



**TRANSPARENCY
INTERNATIONAL UK**
fighting corruption worldwide

FAULTY TOWERS

Understanding the impact of
overseas corruption on the
London property market

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Faulty Towers

Understanding the impact of overseas corruption on the London property market

Key Findings

The London property market is highly vulnerable to corrupt wealth flowing into it. Analysis of open source material found over **£4.2 billion worth of properties bought with suspicious wealth.**¹

Read more on page 9

Corruption causes high levels of instability abroad leading to 'crisis capital' being placed in safe havens like London. **Since 2006 around £100 billion of hidden inflows have entered the UK.**

Read more on page 25

House prices are affected as **illicit wealth and crisis capital entering the UK increase demand in the London housing market, particularly at the top-end; "the ripple effects they generate resonate across London"**

Read more on page 33

New build developments are built targeting wealthy international investors and are not meeting demand for affordable homes. In 14 landmark London developments almost **40 per cent of future homes were bought by those from high corruption risk jurisdictions.**

Read more on page 37

¹ This is only based on publicly available news reports made between 2000 and December 2016. It does not include individuals who are yet to be publicly identified in media reports or court cases.

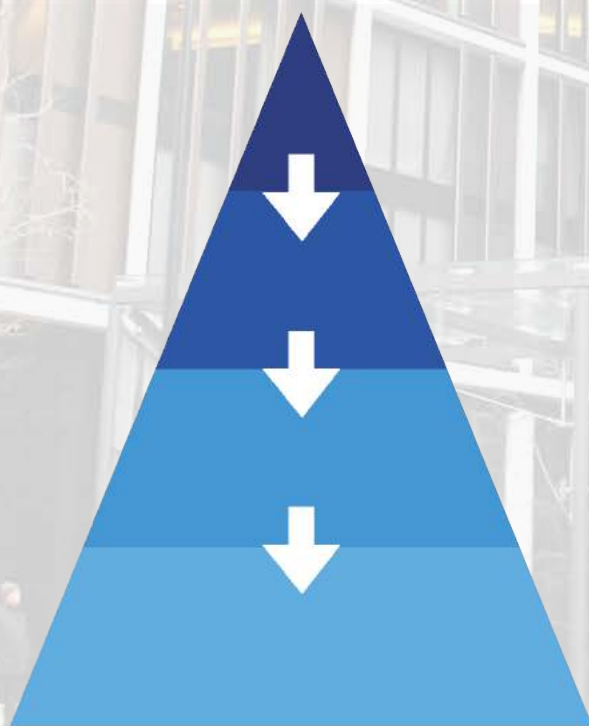
London's role as a global safe haven is resulting in an underuse of housing stock. Areas with higher levels of property owned by anonymous companies also have high levels of abnormally low electricity usage; an indicator for empty or underused homes.

Read more on page 51

Young people are moving out of London in record numbers due to the cost of housing. Over half of Londoners responding to our survey said wealthy overseas investors are causing house prices to rise and more than 1 in 5 believed money laundering was a motivating factor for overseas investment.

Read more on page 53

Figure 1: Infographic showing how overseas corruption affects London and its housing market



Overseas Corruption

Illicit Wealth and 'Crisis Capital' flow into London property

Rising House Prices, Underuse of Existing Property, Distortion of Housing Supply

Ordinary people unable to afford homes in London, Communities suffer from empty property, Public discontent with the London housing market

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Executive Summary

It has long been understood that as well as providing people with shelter and warmth, the UK property market is an attractive and reliable asset class. The term ‘as safe as houses’ has been used since at least the late nineteenth century and is still applicable to London property today, both for its ability to retain value like a safety deposit box and give a predictable return. Although a significant proportion of investment into the market is undoubtedly from completely legitimate investors looking to obtain a steady income, there is now a wealth of evidence to show that UK real estate, particularly in London, is attracting corrupt officials and businesspeople who have stolen money from some of the most impoverished and repressed countries in the world.

In our 2015 report *Corruption on Your Doorstep*, we showed how these corrupt individuals laundered this money into the property market, often through the use of ‘anonymous’ companies registered in the UK’s Overseas Territories and Crown Dependencies. These secretive corporate vehicles cannot be found on a public register and leave few paper trails in their wake, allowing their ultimate owners to hide from scrutiny and enjoy their ill-gotten gains with impunity. Since 2015 we have been examining the potential impact this illicit wealth might be having on its prime destination, London.

Understanding the role overseas corruption plays in the London property market could be crucial to those who live in the capital. Price rises consistently outstrip wage increases, dozens of prospective buyers compete for a shrinking pool of affordable stock whilst rent prices rise ever higher. As a consequence, it is becoming more difficult to afford to stay in London for average people, with the Government admitting the UK housing system was “broken” in February 2017.² In response to this housing crisis the Mayor of London, Sadiq Khan, has launched an investigation into overseas investment into the property market to assess its scale and whether it is a contributory factor to the capital’s housing issues.

Overseas investment is just one of a range of factors that is viewed to be driving the crisis. Others include the lack of social housing, increased domestic demand and the shortage of development land. We have identified that corruption overseas is also likely to play a significant contributory role, albeit in some slightly unexpected ways.

There is undoubtedly a serious and continuing problem with corrupt money – wealth stolen from state budgets and extorted in bribes – finding its way into the UK. Using open source analysis this report identifies London property worth over £4.2 billion bought with suspicious wealth. There is also a significant volume of legitimate funds that come into the UK to seek a safe haven from instability and corruption abroad. For example in October 2012, following the Arab Spring – an event with corruption as a key driving force – investors from the Middle-East spent 50 per cent more on London property than they had done the previous year.³ Whilst examination of these legal and illicit types of investment into the UK is still an emerging area of study, there is growing evidence that they can have a tangible impact on house prices.

Although the exact scale of corrupt wealth flowing through the UK is debated, we have identified a significant and substantial money laundering risk in how new landmark developments are being financed off-plan by overseas capital. Analysing Land Registry data for 14 landmark luxury developments, consisting of 2,066 future homes, we found almost 80 per cent of properties were bought by overseas investors. 40 per cent of properties sold over the 14 developments were to individuals from high corruption risk jurisdictions, or to companies based in secrecy havens. In themselves, off-plan purchases

² <http://www.bbc.co.uk/news/uk-politics-38884601> [Accessed 7 February 2017]

³ <http://uk.reuters.com/article/uk-britain-london-gulf-property-idUKLNE8A600X20121107> [Accessed 7 February 2017]

– buying property before completion – pose a heightened money laundering risk due to the potential opacity of the transactions and the speed at which they can occur; given the nature of the buyers of these properties the risks are even greater.

