



## Buying property

### Who can buy?

Bulgarian legislation is among the most liberal legislations in Europe. It gives foreign people and companies the chance to buy property on the territory of the country, as well as some limited rights such as the right of use, construction etc. However, there is a single exclusion – a foreigner cannot acquire direct ownership of the land under the building as well as agricultural lands. This restriction is imposed by the Constitution of the Republic of Bulgaria.

"Article 22. (1) Foreigners and foreign legal persons cannot acquire ownership rights on land, except in case of inheritance by virtue of the law. In such a case they must transfer their ownership.

(2) Given the conditions defined by way of law, foreigners and foreign legal persons can acquire usage rights, building rights and other property rights."

Apartments, garages and shops are not affected by that restriction because they usually don't go with the land. So, no matter whether you are a foreign physical or legal person, you can acquire direct ownership on these properties. According to the Bulgarian legislation foreign persons are all physical and legal persons who permanently live abroad. Bulgarian citizens who permanently stay abroad with the idea of becoming residents of this country, are also considered foreign persons. Local persons, respectively, are those physical and legal persons with permanent residence or seat in Bulgaria, independent of their citizenship, as well as all foreign citizens with permanent residence permission on the territory of Bulgaria. Companies registered according the Commercial Law with 100% foreign participation also fall in this group.

It is considered that a real free market of land will be established in Bulgaria seven years after its enrolment in the European Union. Then foreigners will be allowed to buy land for both administrative and residential purposes. Though the present-day law may seem a too restrictive one, it is actually an advantage for potential investors because it is one of the major reasons for the relatively low property prices in Bulgaria.

However, there is a way to get round the law. If you are a physical person, you cannot own land. But matters get different if you set up or join a limited Company.



If there is no ownership of land involved, there is no need to form a Company. Then you will have only limited real rights – right of use, right of construction. Some properties, however, may come with ideal parts of the land over which they have been built and then the setting up of a Company is a must.

According to the law this Company is considered a Bulgarian legal entity and there are no restrictions for it as to acquiring ownership on land. Therefore this is the most common method for foreigners who want to buy property in Bulgaria.

### **Setting up a limited Company step by step**

Who can own a Company?

The answer is simple – a foreign or Bulgarian person (judicial or physical). The person/persons will be liable for the Company's obligations to the value of his/her share in the Company's registered capital. The shareholders conduct preliminary discussions on the commercial activities they intend to engage in. Based on their agreement, Articles of Incorporation are prepared & signed by all shareholders.

Currently the Company exists from the moment it is added to the Commercial Register of the district court of where the Company will be based. The entry is made upon issue of a district court decision for the incorporation. The following documents must be available at the time of the submission of registration application to the district court:

- Articles of incorporation;
- Memorandum for appointment of Director/ Directors;
- Proof that each shareholder has paid at least one third of its interest, but not less than 10 leva;
- Proof that at least 70% of the registered capital has been paid.

It should be noted that the above process is due to be simplified as part of preparation for joining the EU and it will not be necessary to directly involve the courts.

The Company you register can be either only yours, or with other Bulgarian and foreign physical and legal persons associates. The most popular option is the Limited Liability Company. If you choose this variant, the manager of the Company can be a Bulgarian physical person. This way you stand a greater chance to deal with all the formalities in registering the Company, purchasing the property and the accountancy of the Company much more easily.



The most common type of organization for foreign investors is a limited liability Company. Other forms are companies limited by shares, joint enterprises, business associations, general partnerships, limited partnerships, and sole proprietorships. The law does not limit the extent or amount of foreign participation in companies.

The Limited Liability Company is a commercial Company with shared capital owned by its members. Their liability is limited to the amount of that capital. One or more persons, including foreign physical or legal persons, can set up a private Limited Liability Company. The Company does not have to operate or trade because it is just a legal means of buying property.

### **Opening a bank account**

Foreign organizations have the right to open bank accounts denominated in a Bulgarian or foreign currency. There is no restriction to the Company stake. Moreover, the Bulgarian legislative system offers a special regime of respect towards the foreign investors, which is a gesture of tolerance to those, who are interested in Bulgaria.

