

Buying In Portugal

This is our personal guide to buying a property in Portugal, based on our own experiences.

Finding a Property

Finding a property is best based on your knowledge of the local area. I recommend Sao Rafael to you for several reasons. Firstly it is located very close to several lovely beaches. Many other complexes are miles or 'a short bus ride' from the beach. Secondly the complex itself has beautiful gardens and swimming pools. Lastly, the condominium is run by the owners for the owners, in contrast with other condominiums which are administered by external companies. These may impose harsh letting conditions that severely restrict your own lettings and own use. One demerit to Sao Rafael is that the ownership of the Restaurant is still under dispute. Hopefully this will be resolved shortly in the Owners' favour and it can be operated to their benefit.

The two agents I know of are Natalia Flores Carreira and Cerro Novo. Natalia specializes in Sao Rafael, and the company is heavily involved in the running of the Condominium and also offers maid, laundry and other services associated with the letting and maintenance of your property. They have never let me down, and I recommend them. Cerro Novo also provide a reliable service. They are based just outside Albufeira.

<http://www.nataliacarreira.com/>

2 Apartment at Sao Rafael are currently listed on the above website.

<http://www.cerronovo.com/>

Studio or Two Bedroom?

The question of whether to buy a studio or 2 bedroom apartment (there are few or any 1 bedroom properties) is one that only you can really decide. However, you should consider that a 2 bedroom, although offering more accommodation, may be harder to let out because it is more expensive. All charges are also higher, rates, condominium, electricity, water etc. There is also more work to do re decorating etc. If you just want a cost effective place for yourselves with letting potential a studio might be better.

Get a Fiscal Number

Before you can do virtually anything finance related in Portugal you must have a FISCAL NUMBER. This is like a NI number, it uniquely identifies you to banks and government agencies. To get one you must go to various government offices in Albufeira. Natalia will help you with this. It can be a slow and drawn out process, so do it early on in your stay to get it done and out of the way. You can't do anything without it.

This is also known as a Tax Number.

Get a Bank Account

Once you have your Fiscal Number you can get a bank account. I recommend MILLENIUM. They have a branch in MODELO, the large supermarket (think Tesco) in Albufeira. They also offer ONLINE BANKING which is essential to manage your bank account from the UK. Be sure to keep the username, password, fiscal number and confirmation codes safe, and not to muddle them up, the login process asks for all of these.

Be aware that bank accounts rarely pay interest, there will BANK CHARGES for administering the account, but these are pretty trivial, I paid 16 EUROS from April 06 to August 06. What you do have to avoid is transferring money between your UK Account and your Portuguese Account. You can expect to pay about £20 EACH end. This is unavoidable when you transfer funds to pay for the property, so it is best do it in one go rather than piecemeal. The best idea is to pay money into your account when you visit. Your bank account will cover direct debits for electricity, water and bank charges, and that's about it. Other costs can be met from your account with Natalia, should you decide to work with her, and you can top up your account with her in the same way.

<http://www.millenniumbcp.pt/site/conteudos/en/>

You may also find it useful to have a EURO Bank Account at home, please ask your branch.

Arrange a Mortgage

I went through various scenarios re raising the capital. Ultimately I decided that the most cost effective way is to increase your existing mortgage. Don't bother with companies that offer to arrange overseas mortgages, they charge too much commission that you just don't need to pay out. Local mortgages, ie with MILLENIUM wanted a higher rate than my own mortgage provider.

EURO mortgages do not appear to be a good idea, though I did not go into that much.

Buying

Having decided on a property you will need to offer a deposit. This is normally 10% of the purchase price. You may like to offer more. The strategy behind this is that if you withdraw having paid the deposit you will lose it, but the vendor will lose DOUBLE the amount, which is payable to you. This is Portuguese Law. So the more you want the vendor to stick to the agreement the higher the deposit you should offer, as long as you are sure that you will not withdraw of course. This can also help to spread the cost a bit, as there may be up to 3 months between deposit and completion, and that was my experience. This delay was mainly due to the fact that I was buying over the summer months when the NOTARY offices are very busy and it is hard for estate agents or solicitors to get appointments to sign the necessary documentation. So best buy in the low season.

Power of Attorney

The Notary Offices handle the legal transfer of the property from one owner to another.

If you don't want to have to go out to Portugal to sign the exchange documents you must give power of attorney to your agent or solicitor. This requires you to visit the finance office in Albufeira, with your chosen representative.

Solicitor / Agent

I used a solicitor to handle the legal side of things. I have since learnt that all the necessary paperwork can be carried out by the estate agent. There do not appear to be any disadvantages to this, and one BIG advantage, there are no solicitor's fees to pay, which are 1 to 1.5% of the purchase price. Ask Natalia about this.

Surveyor

If you are borrowing against your existing property you are unlikely to have to get a survey done. As far as I know a survey does not seem to be required for any legal reason. If you want to be sure that the property is in good condition then have one done, but they are unlikely to go very much further than yourselves in what they look for. One thing to watch out for is damp caused by condensation. This is a particular problem in bathrooms, some of which are not windowed or vented. It becomes more of a problem when the property is unoccupied for long periods.

Legal Documents

There are a few of these.

