

Purchase of real estate in Bulgaria

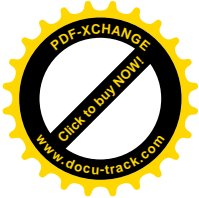
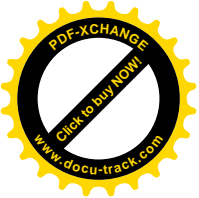
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The Bulgarian real estate market is attracting more and more investors from abroad in particular from the UK and Germany. Fair and reasonable prices for properties at the Black Sea coast or in the mountain ski resorts and especially the prospect of increases in value after Bulgaria joining the EU in 2007 has convinced many people to buy a flat, house or even ground for building a residential home. The legal environment of such a purchase is often very vague and unknown to the investors due to the large number of unregistered and unqualified real estate brokers who for obvious reasons have no interest in giving the necessary information.

The actual situation can be summarised as follows:

- Most investors start their search for real estate in Bulgaria via internet search engines where a number of objects are offered by real estate agents. Caution is required at this stage! Some of these properties may be sold already or its description does not correspond with the real situation. It is very important to check the agent in terms of seriousness and reliability. The real estate market in Bulgaria is a pool of sharks! Any investor should not only rely on internet offers but travel a few days in the country to see other offers (which will be definitely much cheaper than those offered at the web) and to get an impression about the market, the infrastructure and the surrounding of the properties.
- Once a property has been chosen it is common practice to sign a preliminary contract to reserve the estate and to fix the purchase price, the terms and obligations of the parties. This contract does not yet transfer the ownership. The buyer will have to pay a deposit of ca. 10 % of the purchase price by signing the preliminary agreement. Don't transfer any deposits without such preliminary agreement. The paid amount cannot be claimed back and must be considered as lost.
- Bulgarian Law allows foreign persons to purchase apartments and buildings directly, but not the ground. The constitution and legislation has been changed recently to entitle foreign persons to obtain ownership rights on land as well, but these regulations will come into effect only after a transition period of 7 years after Bulgaria has joined the EU (which means in 2014). Therefore the old regulations are still in effect and investors are forced to register a company in Bulgaria if they want to own land.



- Some of the real estate agents offer Errand Agreements according to which they are entitled and committed to acquire the land in their own name during the process of registering the company and transfer it thereafter into the name of the company. After registration the company will pay the purchase price for the property, the costs and expenses and the social insurance costs for the director of the company. Therefore the type of the company should be considered before registration.
- The purchase will be completed in a formal agreement signed at a notary. It is common practice – although legally controversial – to determine the tax value of the property and not the real purchase price in the notarial deed. The tax value is up to 10 times lower than the actual market value in rural areas so the purchaser may save substantial funds in taxes. A purchase is subject to land transfer tax of 2 % of the purchase price plus ca. 1 % in notarial fees and expenses. If the tax value is determined in the notarial deed all these taxes and costs are obviously lower.
- It is crucial to carefully check the documentation and the legal situation for each property. The seller is obliged to provide for such documentation and to guarantee his exclusive ownership. Since many properties have been privatised in the last decade including lengthy law suits between heirs and siblings it makes sense to have a close look onto the history of the owners.



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