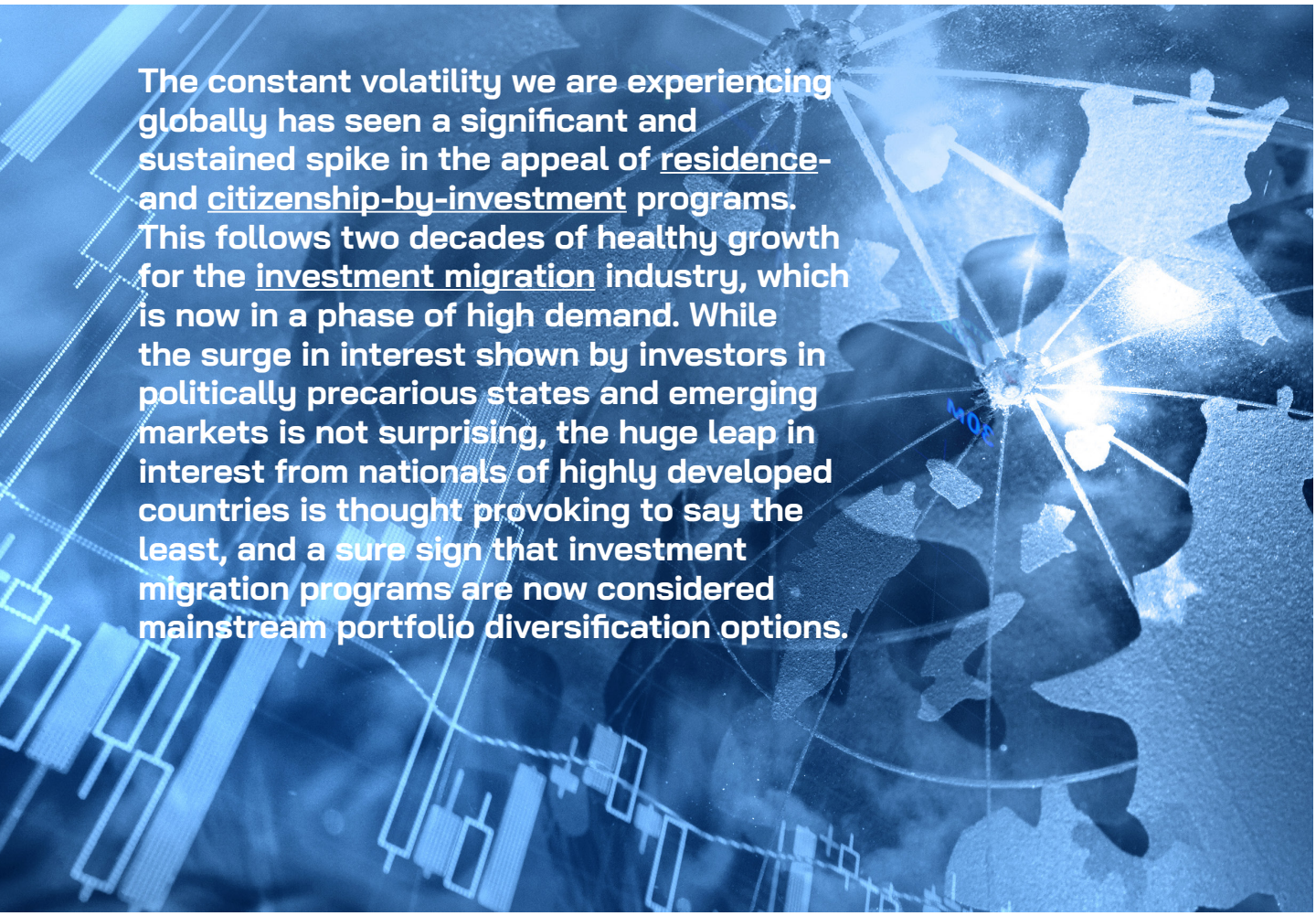
# Residence- and Citizenship-by-Investment, Established Wealth Planning Products



The constant volatility we are experiencing globally has seen a significant and sustained spike in the appeal of residence- and citizenship-by-investment programs. This follows two decades of healthy growth for the investment migration industry, which is now in a phase of high demand. While the surge in interest shown by investors in politically precarious states and emerging markets is not surprising, the huge leap in interest from nationals of highly developed countries is thought provoking to say the least, and a sure sign that investment migration programs are now considered mainstream portfolio diversification options.

