



VALE DO LOBO
ALGARVE

BECOMING A PROPERTY OWNER IN PORTUGAL
USEFUL INFORMATION

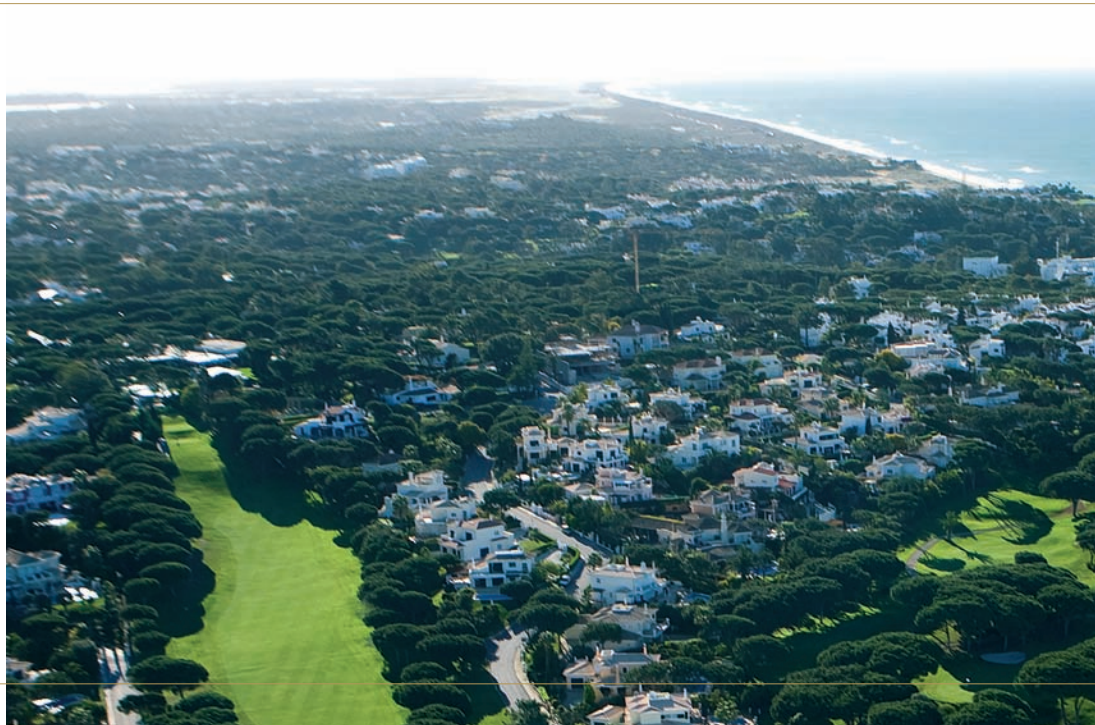
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BECOMING A PROPERTY OWNER IN PORTUGAL

USEFUL INFORMATION

We are very pleased that you are considering becoming a property owner in Vale do Lobo and we look forward to welcoming you to the resort. This is a big step and, in order to help you make your decision, we have collated some important information of which you should be aware when buying a home in the sun.



GENERAL INFORMATION

Portugal is a member of the European Union (EU) and so is also part of the European Economic Area (EEA). The country has approximately 10 million inhabitants and one of the youngest populations of the EU, with approximately a sixth of its population under the age of 14.

The capital of Portugal is Lisbon and other major cities are Porto, Braga, Coimbra, Faro, Funchal in Madeira and Ponta Delgada in Azores.

Portugal generally has a mild climate, with daily average temperatures between 8°C and 18°C in the winter and between 16°C and 30°C in the summer.



Vale do Lobo is located in the South of Portugal in the Algarve region. It was the first resort of its type to be developed in the Algarve and only after its establishment was Faro International Airport built. Vale do Lobo is 20km from the airport, located on the coast, with 2km of beach. It has two renowned golf courses, a wellness centre, a tennis centre and many other sports and leisure facilities, as well as all the services to make it a self-contained resort: medical centre, supermarket, restaurants, shops, property management, etc.

