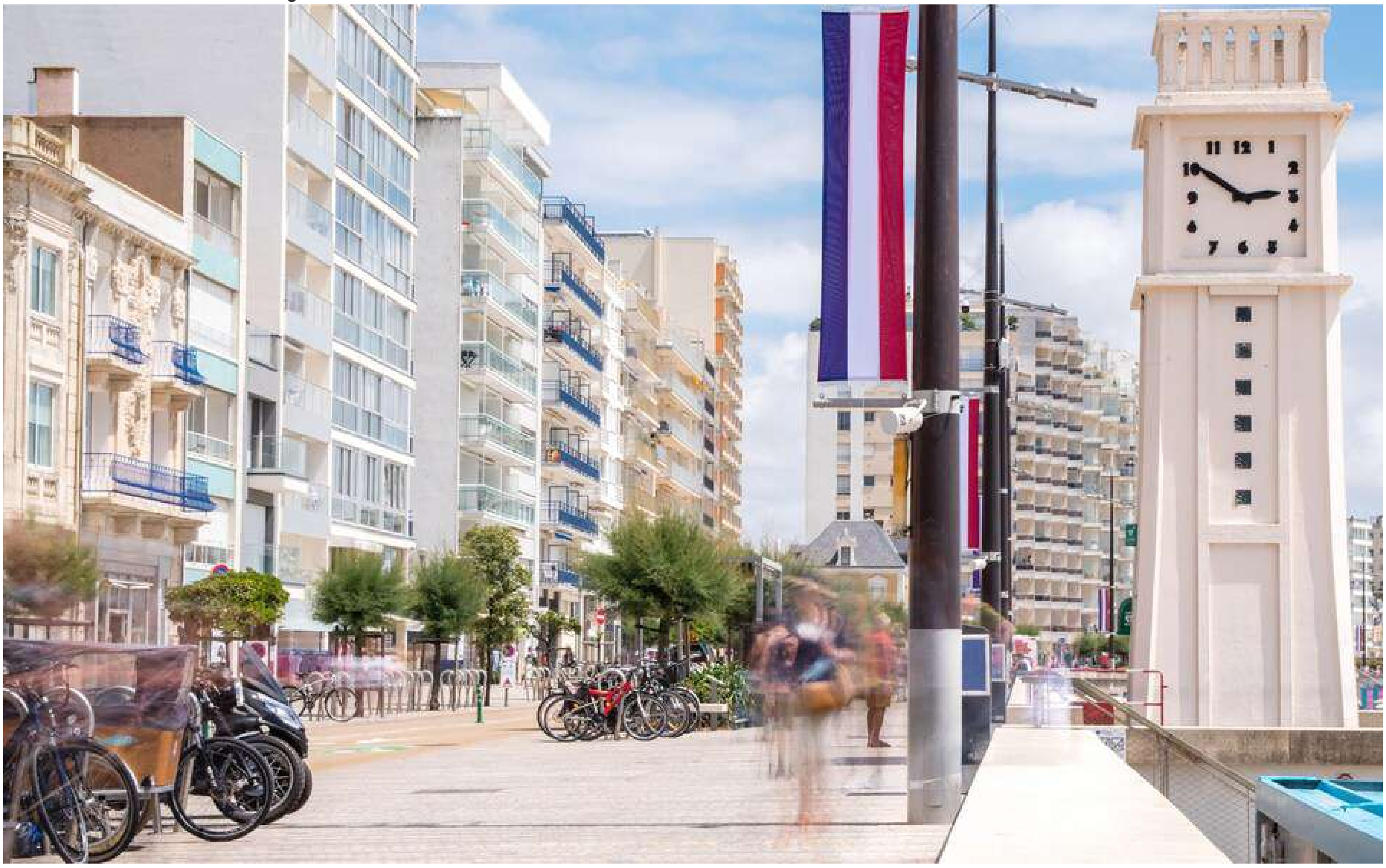
Then imagine being a landlord in a system that's designed to promote long-term stability, in a market where house prices are growing.

This isn't a fantasy world – it's the reality of being a landlord in France.

While soaring interest rates and increased regulation is strangulating the British buy-to-let model, things are very different across the Channel. Landlords can still make a reasonable annual income from their properties, capital growth is a real possibility, and – by UK standards – regulation is light touch.

