

EMERGING EB-5 MARKETS SPOTLIGHT:



RUSSIA



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The increasing cost of investor recruitment in China, the challenges with retrogression for Chinese-born investors, and the need for diversification of the investor marketplace is forcing regional centers and developers to seek out markets beyond China to secure reliable sources of investors. Russia and the surrounding Russian-speaking countries offer promising solutions to these problems. At the same time, the worsening internal economic and political conditions in Russia are creating conditions that are motivating more individuals to consider emigration. Myths and misperceptions concerning the EB-5 program continue to pervade investor perceptions. However, they are gradually falling by the wayside as the EB-5 program becomes more familiar.

RIPENING CONDITIONS FOR EMIGRATION

In late 2014, the Russian Federal State Statistics Service (Rosstat) published Russian population migration data covering the period from January to August 2014. The report revealed that in the first eight months of 2014, 203,600 people emigrated from Russia compared to the 186,400 who emigrated in all of 2013. What is important to note is that the 2014 figure does not reflect the latter part of 2014, when economic conditions in Russia even further deteriorated. The number of Rus-

sians who emigrated in 2014 will be the largest since Putin's ascension to the presidency and will likely surpass the record high of 1999, when the country officially "lost" around 215,000 people. Although those leaving the country account for less than 1 percent of the population, fully half of the Russian middle class in Moscow and St Petersburg polled in a survey conducted last year knew someone who had opted to move abroad.

MISPERCEPTIONS ABOUT EB-5 IN RUSSIA

Despite the large presence of high net-worth individuals in Russia and surrounding markets, the number of EB-5 visas issued to Russians in FY2014 was less than 1% of total EB-5 visas. The reasons behind this small presence are founded in part by misconceptions and myths not only in the eyes of potential investors, but also that of EB-5 developers and project promoters. Unlike a typical Chinese investor who is quite knowledgeable about the EB-5 program and many of its intricacies, a typical Russian investor has very limited, if any, knowledge about the program. His or her knowledge is almost certainly limited to whatever information they find on Russian-language forums or websites, which tend to be over-simplified or outright inaccurate. Even worse, many potential investors develop perceptions of the program through their personal networks with anecdotal stories of investors who were defrauded by unscrupulous project sponsors. Most of these projects are generally small, "fly-by-night" projects, often organized by other Russian-speaking emigres. Although there may be truth to some of these unfortunate episodes, these stories led

to distorted perceptions of the risks and benefits of participation in the EB-5 program. As a result, the typical perception of EB-5 among Russian investors is overshadowed with skepticism and suspicion.

The most common misperceptions about the EB-5 program among Russians include:

- EB-5 is just a legal means to "purchase" a green card without any real opportunity to receive the invested principal back;
- There's nothing obligating developers to finish the construction project after raising all the funds;
- The investor has no protection or recourse in the event of a default;
- The investor has no control over the project and therefore his funds are at heightened risk.

Although an EB-5 visa may not be ideal for all investors, the program certainly offers advantages to certain individuals. These advantages should be emphasized during discussions with potential investors. Even more helpful is a very frank and transparent discussion about the successes of previous investors in a regional center's projects. Providing potential investors the opportunity to speak with earlier investors (either in-person or via Skype) is an ideal means of helping investors to gain a higher level of trust towards a project and the EB-5 concept in general. As few Russian-speaking investors have completed the full cycle of approval of their I-829 and return of invested funds, potential investors are overly reliant on inaccurate anecdotal stories for their understanding of the program.

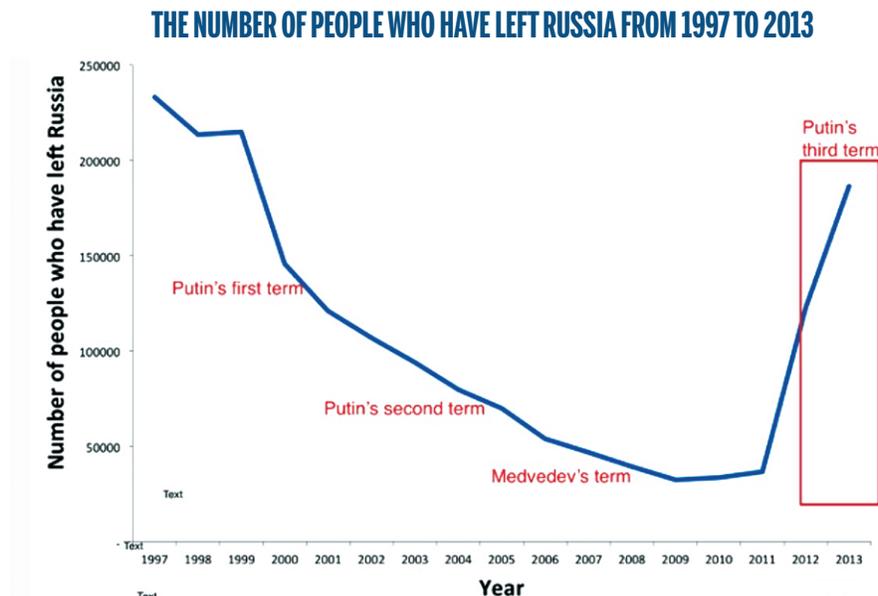
This issue of control over funds has long been a perceived deficiency of EB-5 as compared to other visa categories. As a result, many investors with the financial means prefer to invest in their own business over which they have full control. As compelling a position this might be in the short-term, many investors are unaware of the realities of operating a business in the United States where the market is very competitive, and for most EB-5 investors, completely unfamiliar. From the author's professional experience, we have seen many more L-1's and EB-1's fail than EB-5's. Therefore, if the definition of "success" is attainment of permanent residency and recovery of one's principal (without necessarily earning a return), an EB-5 investment might better serve their needs.