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**BY:**
**PHILIPPE AMARANTE,**
Director and the Head of Dubai Office ,
Henley & Partners

## A continued growth trajectory for residence- and citizenship-by-investment

In the third quarter of 2020 when we were all feeling hemmed in by the Great Lockdown, *Henley & Partners* saw an average increase in general enquiries of 45% compared to the same period in 2019. This was also 63% more enquiries than in the previous quarter. The upward trend has continued this year, and by mid-July 2021 we had already received 78% of the enquiries we received across the whole of 2020.

There is a range of push factors coming into play, the most recent being the global minimum tax on corporations that is being driven by the Biden Administration and backed by all G20 countries. Interestingly, seven of the top ten countries in terms of enquiries we received in 2020 are G20 members. We saw an astonishing 208% spike in enquiries from US citizens last year compared to 2019, with 47% more enquiries from Canadian citizens, and a 31% rise in enquiries from UK citizens. It is also worth highlighting that this year has seen the UK rise to 3rd place in the top ten countries in terms of enquiries received, compared to its 6th place last year.

Southeast Asia and the Middle East are experiencing similar growth trends. Looking at regional demand, we have received the most enquiries from citizens of Vietnam in 2021. Vietnam is also the country with the biggest growth in interest in Southeast Asia this year, with 157% of 2020 enquiries already received by mid-July. Next in terms of enquiries is the Philippines — by mid-July we had already received 66% of the total enquiries by Filipinos in 2020. Singapore is 3rd and has experienced an impressive surge in interest — by mid-July we had already exceeded the total 2020 enquiries, with 103% of last year's enquiries received. Indonesia is in 4th place in the region in terms of enquiries, with 57% of 2020 enquiries received by mid-July this year, a number we expect will rise when one considers the projected growth for millionaires and ultra-high-net-worth individuals between now and 2025. Malaysia is another healthy growth market this year, with 89% of 2020 enquiries already received.

**PHILIPPE AMARANTE**
Henley & Partners

Additionally, Saudi Arabia is seeing a significant influx of interest particularly for residence-by-investment solutions, with enquiries increasing by 55% this year. This phenomenon is complemented by the sharp rise in interest in the UAE as a second residence amongst HWI clients. The effective management of the pandemic and resilient healthcare infrastructure has positioned the UAE as an important consideration for any residence portfolio creation.

## A sophisticated portfolio diversification choice

Covid-19 has certainly driven interest in residence- and citizenship-by-investment, emphasizing the many benefits of optionality in terms of where we and our families can comfortably live, work, study, and retire. The events of the past 20 months have also highlighted the importance of including strategic residence and citizenship planning in your wealth planning. However, even preceding the outbreak of the pandemic there had been positive developments.

Investment migration matured from being a luxury lifestyle 'nice-to-have' product to become a sophisticated 'must-have' investment choice. Rather than being associated first and foremost with simple ease of travel or acquiring a vacation home as in the past, alternative residence and citizenship are now predominantly

| | Percentage of total 2020 enquiries received by mid-July 2021 | Millionaires in 2020 (USD 1m+)* | Projected millionaires by 2025* | Projected growth in millionaires | UHNWI in 2020 (USD 30m+)* | Projected UHNWI by 2025* | Projected growth in UHNWI |
|---|---|---|---|---|---|---|---|
| 1. Vietnam | 157% | 19.490 | 25.810 | 32% | 390 | 511 | 31% |
| 2. Philippines | 66% | 14.000 | 19.000 | 36% | 489 | 658 | 35% |
| 3. Singapore | 103% | 244.000 | 388.000 | 59% | 3.700 | 4.890 | 32% |
| 4. Indonesia | 57% | 21.000 | 45.000 | 114% | 630 | 1130 | 79% |
| 5. Malaysia | 89% | 1.6440 | 22.350 | 36% | 606 | 801 | 32% |

**Source: statista.com*

perceived in terms of their significant potential for portfolio diversification, access to global investment and operations, and the preservation of your family's legacy.

The shock of the pandemic and resultant protectionism and unpredictable policy changes have exacerbated push factors such as political, economic, and social instability and recalibrated pull factors, with stability, safety, and access to healthcare becoming issues of far greater concern than ever before.

## A world of opportunities and choice

It is clear to us that no matter where they hail from, our growing clientele have realized that diversification applies as much to lifestyle planning as it does to wealth management. They know that realistically, in this environment anything can happen tomorrow, and life is too short to wait and see if things will improve. Spreading their assets across a strategic selection of markets and jurisdictions is more likely to yield returns than hedging their bets on a single country — even if that happens to be a world-leading nation.

