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Want a Second Passport? Try Buying a House.

By Peter Wilson

When Natalia Yavorska and her husband first considered buying a holiday retreat somewhere warmer than their Ukrainian homeland, they were drawn to the Canary Islands.

A vacation to the Spanish archipelago in 2012 left them eyeing land on the southwest coast of the island of Tenerife, and while the initial attractions were the golf courses and ocean views, the deal was sealed by a special extra that came with their purchase.

“The fact that we could get a Spanish residence visa from buying real estate was very important, and that made it an easy decision,” said Ms. Yavorska, a 60-year-old former banker from a town near Kiev.

That “golden visa” carried the right to eventually apply for a Spanish, and therefore European Union, passport, the kind of bonus that is luring a growing number of investors to high-end real estate.

Once seen as a slightly shady practice, the business of dangling visas and citizenship in front of wealthy investors has become a more common, and in some cases hugely successful, marketing strategy.

Ms. Yavorska and her husband, Alexander Yavorski, who own a pharmaceutical import business in Ukraine, were worried about political stability at home and saw the right to live in the European Union as “a type of insurance.”

“Something can always happen between Russia and Ukraine, so if you have the chance to have a visa or a second passport sitting in your drawer, you would be stupid not to take it,” she said.

So far, at least 14 countries have programs that offer visas or passports to foreigners who buy real estate, according to research by Henley & Partners, a British-based law firm that specializes in helping people looking such programs, and The New York Times. Montenegro will soon become the 15th, and the British overseas territory of Anguilla is planning to follow suit.

Many more countries, including the United States and 20 of the 28 European Union members, are offering residence visas, which can often lead to passports, to foreigners willing to invest in nonproperty business ventures. These countries believe the investments will bolster their economies.

Other countries, led by small Caribbean island nations and Vanuatu, in the South Pacific, are happy to simply sell a passport for as little as \$100,000.

Analysts say that offers of passports and residency have become a big business, attracting an estimated \$20 billion a year in investment.

That approach is transforming the upper end of real estate markets and reshaping the finances of some of the smaller countries, pumping billions of dollars into economies that are desperate for the funds.

At the same time, the practice is raising fears in the European Parliament and the Organization for Economic Cooperation and Development, which works to promote economic growth worldwide. They worry that the programs could assist money laundering, tax evasion and the free movement of criminals and terrorists, as well as allow wealthy Russians, Iranians and Syrians to skirt economic sanctions.

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There are eight countries — five small Caribbean states, Turkey and, in the European Union, Cyprus and Malta — that will hand over passports to property buyers, who are generally required to spend little, if any, time within their borders.

In December, Brazil joined Dubai, which is part of the United Arab Emirates, and six European nations — Cyprus, Greece, Latvia, Malta, Portugal and Spain — in extending residence visas to property buyers.

The rules vary for converting those visas into passports.

Portugal requires a waiting period of five years, during which the applicant needs to spend just one week a year in the country. Spain and Latvia insist on a 10-year wait. The Latvians and Greeks require difficult language tests and several years of actually living in the country, and the Latvians insist that applicants learn the national anthem. Dubai almost never grants United Arab Emirates citizenship to foreigners.

The picky passport shopper needs to consider price, each country's tax system and the speed of its bureaucracy: Dominica is the fastest to hand over a passport, and Turkey the slowest among nations that go straight to a passport.

Passport shoppers also need to consider how much time a nation requires them to spend within its borders, and how many other countries will grant them visa-free access with their new passports. Grenada, for instance, offers passports that have visa-free access to both China and Russia.

Wealthy Chinese are by far the biggest buyers of both visas and passports, followed by Russians, experts say. There is also growing interest among French citizens eager to avoid high income taxes and Britons desperate to maintain their European Union membership when or if their country leaves the bloc.

"I think there will be a huge amount of activity once we know what is actually happening with Brexit," said Penny Mosgrove, the chief executive of the upmarket real estate agency Quintessentially Estates.

Americans are interested, too. In the five years to April 2018, 4,327 United States citizens received golden visas in Spain alone. Experts say there are two reasons for Americans' appetite for new passports and residency visas.

One is that the United States and Eritrea are the only countries that tax the worldwide earnings of their citizens even if they live abroad.

Alex Marino, who heads one of the largest expatriation legal practices in the world for Moodys Gartner Tax Law, said that in the final quarter of 2016, when Donald J. Trump was elected president, there was a record spike in the number of Americans renouncing their United States citizenship. But the biggest driving force by far, he said, "is finances and taxes, rather than politics."

Peter Vincent, a former senior prosecutor in the Obama administration who now oversees security liaison for Henley & Partners, the law firm, said another factor was personal security.

"There are some places in the world where if your taxi or bus gets pulled up and you are carrying a U.S. passport, that is a death warrant," he said, "so people prefer to have a second passport for safety reasons."

Knight Frank, a British real estate consulting firm that operates globally, estimated late last year that 36 percent of people with more than \$30 million in net assets had second passports, up from 34 percent a year earlier.

