

Left with a mountain to climb

When the management firm of this ski development in the French Alps went under, the owners took over to save their investment. Laura Latham reports

Steve Warner did everything right when he bought a ski property in the French resort of Morzine a little more than three years ago. He researched the area — which has plenty of traditional Savoyard properties and reliable snow — did his legal homework and settled on a project from a reputable firm. Yet even this due diligence didn't protect him when the builder, who was also the managing agent, went bust.

"I wanted a sensible long-term investment," says Warner, 42, a sales director from Ipswich and a keen snowboarder. "I liked the location, bought from a developer with a track record and was offered a guaranteed rental income of 5%. It all stacked up."

The two-bedroom flat — one of 12 in the luxury Aiglon de Morzine complex, where prices ranged from £225,000 to £670,000 — was bought via the leaseback scheme introduced by the French government more than two decades ago. Intended to increase the volume and quality of holiday accommodation available, it offers off-plan investors tax incentives and guaranteed rental returns. Buyers purchase the freehold of a furnished property, which they then agree to lease back to a preselected management company for a fixed period, initially between 9 and 11 years, renewable for 18 years. After this time, the owner is exempt from the 19.6% Vat levied on property purchases

and does not have to pay tax on any capital gains.

"We received income through 2008, but in March 2009, all the owners received letters saying that the developer had gone bust and there was no money left," Warner says. "It was totally out of the blue. We were shocked."

The owners also discovered that the French legal system offers little support when a management firm goes into liquidation. "Legal action can take at least

two years," Warner says. "It's expensive and you have no guarantee of redress." In addition, if a leaseback agreement is broken, owners no longer qualify for Vat exemption. This left everyone with the prospect of having to find a further 19.6% of the purchase price to pay to the government.

The owners got in contact with each other and arranged a meeting in London. "There was a lot of anger," recalls Maria Priestley, 48, a finance director from Dublin. "We were all so worried." They tried to find another company to take on the site, but with only a dozen properties, it was too small for any firm to consider. So, after weeks of discussion and negotiation, they came up with the obvious solution: to run it themselves.

"As a group, we had a lot of expertise," says Joanna Yellowlees-Bound, 50, owner of the London-based tour operator Erna Low, who invested in a four-bedroom flat in the block. "We had sales and marketing professionals, a finance director and a property developer — and I've worked in the ski industry for decades."

The group came up with a takeover plan that meant agreeing to drop all legal action against the developer. In return, he would surrender the leases to a UK-listed company set up by the owners. "Not everyone was happy, but it was our only choice," says Priestley, who owns a three-bedder. "Several of us were in arrears on mortgages due to the lack of rental income, but when we took into account the cost of taking the developer to court and the loss of Vat relief, it was a no-brainer."

The new firm, Aiglon Morzine Ltd, took over management of the properties and had new leaseback contracts drawn up. "We needed all 12 apartments, because leaseback schemes must have at least 100 beds," Priestley says. "We had just enough if we all complied."

It wasn't easy, as there was no legal precedent for owners taking over a leaseback arrangement this way. Now all are equal shareholders in the company,

with three directors responsible for the overall management.

The group was then pitched into the mechanics of running the resort. "It was a real learning curve," Yellowlees-Bound recalls. "We had to organise things like rubbish collection, utilities, maintenance and cleaning. We needed someone

on site to sort out any problems." The team appointed a trustworthy local agent, employed by the hour, to oversee the running of the development, using email and Twitter to stay up to date.

L'Aiglon de Morzine opened again for the 2009-10 season, but the owners saw returns of only 1% in the first year. They expect that to increase to a little more than 3% by the end of this year and, all being well, to 5% by 2015. Any profits have been invested in the development and used to cover unexpected costs.

"We have a vested interest in making the flats as successful as possible," Yellowlees-Bound says. "A normal management firm wouldn't put the same effort into upgrading, redecorating or adding personal touches. This isn't just any rental business — it's ours, and we take pride in it."