Wave upon wave of variants and ensuing lockdowns are causing even more people to entertain in earnest the thought of starting afresh somewhere new. We have all been shown that we and our families and extended families don't have to be tied to one country. It is completely feasible for our children to reside safely in one place, our parents to retire happily to another, while we run our commercial operations from one or more different hubs, depending on what is best for business.

It is little wonder then that more and more affluent investors are interested in options to relocate to countries that they might previously have not considered, from where they are able to operate their businesses with ease while upgrading their quality of life by selecting investment migration programs in places where they and their families will feel more comfortable and secure. We expect to see these numbers continuing to grow beyond 2021 as the prevailing political and economic uncertainty that unfortunately show no sign of abating prompt even more international investors to plan their next move.

## Regulation is the final hurdle

A decade and more of increasing engagement in terms of both supply and demand have seen investment migration moving into the mainstream along with other advisory services for high-net-worth and ultra-high-net-worth individuals. The value offering for investors and their families as well as sovereign states and their citizenry are clear. We have gone beyond the inflection point and residence- and citizenship-by-investment are now standard considerations for international investors looking to hedge volatility and create a combination of short-term value and long-term yield through enhanced global access.

Our specialist client advisors are perceived to be on a par with other professional advisors to affluent families such as lawyers, bankers, and wealth and investment management professionals. The final frontier that our industry must embrace before being fully accepted by all stakeholders as a fully-fledged advisory service is enhanced regulation.

In the late 1980s and early 1990s, when the first modern investment migration programs were developed, the industry was largely unformed and unregulated, and the volume of capital deployed was far lower. Today, with an annual market estimate of USD 20 billion, circumstances are different. The international transfer

of billions of dollars of liquidity is involved, and investment migration is defined by the core aspects of sovereignty — the right to bestow residence and/or citizenship. This high-stakes combination means that it is entirely understandable that global civil and political society expect those in the value chain to be regulated. As such, like the Investment Migration Council, we welcome the recent proposal by the European Commission to regulate the operation of investment migration and to create strict common standards for all parties working in the field.

Only through collective engagement with sovereign and supranational authorities will the investment migration industry earn the trust required to create a robust regulatory regime — one that will ensure that every practitioner adheres to the highest possible standards, wherever they are based and whichever program they are licensed to market. *Henley & Partners* has already invested significant time and capital in a corporate structure that has governance at its heart. We are entirely confident that our model, which includes internal due diligence and audit capabilities, can form a blueprint for the wider industry to emulate.

## Investment migration generates sovereign equity

Being granted and granting residence or citizenship in return for investment is mutually beneficial for successful investors and their destination countries of choice. Investors 'buy into' a country, bringing valuable debt-free capital that can contribute towards monetary and fiscal autonomy or be invested in vital infrastructure, or both. Many also bring sought-after international skill sets and experience, which can diversify the economies of host countries, with positive outcomes for all members of society. At *Henley & Partners* we refer to this mutually advantageous dynamic as 'sovereign equity'.

Incoming funds from residence- and citizenship-by-investment programs can be considerable, with wide-ranging macro-economic implications. Foreign direct investment enhances the value of the receiving state, bringing capital to the public sector in the form of donations to the government, tax payments, or treasury bond investments, and to the private sector as investments in businesses, start-ups, or real estate. The economic benefits are cumulative. Receiving states may experience growth in their real estate sectors, construction industries, and local businesses, increased liquidity in their commercial banking systems, employment growth, the creation of new revenue streams through duties and taxes on imported goods, and associated tax and spending benefits.

For global investors, in the 21st century optionality has become an essential part of any family's insurance policy, particularly in times of relentless uncertainty. Acquiring an alternative residence or citizenship means having greater flexibility and direct access to the leading economies of the world. While this was the case before Covid-19, it is even more so now. With each additional jurisdictions a family gains access to, the more diversified its assets and the lower its exposure to volatility, whether country-specific, regional, or global. The range of investment migration products and options is expanding even further in the wake of Covid-19 as more governments seek to maximize their unique ability to endow themselves with a source of sustainable revenue without incurring debt, thereby relieving future generations of further financial distress.

Out of necessity, the residence- and citizenship-by-investment industry is prevailing. With global demand and supply continuing to grow, and tighter regulation on the horizon, investment migration will undoubtedly remain a firmly established mainstream player in the investment advisory and portfolio management space. ■