

Bulgaria Beware?

By Rachel Newcombe

One of the markets that has intrigued property investors the most over the last few years has been Bulgaria. Demand for property has soared, with thousands of new buyers trying their luck with purchasing in the hope that they could make a tidy sum by investing here. New developments have been cropping up all over the country, but particularly around the coast, and speculation has been high. But does buying in Bulgaria really offer such a good chance of making money, or is it a market to beware of?

The appeal of Bulgaria lies in both the beach resorts and the ski resorts, with properties promoted as being a cheap buy with huge growth potential. Thousands of people have taken the plunge and purchased there, with some early buyers reporting good returns on their purchase. In fact, according to recent figures from Our Home Abroad, in 2005 most investors were opting for ski resort properties, whilst in 2006 30% of people chose beach properties, 35% went for ski resorts and 35% for ski and golf developments.





Farrell's facts

Population:

7,385,367

Political structure:

Parliamentary democracy

GDP per capita: €3,102 (£2,110)

Inflation: 7.2%

Interest rate: 3.5%

Unemployment: 9.6%

Foreign Direct Investment (FDI):

€4bn (2006)

Tourist arrivals: 4.2 million (2006)

Tourist expenditure: €9.1bn (2006)

Taxation:

Income tax: between 15% and 24%

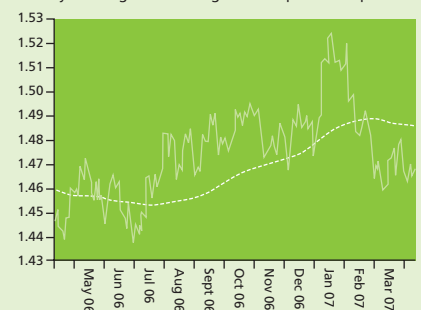
Corporation tax: 15%

Capital gains tax: 15% on any increase in the value of the property

Value added tax (VAT): 20%

Currency

Daily Exchange Rates: Bulgarian Lev per British pound



Climate:

The average annual temperature is 10.5°C; temperatures can be as low as -38°C and as high as 45°C. Bulgaria receives snowfall from mid October to mid May, and hailstorms occur between May and August.

Carriers:

Sofia: BA, Bulgaria Air, Wizzair

Varna: First Choice Airways, Thomsonfly Charter, Bulgaria Air, GB Airways, Balkan Holidays

In the last few years, beachfront properties on Bulgaria's Black Sea coast have been selling for as little as £30,000. Amongst the many fantastic claims made by estate agents and developers have been the fact that the properties would be easily rented out, that rental income would fully cover the running costs and mortgage payments, and that properties would sell at a vastly inflated price in a few years' time, resulting in an all round great buy.

But an investigation carried out by the Sunday Times earlier this year found that many Britons who were promised they'd get rental returns of up to 10% and 70% occupancy during the summer months were certainly not achieving that, with many finding it hard to rent their properties at all. What's more, those who'd decided to sell their properties were finding it difficult to do even that, especially as so many new developments were springing up all around them.

“Bulgaria is facing a period of adjustment after a huge initial foreign investment”

Their findings are by no means isolated and worries about the validity of Bulgaria's burgeoning property market are shared by others. Figures from a recent investment tracker produced by property investment firm Assetz found that the total annual returns on Bulgarian property had dropped to 44%, from 104% three months previously. The annual house price growth has also slowed, from 36% to 17.8%.

The country joined the EU this year, but the property boom that was may well be over. “Bulgaria is facing a period of readjustment after a huge initial foreign investment,” said Stuart Law, managing director of Assetz. “There are no longer instant returns to be made. An oversupply of rental properties is being aggravated by stories of dishonest local management agencies, some of which are reported to be letting properties and keeping the cash.”

Not so sunny

There's no doubting that some of the very early bird investors who took a gamble with Bulgaria managed to cash in on the market. However, the development of the country, particularly certain areas, has gone into overdrive.

The resorts of Golden Sands and Sunny Beach on the Black Sea are prime examples, as new properties are springing up everywhere. These areas were blessed with stunning long stretches of coastline, but the introduction of endless new apartment blocks is causing them to lose their appeal with some buyers.

Even Bulgaria's tourism ministry has expressed concern about the huge number of planning approvals for apartment blocks and hotels, both on the coast and in the mountains, fearing that it may damage both the natural environment and the tourism trade in the long run. But encouraging overzealous developers to calm down their furious building crusade isn't always that easy.