Whilst this model of development may have helped sustain construction levels within the capital during the financial crisis of 2008, it could have also led to the current over-supply of high-end new build property coming onto the market. A symptom of this oversupply is the current slowdown in luxury property purchases; this provides strong incentives for sellers to push through deals with less rigorous money laundering checks being applied to the buyers. To make matters worse, there are concerns with the quality of due diligence done by estate agents and conveyancers on prospective customers for all kinds of housing, as dramatically illustrated by the Royal Institute of Chartered Surveyors expelling one of their members following the documentary *From Russia with Cash*.⁴

Alongside these economic impacts, there has been much discussion about the corrosive effect illicit wealth is having on local communities. Here there is certainly a wealth of anecdotal evidence to suggest that it has created ghost neighborhoods in pockets of Central London and there is some tentative quantitative evidence to support this. These findings appear to confirm the notion that London property is viewed by many investors as an asset rather than a place to live. This has damaging repercussions to the communities it occurs within.

Regardless of the empirical reality, these trends are affecting peoples' perceptions of the market and their behaviour. In our survey of Londoners, we found that 54 per cent of respondents thought wealthy overseas investors were one of the leading factors behind house prices, with 65 per cent believing that this was either driven by instability in the investor's home country or a desire to launder money.

This poses a quandary for policy makers: how can you ensure the property market is not distorted by corruption overseas without unintentionally shutting out innocent investors, many of whom might be seeking to escape from tyranny and instability in their home? This is a challenge that other countries – such as Canada and Australia – have been struggling with, too.

To help shut out 'dirty cash', as David Cameron promised in 2015, there are a raft of measures that can be adopted.⁵ Following the May 2016 Global Anti-Corruption Summit hosted in London, the UK Government took a step toward making the UK property market a more hostile place to illicit wealth by announcing it would be introducing a public beneficial ownership register of overseas companies that own UK land titles.⁶ This is only one part of the puzzle, however; the UK's anti-money laundering (AML) system is in need of reform to build stronger defences against illicit wealth entering the property market. In addition, the UK's global corruption footprint would be reduced by introducing public registers of beneficial ownership in its Overseas Territories and Crown Dependencies, which are regularly used to register companies involved in money laundering schemes.

If these recommendations are followed, the negative impact overseas corruption inflicts on the people of London and its property market will be reduced and the UK's role as a safe haven for illicit wealth will be diminished.

⁴ <https://www.estateagenttoday.co.uk/breaking-news/2016/9/rics-to-expel-agent-exposed-in-channel-4-documentary> [Accessed 2 February 2017]

⁵ <http://www.bbc.co.uk/news/uk-politics-33684098> [Accessed 2 February 2017]

⁶ Anti-Corruption Summit - London 2016 UK Country Statement (May 2016)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/522749/United_Kingdom.pdf

Recommendations

Our research has identified London property's role as a global asset class. The current system incentivises building stores of wealth that can be left empty with little consequence, which often do not meet the needs of ordinary Londoners. It is important that the Mayor of London's review into international investment into the capital's housing market addresses this issue, developing a plan to build affordable homes for people to live in.

To confront the other issues raised in this report we put forward three key recommendations aimed at tackling the ways in which overseas corruption impacts the London housing market.

The UK Government should introduce greater transparency to the property market

Recommendation 1. Successfully introduce public beneficial ownership transparency for companies owning UK property

The UK Government should ensure the proposed public register of beneficial ownership for overseas companies which own UK property is implemented effectively. Corrupt individuals would be less likely to park their wealth in property if their identities and those of their associates were revealed.

Recommendation 2. Introduce more transparency over off-plan property purchases

The UK Government should introduce greater levels of transparency over off-plan property purchases in order to measure the phenomenon and ensure the system is not abused by money launderers. Details of all off-plan contract exchanges should be collected and listed by the land registry to capture how many times individual properties are flipped before completion. If the transaction is carried out by a legal entity, the beneficial ownership information of that entity should also be made public. This would identify who was flipping property and how often; allowing a better understanding of the impact on prices as well as reducing its attractiveness to money launderers.

Recommendation 3. Close alternative corporate structure loopholes

The UK Government should look into how other corporate structures, like trusts, may provide loopholes for those seeking to launder money through property. As more transparency is applied to companies, the Government must make sure alternative vehicles are not abused by corrupt individuals.

The UK Government must reform the UK's AML system

Recommendation 4. Increase enforcement action on property bought with the proceeds of corruption

Law enforcement agencies should use Unexplained Wealth Order powers where necessary to address the high levels of suspicious wealth in the UK property market. This research has identified over 160 properties bought with suspicious funds using open source material alone. If the response to these UWOs cannot explain the source of suspicious wealth, law enforcement agencies should pursue proceedings to confiscate this property. These measures would make London property less attractive to those seeking to hide illicit wealth.

Recommendation 5. Prosecute and de-license professional enablers

The Government should establish more effective administrative sanctions on professional enablers by encouraging professional bodies for banks, lawyers, accountants, trust and company service providers as well as estate agents to withdraw professional licenses from those implicated in cases of money laundering, in addition to prosecuting those who are personally involved. This would restore public trust in the UK's defences against money laundering and deter future money laundering failings.

Recommendation 6. Overhaul the UK's AML regime to achieve consistency, integrity and accountability

HM Treasury must reform the UK's AML supervision regime starting by consolidating the number of AML supervisors to ensure a cohesive approach is taken across all regulated sectors. Supervisors should also ensure there are credible and transparent deterrents in place with regard to enforcement including a level of personal liability to encourage greater money laundering controls and suspicious activity reporting. HMRC currently has an unacceptable level of transparency over its enforcement activity and what it does publish shows insufficient sanction levels. These changes would make the UK a more hostile place to corrupt wealth.

The UK Government must retain tackling global corruption as a key priority

Recommendation 7. Introduce public registers of beneficial ownership in the UK's Overseas Territories and Crown Dependencies

The UK's Overseas Territories and Crown Dependencies should end their role in facilitating global corruption and the instability it causes by creating public centralised registers of company beneficial ownership. The UK Government should produce a clear timetable for this, and adopt measures to force implementation if registers are not introduced in due course.

Recommendation 8. The UK should continue its leading role in tackling corruption worldwide

The UK should continue the momentum it has built as a leader in the fight against global corruption by offering assistance to other countries through the International Anti-Corruption Coordination Centre hosted in London. It should also build bilateral relationships with countries to address corruption issues as it has done with Nigeria.

Recommendation 9. Form a 'rapid reaction unit' to trace stolen assets and reduce instability in fragile states

The International Anti-Corruption Coordination Centre, hosted in the UK should create an international anti-corruption 'rapid reaction unit'. This unit would be ready to provide resilience and capacity building in fragile states, and post-revolutionary or post-conflict environments. It would ensure coordinated, expert international assistance in the efforts to rebuild governance structures as well as assist in asset recovery. The unit would consist of anti-corruption governance, military, law enforcement, legal, diplomatic, development and procurement advisers.

