

BUYING IN BULGARIA – A GUIDE FOR INVESTORS

The Bulgarian property market

Bulgaria has seen an unprecedented growth in the property market, during the last few years and expectation is that it will continue to do so during 2006 and beyond, as the country prepares to join the EU. Although EU membership is the main factor behind the current interest, it is supported by the low cost of living, great natural beauty and welcoming locals. The possibility that Bulgaria will host the 2014 winter Olympics, and the country's increasing popularity as a holiday destination – both for its coastal and skiing resorts - are also factors that underline Bulgaria's popularity with investors.

After years under communist rule, Bulgaria enjoys political and economic stability with GDP growth averaging 4% per year since 2000. Labour costs are significantly lower than the rest of Europe; corporation tax and VAT are also low to encourage inward investment, and the country has double taxation treaties with most other European countries, including the UK.



The developing Bulgaria property market has the potential for big expansion and big profits. It offers a number of undeveloped sites on quality locations, at reasonable prices, suitable for all business purposes.

The most popular areas are:

The Black Sea coast (Varna, Burgas, Sunny Beach, Nessebar, Pomerie, Golden Sands, Albena, Elenite, St Konstantin, Primorsko).

The areas around established ski resorts (Bansko, Borovets, Pamporovo)

The capital of the country, Sofia which is increasingly becoming a sound proposition, for investors seeking rental income as well as capital growth, as it can support long term rentals. In contrast, properties in the coastal resorts rely on the seasonal tourist trade only.

During the last five years, a lot of new buildings have been constructed in the big towns, the mountain resorts and on the Black Sea coast. Caution is needed if one considers buying an

off-plan or new property where the developer guarantees rental income for an initial period. Recent reports have highlighted the fact that developers tend to overstate the rental potential of their properties, leaving exposed those buyers who relied on the extra income i.e. to repay a mortgage taken on the property.

With Bulgaria's accession to the European Union in 2007, it is inevitable that the property market will see more and more foreign investment, which will certainly push current prices further upwards.

Bulgaria – the country

Bulgaria is a beautiful country with panoramic **scenery** and clean, sandy beaches. It is a country of contrasts with ski resorts and spa centers, next to medieval towns and villages with cobble stone streets and beautiful buildings. Scattered across the country, are also numerous monasteries with beautiful woodcarvings and frescoes, dating back to Byzantine times.

Over a quarter of the country is covered by natural forests and there are several National Parks providing habitat for wildlife. Bulgaria is also famous for its rose fields and vineyards. The Black Sea coast, 354 km of coastline, includes several beaches awarded Blue Flag status.

Bulgaria enjoys a temperate **climate** with distinct seasons. Summers are mostly hot and dry while winters are cold with snow in mountainous areas. The Black Sea moderates temperatures in the east of the country, with more than 300 hours of sunshine per year.

Bulgarian **tourism** has enjoyed a healthy increase over the last few years, encouraged by the low cost of living and improvements in the country's infrastructure.

Travelling to Bulgaria – several international carriers fly to Sofia from other European cities. Bulgaria Airlines also operate domestic services connecting Sofia to Varna, Bourgas and other cities. Scheduled, as well as charter, flights arrive directly to Varna, Bourgas and to Plovdiv (near Pamporovo), throughout the summer season.

Travel within Bulgaria is covered by a good network of buses and rail. Roads linking major towns are quite good, elsewhere they vary. In Bulgaria traffic travels on the right. In urban areas, except buses, one can travel by taxi (inexpensive for western standards). In Sofia, there is also a metro network and trolley-buses.

The Bulgarian **currency** is called Lev. One Lev divides into 100 stotinki (cents). There are banknotes of 1, 2, 5, 10, 20 and 50 Lev and coins of 1, 2, 5, 10, 20 and 50 stotinki. The Euro is extensively used in pricing, alongside the Lev, and the Lev value is set against the euro. Foreign currency can be exchanged at airports, banks, exchange bureaux and some hotels.

