

U.S.

U.S. Will Track Secret Buyers of Luxury Real Estate

By LOUISE STORY JAN. 13, 2016

Concerned about illicit money flowing into luxury real estate, the Treasury Department said Wednesday that it would begin identifying and tracking secret buyers of high-end properties.

The initiative will start in two of the nation's major destinations for global wealth: Manhattan and Miami-Dade County. It will shine a light on the darkest corner of the real estate market: all-cash purchases made by shell companies that often shield purchasers' identities.

It is the first time the federal government has required real estate companies to disclose names behind cash transactions, and it is likely to send shudders through the real estate industry, which has benefited enormously in recent years from a building boom increasingly dependent on wealthy, secretive buyers.

The initiative is part of a broader federal effort to increase the focus on money laundering in real estate. Treasury and federal law enforcement officials said they were putting greater resources into investigating luxury real estate sales that involve shell companies like limited liability companies, often known as L.L.C.s; partnerships; and other entities.

Future investigations, they said, will focus increasingly on professionals who assist in money laundering, including real estate agents, lawyers, bankers and L.L.C. formation agents.

Officials said the new government efforts were inspired in part by a series last year in The New York Times that examined the rising use of shell companies as

foreign buyers increasingly sought safe havens for their money in the United States. The investigation found that real estate professionals, especially in the luxury market, often do not know much about buyers. Until now, none of them have been legally required to.

The use of shell companies in real estate is legal, and L.L.C.s have a range of uses unrelated to secrecy. But a top Treasury official, Jennifer Shasky Calvery, said her agency had seen instances in which multimillion-dollar homes were being used as safe deposit boxes for ill-gotten gains, in transactions made more opaque by the use of anonymous shell companies.

“We are concerned about the possibility that dirty money is being put into luxury real estate,” said Ms. Calvery, the director of the Financial Crimes Enforcement Network, the Treasury unit running the initiative. “We think some of the bigger risk is around the least transparent transactions.”

The department will focus on sales that are both paid for all in cash and conducted using shell companies.

The government is requiring title insurance companies, which are involved in virtually all sales, to discover the identities of buyers and submit the information to the Treasury.

The government will put the information into a database for law enforcement.

The Treasury’s program will affect billions of dollars in real estate transactions.

In Manhattan, the initiative requires buyers in sales of more than \$3 million to be reported; in Miami-Dade County, it requires reporting on sales of more than \$1 million. In Manhattan, 1,045 residential sales cost more than \$3 million in the second half of 2015, worth some \$6.5 billion in aggregate, according to PropertyShark, a real estate data company.

In addition to starting in only two markets, the requirement runs from March through August. If Treasury officials find that many sales involved suspicious money, Ms. Calvery said, they will develop permanent reporting requirements across the country.

A senior Federal Bureau of Investigation official, Patrick Fallon, said the anonymity possible under existing shell companies had stymied investigations and the Treasury initiative would help trace illicit money.

“We fully intend to encourage expansion of it, so, not only to different geographic areas but as far as the time frame as well,” said Mr. Fallon, chief of the bureau’s financial crimes section. “We think it’ll prove its worth.”

In its investigation, The Times found that nearly half of homes nationwide worth at least \$5 million are purchased using shell companies. In Manhattan and Los Angeles, the figure is higher.

In New York, The Times examined a decade of ownership at a prominent condominium complex near Central Park, the Time Warner Center, and found a number of hidden owners who had been the subjects of government investigations. They included former Russian senators, a former governor from Colombia, a British financier, and a businessman tied to the prime minister of Malaysia, who is now under investigation.

In Florida, The Times uncovered a condominium in Boca Raton tied to Mexico’s top housing official, who recently stepped down and is now a leading contender for the governor’s office in the southern state of Oaxaca.

Ms. Calvery said the findings helped convince the Treasury that more scrutiny of high-end buyers is needed.

“It’s easier to talk about it with people who aren’t specialists in our area when they read about it in the newspaper,” she said.

Indeed, last spring, New York City’s Finance Department began requiring shell companies buying real estate to report their members to the city. That rule, however, is less far-reaching than the Treasury action.

Real estate is becoming a larger target for law enforcement as well. According to two people with knowledge of cases at the Justice Department, lawyers there have begun to shape cases directly around money laundering in real estate deals rather than adding such transactions to other cases.

The F.B.I. has in recent months created a new unit to focus on money laundering, and real estate will be one main focus. The unit, which has 10 agents,

will help the Justice Department delve into shell companies and the people involved in money laundering, F.B.I. officials said.

“We’re going after the facilitators of the money laundering,” Mr. Fallon, of the F.B.I., said. “They’re the bankers, they’re the accountants, lawyers, folks who are setting up L.L.C.s, they are setting up foundations, folks who are setting up nonprofits, real estate investment trusts, etc.”

The new scrutiny is likely to increase headaches for the real estate industry, in part because shell companies are not easy to penetrate. Buyers often mask their identities by layering companies on top of other shell companies. Buyers also commonly fill out L.L.C. formation papers using the names of lawyers or other place holders, often called “nominees,” instead of their own names.

The Treasury is looking for the actual owners behind shell companies, often referred to as the beneficial owners. “We’re not looking for nominees,” Ms. Calvery said.

In its order, the Treasury defined beneficial owners as “each individual who, directly or indirectly, owns 25 percent or more of the equity interests” of the entity that bought the property. Once title companies identify those people, they are required to copy driver’s licenses or passports and also pass the individuals’ names to the Treasury Department.

Stephen Hudak, a spokesman for the Treasury’s Financial Crimes Enforcement Network, said any title companies or purchasers who provided false information could face penalties. The American Land Title Association said in a statement that it would help its members comply with the Treasury’s new naming requirements.

Under the U.S.A. Patriot Act, the Treasury is already authorized to require real estate companies to scrutinize real estate buyers, but the department has in the past faced fierce lobbying against issuing such rules. The department already requires mortgage lenders to scrutinize buyers. But cash buyers have been a big hole in the government’s oversight of the market, Ms. Calvery said.

“Repeated anecdotal information where we see criminals of different stripes putting money into real estate all suggest to us that this is an area we need to pay attention to,” she said.