Recommendation 10. Ensure the National Crime Agency is resourced to tackle corruption and money laundering regardless of the origin jurisdiction

The NCA's International Corruption Unit should be given sufficient resources beyond its Department for International Development funding to target corruption and money laundering from non-DfID priority countries. This would address the threat posed to the UK from corruption and illicit wealth flowing from countries which are not currently targeted such as China and Russia.

1. Understanding overseas investment into property

London is a global city; according to the 2011 census 37 per cent of London residents were born outside the UK.⁷ It is, therefore, unsurprising that a significant proportion of buyers in the capital's property market are international. A Hamptons report from December 2016 showed international buyers accounted for 29 per cent of the London housing market.⁸ In 'prime' areas of London – the most expensive, 'desirable' homes in central London – overseas buyers made up 60 per cent of the market.⁹

There is currently no precise monetary value on international investment into the London property market. In 2012 Savills estimated around £7 billion was invested per year into London's prime property market but it is likely this has risen since then.¹⁰ The build up to the European referendum saw a drop in demand for UK property; however, the devaluation of sterling, which followed the Brexit vote, saw overseas investment into London property grow in the latter half of 2016.¹¹ Both anecdotal evidence¹² as well as Hamptons' most recent figures support this.¹³

We have broken down overseas investment into the London property market into three categories which occasionally overlap:

- Regular investment: where an overseas buyer purchases UK property, usually to live in or rent out
- Legal capital flight: where instability in another country leads to overseas investors with legitimate wealth buying UK property as a 'safe haven asset' to keep their assets secure
- Illicit investment: where an individual uses illicit wealth – often the proceeds of corruption – to purchase a property, thus laundering funds which have been obtained through criminal activity

A significant amount of illicit investment into the property market stems from individuals buying homes to launder corrupt funds – gained through bribes, kick-backs or illegal political contributions – to conceal its criminal origins. This cleanses large amounts of illicit wealth in a single transaction and provides the individual with a valuable asset. London property retains value and often offers almost certain profit, with prices rising even amidst uncertainty over Brexit in early 2016.¹⁴

Corrupt individuals also buy homes in London because they provide a bolt hole in case they fall out of favour in their home country. Buying mansions in sought after areas of London or in exclusive new build developments gives a certain badge of wealth, respectability and status, helping corrupt individuals distance themselves further from past corruption offences a practice which can be described as 'reputation laundering'. The UK also provides an attractive place to live for corrupt individuals, with a number of prestigious public schools for them to send their children to as well as world class private healthcare.

Further information about this can be found in our 2015 report *Corruption on Your Doorstep*.¹⁵

⁷ <http://www.migrationobservatory.ox.ac.uk/resources/briefings/london-census-profile/> [Accessed 20 January 2017]

⁸ <http://www.hamptons.co.uk/media/445182/hamptonsinternational-marketinsight-november.pdf> [Accessed 20 January 2017]

⁹ <http://www.knightfrankblog.com/global-briefing/news-headlines/what-makes-a-property-prime/> [Accessed 20 January 2017]

¹⁰ <http://www.regionalstudies.org/uploads/documents/Britain-for-sale.pdf> [Accessed 20 January 2017]

¹¹ <http://www.telegraph.co.uk/business/2016/03/18/brexit-what-it-means-for-house-prices-and-the-supply-crisis/> [Accessed 25 January 2017]

¹² <http://www.standard.co.uk/business/savills-soars-as-foreign-buyers-mop-up-london-deals-a3438786.html> [Accessed 20 January 2017]

¹³ <http://www.hamptons.co.uk/media/445182/hamptonsinternational-marketinsight-november.pdf> [Accessed 20 January 2017]

¹⁴ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/june2016> [Accessed 25 January 2017]

¹⁵ Transparency International UK, *Corruption on Your Doorstep* (February 2015) <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/>

1.1 How much illicit wealth is invested into the UK?

Measuring the exact scale of illicit wealth entering the UK is extremely difficult and disaggregating corrupt funds from other criminal proceeds even more so. The cross-border flows of illicit wealth are clandestine in nature, meaning they are almost impossible to detect. The UN acknowledges this, stating that less than 1 per cent of illicit wealth is ever detected, with this figure possibly being as low as 0.2 per cent.¹⁶

In 1998 the International Monetary Fund (IMF) estimated global money laundering to equate to around 2-5 per cent of global GDP.¹⁷ In 2011 the UN conducted a 'study of studies' which looked at various ways in which illicit flows of wealth were measured and noted the IMF's figures were plausible.¹⁸

The National Crime Agency (NCA) believe that due to its position as a global financial hub the true amount of illicit wealth passing through the UK could be above the estimated 2-5 per cent of GDP range,¹⁹ which is equal to tens to hundreds of billions of pounds each year.²⁰ Focusing purely on corrupt wealth flowing through the UK the NCA has judged billions of pounds of suspected proceeds of corruption are moved through the UK each year. Although the margin of error is very large, even the most conservative estimates indicate illicit financial flows to the UK are a massive problem.

Although there is not an official up-to-date figure on either the total, or current, value of property that is or has been under investigation as part of international corruption cases, there is a substantial amount of property in London that has been connected to high-level corruption abroad. Based on open source information like the International Consortium of Investigative Journalists' Panama Papers, articles written by investigative journalists and Land Registry data, we have identified that there are at least 160 properties across the UK – worth around £4.4 billion – that have been bought by high corruption risk individuals, including those who have been charged and convicted with corruption offences.

84 per cent of these properties are in London, with a current value of over £4.2 billion. Over half of properties identified are within 3 miles of Buckingham Palace. This is likely to underestimate the overall scale because it is only based on information that has been made publicly available via media or court reports.

Currently there is £170 million worth of assets related to corruption investigations frozen by the UK's International Corruption Unit, which sits within the NCA.²¹ These are spread over 25 separate investigations, many of which involve property, making the average value of an NCA investigation around £7 million. The UK has also frozen £9.5 billion in funds from the Libyan Investment Authority – the sovereign wealth fund created under the Gaddafi regime – it's not clear what proportion of this is related to corruption, evidence shows that Gaddafi did not differentiate between state and personal wealth.²²

The amount of corrupt wealth invested in UK property which has been confiscated also gives an insight into what the total scale might be. Nigeria alone expects £6.1 million to be repatriated from the sales of homes owned by the former Delta State Governor James Ibori and another £80 million laundered through the UK by other Nigerian officials.²³

¹⁶ UNODC, *Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes* (2011) https://www.unodc.org/documents/data-and-analysis/Studies/Illicit_financial_flows_2011_web.pdf

¹⁷ <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp021098> [Accessed 9 February 2017]

¹⁸ UNODC, *Estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes* (2011)

¹⁹ NCA, *National Strategic Assessment of Serious and Organised Crime* (2016)