INITIAL STEPS

Below are some important steps that you should take before making your purchase decision:

- Establish what type of property suits your needs and budget (apartment, linked villa, detached villa).
- Define what will be the main use for the property: as a residence, a holiday home or to rent.
- Make sure that any real estate agent you may use is licensed. (Vale do Lobo is licensed by the Portuguese governing body IMOPPI, therefore complying with the local requirements and law in order to develop and exercise the real estate activity.)
- Always use a lawyer or solicitor to finalise the contract and required paperwork for the purchase of the property.
- Seek advice from an accountant or financial advisor.
- If you are considering buying through a foreign company for tax reasons, carefully judge the pros and cons.
- Never buy shares in a property-owning company without instructing your lawyer to do a thorough due diligence about the company, its assets and respective legal situation.
- Finally, remember the legal title to transfer the property is the Notarial Deed, which needs to be signed in an official Notary's Office.

As a prospective buyer or investor you probably already have your own list of requirements, but the following checklist may prove useful:

Location:

Are essential facilities such as health centres, airport and other services you consider important, available within an easily accessible distance?

Negotiations:

- Are you are dealing with a licensed estate agent?
- Are you aware of all the details and especially the essential elements of the contract?
- Do the elements of the contract correspond exactly to the property that you want to purchase?
- Are you sure that you can realistically do what you plan with the property?
- Have you been informed of a finishing date?

Letting:

- What restrictions are there on letting the property?
- Can guests freely use the facilities?

Management:

- Is reliable property management available? At what cost and what is included?
- What are the costs and fees connected with the property? I.e. resort contributions, public services and condominium fees and costs.
- Are there any hidden costs?
- Does the management have a budget for expenditure expected in the current year?

Taxation:

- What types of taxes are applicable in Portugal and how much is each one?
- Will the full price of the property be declared in the Deed of Transfer (Escritura)?
- If I let the property, how much income tax will I have to pay? What expenses can I deduct?
- Who can I appoint as my tax representative?



TYPES OF PROPERTIES

Horizontal property

Under the system of “horizontal property”, residential units are sold with absolute title (i.e. freehold). This system applies to apartments that are built as independent units with a separate entrance, and townhouses and similar semi-detached properties may also opt for this system of ownership.

If you are thinking of obtaining a mortgage secured on the property in order to purchase the property, it is absolutely essential that you ask whether or not the deed of horizontal property has been duly constituted and registered. We advise you to contact your bank for further advice on this matter.

The deed of the horizontal property must contain:

- The relative value of each unit, expressed as a percentage or fraction of the whole building
- The authorised use of each unit
- The Condominium Regulations
- Arbitration rules to be applied in the event of a dispute among the owners.

Buying land and constructing a villa

When you are buying land with the intention of building a property on it, you have four basic stages to go through:

- You have to buy the land
- Planning permission has to be obtained from the local Council
- Plans should be drawn up with an architect
- You will need to establish a firm contract with a builder

Buying the land - Vale do Lobo has a wide variety of plots for sale, catering for different requirements. Upon enquiring at any of the sales offices within the resort, a sales consultant will show you the various options that would best suit your situation, arranging a tour of the plots.

Planning permission – Plots within Vale do Lobo have already been zoned for individual villas, so your contractual documents will include urbanisation and building regulations that will state what you may and may not build, making this clear from the outset.

Architectural plans – Vale do Lobo submits all proposals for new build projects, and can also assist with alterations and extensions of existing properties. Our internal Licensing, Design and Architectural departments will prepare the drawings and submit these in accordance with the local regulations.

Building contracts – Once you have purchased the land and the architectural drawings are complete, a promissory contract for the purchase of the land and construction of the house will be prepared for your signature. Content of the contract should be as follows:

All details referring to the house being built, i.e. specifications

It should specify the size of the house in square metres. This means the living space - terraces, car parking, etc. should be given separately. It must specify the total building/ construction price including VAT.

The prices charged for building a house in Vale do Lobo include landscaping and installation of a fitted, equipped kitchen to Vale do Lobo's specifications. Extras such as swimming pool, barbecue, etc. are stated in the contract.

A schedule of payments should also be included. The payment for each phase is due by means of a notification from Vale do Lobo that the specified phase is complete. The contract should also provide for what happens if your stage payments are late.

Vale do Lobo uses its best endeavours to complete construction 12 months from the issue of the building license. There should be a clause relating to the formal acceptance of the finished work and procedure regarding any snags. It is common to agree that works will be accepted provisionally when you take possession, and the keys are handed over to you on final payment,

with a period of, for example, 30 days for you to draw up a list of all the things that are not up to scratch.

