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Why Russia's Patriots Love to Buy U.S. Real Estate

By Victor Davidoff

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Imagine a newspaper exposé about several members of the U.S. Congress who didn't declare on their tax forms luxury villas on the Iranian Persian Gulf coast. This would be a scandal of Watergate proportions and most likely produce a couple of best-sellers and a made-for-TV movie. Now imagine an analogous situation in Russia. What happens? Almost nothing. There is no scandal, no movie, only a lot of talk on the Internet.

The story began when a group of Russian senators went to the U.S. last summer to persuade their U.S. counterparts to vote against the Magnitsky Act. One of the most vocal opponents of the act was Senator Vitaly Malkin, who said Magnitsky had died in prison from consequences of alcoholism. The senators' "anti-Magnitsky road show" in Washington raised suspicions that their actions not only were not just political but also that their personal interests might have been threatened by the act's ban on visas and asset holdings for some Russian officials.

Journalist Andrei Malgin decided to get to the bottom of the mystery. Using just his computer

and the Internet, he dug up some very interesting facts. It turned out that Malkin has real estate in North America. Furthermore, since 1994 he has been trying to get a residence permit in Canada, justifying his request by his business interests. In his application, he openly declared that he owns 111 — yes, 111 — apartments in Toronto. The Canadian authorities turned down his request, and Malkin even tried to take them to court. Unfortunately for him, the court refused to hear his suit.

But as Malgin discovered, those aren't the only properties in the Western Hemisphere belonging to Malkin, who is from far-away Buryatia. Public documents show that Malkin's company, which has the mysterious name 25 CC ST74B LLC, owns a duplex worth $15.6 million in the Time Warner Center in New York City. Malkin's lawyers denied that he is the owner, but public documents from a suit the company brought against its construction manager show that Malkin owns the apartment. They also solved the mystery of his company name, which is an abbreviation of the address: 25 Columbus Circle, apartment 74B.

One mystery remains: Why is there no mention of this expensive property in Malkin's government filings? He is obligated by law to declare all real estate holdings.

True to the genre, this detective story had a sequel. The lawyer and anti-corruption activist Alexei Navalny joined in the hunt for Russian lawmakers' foreign real estate holdings. With help from volunteers, Navalny found real estate in the U.S. allegedly owned by another senator, Mikhail Margelov, who heads the Federation Council's Foreign Affairs Committee. What makes this story so juicy is that Margelov is the son of a KGB general and taught in the KGB school. In keeping with his background, he is well-known for his anti-Americanism.

Margelov's anti-Americanism didn't keep him from taking consulting jobs in the 1990s with a number of U.S. companies, including Bain Capital, where Republican presidential candidate Mitt Romney was interim CEO. Perhaps income from those gigs allowed Margelov to buy two apartments in Miami worth $894,000. And perhaps his skills obtained in the KGB helped him hide the purchases and evade reporting them on his government declaration form. When confronted by journalists, Margelov replied diplomatically, "I don't own a lot of apartments in the U.S." That might be technically true, considering that Margelov bought the apartments with another Russian, about whom nothing is known. This interesting fact prompted the newspaper Moskovsky Komsomolets to publish an article with the risky and risque headline: "Is Senator Margelov Living With a Mystery Man?"

The story took on Shakespearean overtones when Navalny's team looked into the real estate holdings of Vladimir Pekhtin, head of the State Duma's ethics committee. In 2007, Pekhtin's son bought a Miami Beach apartment for about $500,000, and last summer — right after the Duma passed the law requiring all NGOs with international funding to register as foreign agents — Pekhtin's son gave half the apartment to his father. But it looks like the younger Pekhtin thought he'd been a bit stingy. In 2012, the pair purchased another apartment in Miami Beach, this time worth more than $1 million.

In an interview with Izvestia, Pekhtin denied owning real estate in the U.S., but his self-defense rang a bit hollow. At first, he said that if his name was on some U.S. documents, it could only be because his son included him in his will. But Navalny's team scanned the warranty deed, which has a signature that matches Pekhtin's, and the team even

ascertained the amount of taxes Pekhtin paid to Miami-Dade County in 2012. When Pekhtin was asked outright by an Izvestia journalist, "Do you own any foreign real estate?" he replied, "Well, practically nothing."

Of course, no one could doubt the word of the head of Duma ethics committee, especially now that he has temporarily withdrawn as its chairman pending results of an investigation into his real estate holdings. Judging by available documents, in December, Pekhtin gave part of his Florida properties to his son. By a strange coincidence, this happened right about the time information about Pekhtin's dubious real estate assets — this time in St. Petersburg — began to appear in the media.

These cases are not exceptional. The Internet detectives found luxury homes, penthouses and ranches in the U.S. belonging to Senator Vyacheslav Fetisov and Deputies Vladislav Tretyak and Irina Rodnina. They all must be in dire financial straits. Their property taxes alone make up virtually all their declared income.

All this raises a question that opposition leader Boris Nemtsov tried to answer on his Facebook page. "There's one thing I just don't get about these people. Many of them have real estate in the U.S. Many send their children there to go to school. So why are they always ranting hateful stuff about the U.S.? So no one guesses that their real dream is to stroll along Fifth Avenue?"

There is, however, a bright side to this detective saga. It was easy for former Soviet leaders - Nikita Khrushchev or Leonid Brezhnev to point their missiles at the U.S., but Putin's bureaucrats would have to be completely mad to bomb their own real estate. That makes the world a safer place, albeit a less honest one.

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