<http://www.nationalcrimeagency.gov.uk/publications/731-national-strategic-assessment-of-serious-and-organised-crime-2016/file> [Accessed 20 January 2017]

²⁰ NCA, *National Strategic Assessment of Serious and Organised Crime* (2016)

²¹ <http://www.standard.co.uk/news/crime/britain-s-fbi-finds-170m-of-assets-funded-by-illegal-foreign-money-a3401496.html> [Accessed 20 January 2017]

²² See Transparency International UK, "Spring Cleaning" (November 2016) <http://www.transparency.org.uk/publications/spring-cleaning/>

²³ <http://www.bbc.co.uk/news/business-38530252> [Accessed 20 January 2017]



1.2 Scale of the money laundering risk within the property market

As well as estimating the potential scale of corrupt wealth flowing into the property market, there are also key indicators that show the vulnerability of the sector to money laundering:

- use of opaque corporate vehicles to purchase property
- politically exposed persons (PEPs) owning luxury property
- AML performance in the private sector
- trends in Tier 1 (Investor) visa applications

Use of corporate vehicles to purchase property

Property in the UK can be bought anonymously using companies based in secrecy havens – jurisdictions where the authorities do not publish information on the true owners of these companies – which might be done for a variety of reasons.

Sometimes this is done for privacy. Celebrities, like Emma Watson, might use corporate secrecy to purchase houses for anonymity and safety.²⁴ However, this may not be as effective as previously thought as a means of ensuring secrecy, as celebrities will still face significant media exposure whether they buy their property anonymously or not. In addition the motive behind using companies like this is unlikely to be typical of such transactions.

Companies are also used to purchase property for tax reasons, primarily through paying less or even no inheritance tax, although the benefits to this are not as great as they once were. There is now a tax on enveloped dwellings (houses owned by companies), brought in to diminish potential tax benefits of owning homes this way, as well as making companies pay Capital Gains Tax on any properties they sell. Both of these factors have introduced significant costs to owning property through offshore companies, with the current maximum annual charge of enveloped dwellings at around £220,000.²⁵

Anonymous companies are also a favoured vehicle for money launderers as they can be used to hide who really owns the property. This helps corrupt individuals avoid detection from law enforcement agencies and presents a major challenge to businesses who have to undertake due diligence on the owner as part of transactions. The use of these anonymous companies to hide the true ownership of property is identified as a money laundering risk by both the OECD²⁶ and the Financial Action Task Force (FATF) – an international body promoting good practice standards in AML and counter terrorist finance.²⁷

As the tax reasons for holding property through anonymous companies diminish over time, it becomes more likely that that these vehicles are being to launder corrupt and illicit wealth into property.

²⁴ <http://www.telegraph.co.uk/news/2016/05/10/panama-papers-emma-watson-named-in-latest-data-release/> [Accessed 20 January 2017]

²⁵ <https://www.gov.uk/guidance/annual-tax-on-enveloped-dwellings-the-basics> [Accessed 20 January 2017]

²⁶ OECD, *Report on Tax Fraud and Money Laundering Vulnerabilities Involving the Real Estate Sector* (2007)

²⁷ FATF, *Money Laundering & Terrorist Financing through the Real Estate Sector* (2007)

“I have never heard a legitimate case for the business, economic, or social function of anonymous companies.”

Mo Ibrahim, The B-Team²⁸

The scale of offshore ownership in the UK and London in particular is significant. Research conducted by TI-UK and Thomson Reuters in December 2016 found that 44,022 land titles in London are owned by overseas companies, 91 per cent of which were registered in secrecy havens.²⁹ Our research shows that the UK’s Overseas Territories and Crown Dependencies are the most common secrecy jurisdictions used to incorporate these companies; over a third of companies used to hold London property were registered in the British Virgin Islands (BVI) alone.³⁰ Our new open source analysis of UK properties held by high corruption risk individuals shows 90 per cent of the companies used were incorporated in the BVI.

According to data released under a Freedom of Information request made by Private Eye, 29,444 overseas companies based in secrecy jurisdictions have invested over £100 billion cumulatively into London property since 2008. This is likely to be an understatement of the true value; 63 per cent of these records include no price paid data. In addition a number of properties could have been bought via investors buying out shares in the company as opposed to buying the property, which would also not show up on Land Registry records.

Evidence suggests that, even with strong incentives not to buy properties through anonymous companies, the phenomenon is growing. The number of properties owned by companies in secrecy havens increased by 9 per cent – around 4,000 land titles – between December 2014 and October 2015 despite the introduction of the enveloped dwellings tax in March 2014.³¹

Another corporate vehicle used by corrupt individuals to hide illicit funds are trusts. Like companies, the lack of transparency around who controls and benefits from trusts is abused to mask the identity of those who have criminal wealth to hide.³² This is highlighted by the OECD³³ and FATF who both identify trusts as a money laundering risk.³⁴ Expedito Machado, the son of a former Brazilian politician implicated in the Petrobras corruption scandal³⁵ used trusts as well as companies to purchase two UK properties worth £8 million in total in 2015.³⁶ As more legislation is introduced to bring transparency to the beneficial owners of companies, the use of trusts to own property could become more common to maintain anonymity.

²⁸ http://www.huffingtonpost.com/dr-mo-ibrahim/are-anonymous-companies-a_b_6516638.html [Accessed 20 January 2017]

²⁹ Thomson Reuters and Transparency International UK, *London Property: A Top Destination For Money Launderers* (December 2016) <http://www.transparency.org.uk/publications/london-property-tr-ti-uk/>

³⁰ Transparency International UK, *Corruption on Your Doorstep* (February 2015) <http://www.transparency.org.uk/publications/corruption-on-your-doorstep/>

³¹ <https://www.theguardian.com/money/2016/may/26/revealed-9-rise-in-london-properties-owned-by-offshore-firms> [Accessed 20 January 2017]

³² Global Witness, *Don't take it on trust*, (February 2017) https://www.globalwitness.org/documents/18781/Dont_take_it_on_trust.pdf

³³ OECD, *Report on Tax Fraud and Money Laundering Vulnerabilities Involving the Real Estate Sector* (2007)

³⁴ FATF, *Money Laundering & Terrorist Financing through the Real Estate Sector* (2007)

³⁵ <https://www.theguardian.com/world/2016/mar/17/brazil-government-crisis-briefing-dilma-rousseff-lula-petrobras> [Accessed 20 January 2017]

³⁶ <https://www.theguardian.com/world/2016/jul/28/corrupt-brazilian-businessman-expedito-machado-uk-property-splurge> [Accessed 20 January 2017]



Case Study: Anonymous ownership unveiled by the Panama Papers

In April 2016 the Panama Papers, a leak of 11.5 million documents from Mossack Fonseca – a Panamanian law firm specialising in creating secretive corporate structures – gave an insight into the widespread abuse of companies used to buy UK property in secret.

