

Buying Guide

Why Spain?

Spain is one of Europe's most attractive countries, with much to offer those who settle there, as the hundreds of thousands of Britons who have bought a Spanish property in the last three decades can bear witness.

In recent months, there has been a slowing down of the property market, owing in part to the over-purchase of some Britons acquiring too many off-plan properties and then having problems completing on them. This has led to a surplus of apartments and villas. However, the market is now once again moving up.

There is a huge variety of properties, ranging from studio or one-bedroom apartments all the way up to luxury villas and farmhouses.

Spain has much to offer the property purchaser. It's time to take a look.

Popular locations – an overview

Since the 1960s, when Britons first started travelling to Spain, the Costas have been among the most popular destinations. During the 1970s and 80s, Marbella, among other resorts, became very shabby, and it took the arrival of Mayor Jesus Gil for it to clean up its act. Many areas along the Spanish coastline have since followed suit, and today things have changed very much for the better.

Mallorca has shed its image as a downmarket, bottom-of-the-pile destination for property purchasers. The government has invested billions in the infrastructure, and now phones, taps and electricity sockets all work, while the roads have been improved out of all recognition. Spain has become efficient at transforming the run-down into the upmarket.

The Balearic Islands

Househunters should consider Mallorca, Menorca, Ibiza and Ibiza's little sister, Formentera. The four islands have very distinct characters. Mallorca is the grown-up of the family, with its Opera House, the castle in Palma that King Juan Carlos uses, and its international smart set.

Menorca has a much drier climate, with a cooling breeze that takes the edge off the baking heat of the summer. The island has always pursued an independent path, thanks to its production of leather goods and gin.

For a while, Ibiza had a reputation for cheap tourism that did nothing for its image. However, there has been a crackdown in the last couple of years, and now it is following Mallorca's example of improving what it offers to those buying a home there.

Formentera is an ideal getaway destination. It is quite possible to cycle around the island in a day, passing a mixture of attractive new developments and mellow old farmhouses.



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Costa Brava

One of the least built-up of the main Costas, the Costa Brava is home to unspoilt corners, sheltered coves, delightful beaches and some of the most attractive scenery in the Mediterranean.

There was a time when the Costa Brava had a fish-and-chip-and-package-holiday reputation. This was based on a few towns at the southern end, while the real Costa Brava is a diverse region of natural beauty and cultural heritage, from Roman ruins to Picasso and Dali.

Other attractions include facilities for adventure sports, mountaineering and rock-climbing, a distinctive cuisine, a rich heritage of Romanesque art, natural parks and the nearby Catalonia Pyrenees ski resorts.

One of the most attractive towns is Roses. Essentially Mediterranean and with a long seafaring tradition, Roses has managed to retain its fishing fleet. It is situated at the north end of the Costa Brava and is just 266km from Barcelona.

Costa del Sol

Probably the best known of all the Costas, the Costa del Sol runs from Nerja to Gibraltar. Its name reveals the secret of its popularity. It really is the Coast of the Sun, with a climate that has drawn people from the four corners of the earth for some 40 years. In fact, there are times when visitors to Marbella must wonder whether they are in Spain or some international resort set on its own.

There is an enormous amount to see and do along the Costa del Sol. This is an area of tourist resorts and white villages, and it is the latter that many people fail to visit. Casares and Manilva are just two excellent examples.

The Costa del Sol is an amalgam of so many cultures and lifestyles that the only way to appreciate it is to go there.

Buying a property

The purchase process

Before you begin the purchase process, you will need to obtain a fiscal number (numero de identificacion de extranjeros). You should also retain the services of a lawyer who speaks Spanish and English.

In the case of an off-plan purchase, you will be asked to sign a reservation contract and pay a small fee, at which point the property will be taken off the market for a limited period (usually 30 days). This allows time for legal checks to be carried out and a contract of sale (escritura de compraventa) to be drawn up, and for you to make the first of a series of payments (known as stage payments, because they are made at agreed stages of construction). This first payment is normally 10 per cent or more of the purchase price and is non-refundable.