Here, Telegraph Money talks to the investors who've ditched Britain to build a French buy-to-let empire – and how you could, too.

'You have to do your homework'



The Vendée region in the west of France can offer British investors higher rental yields | CREDIT: Julien Leiv/Moment RF

Moving to France was a long term dream for Barbara and Peter Calder, and once their two children had grown up they decided to pursue it.

In 2019 Barbara, a retired special needs teacher, and Peter, who worked in supply chain logistics, exchanged their life in the East Sussex village of High Hurstwood for a home in L'Hermenault, a village in the Vendée, in the west of France.

They decided to keep their UK house and rent it out. Once they were settled in France they decided to add a French rental property to their portfolio, enlisting the help of estate agent

Leggett.

Aware there wouldn't be huge demand for rental homes in their small village, Barbara and Peter decided to buy in the nearby town of La Châtaigneraie. Their strategy was to keep entry costs low. They chose a rundown two-bedroom, three-storey period townhouse, which had been languishing on the market for the past three years and had an asking price of €80,000. Its owners, a divorced British couple, were keen enough to get rid of it to accept an offer of €25,500.

The couple then spent 18 months carrying out a €36,000 renovation, bringing their total investment in the property to €61,500. "I had it valued before it was rented out, and an estate agent said it was worth €100,000," said Peter.

In January 2022 Peter, 66, and Barbara, 72, found a tenant – a single mother with two children – who pays them €500 per month in rent.

Once their estate agent fees (€500 per year), property taxes (circa €300 per year) and maintenance costs are taken into account, this leaves the couple with a solid 8pc annual yield.

"You have got to do your homework," said Peter. "Renovating the house was obviously a lot of hard work, it was not quick or easy, but buying at the price we did means that the numbers do stack up."

Navigating French renting rules

Renting rules in France were foreign to Barbara and Peter. Leases, for example, vary depending on whether a property is rented furnished or unfurnished.

Furnished homes are usually let with a one-year lease, but unfurnished homes – like the Calder's house – come with an automatic three-year lease. Landlords cannot terminate leases early, and must give six months' notice if they want to sell, but tenants can move on with a month's notice.

If a tenant defaults on rent there are legal mechanisms to allow landlords to evict them, but the process may be slowed down by the weather. "Under the French system you can't evict someone over the winter period," said Peter.

Just like their British counterparts, French landlords also face a degree of red tape. Before a property is rented out it must be surveyed. Its gas and electrical systems will be checked, and the surveyor will look out for the presence of dangers like asbestos, termites and lead paint.

More recently, Peter and Barbara also had to get the house's energy efficiency rated. The newly-renovated house met the required standard. But, said Peter, some landlords have not been so fortunate and have started selling off older properties – a scenario which will be familiar to many British landlords, worried their homes will not meet the tough energy efficiency standards the Government has said will come into force from 2025.

When it came to actually buying the property, Peter and Barbara bought their French rental in cash. However, experts say British buyers interested in following their example will be considered for a mortgage by British banks.

Matthieu Cany, co-founder and managing director of Sextant Properties, a French estate agent which specialises in working with international clients, said French mortgages are usually fixed and long term, lasting anything from 10 years (with interest rates of around (3.4pc) to 25 years (4.2pc).

"The only problem is the language barrier, because most of them don't speak English," he said.

Another issue, said James Rolt, a regional sales manager at Beaux Villages Immobilier, Savills' associate in south-west France, is that French banks have tightened up on their lending criteria since the financial crisis, and are likely to want a minimum deposit of around 20pc.

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France's buying costs can quickly stack up

Potential buyers will also need to consider France's substantial buying costs.

Asking prices include estate agent fees, but buyers face a series of legal fees and taxes. These vary depending on the value of the property and the location – Mr Rolt, who is based in Northern Charente, says his buyers typically pay around 8pc.

Ongoing costs include an annual tax, called "*Taxe Foncière*", which is a property tax that must be paid by the owner of the property. Rates vary by region but Tim Swannie, director of Home Hunts estate agents, said the average is around €800 to €900 per year – but you should be prepared to pay more than this in certain areas.

There is also a habitation tax for second homes, which is the equivalent of British council tax.