Around 2,800 companies connected to Mossack Fonseca are listed on the Land Registry overseas company database. The companies are connected to over 6,000 title deeds worth at least £7 billion. The true value is likely to be far greater since many property deeds do not have price paid data.

In the UK 700 properties were owned by companies named in the leak that were themselves owned through bearer shares; documents providing deep levels of secrecy that grant company ownership to the person physically holding the certificate. Due to the secrecy involved in bearer share transactions, they are attractive to criminals. The UK has been part of a worldwide crackdown on them, legislating against their continued use in 2015.

The Panama Papers leak led to investigations being launched by law enforcement agencies worldwide. In the UK investigations are ongoing but have so far led to:³⁷

- nine potential professional enablers of economic crime being identified – all of whom have links with known criminals
- 43 high net worth individuals being placed under special review
- identification of 26 offshore companies owning UK property whose financial activity has been noted by the NCA as suspicious

³⁷ <https://www.gov.uk/government/news/taskforce-launches-criminal-and-civil-investigations-into-panama-papers> [Accessed 20 January 2017]

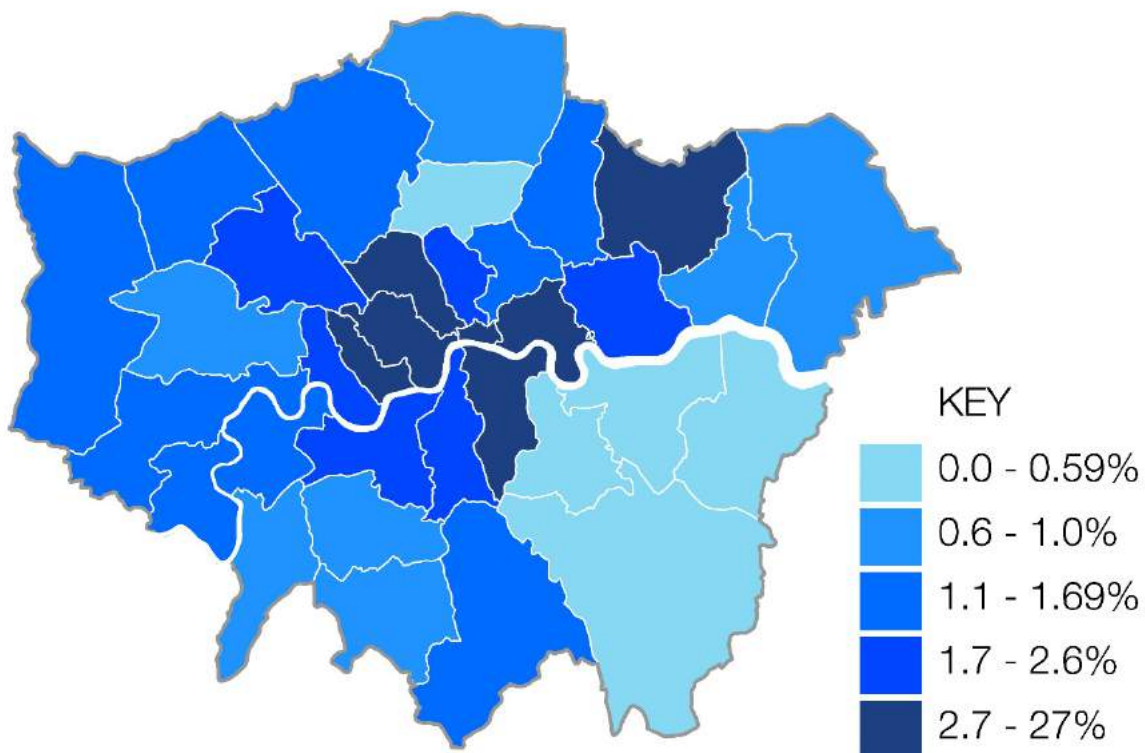
Overseas PEPs owning luxury property

According to FATF, a PEP is “an individual who is or has been entrusted with a prominent function.”³⁸ Because of their positions of power and access to large budgets, PEPs are seen as high money laundering risk individuals.

In the research conducted by TI-UK and Thomson Reuters 986 London land titles were found to be owned by companies connected to PEPs.³⁹ Based on available data, these assets are worth over £50 million. However, this is likely to significantly underestimate their total value due to 94 per cent of PEP connected land titles not having price paid data. This analysis also only contains half the picture as we could not find information on 46 per cent of the companies owning London land titles.

Map 1: Breakdown of PEP related London land titles by percentage

Sources: The Land Registry Overseas data, ICIJ’s Offshore Leaks Database, Open Corporates, Thomson Reuters PermID



³⁸ <http://www.fatf-gafi.org/documents/documents/peps-r12-r22.html> [Accessed 20 January 2017]

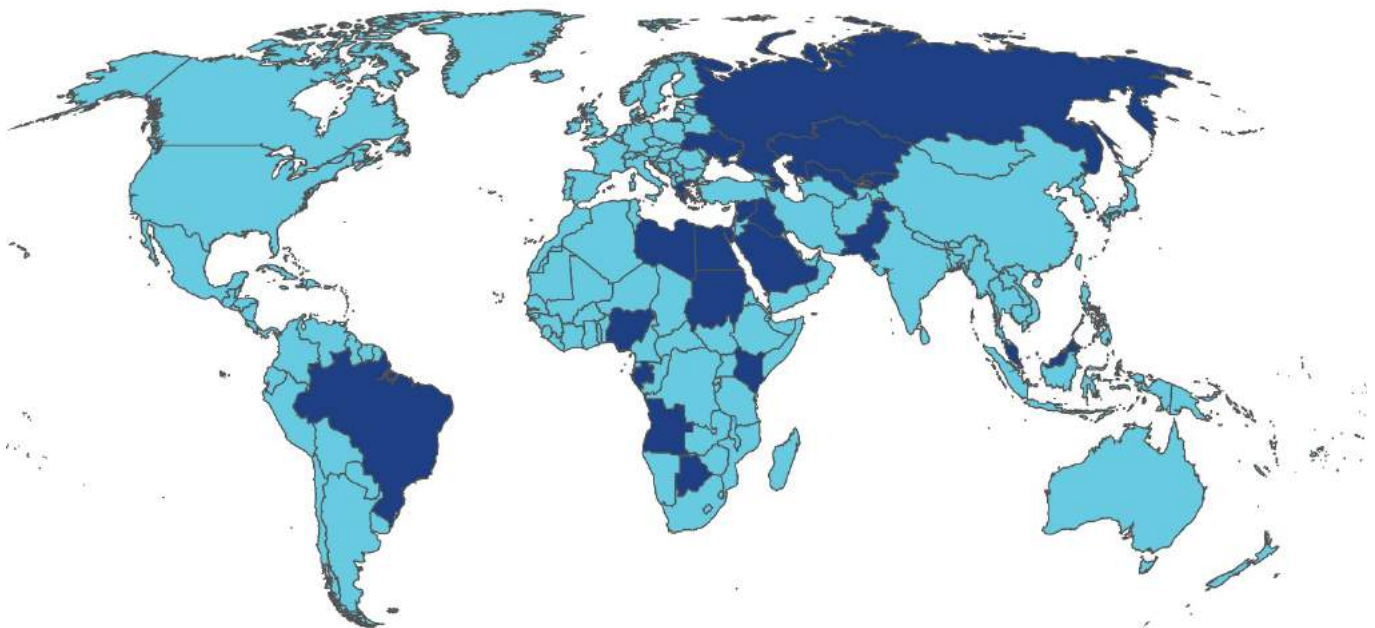
³⁹ Thomson Reuters and Transparency International UK, *London Property: A top destination for money launderers* (December 2016) <http://www.transparency.org.uk/publications/london-property-tr-ti-uk/>

