Mauritius - Beautiful Shores and Profitable Choice?

Incentives to encourage inward investment

By Monique Terrazas

You gather the idea that Mauritius was made first and then heaven, and that heaven was copied after Mauritius. (Mark Twain, 1896)

This 'The Pearl of the Indian Ocean,' is a volcanic island of exceptional beauty and more than just an investment opportunity. Mauritius is unique, offers the finer things in life and a ground floor opportunity.

Why Mauritius?

Simply, economic growth. (Over two decades the economy has changed its focus from sugar cane to diversified services. Tourism and financial services are the top earners. With 9,1 percent unemployment and a per capita income of $5 000, the highest in the Southern African Development Community (SADC), Mauritius had 4.7 percent growth in GDP in 2006. GDP growth expectations for 2007 are 5.3 percent. Some 400 global financial houses have set up operations and the Mauritian stock market has climbed more than 50 percent over the past year.

Mauritius is now classified as a middle-income country. The recent Human Development Index for 173 countries, ranks Mauritius 67th globally and second in Africa. The first annual Ibrahim Index of African Governance rates Mauritius best with the Seychelles second and South Africa fifth.

"Doing Business 2008", ranked Mauritius as the number one African country in terms of ease of doing business. Political stability, efficient telecommunications and a pool of bilingual professionals (English and French),as well as investment promotion and protection agreements. The property market is doing well, with rental prices soaring due to the demand in areas such as Blackriver, a favourite spot for South African expats. As many more wealthy South Africans search for a contingency plan should crime and the destabilisation in Zimbabwe drastically alter the South African way of life, it comes as no surprise that many South African investors are turning to Mauritius.

Investors Welcome

The government of Mauritius welcomes foreign investment and skilled people into the country. However, foreigners could not own property in Mauritius until the Mauritian government recently introduced incentives to encourage inward investment. These include the Scheme to Attract Professionals for Emerging Sectors (SAPES) and the Integrated Resorts Scheme (IRS.)

People: SAPES is an initiative to attract non-citizen professionals with skills and expertise in emerging sectors to work and live in Mauritius. Incentives include a three year work contract, the option to set up an office or practice, a three year work and residency permit, the opportunity to purchase private residential property, as well as exemption from taxes and duties on imported household and personal goods.

Places: IRS allows a non-resident to purchase private residential property worth more than US$500 000, which also qualifies the purchaser and his/her spouse and children under the age of 18 for Permanent Residency (PR) status. The investment can be made and the benefits accrued by citizens and non-citizens of Mauritius, as well as any company registered under the Companies Act (of Mauritius) 2001. The PR status allows unrestricted entry and exit by obfuscating visa requirements and allows the purchaser to conduct business in Mauritius, exempting him/her from work permits. PR status is valid until the property invested in is sold.

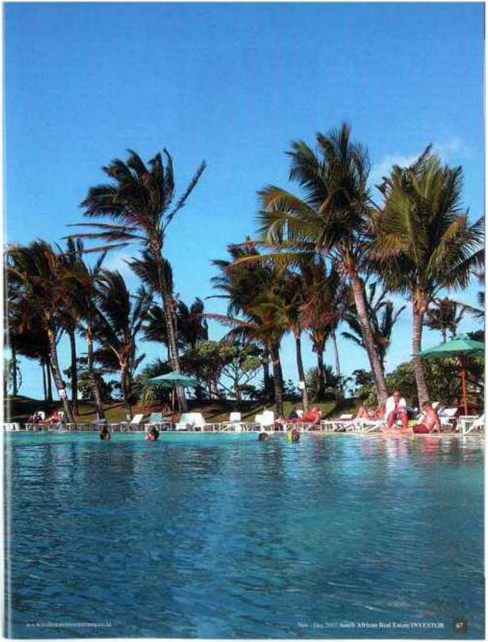
Foreigners are allowed full-title ownership of units under the IRS. If the foreign owners in the schemes spend more than six months in Mauritius, they can also obtain Mauritian tax status, which is an extremely favourable 15 percent flat-rate tax for individuals and companies with no estate duties, no capital gains taxes, a number of double taxation agreements and zero exchange controls. Individuals can select either a 'country' based tax where all assets are subject to income tax in Mauritius, or for the 'international' tax position where only money brought into Mauritius is taxable in the country.