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In the case of a resale, once your offer has been accepted, you pay a small deposit. Your lawyer then carries out the necessary legal investigations. When these are complete, you sign a contract of sale, which states the price and what it covers, the deposit (generally 10 per cent) and when you will pay it, and the date of completion. Should you breach the contract, you forfeit your deposit. Should the seller breach it, they must pay you twice the amount of the deposit.

Once completion has taken place, various fees and taxes are payable, and the property is then registered at the Land Registry.

Costs

As a yardstick, anyone buying property in Spain should allow between 10 and 12 per cent on top of the agreed purchase price for the various fees that must be paid.

The buyer pays:

- Legal fees (usually between 1 and 2 per cent)
- IVA (Spain's equivalent of VAT) at around 7 per cent, plus stamp duty of 0.5–1 per cent, on a new property,
- Stamp duty at 6–7 per cent (depending on the property's location) on a resale
- Notary and property registration fees of about 1 per cent

If the property is located within a complex, there will be maintenance charges. These will usually cover such costs as swimming pool and garden upkeep.

Mortgages

There are two main options for using a mortgage to fund your purchase. These are remortgaging your UK home or arranging a mortgage on your Spanish property through a UK or Spanish lender.

Bear in mind that an overseas mortgage may incur higher set-up costs (sometimes 3 to 4 per cent of the amount borrowed) and that Spanish lenders will not be interested in doing business if existing loans exceed 35 per cent of the borrower's income.

Remortgaging offers the easiest solution. Releasing equity in a UK property means that the second home can be purchased for cash, without the need for another mortgage. However, this may only be feasible for those who own their first home outright.

Several UK mortgage providers will lend funds of up to 80 per cent of the purchase price for second home purchase over, typically, a 15-year term.

Euro mortgages

Euro mortgages, which are tied to the rate set by the European Central Bank (ECB), currently lower than the Bank of England base rate, may seem an attractive option, and several UK lenders offer them. However, because of the volatility of the currency markets, a euro mortgage may not be the best option for many people, who cannot afford to lose heavily should the currency move against them.

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The self-employed are seldom eligible for a euro mortgage, as comparatively few European lenders will consider self-certification of income.

The fact that the ECB's base rate is at present lower than the Bank of England's does not guarantee savings on repayments for those taking out a euro mortgage. As the UK mortgage market is competitive, there are many good deals available on sterling loans, so it is wise to shop around.

As exchange control is a complex subject, it is advisable to obtain appropriate professional advice before deciding to take out a mortgage in a foreign currency.

Taxation

In Spain, taxes are levied by three tiers of government: central government, autonomous regional governments and local municipalities. The Spanish tax system is particularly complex, and you are strongly advised to seek professional advice tailored to your individual circumstances.

Personal taxation: non-residents

Non-residents are taxed at a flat rate of 25 per cent on their Spanish-sourced income – for example, rental income from property in Spain, income from a business in Spain and interest on funds deposited with a Spanish bank.

Those who own a Spanish property exclusively for their own personal use and have no other source of taxable income in Spain pay a version of income tax called imputed income tax, which is calculated on the property's valor catastral, or rateable value. Although they do not earn an income from the property, the Spanish authorities take the view that they nevertheless derive a benefit from owning it, and should be taxed accordingly.

In addition, non-residents are liable for patrimonio (wealth tax) on their Spanish assets, including property, and for capital gains tax should they dispose of an asset at a profit.

Personal taxation: residents

Those who spend more than 182 days per tax year in Spain are classed as residents for tax purposes, whether or not they have a residence card (see Passports, visas and residency section).

Residents of Spain pay income tax at banded rates, currently between 15 and 45 per cent. They get a break on capital gains tax, with a ceiling of 15 per cent, as opposed to 35 per cent for non-residents.

Residents must pay imputed income tax on property other than their principal residence in the absence of declared income. They also pay patrimonio, but with a number of helpful deductions.

Inheritance and gift tax are payable on worldwide assets.