Before setting up the Company, you should open a Bulgarian bank account. This account is needed in order to deposit the Company capital. This procedure is one of the easiest and costs nothing. You just have to go to the bank and, if there is an English-speaking official, then nothing can go wrong. However, you must be aware that the procedure can take more time. If nobody there speaks English, then you will need help from your estate agent, who will go there with you. If you are setting up a joint account, all the people engaged should be there to sign the necessary documentation.

Internet banking is available in some Bulgarian banks. It is better to set up a sterling account so that sterling can be transferred from the UK, as well as an account in Bulgarian Leva. Money can be transferred from the Bulgarian sterling account to the Leva account, which can be used to purchase and pay bills in Bulgaria. Money can be transferred directly from a UK bank account to a Bulgarian bank.

### **Setting up the Company**

The process of registering your Company can take anything between several days and several weeks. If you are lucky enough it can be organized in a day. It is a relatively easy procedure. You do not need to stay in Bulgaria for this time – you can give power of attorney to your estate agents who will take care of that as a part of the complete service. The agent can organize the paperwork on your behalf, sign the preliminary contacts and even conclude the purchase while you are away.



1. Check the Company name is free and reserve it.
2. Produce Articles of Association and all other documents required by the Bulgarian legislation – Incorporation Protocol, declarations and consent of the manager of the Company, etc.
3. Pay in to the bank at least 70% of the obligatory Company capital for an OOD (total capital being 5000 levs) – i.e. 3500 BGL, the rest shall be deposited within 2-year term; or 25% for an AD (total capital being 50,000 levs)
4. Submit the application to form the Company together with the proof you have paid the capital to the district court, as well as the other documents, required by the law.
5. The Company becomes active when it is entered into the Trade Register of the Court. The publishing in the State Gazette (some weeks later) have only notifying effect.
6. A stamp of the Company will be produced – pursuant to the decision of the court.
7. Registration with the National Statistical Institute to receive a BULSTAT identification number must be done within 7 days after receiving the court decision.
8. Registration with the National Insurance Institute (NOI) must be done within seven days as of the date of receiving the court decision.
9. Registration with the local tax authority must be done within 14 days as of the date of receiving the court decision.
10. Any bank accounts that are opened in the Company name must also be registered with the tax authority within 14 days.

The Court for Registration will process the certificate, showing that the minimum amount of money has been deposited, together with all the other Company documents. Once you have registered the Company, it can buy property and own the land, and as you are the sole owner of the Company, you are the owner of the land too.

The current minimum required capital is BGN 5,000 (EUR 2,500) and at least 70% of the money must be raised at the time of registration. This is not the cost of setting up the Company but just the sum required to be deposited in a bank account to show that you have the certain amount of money as a condition for setting up the Company. This money is refundable to you once it has been declared to the county court. You need to set up a business bank account in Bulgaria, but you can then use this money as a deposit on your new property, or just leave it in the bank.

Your estate agent will accompany you to the local Notary office where you will have to sign the Company documents in front of a notary. The notary will charge you for that but the fee is not huge. You will receive two copies of the documents – one in English and one in Bulgarian. So it is obligatory for your lawyer to speak English because he will have to read the contract for you and explain it word by word.



Finally the new Company will have to be registered with the National Tax Register Authority, National Companies Register and the National Social Security Institute.

Each year you will have to declare the Company accounts, no matter whether the Company is trading or is used just for personal use with no profit. You can do that using the service of an independent lawyer or the lawyer your estate agent will employ. If you don't do the tax return or do it late, you will get an automatic fine. So it is better to employ an accountant and make sure that he submits the return in time.

You must consider the additional administrative costs, payable to the state and registration court, during the registration of the Company.

### **Before buying**

Before buying property in Bulgaria you have several things to bear in mind. More and more properties are becoming available every day so there is a wide choice and you don't have to rush into buying. Some property may look like the perfect spot for you but after buying you may regret it.