It has been removed for those living in their main residence, but it is payable for second homes in France. It is paid by whoever lives in the property, whether that's the owner or the tenant, regardless of whether the owner is a French resident. This means British landlords in France could be on the hook to pay both taxes.

Taxe d'habitation has reached the headlines this year, after the French Government announced it would give thousands more local authorities the option to apply the surcharge of up to 60pc. It should only affect areas where the government sees an imbalance between property supply and demand.

The tax knife is not really plunged in until you decide to sell. Capital gains tax (CGT) is charged at 19pc, although you will pay less tax the longer you own the property. If you keep it for 22 years or more, you will not pay any CGT at all.

Sellers must also pay a social gains tax of up to 17.2pc, a levy which also gets lower the longer you keep your property; social charges are dropped after 30 years

Properties and locations tipped for top returns

For Mr Rolt, the big difference between buy-to-let in France versus Britain is that entry prices are far lower on the other side of the Channel.

He recommends that would-be "*propriétaires*" emulate the Calders and seek out two to three-bedroom houses, with outside space, in town centre locations.

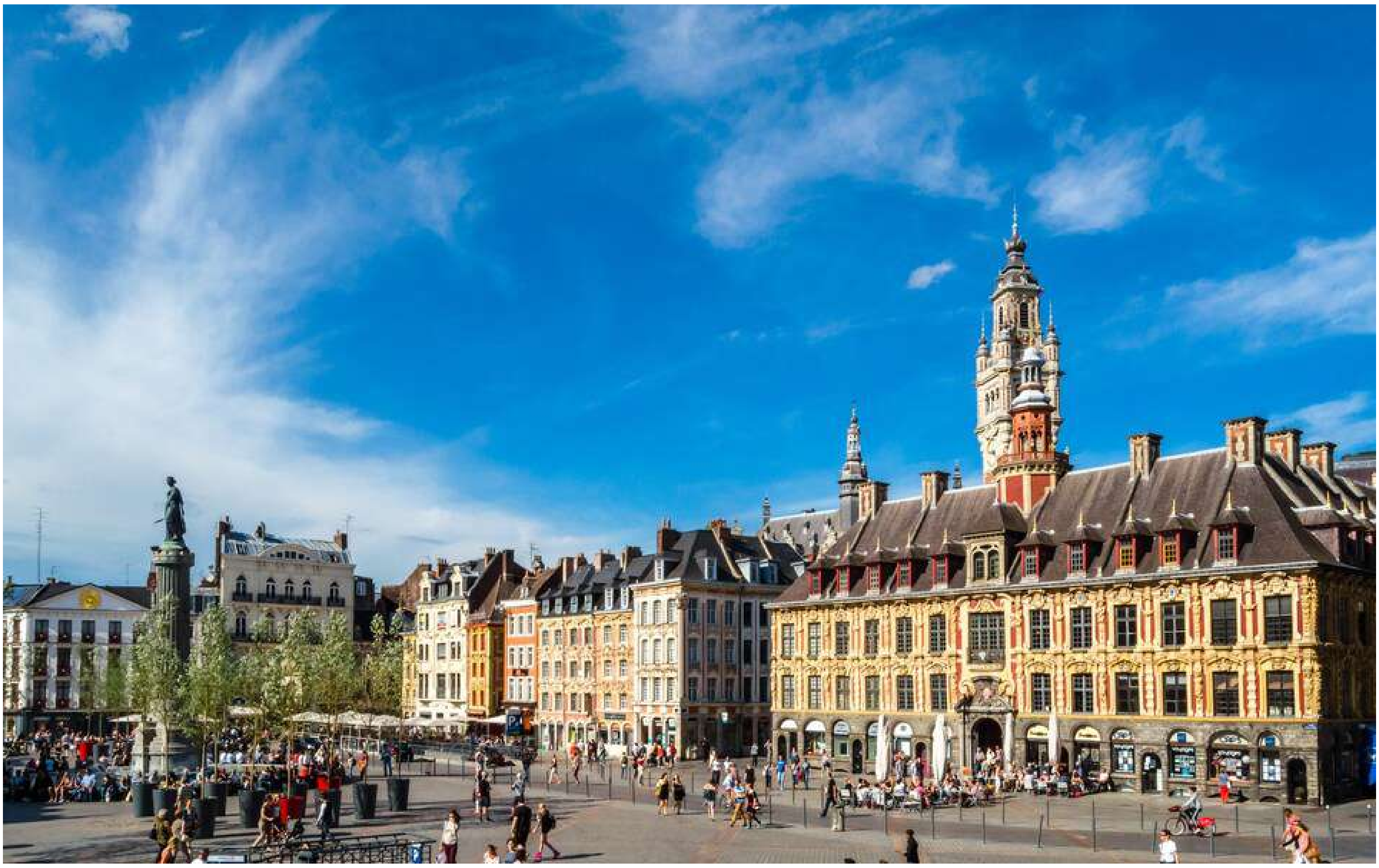
"French people are generally not prepared to travel to work in the same way the British will commute," Mr Rolt said.

