

Euro mortgages offer scope for profit

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Property investors buying second homes in Europe could profit from the weakening euro and low interest rates by taking out a euro mortgage, say brokers.

Concerns over [Greece's debt crisis](#) and slowing growth in other eurozone countries has seen the value of the euro fall in recent weeks. The currency slumped to a [nine-month low](#) against the dollar of \$1.3433 last week. On Friday, the euro weakened against the pound to 87p.

"We are now seeing an increase in the number of clients buying in Europe as a result of the weakening euro," says Miranda John of [Savills](#) Private Finance.

Borrowers can reduce the sterling cost of [purchasing a property abroad](#) by using a euro-denominated mortgage, brokers say.

Fiona Watts, managing director of International Private Finance (IPF), the mortgage broker, says that over the past 20 years, most UK-based buyers of overseas property have raised money against their UK property and used the sterling funds to purchase abroad.

But she says the current level of the exchange rate makes this an unattractive option. As a result, an increasing number of people are now looking at securing euro-denominated debt against a euro-valued property asset.

The benefit of taking out a euro mortgage on a French property is that the currency of the asset and the liability are matched, avoiding the impact of exchange-rate fluctuations.

In addition, if sterling strengthens as experts predict, the cost of the mortgage – both the monthly repayment and the balance outstanding – will fall.

Clare Nessling, operations director at Conti, the international mortgage broker, suggests that even cash-rich buyers should consider taking out a euro mortgage until the exchange rate improves, at which point they can pay it back and ultimately reduce the price they paid.

For example, a homebuyer taking out a euro mortgage of €250,000 for a property in France based on the current exchange of around €1.1 per £1 would have to make a commitment of £227,000 to pay the mortgage off. If the exchange rate rises in favour of the pound to €1.3 over the next couple of years, they would only need to pay £192,000. Investors would have to factor in the impact of mortgage costs and notaire fees.

Taking out a euro mortgage also allows investors to benefit from low European interest rates. These are often lower than sterling rates, says Nessling.

Foreign lenders still have a strong appetite to provide large mortgages to non-resident buyers, according to IPF. It is even possible to get a 100 per cent loan-to-value (LTV) mortgage in France, with fixed-rates starting from 3.55 per cent. French banks offer variable rates from 2.36 per cent on LTVs of up to 80 per cent.

Borrowers can opt for a fixed or capped rate to provide protection if they are concerned interest rates in Europe may start to rise.

"Even a small difference could save you a lot over the lifetime of the mortgage," says Nessling. "Fees on some euro loans can also be substantially lower than on some sterling mortgages."

Experts say there are additional financial planning benefits of having a mortgage secured against a property in France.

A mortgage on a French property can offset the potential wealth tax liability, says Virginie Hopps-Delplace at Charles Russell. Wealth tax is paid on any assets owned by an individual that are valued over €790,000. "Essentially, the French tax authorities will look at the net value of the property – the value of the property minus the outstanding mortgage amount," she says.

Non-residents are also able to offset the mortgage interest against any rental income they receive.

Wealthy UK homeowners can also look to profit from currency movements by opting for a managed multi-currency mortgage – in which a manager trades different currencies with the intention of reducing the borrower's debt.

[ECU Group and 3D Currency Management](#) are two companies that use this approach.

Cormac Naughten of ECU Group says he has seen an increase in enquiries from people interested in multi-currency mortgages. But he says this is largely down to investors' belief that the predicted rise in UK interest rates will lead to an appreciation of sterling over the next few years rather than an expectation the euro will weaken. Naughten says a multi-currency approach would be favoured over a single one.

But mortgage brokers warn that these products are only suitable for wealthy, sophisticated investors. Multi-currency mortgages risk increasing the size of the borrower's loan.

"You could quickly be in negative equity," says Simon Gammon at Knight Frank Finance. "You also need to have surplus liquidity as loans are repayable on demand."

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