There is another, unexpected benefit to being the leaseholders. "There's no cap on what we can earn," Priestley says. "With the original management, we'd only get 5% returns — irrespective of what the properties were actually bringing in. Now there's no limit, and everything we make will come straight back to us."

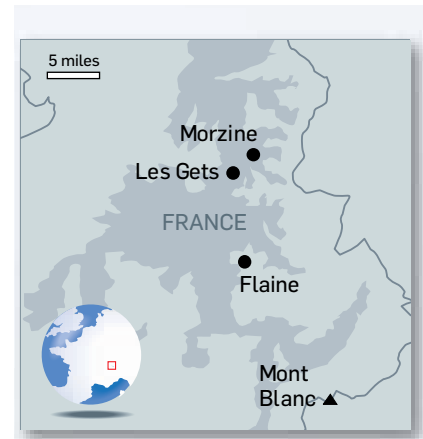
Warner and his fellow owners have been lucky. What happened at L'Aiglon de Morzine isn't an isolated story. Investors



in other locations have been affected by developers or letting agents going bust, and in some cases owners have taken a similar approach. Buyers in the Canadian resort of Humber Valley pooled financial resources and took over the running of basic services such as waste collection and snow clearing when the developer went bankrupt in 2008. They managed to keep the resort viable until it could be sold this year. And, in Bulgaria, owners' groups have formed at various developments in the Bansko area, with the aim of doing something similar.

The success of the Morzine group has made them keen to act as a role model for others. "We offer a template for an owner-led management system and we're happy to advise others," Warner says. "Our case is specific to France, and there are lots of owners elsewhere whose properties haven't been completed or managed as promised. We can't help everyone, but maybe we can inspire them, because we've proved it can be done."

➦ For details of holiday lets, visit aiglonmorzine.com or contact Erna Low; 0845 863 0525, ernalow.co.uk



Take control

- You should engage an independent English-speaking lawyer to check sales and rental contracts, as well as the legal position of all parties. Someone familiar with local law is best, as you will also need advice on business laws and financial issues such as taxes.
- Try to get all the owners together: it won't work unless everyone is on board and happy to move forward.
- New legal contracts should be drawn up —and translated if necessary — to ensure that everyone is fairly represented with regard to decision-making, income distribution, charges and running costs.

- Set up a business and register it, in Britain or locally. This will give your group legal status and credibility, offer a framework for decisions and responsibilities, and keep all accounting open and clear.
- Draw up a checklist of everything you will need to manage, from services such as utilities, waste collection and maintenance to marketing and bookings. You may need to employ a third party to run additional facilities such as spas.
- Stay in touch via regular email newsletters or social-networking websites.
- What do the Aiglon Morzine owners suggest? Patience, complete sharing of information and trust are key.



Kumar.Srisikandam/Alamy

SLOPE OFF

Three French ski properties where you don't have to do it yourself



Morzine £630,000

This four-bedroom, four-bathroom penthouse is one of eight in a converted traditional Savoyard property in Morzine's old town. The 97 sq metre flat has underfloor heating and a large open-plan reception room with a fireplace and a balcony. There is a separate ski locker on the ground floor.
020 8576 5582, winkworth.fr



Les Gets **£410,000**

**A 15-minute drive from Morzine, between Lake Geneva and Mont Blanc, L'Athéna is a newly built ski-in, ski-out block of eight properties. There are two remaining two-bedroom, two-bathroom flats for sale, one for £410,000 (68.5 sq metres), the other for £524,000 (87 sq metres).
020 7016 3740, alpinehomesintl.com**



Flaine from **£227,000**

**Les Terrasses d'Hélios, in Flaine Montsoleil, is a new development of 113 one- to three-bedroom properties, due to be completed at the end of 2012. All the flats are sold on a leaseback basis, saving buyers 19.6% Vat, but are entered into a shared rental pool. It is an hour's drive from Geneva.
020 7471 4500, pierre-vacances.co.uk**