In our open-source data analysis we found over 60 overseas PEPs and high corruption risk individuals from over 20 countries owning property in London. Whilst it is unlikely all these properties represent proceeds of corruption, many of the individuals involved have occupied positions with salaries insufficient to purchase the property they have bought, raising questions as to how they could afford them. 36 per cent of these individuals have either been convicted for a corruption offence or are facing charges.

Although our research can provide a preliminary picture of the scale of PEP property ownership in London, there is likely to be much more than has already been identified. We have only been able to highlight PEP property ownership where it has been exposed through investigations or where data has been leaked from secretive offshore Trust and Company Service Providers – like Mossack Fonseca – and where the individuals involved have only used a small chain of companies to try and hide their identity. It is, therefore, very likely that there are hundreds if not thousands of properties connected to PEPs that are yet to be uncovered.

In particular, there is a notable lack of PEPs from China which have been identified as owning UK property. This is despite the fact that in 2015 the Chinese Government reported that £82 billion was under global investigation for being the proceeds of corruption.⁴⁰ Furthermore, Chinese individuals were the largest demographic to have been granted UK Tier 1 (investor) visas which permits residency to ultra high net worth individuals.

Map 2: Global distribution of high corruption risk individuals owning London Property from TI-UK Open Source Analysis



TI-UK's research found high risk individuals from these countries owning property in London

⁴⁰ <http://economictimes.indiatimes.com/news/international/world-news/china-tracks-126-billion-embezzled-by-corrupt-officials-abroad/articleshow/49302836.cms> [Accessed 15 February 2017]



Case Study: Nawaz Sharif's undisclosed London property

The Panama Papers exposed the UK property ownership of many high profile PEPs from around the world. A number of stories from this release have highlighted incidents where politicians appear to have failed to declare assets in wealth statements which could indicate they are trying to hide illicit funds.

A prominent example of this that has resulted in subsequent court action is the case of Pakistan's Prime Minister, Nawaz Sharif, after the Panama Papers revealed his family were linked to six luxury properties in London.⁴¹

A Commission, set-up in November 2016 by the Pakistani Supreme Court to investigate Sharif's financial dealings, intends to ascertain why the properties were not listed on the Prime Minister's wealth declarations as well as investigate long-standing allegations of corruption that surround the family.⁴²

The investigation, sparked by the Panama Papers, has forced much of Sharif's family to attempt to prove they have enough legitimate income to afford the houses they purchased through corporate vehicles.

⁴¹ <http://www.bbc.co.uk/news/world-asia-36092356> [Accessed 20 January 2017]

⁴² <https://www.theguardian.com/global/2016/apr/05/pakistan-prime-minister-nawaz-sharif-children-deutsche-bank-panama-papers> [Accessed 20 January 2017]

1.3 AML performance in the private sector

The UK is dependent on the private sector as a first line of defence against money laundering. Professionals working in ‘regulated sectors’ are required under the Money Laundering Regulations 2007 to undertake risk-based due diligence checks on customers to identify any potential proceeds of crime and report suspicious activity to the NCA via Suspicious Activity Reports (SARs).⁴³ This should enable the NCA and other law enforcement agencies to act swiftly when potential illicit funds try and make their way into the UK economy.⁴⁴

The main professionals involved in property transactions are estate agents and lawyers, including solicitors and conveyancers. A study by the Solicitors Regulatory Authority showed a quarter of conveyancing firms surveyed had experienced a client attempting to launder money through property, indicating the scale of risk in this sector.⁴⁵

Compliance with these rules should be monitored and enforced by industry ‘supervisors’ however there are significant issues with how this supervisory system works in practice, which make the property sector particularly vulnerable to money laundering by corrupt individuals.

Low reporting of suspicious activity

There is strong evidence that both estate agents and lawyers are failing in their duty to detect and prevent money laundering within the property market. Based on available data, the reporting of SARs by professionals working in the property sector – estate agents and lawyers – is relatively low compared to the overall number of transactions taking place.

Year	Number of cash purchases for residential property in UK	Number of suspicious activity reports (estate agents)	Number of suspicious activity reports (legal)	Total number of SARs (estate agents and legal)	SARs as a percentage of cash transactions for UK residential property
2015	440,640*	355	3,827	4,182	0.94%
2014	439,100	179	3,610	3,789	0.86%
2013	381,330	215	3,935	4,150	1.09%
2012	315,860	145	4,367	4,512	1.43%

*Estimate based on figures from the Council of Mortgage Lenders <https://www.cml.org.uk/news/news-and-views/market-commentary-december-2015/> [Accessed 23 January 2017]

The table above shows the relatively low number of SARs related to property transactions compared to the number of transactions using cash – with no mortgage required. Corrupt individuals are more likely to launder their wealth in one cash transaction; therefore we have isolated these as most high risk. SARs figures of estate agents and the legal sector combined amount to just 1.09 per cent of the 381,882 suspicious activity reports submitted from October 2014 to September 2015.⁴⁶ Furthermore the SARs figures for solicitors will not all be in relation to property transactions; this is just one area the legal sector is responsible for. Therefore the SARs figures listed here are likely to be significantly higher than the number of SARs submitted by this sector that actually relate to property.

⁴³ <http://www.legislation.gov.uk/ukxi/2007/2157/contents/made> [Accessed 23 January 2017]

⁴⁴ Further information on this system can be found in: Transparency International UK, *Empowering The UK To Recover Corrupt Assets* (March 2016) <http://www.transparency.org.uk/publications/empowering-the-uk-to-recover-corrupt-assets/>

⁴⁵ <http://www.sra.org.uk/risk/resources/risk-money-laundering.page> [Accessed 23 January 2017]

⁴⁶ National Crime Agency, *Suspicious Activity Reports (SARs) Annual Report 2015* <http://www.nationalcrimeagency.gov.uk/publications/677-sars-annual-report-2015/file>

Poor quality of reports

The UK Government's National Risk Assessment on Money Laundering and Terrorist Financing (NRA), published in 2015 shows 42 per cent of consent SARs – the most serious type of suspicious activity reports – submitted by the legal sector in 2015 were assessed to be poor quality or incomplete.⁴⁷ Similarly, SARs from the estate agency sector typically did not clearly identify the reason for suspicion, indicating a lack of general understanding of the requirement and purpose of reporting.