Invest Mauritius

The IRS complexes are mixed-use properties featuring five-star hotels, individual units, golf courses, marinas and swimming pools, nautical and other sport facilities, health and beauty centres, restaurants and more. Maintenance, waste disposal, gardening, security and other household services are also included.

A minimum investment US $500 000 is required for the acquisition of freehold immovable property. The extent of the land in respect of each villa may not exceed 0.5 hectares and a villa can be acquired on the basis of a plan or during the construction phase.

Five IRS projects are already under development. In total, 22 schemes are under consideration, with 200 to 300 houses per development. Some



developments will be located on land reclaimed from the sugar plantations that dominate the island. For every unit sold, the developer has to contribute $6 000 towards social development. The buyer has to pay a registration duty of $70 000 plus five percent in transfer fees. On an average price of $800 000 per unit, the Mauritian government will make an estimated $760 million in foreign currency. Every time an IRS unit is resold, a further US $50 000 transfer duty is paid by the seller.

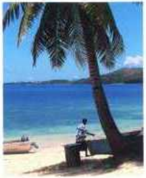
Benefits for South African investors

IRS developments are an ideal opportunity for South Africans to diversify outside South Africa.

1. The IRS provides a dollar-denominated investment.
2. The current strength of the South African rand against the US dollar is certainly favouring South African investors who want to own a piece of paradise.
3. Mauritius, as one of the SADC countries, has no foreign exchange restrictions from the South African government on South Africans investing in Mauritius. Normal tax disciplines will apply.

South African exchange controls limit individuals to a total offshore investment of R2 million. But South Africans are allowed to invest in other SADC countries above this limit at the discretion of the South African Reserve Bank (SARB.) It is unlikely that investors will encounter problems in obtaining approval, given the Reserve Bank's stance on the limited usefulness of exchange controls. Approval of a request takes about ten weeks. With this property investment allowance, a South African can raise the finance needed for the investment in South Africa, based on local assets. The repayments are then rand-based and not subject to currency fluctuations.

Loans can be raised in Mauritius using the property as collateral through



Investec, Standard Bank or Barclays. Investors can expect an interest rate of around 12 percent on a bond in Mauritius. These loans would have to be declared to the Reserve Bank.

Mauritius is attractive due to its proximity with just a four-hour flight time and two hour time zone shift. There are direct daily flights from Johannesburg and regular flights from Cape Town and Durban.

What's Going Up

There are several IRS sanctioned developments underway.

1. **Tamarina Golf and Beach Club,** which has 119 villas, was almost sold out before the construction was completed. Each of the villas is situated on extremely spacious freehold erven averaging at 3 500m². All the units have now been sold at prices ranging from $650 000 to $1.4-million and the developers are considering a next phase. Located 45 minutes from Plaisance International Airport and 25 minutes from the capital, Port Louis, the development covers 200 hectares at the foot of the dramatic Montagne du Rempart and overlooks the cool waters of Tamarin Bay.CIEL Properties Ltd is the developer of Anahita Resort. The project covers approximately 213 hectares of land at Beau Champ with 6km sea frontage. It will feature the Four Seasons Resort Mauritius, a luxury hotel located partly on the main land and partly on Ile aux Chats Island, with ninety-one guests suites. There will also be 45 luxury whole ownership Four Seasons villas for sale, among which thirty-five will be integrated to the rental pool of the hotel. In addition, investors can consider 325 luxury private residences comprising of 70 waterfront residences, 200 estate villas, 15 golf villas and 40 golf lodges. These are all situated near the 18-hole, par 72 championship Ernie Els signature golf course. The 28 villas in the first phase of the Anahita IRS scheme were sold at the launch of the complex this year at prices ranging from $700 000 to $2 million.
2. **Cornish Bay** is due to be launched in 2008. The development will feature a hotel by the Banyan Tree Group and a Gary Player designed golf course. Prices will range between $3 million and $7 million.

