

# THE PRICE OF A PASSPORT

A Maltese scheme granting EU citizenship to overseas investors has sparked a development boom, but not one that many locals welcome. **Emanuele Midolo** reports



**T**wo years ago, investigative journalist Matthew Caruana Galizia published a hard-hitting academic paper for Cambridge University Press called *Political Land Corruption: Evidence from Malta*.

Yet, other than a small amount of coverage in the local press, the corruption allegations were not widely picked up by the media. Why?

"Because it was published the day my mother was murdered," says Caruana Galizia simply.

Matthew is the son of Daphne Caruana Galizia, the Maltese journalist killed by a car bomb

almost exactly two years ago.

Following her assassination, he decided to return to his home country having spent years working overseas.

This summer, he took *Property Week* on a guided tour of Malta to show the effect of a residential construction boom described by some as the 'Dubai-ification' of the island - and to talk about the controversial policies he believes are driving it.

In his paper, Caruana Galizia noted that the number of residential planning applications granted had tripled in less than three years, attributing the

increase chiefly to a series of initiatives and tax incentives introduced by the Maltese government.

These include the so-called 'cash-for-passport' programme, the controversial scheme through which Maltese nationality - and therefore EU citizenship - is sold to wealthy foreign investors, first reported on by his mother.

## Residency requirement

In order to secure nationality, investors need to own a residence on the island, which has led to a surge in residential

development and in turn seen house prices and rents skyrocket - pricing locals out of the market.

The vast majority of land on the island is classed as agricultural - 80% according to government figures - and has been passed down through the generations.

"Property in Malta was never really worth that much money - until the past couple of years," says Caruana Galizia, as we drive down the island from north to south. "But if you suddenly combine the ability to demolish these [old farm] houses that you inherited, build towers of say 10 flats and add the demand





*"We could see this spike of approvals... people were making millions of euros overnight"*

**Matthew Caruana Galizia, Maltese journalist**

for people who wanted to buy passports and therefore needed a letterbox, then you have this sort of economic boom."

Caruana Galizia decided to research this phenomenon with his younger brother Paul. They suspected that following the country's last general election

in 2013, an unusually large number of planning applications had been approved.

The government refused to release approval figures, so the two brothers decided to scrape all the data from the planning authority website and put every application into a database. After crunching

the data, they detected a pattern dating back to the mid-2000s.

"We could see this spike in the ratio [of permit approvals] before each election," says Caruana Galizia. "Someone who wanted to knock down a house that they had inherited and build flats, or someone else who wanted to build a hotel close to a beach, would suddenly get permission to do so. People were making millions of euros overnight."

This happened before elections in 2003, 2008 and 2013. "But what was different with 2013 is that [the numbers] never went down," he says.

"They kept climbing. Before 2013, the number of refusals was way higher than the number of approvals. What happened after [Malta's prime minister Joseph] Muscat was elected was that suddenly there were five times as many approvals as there were refusals. It reversed completely. And this is why there was suddenly so much construction."

This boom coincided with the country's launch of a citizenship-by-investment - or 'cash-for-passport' - programme, in 2014.

### **Increase in approvals**

Following its introduction, the number of planning approvals rose from 3,957 in 2015 to 12,885 in 2018. As a consequence of these approvals, the construction sector in Malta grew by 10% year on year in 2018, while real estate activities saw a 13% increase. The two sectors combined account for 13.5% of the island's economy.

Henley & Partners, which helped to set up the Maltese programme, says it is now "the most popular" and "the most exclusive" among the many it has created worldwide.

Most importantly, a Maltese passport opens the doors to the EU and its rights and privileges - including the option to settle in any other EU member state.

"Most people at a certain level of wealth want to have a second citizenship or second residence in their pocket, much like we travel with two credit cards," says Andrew Taylor, managing director at Henley & Partners. "It's a luxury and a flexibility in life that people want for their peace of mind, in case something goes wrong in their home countries."

Both the citizenship-by-investment and its twin programme, the residency-by-investment or 'golden visa', have a real estate requirement.

For golden visas, the required contribution is €140,000 (£124,000) plus a property purchase - with no minimum investment value required - or €12,000 a year in rent. Otherwise, investors can buy €250,000 in government bonds, which is refundable after five years, make a €30,000

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« government "contribution" and pay €10,000 a year in rent.

For passports, the investment is around €1m split between: a €150,000 investment in the island's government bonds; property (the minimum price threshold for buying a property is €350,000 and for renting €16,000 a year, with a minimum holding period of five years); and a €650,000 "contribution" payment.

## Successful programme

The passport programme has been a major success and Henley & Partners claims it has generated €1.5bn in direct investment in the country. "That's a big amount of money, especially for a country as small as Malta," says Taylor. "It can make a dramatic impact and bring lots of social benefits."

It has also earned Henley & Partners at least €38m in fees, according to the Maltese government.

However, since its creation, the initiative has attracted criticism from a number of parties, including the EU Commission, which in January warned that the scheme could be used for tax evasion, corruption and money laundering.

When asked about the EU's concerns, a spokesperson for the Maltese government insists it "operates a strict due diligence process" and adds that the "potential risks it [the EU] outlined are currently being discussed at expert level with all member states including Malta... we already are and have always been committed to fighting financial crime".