Banks are usually open Monday to Friday, from 9am to 4pm. Foreigners need to have their passport when exchanging currency or cashing cheques. There are also ATM machines in most hotels and in other public places. The main international credit cards are accepted in most places in towns and resorts.

Overview

Official name: Republika Bulgaria (Republic of Bulgaria)

Form of government: Parliamentary Democracy

Chief of state: President *Head of government:* Prime Minister

Member of NATO: since 2004

Population: 7,500,000 approx.

Land use (1995): forested 30.2%; meadows and pastures 16.2%; agricultural and under permanent cultivation 38.0%; other 15.6%.

Gross domestic product (1996): US\$ 9,924,000,000 (US\$ 1,190 per capita)

Gross domestic product (2005): US\$ 66,960,000,000 (US\$ 9,000 per capita)

GDP composition (2005): agriculture 10%, industry 30%, services 60%.

Foreigners buying property in Bulgaria

Non-Bulgarian citizens are not (yet) allowed to purchase land. However, they can form a Bulgarian company, which is legally allowed to own land, and buy through the company (see detailed flow chart).

Apart from the above difference, procedures of real estate transactions in Bulgaria are similar to those in other continental European countries. The costs associated with property transactions are, however, lower.

Property transfers are overseen by a Notary Public, who is representing the government and is independent from both buyer and seller.

Guarantees for foreign investment

The Bulgarian Constitution and the Law on Foreign Investment ensures that foreign investors are entitled to perform economic activity in the country under the same provisions applicable to Bulgarian investors, except where otherwise is provided by law. This principle covers the whole range of economic and legal forms of activities for establishing a business.

Bulgaria has signed bilateral treaties with many other countries, to promote and protect investments made by companies and individuals from one of the countries, on the territory of the other contracting country.

Repatriation of capital and/or profits

Foreign investors can freely purchase foreign currency and transfer it abroad upon presentation of receipt for paid taxes if income was generated through an investment, indemnification proceeds for state needs, liquidation quota resulting from the termination of the investment or proceeds from the sale of the investment.

This right may also be exercised by foreign nationals working in the country, in respect to remuneration received by them, and by foreign nationals who have obtained a permit for permanent residence and are registered as sole traders or participate in a co-operative or as an unlimited partner in a partnership.

Setting up a limited liability company in Bulgaria

A company is deemed incorporated as from the date of its registration into the commercial Register of the relevant district court. The application for registration is filed by the appointed company manager (or a solicitor with power of attorney) and it must be accompanied by all documents required such as the Articles of association (or the Memorandum of association for single-member limited companies).

The company must have paid up its authorised capital of 5000 Lev (£1,750 approx.)

A special deposit company bank account has to be opened in the name of the company. Since the company is not registered by the opening of the bank account, the signed constitutive minutes and statute of the company (which we solicitors will prepare) have to be presented at the bank. The money for the capital remains at the deposit account at the commercial bank until the registration procedure is over. Once the company is registered, money can be withdrawn with the exception of 100 lev which is needed to keep the account open.

Company information is recorded in the commercial register and published in the State Gazette.

Information needed to start procedures for a Bulgarian company

1. Full name and address of each company shareholder
2. Date of Birth of each company shareholder
3. Place of Birth of each company shareholder
4. % of each shareholder in the company
5. Rights of each shareholder in the company
6. Appointed manager(s) of the company
7. Proposed company name – supply at least 3 options in order of preference, in case any of the names are already taken
8. Copy of passports of all company shareholders/directors

Costs paid by the buyer when buying property in Bulgaria

Notary fee – based on the purchase price or on the tax estimation (the tax evaluation of the property is lower and that is why it is usually entered in the notary contract):

Price 10,000-50,000 euro – 118.50 euro plus 0.5% for the sum in excess of 10,000 euro
Price 50,001-100,000 euro – 318.50 euro plus 0.2% for the sum in excess of 50,000 euro
Price over 100,000 euro – 418.50 euro plus 0.1% for the sum in excess of 100,000 euro
The maximum notary fee in all cases is not more than 3,000 Lev.