If you've never been to Sunny Beach or Golden Sands, it's hard to envisage the sheer mass of apartments that have appeared here. The small, picturesque places they once were have been monumentally transformed, and they're now huge great sprawling resorts. In fact, Golden Sands is said to have over 100,000 beds available for tourists and Sunny Beach over 120,000 – each of which is equivalent to the entire populations of some Bulgarian cities. Property regulations state that beachfront hotels must have eight to 12 square metres of beach space for each tourist, but few new resorts have adhered to this requirement.

“There is a risk of oversupply in densely built-up areas, such as Golden Sands and Sunny Beach on the Black Sea, where the property boom first began,” says Caroline Hollingworth, from Hollingworth and Taylor. “This has created an uncompetitive marketplace that is at risk of stagnating for some years to come. Anyone investing there now certainly cannot count on the 12% plus yields that early bird investors benefited from over the past few years.”



Focus on BULGARIA

The mountainous areas of Bulgaria have also been highly promoted as being a great place to buy, particularly for the beneficiary ski facilities. The 2014 Olympic Games was used by many as an incentive to buy here, with the suggestion that Bulgaria was competing to host the Games. However, less news was made of it when the country completely failed to even make the shortlist.

The ski resort of Bansko is facing a similar state of saturation and overdevelopment, as seen at Sunny Beach. As with other areas of Bulgaria, it runs the risk that overdevelopment of the natural environment could eventually put tourists off skiing here – after all, who wants to ski in an overdeveloped area when they could choose an untouched environment? – and have a considerable impact on property buying.

Despite the worries of many, the fact remains that Bulgaria as a market for foreign property investors has been greatly hyped up in recent times. There will inevitably still be many developers and agents plugging the appeal and great possibilities, and some buyers who'll be sucked into the dream, but if you're after a sound and long-term investment, all the signs indicate that Bulgaria may not be the best place to buy.

Farrell's view

If you are seeking a new life abroad or looking for a holiday home in Bulgaria because you like the country, people and culture then go ahead and buy. You are buying your dream and as such maybe the financial aspects are a secondary consideration.

If you are an investor or a lifestyle investor (use the property yourself and then let it when you are not there, with the aim of making a capital and income gain) then forget it.

In simplistic terms the Bulgarian property market can be defined as:

- Sofia, the capital city
- The mountains (ski)
- The coast

I personally see no merit in an investor even looking at the last two. Sofia is different, and although I wouldn't invest in Sofia personally, I wouldn't dismiss it outright, as that would be foolish as it is a capital city of a member of the European Union. If the numbers stack up, all things being equal, then it would be worth a punt.

Property investing is about three things:

- Who will buy this property when I come to sell?
- Who will rent this property from me while I have it?
- Is it cashflow positive?

In Bulgaria the answer to the first two questions is don't know, while the answer to the final question is likely to be no.

I warned in the Sunday Times a couple of years ago that about now the lid would start to come off the Bulgarian property market. Unfortunately for many, I was right.

The boom has been caused by a number of factors:

- Western buyers have misinterpreted cheapness for value, but the intrinsic value relative to real earnings in Bulgaria is very different.

- Developers have paid very high commissions to agents, which has incentivised them to sell.
- Lots of property is sold, which then incentivises developers to build more, and so the merry-go-round continues.

Rising prices in the Bulgarian resorts are not a result of indigenous residential or foreign homeowner demand. They are the result of speculators and developers competing to raise prices. Those of you who have attended a Bewarethesharks.com property investment course will have heard me talk about Fear and Greed and how to spot the difference between real and illusionary value.

This market exhibits all the ingredients of one that has been driven by Fear and Greed.

Mortgages:

Rate: up to 70% of Loan-to-Value (LTV)

Interest Rate: 7%

Term: up to 25 years

Indicative Property Prices for Bansko

- 1 bedroom apartment – from £55,000 (€81,352)
- 2 bedroom apartment – from £86,000 (€127,000)
- 3 bedroom apartment – from £121,000 (€179,000)

Indicative Property Prices for Sofia

- 1 bedroom apartment – from £46,000 (€68,000)
- 2 bedroom apartment – from £50,000 (€73,980)
- 3 bedroom apartment – from £91,000 (€134,655)

Indicative Property Prices for Sunny Beach

- 1 bedroom apartment – from £20,000 (€29,594)
- 2 bedroom apartment – from £26,000 (€38,474)
- 3 bedroom apartment – from £44,000 (€65,111)

