Public hearing on the „Impact of tax evasion and money laundering on local real estate markets, in particular in European cities“

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Dear chair, dear members of the European Parliament,

Thank you for your invitation to speak on the impact of tax evasion and money laundering on local real estate markets in European cities. I am not a prosecutor, police investigator or AML expert but I still hope my observations from the Berlin real estate market will help your work.

[Slide 2] Here is my starting point – everyone agrees that money-laundering is a very big issue but only very little of it has been seen, documented, proven and punished. According to the most widely used estimate, €100bn are laundered every year in Germany. This estimate has its methodological weaknesses and the real estate sector is just a part of it; but money laundering is also just one of many reasons for the confiscations of €200m expressed by the small dot in the middle. So, I think, at a score of 500:1 we don’t need to argue whether there was a foul or an offside involved at any place, it’s a disaster anyway.

[Slide 3] Here is one of the few German cases where proceeds of crime have actually been frozen – in this case 77 flats and other real estate in Berlin valued at €10m. It’s the kind of case you would expect from the Berlin police. A local gangster from one of the notorious clans who exploded a bank in 2014, gives the proceeds of his crime to his brother who buys a local apartment from a communal housing company for €200.000 in cash. And even though the brother was apparently on social welfare no suspicious transaction report was made. That’s how most people know and imagine money-laundering – gangsters with suit-cases full of money buying stuff.

[Slide 4] Another recently resolved case, this time from France and the US, was nearly as simple from the technique used but much more complex to resolve. According to the US documentation of the case, the son of the current president of Equatorial Guinea collected bribes in cash, paid them into the account of a local shell company and used this account to go on shopping tour around the world. And just like the brother in the previous example he claimed that he had earned it from legitimate business. Only this time it was much harder to prove him wrong. Back in Berlin, we have recently discovered the family of the former Turkmen dictator Nijazov who has allegedly stolen billions of the country’s gas money investing in Berlin real estate near Checkpoint Charlie. Will the Berlin police ever manage to determine whether that money was legitimately earned? – I doubt it.

[Slide 5] The final example shows why. According to the indictment prepared by the US kleptocracy unit in the DOJ it is about a group of fraudsters, apparently including a member of the royal family of Abu Dhabi and with connections to the former president of Malaysia. These guys bought several fancy apartments and villas – including in the Walker Tower in downtown New York. Their money laundering operation included a captured bank, a captured banker, fake documents and wrongly registered beneficial owners from the BVI, investment funds in Curacao and finally US lawyers and US shell companies. To a normal investigator and the person registering the sale this would just look like another anonymous shell company buying real estate. And of these cases we have plenty in Berlin and everywhere in Europe. Just how many, no one can tell, because the current registers and the data of the tax agencies don't even allow counting owners by country.

[Slide 6] To my knowledge there is only one place where this has been done and studied so far. The land registry of England and Wales found more than 10.000 companies from the BVI directly owning real estate and London. TI UK has published three excellent studies on these numbers with two caveats; a) they had no data or evidence on real estate registered in the name of a local company but indirectly owned by anonymous shareholders b) a recent LSE study comes to different conclusion based on the same numbers. They find that overseas investors (especially Chinese) rent out their apartments as an investment product.

And here are my personal conclusions:

[Slide 7] (Real estate is sometimes used for laundering cash) but it is mainly used as a high-value consumption good or as an investment for dirty money.

(Money-laundering distorts the market for luxury apartments) but it mainly impacts citizens by driving market prices for investment properties.

(Dirty real estate is sometimes left empty) but most dirty real estate is rented.

(Real estate agents sometimes help with money-laundering) but in many big and dirty deals they are not involved

[Slide 8] Supporting real estate prices seems to be one of the main goals of citizenship/residence by investment schemes.