You should decide whether you would buy off plan or existing property. You should also think about the location - in resorts or in the cities, in developed or completely new districts where the infrastructure might not be very well developed. It is important to find out in advance the state of completion in which the property is being sold, because this will influence the budget from there on.

Existing properties may not be in very good condition and most probably will require serious renovation works. That is why you should better check with a Construction Engineer the condition of the building and the changes that you will have to make in the property. More serious changes which involve knocking down walls. This action, however, will have to be agreed with the technical department in the municipality.

The common parts of the building also may not be in an acceptable condition. The main problem is that in Bulgaria there is not yet a law which imposes the need of a property manager for each building. The property management is usually done by a volunteer who collects from each property owner the fees for the utility bills, for the common parts and some expenses for current or ad hoc repairs.

Most of the properties in the resorts will come turn key, while in the cities you can come across buildings without bathrooms, flooring or painting. Then it is the owner who goes through the process of choosing designs, colours, materials, furniture, also hires the team of specialists that will finish the property to a standard.

There is one more thing you should take care of before buying - the title checks. There are cases of double ownership, or of owners who have been using municipal land, which has not been claimed. There are different procedures and the broker should assist in sorting out all ownership issues. You can also use the assistance of civil engineers to trace the borders of the land so that the identity of the land plot is confirmed.



## **Choosing your estate agent**

When choosing a property you will find many agents with English speaking partners or staff, the British Bulgarian Chamber of Commerce <http://www.bbcc.bg/> has a number of estate agent members. When you start the general search of an agent you can easily use Internet. There you can gain a good knowledge of what types of property are available as well as comparing the prices in different areas.

Some people, however, prefer to buy blind. It can be exceptionally risky strategy because sometimes the property photos in the website may look completely different from the real property. So, don't do that! We know of one case where a client even bought a property on EBAY and then discovered it was blighted because of its location and surrounding buildings. Unfortunately you cannot guess what renovation work the property will need just looking at pictures. That is why a viewing trip organized by an estate agent is recommended.

Another important aspect to keep in mind when choosing is after-sales service the agent provides. Buying the property is just the first step and after that you will need services such as – payment of bills in your absence, property management, preparation of the annual Company accounts, assistance in obtaining resident permits, helping you find a builder if the property needs some changes.

Within Sofia BPLI are able to advise, support and represent you through every stage of the buying or selling process from forming a Company to property portfolio management and management of your corporate and tax affairs.

It is standard practice in Bulgaria for the buyer and seller to both pay agency fees. A typical charge is 3% for both sides. Within Sofia BPLI charges the buyer 2% with a minimum of 750 Euro for land plots and 1000 Euro for property purchase.

It is important to check the reputation of the developer, and to be confident that your finished home will match both the promise and your expectations. Your estate agent has contacts with building companies, architects, specialists of interior and exterior, etc, working throughout whole Bulgaria. So, we can offer you any kind of building and repair services, as well as the elaboration of an individual project for the purpose.