Poor due diligence checks

There have been some high profile examples of firms failing to undertake adequate due diligence checks on customers who may pose a money laundering risk. Supervisors for the sector and law enforcement agencies have identified failures to conduct source of wealth checks as well as identifying beneficial owners.⁴⁸

Complicit enablers

A complicit professional – a person in a regulated sector, wilfully assisting the money laundering process – increases the chances of a corrupt individuals concealing illicit wealth in property. HM Treasury (HMT) reports in the 2015 National Risk Assessment of Money Laundering and Terrorist Financing, “There is intelligence to show that a number of solicitors are involved to varying extents in laundering the proceeds of crime.”⁴⁹ Whilst the number of complicit professionals is likely to be low it only takes a small number to have a significant impact and launder large sums of money through property or into overseas shell companies.

Case Study: Poor due diligence in the legal sector

The Panama Papers scandal revealed that lawyers based in the UK had failed to identify their clients as politically connected.ⁱ

Leaked documents revealed Leyla and Arzu Aliyeva – daughters of Azerbaijan's president – were listed as shareholders in Exaltation Limited, which was incorporated in the British Virgin Islands in April 2015 with the purpose of “holding UK property”. Company formation documents show that the two women were identified by their solicitors, Child & Child, as having no political connections.ⁱⁱ This is despite the fact that their father has ruled Azerbaijan since 2003, which under the UK's money laundering rules classifies the pair as PEPs.

Since their father came to power Leyla and Arzu Aliyeva have reportedly amassed vast fortunes with interests in gold mining as well as luxury property around the world. Press reports indicate Leyla Aliyeva owns a £17 million mansion on Hampstead Lane in north London and is said to be friends with Prince Andrew.ⁱⁱⁱ

Child & Child declined to comment when asked by The Guardian why they had failed to identify their clients as PEPs.

ⁱ <https://www.theguardian.com/news/2016/apr/05/panama-papers-london-law-firm-helped-azerbaijan-first-family-set-up-secret-offshore-firm> [Accessed 23 January 2017]

ⁱⁱ https://www.scribd.com/document/307055814/Exaltation-Final-Redacted#fullscreen&from_embed [Accessed 23 January 2017]

ⁱⁱⁱ <https://www.theguardian.com/news/2016/apr/05/panama-papers-london-law-firm-helped-azerbaijan-first-family-set-up-secret-offshore-firm> [Accessed 23 January 2017]

⁴⁷ HM Government, *National Risk Assessment on Money Laundering and Terrorist Financing* (October 2015)

⁴⁸ HM Government, *National Risk Assessment* (October 2015)

⁴⁹ HM Government, *National Risk Assessment* (October 2015)

“Professional enablers such as solicitors and accountants facilitate bribery and corruption, committed by UK entities and PEPs, through their perceived respectability and integrity. Their expertise is crucial to the laundering of illicit funds internationally and into the UK. It involves drafting of documentation, dissemination of funds, creation of corporate structures, and in some cases acting as intermediaries.”

NCA National Strategic Assessment of Serious and Organised Crime 2016⁵⁰

The role of complicit estate agents was highlighted in the Channel 4 documentary, *From Russia With Cash*, in 2015. This showed a number of agents who, when faced by an investigative reporter posing as a customer exhibiting highly suspicious behaviour, neither discontinued the sale nor reported the suspicious activity to the NCA.⁵¹ In the aftermath of this scandal the Royal Institute of Chartered Surveyors expelled one of the estate agents involved.⁵² The results of the investigations carried out by the National Association of Estate Agents, now NAEA Propertymark, have remained unpublished, however.⁵³

“If you want I can put you in the way of a very, very good lawyer the last person I put them by the way was another Minister of a previous Soviet state.”

Estate Agent in Channel 4 documentary *From Russia with Cash*⁵⁴

Inadequate supervision

Another issue which undermines the UK’s AML defences is the flawed system for supervising these rules. This fails to provide a coordinated response to money laundering risk due to the fragmented nature of the system, which is divided between 27 different supervisors.⁵⁵ The regime is also providing inadequate deterrents against money laundering failings by imposing insufficient sanctions for non-compliance.

HMRC is the supervisor for estate agents, amongst other sectors such as trust and company service providers, accountants and ‘High Value Dealers’. HMT’s 2015 NRA raised concerns over the quality of supervision offered by HMRC to the estate agency sector. One of the concerns raised in the NRA is that there was a lack of understanding in the sector as to which entities are covered by the regulations.⁵⁶

The UK Government estimates that over 20,000 businesses in the UK are carrying out estate agent activities. Whilst not all of these are regulated, the scale of the sector indicates the challenge HMRC face in dispersing awareness and knowledge on AML issues.⁵⁷ The makeup of the sector offers more risks; around 85 per cent of estate agents employ 10 people or less, meaning that the vast majority of businesses will not have a dedicated AML resource.

⁵⁰ National Crime Agency, *National Strategic Assessment of Serious and Organised Crime 2016* (September 2016)

⁵¹ <http://www.channel4.com/programmes/from-russia-with-cash> [Accessed 23 January 2017]

⁵² <http://www.propertyindustryeye.com/rics-set-expel-surveyor-appeared-russia-cash/> [Accessed 23 January 2017]

⁵³ <http://www.propertyindustryeye.com/from-russia-with-cash/> [Accessed 23 January 2017]

⁵⁴ <https://www.theguardian.com/uk-news/2015/jul/07/london-estate-agents-caught-on-camera-russian-buyer> [Accessed 23 January 2017]

⁵⁵ Transparency International UK *Don’t Look, Won’t Find* (November 2015) <http://www.transparency.org.uk/publications/dont-look-wont-find-weaknesses-in-the-supervision-of-the-uks-anti-money-laundering-rules/>

⁵⁶ HM Government, *National Risk Assessment* (October 2015)

⁵⁷ HM Government, *National Risk Assessment* (October 2015)

Insufficient knowledge on money laundering risk from estate agents means it is unlikely that illicit activity will be detected by this sector; the extremely low levels of SARs reporting show this. There is often confusion over responsibility to conduct due diligence on the buyer which is a contributory factor to low detection rates. A 'webinar' run by HMRC in 2016 to provide money laundering guidance to estate agents stated that they should conduct due diligence on both the buyers and the sellers of property as this was best practice. A participant indicated they had received mixed messages on this, saying: "All the previous advice and training we've had is that it only applies to our sellers, i.e. the person(s) paying our fee, our client."⁵⁸

There are also fears that a number of estate agents which should be registered with HMRC for money laundering checks are not doing so, resulting in an unknown number of estate agents operating without the knowledge of their supervisor. These rogue estate agents may offer an easy way into the property market for those seeking to launder corrupt wealth.