MARKETING EB-5 IN RUSSIA

As is true of most markets outside of China, there is no developed network of migration agents with whom regional centers and investors can work. In Moscow, and to a lesser extent St. Petersburg, there are some agencies that specialize in securing residency for clients overseas; however, these companies are not focused on EB-5 or even the United States, focusing more generally on Europe or offshore island jurisdictions. Although this necessitates more hands-on work in developing partnership relationships, the upside is that the cost of investment recruitment is significantly less than in China. Agents never expect a percentage return earned from the loan, and they are generally happy with receiving only a portion of the administration fee as their commission. Given the relative novelty of EB-5 in these markets, there is no average market rate, and players can generally try to negotiate the best terms possible with various parties. It's also safe to say that partners in Moscow will expect more than anywhere else, and the smaller the city, the lower their expectations for remuneration.

Given the absence of EB-5 focused agencies, recruiting efforts must be targeted at companies which generally interact with individuals who follow the same general EB-5 demographic profile. This would include high-end real estate agencies, brokers dealing with overseas residency, private bankers, financial advisors, and law firms.

From our experience, property trade shows and other mass events are generally an effective way of meeting potential partners and agencies, but not investors. Smaller seminars of 5 to 15 participants in a private setting seem to be a more effective means of reaching serious investors. However, investors are concerned about revealing their desire to im-



migrate and may consequently shy away from even small group meetings. Showing a desire to establish residency in the U.S. is perceived as being possibly detrimental personally and professionally given the recent political tensions between the United States and Russia. Personal consultations and one-on-one meetings have proven to be the preferred forum for clients to learn about EB-5 and particular projects. As labor-intensive as this may be, it has proven to be the most effective.

COMMON MISPERCEPTIONS IN THE U.S. CONCERNING RUSSIAN INVESTORS

1. Russians generally do not have enough money to invest to EB-5.

In 2014, there were 213,000 U.S. dollar millionaires in Russia. With the recent ruble devaluation, this figure has obviously declined. Nonetheless, given the approximately 100 EB-5 visas issued in 2014 to Russians, there is clearly room for future expansion of EB-5.

2. Russia is dangerous.

In terms of personal security, Russia has probably never been safer since the fall of the Soviet Union. That is assuming, of course, that the purpose of your visit does not veer into the realm of anything remotely related to political opposition. The anti-American rhetoric in the media has reached a level not seen since the last years of the Soviet Union, and unfortunately, this image of America as the enemy has influenced the views of large segments of the population. However, that is not the case with the target demographic for EB-5 and thus is largely irrelevant.

3. It is exceedingly difficult to prove source of funds from this part of the world.

The vast majority of our EB-5 clients from this region of the world are entrepreneurs who

earned their wealth from their own personal companies. Clients from these markets tend to be "working class wealthy." It has been our experience that Russia really has no additional complications with proving the source of funds than any other emerging market. However, it should be noted that proving source of funds is relatively more challenging for Ukrainian clients to the extent that tax avoidance and non-compliance there are even more widespread than Russia.

In addition, as of the time of the preparation of this article in September 2015, there are generally few, if any, capital restrictions in Russia that hamper clients in wiring hard currency overseas. That could change if the economic situation in Russia worsens. A relatively liberal system exists in neighboring Kazakhstan. However, Belarus and Ukraine have strict restrictions on currency outflows which can pose serious problems for clients to get money out of their home country. This often requires more creative structures that complicate the process of documenting the path of funds for clients from these countries.

In conclusion, Russia and the surrounding markets offer an appealing source of EB-5 investors. Realizing the full potential of this market will require groundwork to develop a network of partners and referral sources as well as educating both investors and intermediaries as to the realities of EB-5. However, given the smaller financial expectations of agents, favorable socio-economic circumstances for emigration, and absence of retrogression for these investors, the prospects of this market are compelling. ■

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