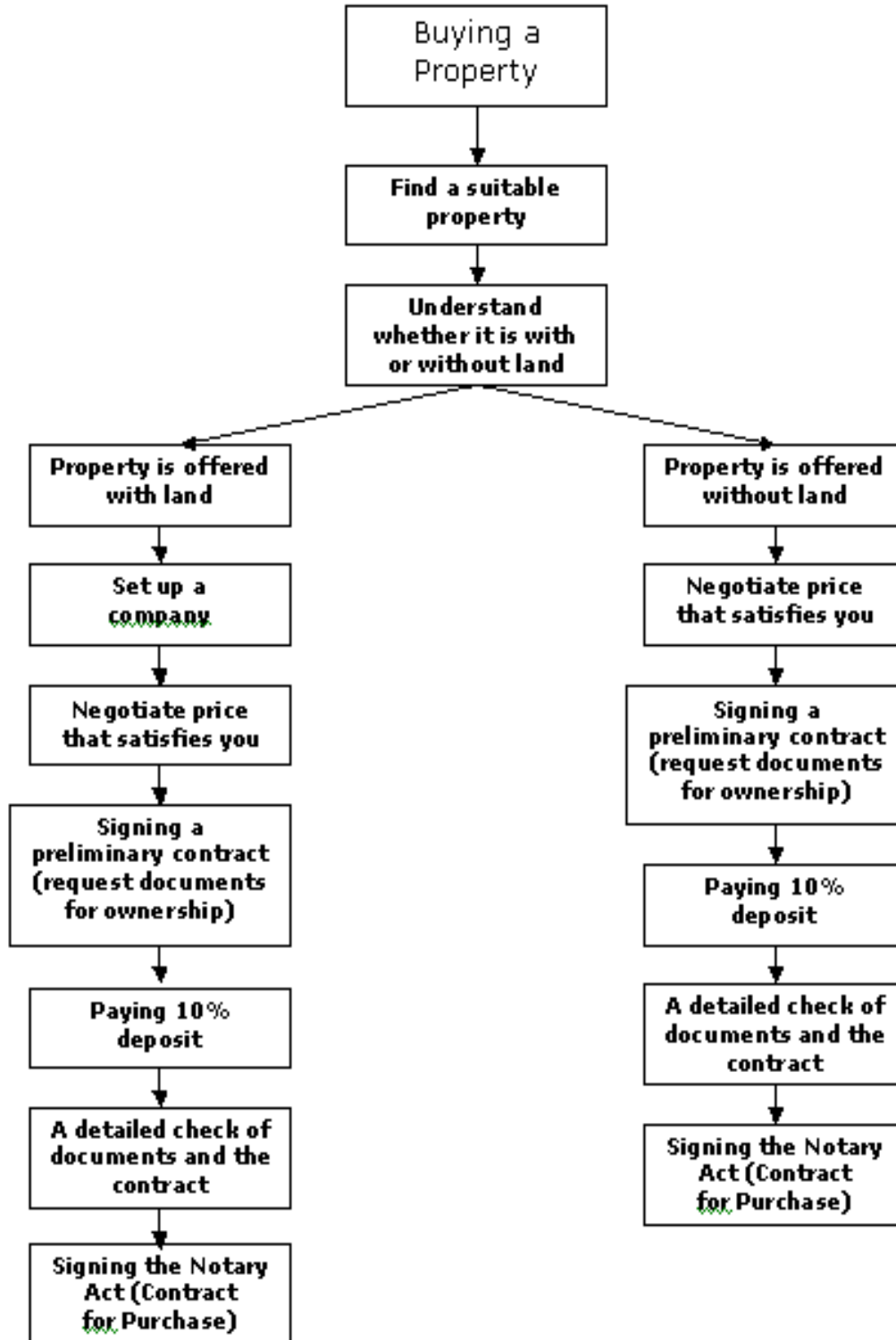
## **Viewing the property**

As we have discussed already buying blind is not a safe option when you are buying property in Bulgaria. You should definitely organize a viewing trip in order to see the real condition of the property. However, viewing the



very building or land is not enough. It is important to see also the surroundings of the property because towns and villages in Bulgaria can differ greatly from one another. Some of them are clean and charming while others look considerably less so. Some of them are located amidst green meadows while others are situated high in the mountains and access can be very difficult in the winter. Mountain villages, however, have the best landscape and people there are unique.

There is an initiative called "Beautiful Bulgaria" which encourages villages and towns to improve the state of their surroundings. That is why nowadays many villages and towns are much cleaner and tidier than they used to be some years ago. So, viewing the village is as important as viewing the property itself. But don't make the mistake to go viewing many properties in one day because you may get very perplexed and unable to remember any details. Four to five viewings a day is probably enough to allow you to make a reasonable judgment about what you have seen, make notes as you go around and take digital pictures to review later.





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### **Step 1**

First you should find a property and understand whether it is for sale, with or without the land. If the land is also to be purchased, a Limited Company should be registered.

### **Step 2**

Negotiate and agree the final price with the current owners. Do not be afraid to make an offer, satisfy yourself that it is a fair price and you are happy with both the price and your ability to manage the commitment. Satisfy your self that the person selling the property has the right to do so ask to see ownership documentation to ensure this is checked before you part with any money.