The price that is stated in the construction contract is a fixed price - including the standard plans, specifications and also the relevant taxes (VAT at current rate) and rates in force - and cannot be increased by the builder unless, of course, you wish to have extra works carried out. These will be classified as “extras” and will be charged separately.

When the builder notifies you that building is finished, you or your legal representative are allowed a specified reasonable time to inspect it. If you fail to inspect, or arrange for the building to be inspected, within a reasonable time, then you will be deemed to have accepted the building as it is.

A builder is liable for structurally defective work for a period of five years starting from the date of acceptance of the building.



OWNERSHIP OR RENTING PROPERTY STRUCTURE

There are a number of different ownership options open to you, each with its own advantages and disadvantages. It is very important to look at these options and take tax advice on them. The potential tax savings you could make in the future by setting it up properly at this stage are huge.

The main options for purchasing the property are:

- Buying the property in the name of the prospective buyer(s).
- Buying in the name of a company, national or international, although given current property tax provisions, it is not advisable to do so in the name of a “blacklisted offshore company” (list issued by the Portuguese tax authorities)
- Buying the property freehold or the leasehold.



Please discuss the above options with your lawyer before proceeding with the purchase.

Renting property

The rental of a property to third parties for touristic purposes requires, in accordance with the Portuguese law, a touristic license to be issued by the Municipality. Notwithstanding the fact that the allotment licenses in Vale do Lobo are issued for residential use and purposes, Vale do Lobo can analyse and study the feasibility of getting the touristic license, on a case-by-case basis, and advise about the legal regime in force.

REQUIRED STANDARD LEGAL DOCUMENTS

1. Promissory Contract of purchase and sale – which in the case of Vale do Lobo, normally includes construction terms and conditions to build the villa or apartment.
2. Registration Certificate – issued by the competent Land Registry office in the last six months;
3. Tax Office Certificate – issued by the Tax Authorities in the last 12 months or the Model I of the Tax Department, if the property has not been inscribed yet.
4. IMT (property transfer tax) – a receipt, showing that the relevant IMT tax applicable to the declared purchase price has been paid, is required prior to the execution of the notaries deed of transfer of property. .
5. Habitation Certificate and Technical Habitation Certificate – in case of buying a villa or an apartment that is already built, this is issued by the Municipality of Loulé. This document is not necessary in the case of plots of land without construction.
6. Notarial Deeds of Transfer of the property– The document which actually transfers ownership of the property. To be executed in a Notary Office. In the case of Vale do Lobo, this will include a complementary document with Conditions of Ownership in Vale do Lobo Resort, if the property is an apartment with the condominium rules.
7. Registration of the ownership of the property – In the Land Registry Office and at the Tax Department.



FINANCING A PROPERTY PURCHASE

If you are buying a property in Portugal and are considering obtaining finance to pay for it, here are a few tips:

- Shop around and get the best deal to suit your needs, compare interest rates, set-up costs and early settlement fees.
- Instruct a lawyer who is entirely independent from the lender, vendor and agent to act for you.
- Make sure that the total purchase price is declared in the deed of purchase.
- If purchasing a property via a company on the “blacklisted offshore companies” list issued by the Tax Department, be aware that you could be inheriting a capital gains problem, quite apart from having to pay the yearly council taxes at a rate of 1%.
- If purchasing via a company, be aware that a charge secured on the shares of the company passes borrower protection laws. You will almost certainly be asked to provide the bank personal guarantees as well.
- Obtain clear advice on the main terms and conditions of the loan, in particular what happens if your monthly payments are late or if for any reason you are unable to pay.
- Find out about mortgage protection schemes.

Caixa Geral de Depósitos, Portugal’s leading banking group and a shareholder of Vale do Lobo, has an office at Vale do Lobo Shopping which offers complete information and guidance to foreigners about obtaining or restructuring finance in Portugal. Details can be obtained either at the office or through www.liveinportugal.pt. You can also request a meeting through the Vale do Lobo Real Estate Sales office.



PROPERTY COSTS

A) Taxes and costs related to property transfer

There are a number of costs related to buying property in Portugal that you need to budget for.

All acquisition costs can be offset against future capital gains tax liabilities providing they are properly documented, so it is important to keep and file records carefully.

Notaries and Registration fees are fixed fees, whereas Purchase Transfer Tax (IMT) and Stamp Duty are based on the declared price of the property.