Sold out

3. **The River Club.** The first two phases of another IRS luxury residential development, were reserved in November at the Pam Golding Property Exhibition, held at Sandton Square in Johannesburg. The development will be valued at $350 million when completed and construction is expected to commence in April or May 2008. The River Club Beach and Golf Mauritius is a joint venture between Island Projects Limited (IPL) and Mauritian-based company, Liberalis Limited. IPL comprises GDI Holdings and Acme Fund Advisors. The River Club is being developed by River Club, a company which is managed by GDI Holdings.

It is GDI's first development outside SA, but the first of many. Andre

Bruyns, chairman of GDI Holdings says that the company has another "two developments on the drawing board in Mauritius", as well as other projects in Zambia and Europe.

The River Club also features an exclusive beach and a hotel managed by an international hotel group. Amenities will include conferencing facilities, a boathouse, a children's entertainment centre, tennis courts, and a state-of-the-art health and wellness spa. Water sports include sailing, paragliding, paddling, deep sea fishing, water-skiing, snorkelling and scuba diving. The 18-hole championship golf course has been designed in a parkland style, with unique features such as indigenous forests and holes that meander along the Tombeau River. The proposed Club House will be perched atop cliffs overlooking the river with sweeping views of the river flowing into the Indian Ocean.

Prices soaring

4. Villas Valriche in Domaine de Bel Ombre on the South West Coast of Mauritius is also an IRS project being developed in partnership with a South African based company, Secondlifestyle Group. The estate comprises of 288 freehold Mauritian plantation-style villas in 22 different villa designs by award winning local architect Jean-Francois Adam. Set on a hillside in over 200 hectares of flourishing grounds with spectacular views of the Indian Ocean, the properties range from two bedroom villas of 250m² up to three or four bedroom villas in excess of 400m². The estate, formerly a sugar cane plantation, is only a 45-minute drive from the airport.

In addition to the Peter Matkovich designed, 18-hole par 72 championship golf course and neighbouring hotels such as Heritage and Le Telfair hotel, there is a variety of other facilities such as a beach club, sports centre and spa and a nine-hole par 3 course, the only one of its kind on the island.

Already, 74 of Villa Valriche's 133 first-phase development opportunities have been reserved and are in the process of transfer. At the launch of the marketing programme for the project June 2007, prices ranged from $750 000 to $2 million US dollars. There has already been a 10 percent price increase and units can no longer be bought for less than $800 000. The developers estimate that buyers in phases two and three, which will become available over the next two to three years, will be paying 20 to 30 percent more for the villas.

According to Secondlifestyle, Villas Valriche is unique when compared with other new IRS developments on the island. The completion of this development is bank guaranteed and the existing facilities such as the championship Matkovich designed golf course are already completed and operational.

Construction of the first villas is expected to commence in March 2008 and the entire 130 villas in Phase 1 should be completed mid-to-end 2009. During this time, infrastructure in Phase 2 will overlap Phase 1 and all construction including the villas should be complete by late 2010 to mid 2011.

Response is strong

Buyers have come from all over the world, including the Middle East, United Kingdom, France, Switzerland, Scandinavia, Russia, Malaysia and the United States. Hayes, Matkovich and Associates say they have been surprised by the level of interest from South Africans. South Africa was not initially expected to be a major market but, so far, two-thirds of sale reservations at Villas Valriche have been by South Africans and the most expensive property was sold to a South African. Residency is the biggest selling point for South Africans, compared to the European buyers. The second most significant driver is the appeal of property ownership direct into an emerging dollar based second lifestyle market through the application of Rands.

Buy-to-let

For those buyers who wish to rent out their villa and receive a return on their investment, a rental pool will be operated by the developer. Rob Hudson, MD of Hayes, Matkovich and Associates, estimates a 5,5 percent return after costs on a $1-million unit, based on a projected occupancy of 40 percent at $700 a night.

At a 12 percent interest rate on a loan in Mauritius, or the current 14 percent in South Africa, investors will need a fairly large deposit and reserves if they expect to cover and secure bond repayments with rental income.

The projected appreciation of these properties, coupled with the benefits under the IRS delivers investors an attractive offshore investing opportunity coupled with a 'paradise lifestyle'.

RESOURCES

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