### **Step 3**

After the verbal agreement, draw up a preliminary contract. This contract should be reviewed by your lawyer before you sign it, and it should contain all the conditions of the sale. The contract should include: the personal data of both the buyer and the seller; the sale price of the property; the term for performing all the necessary procedures related to the purchase. If you are buying an "off plan" property, the preliminary contract will include deadlines for completion, details of the construction materials, payment agreements. A delivery acceptance record will have to be signed at the time of completion to ensure that you are satisfied with what you get. Any defects and problems must be pointed out at this stage to enable the construction agency fix them.

Then you have to pay the deposit, usually 10% of the sale price, and get the property removed from the market. This should be noted in the preliminary contact. Please note that the deposit is non-refundable if you withdraw from the sale, (it means that if you change your mind for whatever reason you will loose your deposit) but refundable if the vendor withdraws or if the conditions of the sale relating to the satisfactory completion of searches are not in accordance with the contract. If after signing the contract the seller unreasonably refuses to sell, seller will have to refund twice the deposit to you. After the deposit has been paid the remaining balance of the purchase price can be transferred to a Bulgarian bank account from the UK.

For "off plan" property the first payment will be due when you sign the preliminary contract. Make sure you pay it on time because if you are late in making your payments, you may lose both the property and your deposit. The estate agent is also paid at this stage. Usually the fee is 3% of the sale price.



#### **Step 4**

Carry out detailed checks to ensure that the seller has title. A Lawyer should carry this out under consultation with or. Detailed checks of the following are carried out: Title documents, Licenses and permissions, Debts on title, Terms of contract etc. If you are buying a resale property, you should have a surveyor conduct a full survey on the property and the land to check for structural soundness, build quality and to ensure there is nothing wrong with the land or the property. A structural engineer will view the property to inspect the construction. If there are some doubts about the land that the building has been built on, a geologist may be needed to take soil samples and inspect them.

#### **Step 5**

Finally you should sign the Notary Act (Contract to Purchase) in front of a Bulgarian Notary Public and the Final Legal Contract. Both the purchaser/s representative with POA and the vendor meet at the offices of a notary public and sign the final contract in his presence. At this stage the transfer is complete and both the final balance of the purchased property and municipal taxes are due. A few days later, you should receive the ownership document – the notary deed. Once you pay the final balance the title deeds can be transferred into your name. The property is to be registered with the local Tax administration office in 2 months' period. The only type of property which is exempt from this is agricultural land. We strongly recommend you insure your property, both buildings and contents.

Within Sofia BPLI are able to represent you throughout the process and act on your behalf through a POA (Power of Attorney). Our lawyers will carry out all legal work necessary on your behalf.

#### **Buying "off plan"**

Buying off plan is often an appealing option for investors seeking to gain from the gearing associated with buying in staged payments plus the potential for capital appreciation during the build process.

Buying off plan allows the purchaser to put down a deposit usually between 10 percent and 30 percent. And to make a number of stage payments to coincide with building milestones. During this period the value of their investment can grow substantially, especially if the current trend of capital growth continues in Bulgaria.

There are a number of potential issues when buying off plan which include buyers having difficulty visualizing the size and layout of the property. In addition, the standard or quality of workmanship and general finishing may vary considerably.



There is not always a fixed date of completion in the buyers contract and it is not uncommon for a delay in completion which can be exacerbated by factors such as bad weather, issues with permissions or the developer running into financial difficulty. Factors like these can stop a development altogether or mean that moving in dates are pushed back by months adding to interim accommodation expenses. It is vitally important to check the credentials and the track record of the builder and the developer and if possible view previous developments they have been involved in.

Regular site visits during the build will help to ensure that any major problems or issues you have come to light and can be resolved at the earliest opportunity. They should ensure that at final handover you are only snagging minor problems. When doing your final inspection it's important not to rush it. Try to do it alone without any pressure. A torch can be very useful for having a slow careful look around surfaces.