Solicitor fee (for conveyance) – allow a total of 1-3% of the purchase price, based on a sliding scale. The minimum lawyer's fee in all cases is 100 euro.

- a) For **drafting preliminary agreement**:
Property purchase price 10,000-50,000 euro – 118.50 euro plus 0.5% for the sum in excess of 10,000 euro
Property purchase price 50,001-100,000 euro – 318.50 euro plus 0.2% for the sum in excess of 50,000 euro
Property purchase price over 100,000 euro – 418.50 euro plus 0.1% for the sum in excess of 100,000 euro
- b) For **drafting final contract (notary act)**:
Property purchase price 10,000-50,000 euro – 118.50 euro plus 0.5% for the sum in excess of 10,000 euro
Property purchase price 50,001-100,000 euro – 318.50 euro plus 0.2% for the sum in excess of 50,000 euro
Property purchase price over 100,000 euro – 418.50 euro plus 0.1% for the sum in excess of 100,000 euro

In case business trips/overnight stays are necessary for the conclusion of the notary contract, the solicitor's transport and accommodation costs have to be incurred by the buyer.

State fees for property check – payable to the solicitor, they vary between 20 and 80 euro depending on documents which have to be found and requested from the authorities.

Solicitor costs for checks of the documents regarding the ownership title of a certain property - depends on the location of the property and the time spent – between 50 and 150 euro. Also, costs for transport and accommodation, if the property is away from the solicitor's base.

Local municipality tax – paid by the buyer on the date of the sale-purchase, is 2% of the purchase price or of the tax estimation (the tax evaluation of the property is lower and that is why it is usually entered in the notary contract).

Property register fee - for entering the new owner at the property register: 0.1% of the purchase price or of the tax estimation if it is entered in the notary contract.

Estate agent fees (if applicable) – it is customary in Bulgaria that both buyer and seller pay a commission to the introducing agent. This amount varies between 2-5% of the agreed buying price (not the declared price on the contract, which can sometimes be lower). The fee is paid only if property searches have proved satisfactory and the preliminary agreement is concluded.

Setting up company fees/costs (if applicable):

- state and notary fees – approx. 230 euro
- the company capital of 5000 Lev, which can be withdrawn after registration of the company is complete
- solicitor's fee (for the company) – 600 to 1,000 euro depending on the number of shareholders, the subject of activities, etc. This includes the drafting of all necessary documents, reservation of the company name, opening the bank account and receiving the bank certificate, representation in front of the court with respect of the court registration of the company, receiving of the court resolution and other court documents, preparation of company stamp and registration at the Bulstat register – e.g. the whole registration procedure.

The incorporation procedure of the company takes usually three weeks after we receive all documents signed. We may prepare the drafts of the documents for 2-3 days after we have all necessary data.

Other potential costs:

- Solicitor fees for arranging visa and Bulgarian ID card to legalise your stay in Bulgaria.
- Giving Power of attorney (POA) to the solicitor, in order to register a company, open bank account, etc, thus saving time and money for the buyer.
- Solicitor fees for opening personal bank account (separately from the deposit account at company registration) – 60 euro.
- Use of translator / interpreter (if applicable) – allow 60-80 euro per day.
- Cost of local accountant for company's accounts and annual tax returns.

Annual property costs

Properties in Bulgaria have much lower running costs, compared to other European countries. Property owners have to pay an annual property tax, equal to 0.15% of the declared value of the property, to the local municipality. This is usually around 30-100 euro per year.

A very small additional amount has to be paid for waste-collection. If a property is part of a residential complex, the owner normally pays a contribution to the residents association to cover common expenses and maintenance.

Suggestion

For budgeting purposes, we suggest you allow an approximate 10% of your budget for purchase-related costs, with a minimum of £5000.