Escritura. This is a certificate from the Local Land Registry confirming that the property is for sale. This is needed at the Notary Office when signing the contracts.

The Escritura will also inform you of the RATES (Council Tax Equivalent) that you will have to pay annually. This was 240 EUROS (£161) for a studio apartment in the year 2006-2007. If you do not pay this you can forfeit the property. This is Portuguese Law. Letters go out to owners around April, but you may not be there to receive it. Fortunately all post goes to the Sao Rafael Office, and Natalia can process and pay this for you to remove the worry.

There may be another document, (the Escritura may cover this) whose name escapes me, that declares that there are no outstanding debts associated with the property. It is essential that you obtain this, as otherwise you are liable for them when you own the property. This is particularly important in respect of condominium charges, some owners at Sao Rafael have not been paying them. According to Portuguese Law, the vendor should settle all debts before selling the property, but some are overseas (Hong Kong) and do not feel that it is

necessary, and the likelihood of getting the money from them after the event is non-existent.

Buying Costs

Solicitor

Notary Fees, can't remember how much, but not much.
Stamp Duty

Transfer Tax (SISA) Expect to pay 2% - 6.5% depending on property value.

Offshore Company / Real Estate Holding Companies

At one time it was considered a good idea to register the property in the name of an offshore company. This was for tax avoidance and is now frowned upon by the Portuguese Authorities who now double the rates for such properties. I think there are other restrictions either in place or about to be put into place. You may fall foul of UK Law with this as well, so although I don't know a huge amount about this is it probably best avoided.

Apparently you can use real estate holding companies to minimize property transfer taxes, avoid capital gains tax and inheritance tax on death, but all these loopholes are being steadily closed down by European and the UK Government, and it is my personal view that such properties will eventually attract punitive measures. You can also end up having to pay to stay in your own property for tax reasons.

Our Property is held in our names. Best to keep things straightforward I think.

Insurance

Once you have bought your property be sure to insure it. This can be arranged via Natalia at very low cost, or arrange it in the UK. I insured in the UK, but am considering insuring via Natalia. The insurance company I use is shown below, I pay £138 a year. Be sure to check that the insurance covers you for letting. You need to be covered if someone falls in your apartment and makes a claim against you.

<http://www.schofields.ltd.uk/>

Security

I believe Sao Rafael to be secure. There is a security guard employed by the condominium, he patrols at night. However, my apartment was broken into. I have since fitted a better front door lock, which has bolts that go into the floor and ceiling on locking. All the windows are barred and I have aluminum shutters on the patio doors. I have installed a small safe for passports etc. Incidentally always keep passports, driving licenses and care hire documentation with you when you drive, there are hefty fines for not having these with you, and a tedious visit to the police station.

On Going Costs

Condominium Fees, please check for the property you are buying. Fees are normally paid in two installments.

Insurance

Rates

Electricity, I pay 40 EUROS (£27)

Water, Not expensive, charged very erratically though, 17.15 Euros (March) and again 9.14 Euros in August. Have not worked this one out.

Banking Charges

Maid And Laundry Services, to prepare the apartment for guests and clean up afterwards. Ask Natalia about these.

Get the Electricity and Water registered in your name, and set up direct debits to pay them. Your solicitor or Natalia will do this for you.

Letting Out

In theory, before you can let your property out you need a Tourist License from Albufeira Town Council (The 'Camara'). I don't think that anyone at Sao Rafael has one of these. It is likely that the Condominium will apply for one for all properties in the near future.

You can get lettings from friends, word or mouth, advertising etc. I advertise with Owners Direct (www.ownerdirect.co.uk) and I have found this very worthwhile. That costs £135 per year. I also advertise with World Vacation Rentals (<http://www.worldvacationrentals.net>) but have not had any referrals from them. That costs £80 per year. Once you start internet advertising you will undoubtedly get calls from other companies, who use competitor's websites to find customers for themselves.

I also have my own website, www.algarvelet.com which has attracted a few customers.

Most owners also try to work together to get each other lets, referring customers on if they cannot fulfill the let themselves. This can be done on a free or commission basis by agreement.

Taxation

UK Tax is payable on all rental income derived from property abroad. If the tax is not paid in the UK then you may become liable for taxation locally. As you are unlikely to actually make a profit on your lettings it is as well to declare income, which means that you can also declare costs. No profit, no tax to pay. Some costs can be offset against Capital Gains Tax should you decide to sell your property. You should also record all costs involved in purchasing the property, as these can be offset against income in the first year and against capital gains tax. Losses can be carried forward year on year to offset against income in the future. This is particularly important when you have paid off the mortgage, thereby taking a considerable chunk out of costs. Finance (ie the mortgage interest) is an allowable cost against income.

Please consult the Inland Revenue documentation on taxation of foreign incomes and capital gains tax, as some of the issues are complex and I do not claim to be a tax expert.

Summary

I am very pleased that I bought my property at Sao Rafael, the complex is well maintained and the local area fabulous, I recommend it to you.

Disclaimer

The intention of this document is to be helpful, and alert the reader to areas where they might encounter difficulties. Although I have tried to be accurate, I do not guarantee the accuracy of any of this information, and you really should check everything for yourself.