Being based in Sofia BPLI are able to source new development opportunities as soon as they arise, this information in turn is presented to our registered clients. Language can be a barrier, we can provide a full translation service which could help to make the difference when purchasing direct from the developer. Generally at lower prices and saving on commission, phased payments can create an ideal way to invest in property.

Within the Sofia area BPLI are able to represent you through to completion and believe their charges are transparent and very competitive, alternatively you could pick and choose from a selection of services for example viewing and introduction. When your property is completed we are able to assist with sourcing a mortgage and if required, to offer an optional full or partial management service.

### Village land plots

Investing in Land in the villages within 25 to 30 Km maximum from the centre of Sofia should be a rewarding investment over 5 to 7 years. Currently the average land prices in the non prime area are around 15-25 Eu per Sq Mtr for land either with building permission (In regulation) or qualifying for building permission. A building plot of 500 Sq mtrs (allows the construction of a 4 bed 3 bath Villa) currently costs between Eu 7.5K & Eu 12.5K

Based on property values in neighbouring countries the upside within 3 to 5 years should be in the region of 35 Eu to 55 Eu / Sq Mtr Stage 1 is to secure a number of plots, which for example with an initial investment of Eu 35K permits the purchase of 4 to 5 land plots. The role of BPLI and similar agents is to act as facilitators to enable you to achieve ownership of your land. BPLI provide a competitive charging structure where you only pay for each service you require. The strategy involves waiting for 2 to 3 years (having secured the plots) to allow the infrastructure and economy to catch up.



Stage 2 is to move to development, with current building costs around 350 Eu – 450 u /Sq Mtr in today's money it will cost Eu 50K to build a Villa with an additional cost of 10K to complete the bathrooms and kitchen.

A completed Villa should have a value of Eu 90K to Eu 105K (conservative estimate) A number of mortgage options are becoming available with currently one lender Piraeus Bank will lending up to 70% of the valuation at completion, for UK nationals. Others are showing interest. It is hoped that within the next few years, well within the accomplishment time of this project, stage payments for new builds should become available. In the meantime it is possible to raise money on your existing UK assets to facilitate the building project.

It is possible to sell a number of your villas "off plan" to generate funds for the project and still retain ownership of the remainder. BPLI will be pleased to guide you through this process and represent you and manage the project on your behalf. With the cost of servicing a mortgage of approx Eu 50K in euro terms around 400 Eu/month and an achievable rent in the region of 800 to 1200 Euro /month. A considerable margin is available. If you retain ownership of all 5 villas in the above example you would have a portfolio valued at over Eu 400 K and be generating a considerable surplus through rental income.

When the time comes to develop your land you may consider various option from selling on the land, creating a design for a developed property and selling off plan to developing under your ownership and selling or renting. BPLI are confident that they will be able to save you a considerable amount of money whilst managing the development process on your behalf.

Finally, when the Villa is complete BPLI are able to offer a service without obligation to find and manage tenants on your behalf.

#### Useful Buyer's Info

It is worth sounding a caution, be realistic in your expectations and aspirations. Make sure you fully understand your financial position.

A major difference in Bulgarian property transaction is that the usual term for the old owners of the property to move out of it after completion of the sale is one month. This could be negotiated if the buyers require a shorter term. For this purpose, they should ask the assistance of real estate agency in due term and not expect the property to be empty right after signing of the final contract.

All foreign buyers purchasing real estate property must be aware that in Bulgaria there are such terms as "tax estimation price" and "purchase price". The "tax estimation price" is for the purposes of real estate taxation and is much lower than the actual selling price.



Most of the Bulgarian property owners want the "tax estimation price" to be written in the title deed rather than the selling price which the buyers are paying. This way, discrepancies between the price you are paying and the price written in the title deed may occur.

You should consider the implications of Tax estimation price in respect to your own situation and to take advice as to the best course of action for your particular situation. Legally you are encouraged to ensure the record prices are the true prices.

Try not to get too stressed, possibly one of the reasons you are attracted to Bulgaria is the relaxed way of life so yes you will feel some degree of frustration but try not to let it bother you too much everything will come together in the end.