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Christian H. Kälin, the Swiss-born lawyer who leads the British-based Henley & Partners, said the trend was also growing among the less wealthy.

For those seeking residency visas or passports, the firm charges fees that start at about 20,000 euros, or \$22,500, and can reach €500,000 for complicated programs like that of Austria, which requires nonproperty investments of at least €10 million. The firm has grown rapidly over the past decade, expanding to 30 offices around the world.

Charlie Smith, European adviser at the New York company Concierge Auctions, which specializes in properties valued at more than \$2 million, said the lure of a visa is an important marketing tool. Mr. Smith used a recent tour of China and Singapore to drum up interest in the auction of the nine-bedroom Villa San Lorenzo in Quinta do Lago, a gated community in the Algarve region of Portugal. The property was previously listed for €20 million.

Mr. Smith said that he had “specifically targeted” his customer databases in China with the property because China is the strongest market for Portugal’s golden visa program. In the 12 months ended in February, 4,159 Chinese used the program, a 30 percent increase over the previous year and well ahead of second-place Brazil, with 695 investors.

Some developers are making the residency programs an integral part of their plans, shaping their prices and timelines around the best way to qualify for visas. When the high-end property consulting firm Athena Advisers ran a promotion for several Portuguese developments at its London offices in March, it flew in developers from Lisbon to pitch their projects, and lawyers to explain how the investments could qualify for the golden visa program.

Over red wine and finger food, an audience of about 20 potential buyers asked questions that focused as much on the golden visas as on the likely rental and investment returns of the projects.

Sérgio Ferreira, the chief executive of the developer Coporgest, explained how a 43-apartment project in central Lisbon had been structured to take maximum advantage of the visa system.

The project, SottoMayor Premium, involves the renovation of a 19th-century building so buyers can qualify for a €350,000 threshold, rather than the normal minimum investment of €500,000.

Unusually, some sales of the apartments, which are priced from €420,000 to €1.6 million, have been packaged as interest-paying special-purpose vehicles designed with the visa in mind.

As soon as an investor makes an initial payment of €350,000, the clock starts on the five-year waiting period for a full passport, even though the apartment might not be completed for another two or three years.

João Cunha Vaz, a senior partner with the law firm Edge, briefed Athena’s clients on the visa program and several tax-reducing programs offered by Portugal, including the “non-habitual resident” option, which offers a decade of tax breaks and has been attracting French citizens and other foreigners.

Another country that has recently developed a visa program is Brazil, which in the past saw many of its citizens moving money abroad to obtain second passports. Now, it is trying to reverse the trend.

Edouard Barthelemy, Athena’s manager in Rio de Janeiro, says the program is too new to have yielded results. But he is confident it will build interest in high-end properties.

Not everyone is pleased with the growth of visa programs.

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Critics say that while countries like Cyprus and Malta are reaping the benefits of handing out passports, what they are really offering is the right to live anywhere in the European Union. And they say such programs can attract shady characters.

But others say that getting visas through real estate transactions involves vetting for criminal records, for instance, which is a far more restrictive process than the scrutiny faced by the million people a year who are given European Union passports through marriage or the reuniting of family.

“Anyone who is a real security threat or a major criminal would not put themselves through that scrutiny — they have other ways to get a passport or go where they want,” said Mr. Kälín, of Henley & Partners.

There are tax advantages in having residence rights in countries like Antigua, Cyprus and Malta, which charge little income tax on offshore assets and do not require the investor to live in the country for any significant period.

Mr. Kälín was a key figure in turning the trade in passports and residency visas into an industry.

St. Kitts and Nevis became the first country to introduce a formal program of selling passports in 1984, the year after it won independence from Britain.

Mr. Kälín approached the government with an offer to revamp the program and then negotiated a visa-free access agreement for St. Kitts with the European Union’s Schengen Area, a zone comprising 26 countries without passport controls.

That kind of access was on Natalia Yavorska’s mind when she and her husband bought land on the Canary Islands. She found many visa applications “a humiliating experience where they want fingerprints and medical tests and treat you like a refugee trying to sneak over the border.”

“A passport with visa-free access to a lot of countries is just so much better,” she said.

After St. Kitts, Mr. Kälín’s firm went on to advise Grenada and Antigua on how to design their programs, and it is now retained by Moldova, which sells passports for €140,000 rather than requiring property investment, and Malta.

“These programs have been hugely important for those countries,” Mr. Kälín said. “They have transformed the economy in St. Kitts, been very significant in Antigua and Malta and have helped to dig Cyprus out of an economic crisis.”

The minimum investment under Spain’s golden visa program is €500,000, which can be made up of one or more purchases.

The Yavorski family passed that easily by spending about €1 million for land where they built a three-bedroom villa overlooking a golf course and the ocean.

Maria Moreno, the head of sales at Abama Luxury Residences, a Canary Islands developer, said golden visas have become a valuable marketing tool for projects such as hers, where the Yavorskis were the first buyers.

“About 25 percent of our buyers are from outside the E.U., mainly from Russia, Ukraine, Brazil and the U.S., and four out of five apply for golden visas,” she said.