Stamp Duty is charged at a fixed rate of 0.8%, whereas Purchase Transfer Tax for villas and apartments is charged according to a sliding scale that is



altered each year, varying between 2 and 8%. Below is an example using the official Tax Department rates and scale range price in force for the year 2011:

Purchase Price €	Rates (%)	Amount deductible
€172.348 to €287.213	7%	€8.163,12
€287.213 to €550.836	8%	€11.035,25
Over €550.836	6%	

For urban plots for construction, the tax rate will be 6.5%.

In the event that the prospective buyer is a resident or a company domiciled in an offshore area pertaining to the afore-mentioned “blacklisted offshore companies”, the IMT tax applicable will always be 8% of the declared price of the property.

The below table is meant as an indication to enable you to work out the approximate cost of fees pertaining to the purchase of property.

Notarial and registration fees	Approx. €2000
Stamp Duty	Calculate at 0.8% of the declared value of the deal.
Legal Fees	Depending on the lawyers, but can usually be calculated at 1% or 2% of the value of the deal.

B) Real Estate Taxes and Levies

Annual tax on real estate property (IMI)

The IMI tax is payable annually.

The tax is calculated upon the taxable value of the real estate property and is due by the person registered as the property owner to the Tax Department on 31st December of each year.

IMI Taxes (Property Municipal Tax)

The IMI rate is levied on the taxable value of the property as determined by the competent Municipality Assembly for the next year, in accordance with the following rates and range:

- Urban buildings: between 0.4% and 0.7%
- New urban buildings valued in accordance with the new IMI code: between 0.2% and 0.4%.

Notwithstanding the above, when the registered owner is a resident or a company domiciled in an offshore area belonging to the “blacklisted offshore company” list, the regime the IMI tax applicable will always be 5% of the taxable value of the property.

Public Services

Within the area of Vale do Lobo, all property owners must pay a Public Services fee to Infralobo, E.M., a mixed council company empowered by the Council of Loulé to render and charge to Vale do Lobo's property owners the services connected with the operation, maintenance, cleaning and conservation of the resort, namely:

1. Road, footpaths, access ways and adjacent areas;
2. Common areas and parking zones;
3. Beach cleaning;
4. Treatment and pumping stations for sewage networks;
5. Water supply and sewerage system networks;
6. Public sanitary installations and fire hydrants
7. Public domestic and garden refuse collection.

The services are paid by the property owners, on a monthly basis, after being invoiced by Infralobo, E.M.

Vale do Lobo Basic Services

These services are rendered with the aim of maintaining and improving the high standards of tranquillity and life experience expected from a luxury resort such as Vale do Lobo. The contributions to the basic services are obligatory to all Vale do Lobo property owners and are provided and charged by the company Vale do Lobo, (Serviços) Lda. The services comprise:

1. Resort Control, CCTV room monitoring;
2. Fire fighting support equipment and services;
3. Daily door to door collection of domestic refuse;
4. Reception facilities;
5. Provision for renovations, alterations and/ or services imposed by law, by the local authorities or government on the infrastructures and networks in the resort.
6. Beach refurbishment;
7. Unforeseen projects, extra maintenance and works in addition to those provided by Infralobo, E.M.
8. Administrative costs.



By Villa / Apartment	Annual Cost (including VAT)
1 Bedroom	€ 598,00
2 Bedroom	€ 1.196,00
3 Bedroom	€ 1.794,00
4 Bedroom	€ 2.392,00
5 Bedroom	€ 2.990,00
6 Bedroom	€ 3.588,00
7 Bedroom	€ 4.186,00

C) Taxes on income from the property

Individual income (IRS)

The income arising from the declared lease or rental of the property is taxable at the rate of 16,5% for non-resident taxpayers in Portugal, who also must appoint a tax representative towards the Tax authorities.

D) Special tax regime for offshore companies

The offshore companies included in the list issued by the Portuguese Finance authorities containing the “blacklisted offshore companies” are covered by a special tax regime and are obliged to pay:

- 8% IMT on the purchase price of the property;
- 25% capital gains on profits achieved on any new sale of the property;
- 25% IRC tax on the income over 1/15 of the taxable value of the property;
- 5% IMI tax calculated upon the taxable value of the property or upon the corresponding revaluation.

FOR FURTHER INFORMATION ON REAL ESTATE AT VALE DO LOBO

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