"The best rental properties are close to amenities. I would avoid major cities, because the entry prices are much higher, and look at small market towns where you can buy cheaply and maximise your yields."

In the town of Ruffec, where Mr Rolt is based, he estimates that a three-bedroom house with outside space in good condition would cost around €150,000. It would rent for around €650 per month, generating a yield of 5pc.

Mr Cany echoes this advice, suggesting investors steer clear of the French capital. "The UK and France are very similar," he said. "In Paris, like London, the prices are high so the yields are very low."

He tips the city of Lille, where demand for rentals from students and young professionals is strong.



Would-be buyers are advised to look beyond Paris to towns like Lille where the cost of entering the property market is lower | CREDIT: valilung/iStock Editorial

Buyers could pick up a two-bedroom apartment for around €290,000, and rent it out for around €995 per month, generating a yield of 4-5pc.

This yield, of course, is no better than putting the money in a UK bank, but Mr Cany said buyers should look to the long game, because prices in France are on the up.

According to the *Notaires de France*, the official monitor of property prices in France, the average price of flats grew 2pc in the past year, while houses increased by 3pc.

Outperformers include the city of Bayonne in the Basque Country region of south-west France, where the price of flats jumped by almost 12pc in the past year. Elsewhere, the northern port town of Le Havre saw the price of houses increase by 12.5pc over the past 12 months.

"In 10 years you will see a capital appreciation," said Mr Cany. "The market in France is strong, and stable."

Mr Swannie, who covers Paris, the south of France and the Alps, agrees. "Interest rates have gone up, but at the moment there is still a lot of interest out there for properties," he said.

"The forecasts are for continued price growth, although maybe at a slower rate than the past couple of years. These markets are not boom and bust, they tend to grow slowly but steadily."

