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Beating the con tricks in real estate



Speculators who have exhausted the real estate boom of Poland, the Czech Republic and Bulgaria are now buying and selling in Romania – but must watch out for the same kind of con tricks.

Buyers' profit expectations are often unrealistic and their limited market knowledge can transform into easy prey for unscrupulous brokers and agents.

Cases of foreign investors being fooled in Bulgaria include projects described in brochures that do not resemble the end result and without the facilities promised. A familiar complaint – but one hard to resolve through the justice system's long and tiresome processes.

Desislava Leshtarska, a real estate expert at PropertyWise Bulgaria, cites a "phantom" holiday project in Albena that required 5,000 Euro to reserve a place and a 30 per cent deposit, with payment installments due at every stage. The project was scheduled for completion by the end of 2007 but eight months before its completion the site was empty. An investigation revealed that the land had always been designated for farming. So, before you buy, be sure who owns the land.

Foreign investors face other forms of deception on the Romanian market, argues David Howe, investment consultant at InvestmentRomania. "They are told they must set up a company to buy a residential property," he says. "This is untrue. But from an agent's point of view, it makes the property look 19 per cent cheaper than it will be."

Foreigners can buy buildings in Romania freely and land **with a residency permit**. By setting up a company, Howe argues, the foreigners dilute their exit profit. If they buy in their own name, they only pay a two per cent property transfer tax. As a company, factored into this is also 19 per cent VAT, 16 per cent flat tax on profits, along with the costs of establishing and dissolving the firm. Land tax is also 1.5 per cent of the property value for a firm and only 0.5 per cent for an individual, argues Howe.

Another problem with setting up a firm to buy property in Romania is its shaky legal status, making it vulnerable when drawing up a contract with a sneaky developer.

"Such a contract equates to nothing more than a gentleman's agreement and is therefore reliant upon both parties acting as gentlemen," says Howe.

This means that if a developer sells half his apartments to foreign speculators and their "fake companies" but witnesses a surge in the property price, he could return the deposits to the investors and sell the flats again himself. If the investors complain, the developer could threaten them by asking the Romanian version of the Inland Revenue or the IRS (Garda Financiara) to investigate their 'firm'.

Agents sometimes dress up the square metres of built surface area as the living space. “Foreigners buying 100 metre-apartments assume the apartment is 100 metres in size,” says Howe. “But a lot of the time they are paying for the common area as well, such as the corridor and stairs that others in the block use.”

Florin Nine, investment manager at real estate firm Regatta, argues that to avoid being fooled, it is worth asking around for a trusted developer with a solid background.

“It would be ideal for a developer to offer guarantees that they will finish the project,” says Nine, “but because the demand still exceeds the supply, these guarantees don’t exist in Romania.”

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