What Caruana Galizia and other critics argue is that the citizenship programmes are artificially driving up house prices and essentially creating a bubble. In 2018, a report produced by the International Monetary Fund (IMF) warned that by creating "a rapid influx of housing investment" the Maltese programmes created "macro-financial risks" and could trigger "property market bubbles".

House prices in Malta have already skyrocketed. In 2018,



Truth seekers: Matthew Caruana Galizia, pictured (inset) with his late mother Daphne



prices shot up 16.9% year on year - a rise that saw the island top Knight Frank's global house price index. "A combination of factors have led to this level of price growth," says Kate Everett Allen, head of international research at Knight Frank.

"It's partly government initiatives, but also economic fundamentals and the fact that Malta by comparison with a number of Mediterranean islands like Mallorca or Sardinia had a relatively low entry price. It's got a relative affordability. Prices have been rising from a far lower base."

According to the government, the average price of a flat purchased by an investor in the citizenship programme last year was €1.1m. People participating in the citizenship programme can also choose to rent a property,

*"Everyone wants everything built quickly and health and safety issues arise from that"*

Jonathan Olson-Welsh, Mayer Brown

which has artificially inflated rental values.

## Driving up prices

"This whole thing is massively driving up prices and a lot of young people simply cannot afford to rent anymore," claims Caruana Galizia, adding that the average rent for a one-bedroom flat now stands at around €800 to €1,000 a month.

"My one-bedroom flat in Paris used to cost €800 a month," he says. "That was for a flat in the 11th arrondissement, not

for a crappy flat in Valletta."

For its part, Henley & Partners claims that the numbers of people using the citizenship programme are too low to have an impact on the real estate sector.

The government spokesperson agrees, claiming the number of properties purchased by citizenship applicants is around 200 to 300 a year, "a very small amount compared to the 15,000-plus sold annually on the Maltese islands", says the spokesperson.

The problem is no one knows the precise numbers because





**Resort town:  
Caruana Galizia  
grew up in Sliema**

the Maltese government hasn't disclosed the full figures.

When it launched the citizenship-for-passport programme in 2014, it capped the number of passports awarded at 1,800, a figure it expects to hit this year. By June 2018, 1,431 had been awarded.

However, successful applicants can extend citizenship to family members for a fee of €25,000 per person. Last year alone, 330 applicants extended their citizenship rights to an additional 818 family members.

Local media reports in 2017 claimed that 62 Saudi families obtained Maltese citizenship off the back of just a handful of applications by individuals.

For the island's golden visa scheme, there is no cap on the number of additional family members. Moreover, the

property requirements are a prerequisite for applicants for both programmes, so it is not just successful applicants that need to buy or rent properties, but anyone who applies.

"This is why there are so many [overseas investors] taking flats," says Caruana Galizia, as he drives up to a battered, one-storey terraced house on the outskirts of Valletta. On paper, this is the registered address of a Chinese billionaire, who has opted for the golden visa.

"You see how this single building has all these numbers on it - 2, 88, 92," says Caruana Galizia. "That's because the house is split and the Chinese guy would probably be renting just one or two rooms within it, not even the whole house. The guy is a billionaire and that's where we're supposed to believe he lives."

When asked if any of the people buying Maltese passports under the citizenship scheme will ever live in the country, Henley & Partners' Taylor responds: "Most likely not. People in the residence programme, however, have more interest in residing abroad."

### **Poor residential stock**

Another negative by-product of the island's programmes is the poor standard of residential stock that has recently been developed.

"Everyone wants everything built quickly and health and safety issues arise from that," says Jonathan Olson-Welsh, a partner in the construction and engineering group at law firm Mayer Brown.

"With the construction boom going on in Malta there is the inevitable issue around the quality of the product delivered. Recently there was an issue around

collapsing buildings on the island."

Earlier this year, two buildings collapsed in less than two months and in June, a few weeks before *Property Week's* visit, hundreds of locals took to the streets to protest about the poor standard of construction.

"There is no sense of aesthetic, no sense of uniformity and that unfortunately is creating some very ugly spots," says a lawyer from a large local law firm.

Caruana Galizia agrees: "I've never been to Cyprus, but when my mother went she told me she found it physically repellent, absolutely horrible. And what I imagined from her description is that it looked like this."

"It's crazy. It has only happened in a couple of years, but the consequences will stay [with us] for a long time."

Two years after the assassination of Malta's leading investigative journalist and anti-corruption campaigner, the investigation into why she was killed is ongoing. In June, the Council of Europe said the failure to identify who was behind the murder "raises questions" about the rule of law in Malta.

Meanwhile, the cash-for-passport programme continues and the locals are struggling to live with its consequences.

As we drive around Sliema, a resort town on the east coast that has seen most of the recent development, Caruana Galizia gets angry. "Sliema used to be beautiful," he says.

"I lived there until I was five years old and it was an idyllic Mediterranean childhood, living in my parents' house right in front of the sea. Now it's hideous."

"Had they knocked down those houses to build condos, it would have been the Hampstead Heath of Malta, with houses worth millions upon millions. Instead they have built these very ugly flats, which are artificially worth a lot of money. They have no intrinsic value."

Not to locals anyway. But to those buying or renting them to get their hands on a Maltese passport or a golden EU visa, they are priceless. ■