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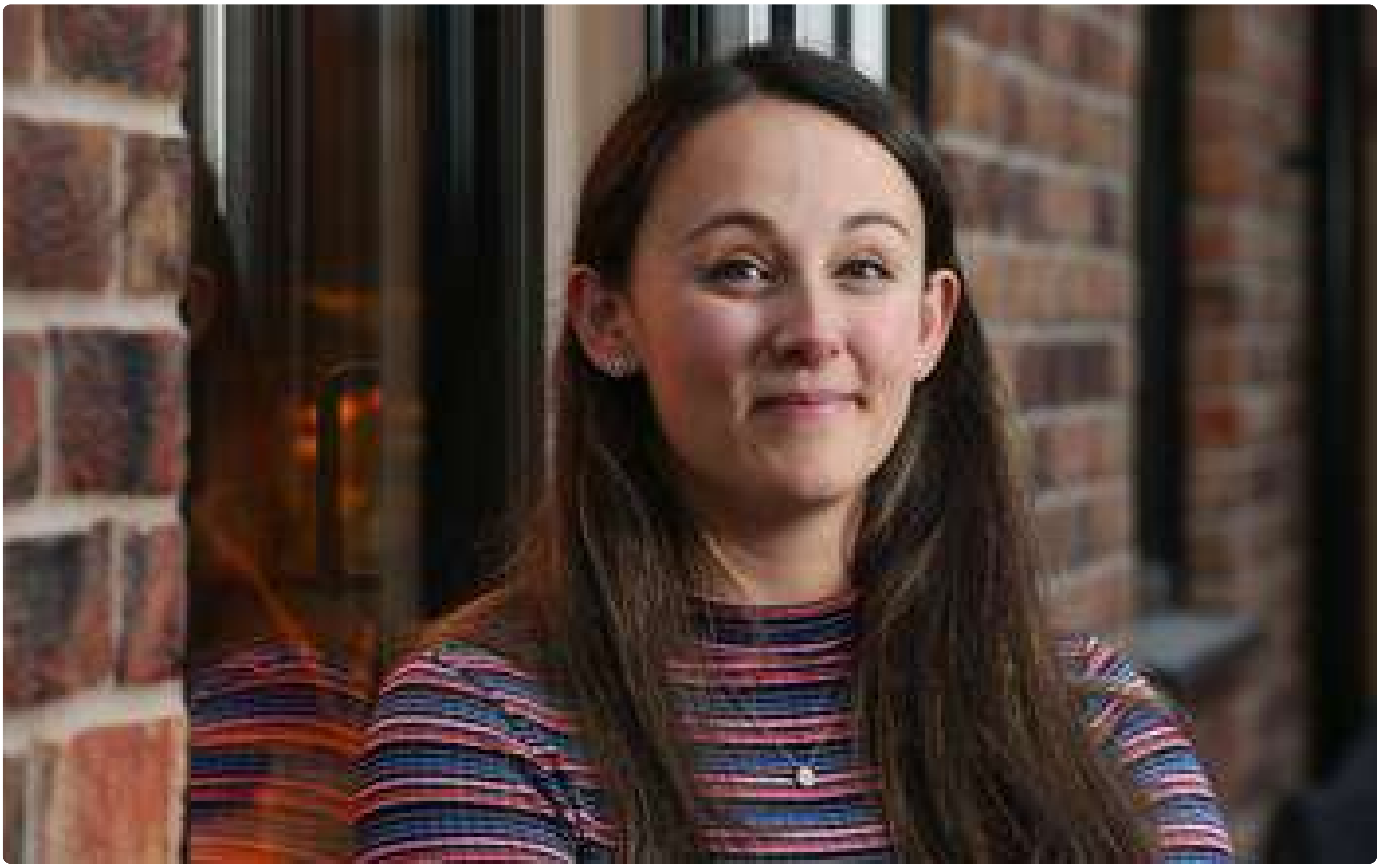

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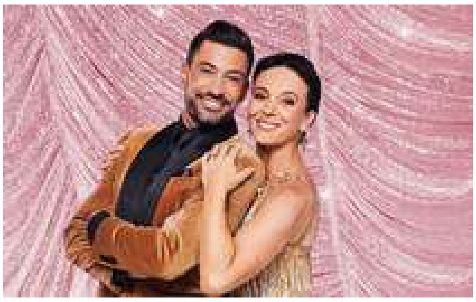

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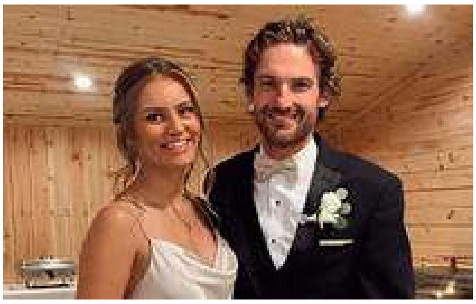

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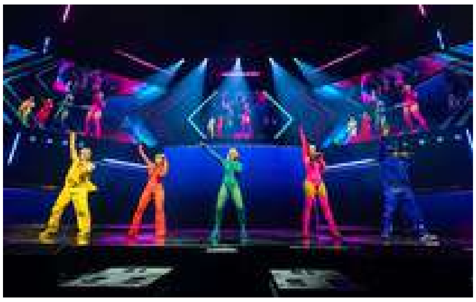

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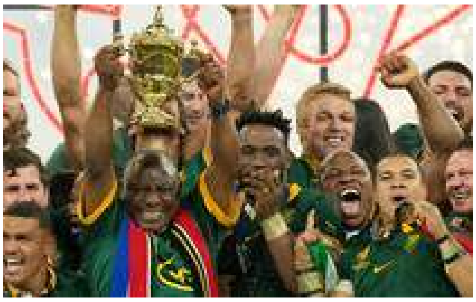

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