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Local taxes

The impuesto sobre bienes inmuebles (IBI) is an annual property tax levied by the local municipality and used to fund local services. Like imputed income tax, it is calculated on the valor catastral, so it varies widely from one property to another. Owners might pay as little as 100 euros (£68) per year for a small country property, but a luxury home in an expensive development on the waterfront in Marbella might cost as much as 3,000 euros (around £2,000) or more per year.

Money matters

In 2002, Spain exchanged the peseta for the euro. The current rate of exchange is one euro = £0.68 sterling.

The import and export of local currency is unlimited, but the export of amounts exceeding 6,010 euros (£4,087.40) per person per journey, in any currency, requires a declaration to the authorities.

Travellers' cheques are normally acceptable in Spanish cities and tourist areas. To avoid additional exchange rate charges, it is best to take euro travellers' cheques.

There are banks and ATMs in every city and town, and in many villages. Bureaux de change can be found in larger towns, cities and tourist areas. Virtually all credit and debit cards are widely accepted throughout Spain.

Passports, visas and residency

Passports and visas

EU passport holders visiting Spain for business or pleasure for up to 90 days do not need a visa.

Residency

With the incorporation of Spain into the European Union, the residence card became the only formality required for EU citizens to take up residence in Spain.

Spain has recently relaxed the rules on residence cards for EU nationals. They are now compulsory only in the case of pensioners retiring to Spain, people of independent means (that is, who are not working) and non-EU dependants of an EU national, all of whom must be able to demonstrate sufficient means to support themselves and, if applicable, their families in order to obtain resident status.

There are two categories of residence card, the temporary residence card (valid for stays of between 90 days and a year) and the residence card (valid for stays of between one and five years, and renewable thereafter).

Even those who come under a category where a residence card is not compulsory may find it useful to have one, as it can help to simplify various administrative procedures for new residents. To help with the paperwork, it may be worth employing a gestor, a consultant who specialises in guiding clients through the minefield of Spanish bureaucracy and takes care of all the relevant paperwork. Ask to see the total cost, in writing, before authorising a gestor to act on your behalf.



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The Spanish economy

With the passing of Franco in 1975, Spain changed almost overnight from a nation whose economy was rooted in agriculture to one with a strong manufacturing and service base. Probably the biggest problem that hangs over the country from the days of El Caudillo (Franco) is a bureaucracy that thinks it is still in the 1960s.

Spain's economy today ranks around fifth in the EU and accounts for slightly less than 10 per cent of the EU's output. Catalonia and the Basque country are the driving forces of the economy, and it is worth noting that just five of the provinces produce over half the country's industrial output. These are Oviedo, Navarre, Madrid, Vizcaya and, of course, Barcelona. In fact, around 85 per cent of the Catalanian-based companies are located in Barcelona, making it the driving force for the country.

Communications

Telephone

Getting a phone line installed in a property that does not already have one will cost in the region of 75 euros (approximately £50).

Having a line installed or reconnected will require a visit to the local Telefonica office. You will be asked to produce a passport or residence permit, proof of address (such as a utilities bill) and a copy of the deeds of the property (escritura) or rental contract.

Spain has caught up fast in the mobile phone (teléfono móvil) stakes, after a slow start. Now, digital networks cover 90 per cent of the country, and tariffs have been coming down following a price war. Pay-as-you-go services are available.

Internet

Internet access is available throughout most of Spain through both broadband and dial-up. Work is currently underway to bring broadband to even the most remote areas. There are Internet cafés in cities and many towns.

And finally...

Buying a home in Spain is a major, and life-changing, experience. Here are some tips:

- Think carefully before making any decision and ensure that your family is behind you.
- Research is vital. Choose the area you're most interested in, and then take several holidays there.
- Once you know which area and property you're interested in buying, be certain you have enough funds for the purchase. Don't forget to consider such aspects as the cost of moving your possessions from the UK to Spain.

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- Don't be rushed into making a decision, and don't let yourself be pressured. Certainly don't sign anything until you're ready.
- Pensioners should make certain that they can have their pensions paid into a Spanish bank. It's most important that you have health insurance in place and that you make a Will.
- Sometimes circumstances change, and you might find you want to return to the UK. Before committing yourself to purchasing a home in Spain, make sure you have sufficient funds to make the move back to Britain.

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