There are known professional enablers within the estate agency sector who are facilitating money laundering through arranging and negotiating the purchase of property.

HMT National Risk Assessment of Money Laundering and Terrorist Financing (2015)⁵⁹

There is currently no credible deterrent in place for money laundering failings from estate agents. In 2014-15 HMRC issued just 677 fines across all the sectors it supervises. These fines amounted to £768,205; just over £1,100 per fine, providing little disincentive to estate agents faced with suspicious activity.⁶⁰ When compared with the money to be made through commission – around 2 per cent of the final sale price – it is clear that there is little financial incentive in adhering to money laundering regulations for estate agents.⁶¹ For example, on a single £1 million house sale, an estate agent could earn 2 per cent commission or £20,000; almost 20 times higher than the average fine given by HMRC for money laundering failings.

The UK's decision to leave the EU has resulted in great levels of uncertainty in the UK property market with a falling volume of sales.⁶² In the post-referendum property market, a lower volume of transactions has placed more pressure on estate agents to make sales.⁶³ This means estate agents may be inclined to take more risks around money laundering and AML compliance in order to complete sales, possibly leading to more behaviour like that seen on the documentary *'From Russia with Cash'*.⁶⁴ As long as this uncertainty remains and sales volumes are reduced, the UK property market is even more vulnerable to corrupt wealth and money laundering.

⁵⁸ <http://www.propertyindustryeye.com/agents-warned-to-check-out-both-buyers-and-sellers-to-comply-with-anti-money-laundering/> [Accessed 23 January 2017]

⁵⁹ HM Government, National Risk Assessment on Money Laundering and Terrorist Financing (October 2015)

⁶⁰ Transparency International UK: *Don't Look, Won't Find* (November 2015)

⁶¹ <http://www.thisismoney.co.uk/money/mortgageshome/article-2562253/Where-sell-home-without-high-estate-agent-fees.html> [Accessed 23 January 2017]

⁶² <http://www.telegraph.co.uk/business/2016/10/10/foreign-investors-lining-up-for-city-property-as-pre-brexit-sale/> [Accessed 23 January 2017]

⁶³ <http://www.savills.co.uk/news/article/72418/209626-0/11/2016/brexit-vote-brings-slower-house-price-growth-and-sales-rates> [Accessed 23 January 2017]

⁶⁴ <http://www.channel4.com/programmes/from-russia-with-cash> [Accessed 23 January 2017]

Low volumes of sales could have particular ramifications in the new build sector; the pressure to sell is even more pronounced as early sales finance the rest of the development. Reports in the press show sales of high-end new build apartments slowed in 2016,⁶⁵ this led to more risks being taken to sell properties on including selling apartments in bulk to wealthy investors.⁶⁶

There is also a low level of enforcement from the legal supervisor, the Solicitors Regulatory Authority, which offers little in the way of deterrent to complicit professionals or firms with poor systems in place. In 2014-15 there were just 78 enforcement actions for money laundering failings which does not appear proportionate to counter the scale of money risks faced by the legal sector.⁶⁷



£20,000

Average commission made by an estate agent on a £1,000,000 house sale



£1,134

Average fine for money laundering breaches by estate agents' supervisor, HMRC

⁶⁵ <https://www.theguardian.com/business/2016/oct/17/luxury-london-property-sales-collapse-developers-taxes> [Accessed 23 January 2017]

⁶⁶ <https://www.bloomberg.com/news/articles/2016-04-07/london-luxury-apartment-sales-slump-triggers-20-bulk-discounts> [Accessed 23 January 2017]

⁶⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525355/anti-money-laundering-counter-terrorist-report-2014-15.pdf [Accessed 23 January 2017]

1.4 Trends in Tier 1 (Investor) visa applications

Until early 2015, the UK Tier 1 (Investor) visa scheme offered a way for corrupt individuals to launder millions of pounds into the UK economy as well as attain permanent resident status in as little as two years.⁶⁸ A major issue with the scheme was that for the period from the scheme's inception in 2008 to 6 April 2015, there was no requirement for individuals to obtain a UK bank account – which would have involved money laundering checks – before applying and being awarded a visa. Banks were then reported to be taking the visas as evidence that the applicant did not require further AML checks. This means there were weak due diligence checks carried out in what is called the 'blind faith' period.

A number of other factors made the scheme a high money laundering risk during this time.

- The scheme offers incentives to invest more, with faster access to permanent residency in the UK on offer; for £5 million individuals can settle in the UK after three years, for £10 million this is reduced to two years.⁶⁹
- There is a lack of transparency around the Tier 1 (Investor) scheme meaning we do not know exactly how much has been invested or how many PEPs have made use of the scheme.
- Over 60 per cent of visas granted in the blind faith period went to China and Russia, countries with endemic corruption problems.⁷⁰ Both China⁷¹ and Russia⁷² have reported tens of billions of pounds of illicit wealth leaving their countries in recent years.

A minimum of £3.15 billion was invested into the UK by wealthy individuals during the blind faith period, but due to the lack of transparency we do not know exactly how much has been invested.⁷³ Over 5,000 individuals from countries with endemic corruption came to the UK during the blind faith period, with little in the way of checks on their sources of wealth or criminal records.⁷⁴

In April 2015 stronger AML checks were built into the Tier 1 (Investor) visa system with applicants now having to show they have had their investment money in a UK bank account for three months before they can be granted a visa. This means that individuals are subject to strengthened banking due diligence before they are awarded visas. As shown in Chart 1, since money laundering checks were introduced the number of individuals entering the UK using the system has plummeted by over 76 per cent, especially from those countries with high corruption risks.

Although some applicants could have been deterred⁷⁵ by the rise in the minimum amount investors had to contribute under the scheme – which was raised from £1 million to £2 million at the same time as new AML checks were introduced – it is highly unlikely they could account for the dramatic decrease in both applicants and those granted visas. As it stands, there are potentially thousands of individuals who pose a significant money laundering risk who now have permanent residence in the UK, these individuals represent an ongoing money laundering risk until retrospective checks on their sources of wealth and criminal records have been conducted.

⁶⁸ Transparency International UK: *Gold Rush* (October 2015) <http://www.transparency.org.uk/publications/gold-rush-investment-visas-and-corrupt-capital-flows-into-the-uk/>

⁶⁹ <https://www.gov.uk/tier-1-investor/overview> [Accessed 23 January 2017]

⁷⁰ <https://www.gov.uk/government/collections/migration-statistics> [Accessed 23 January 2017]

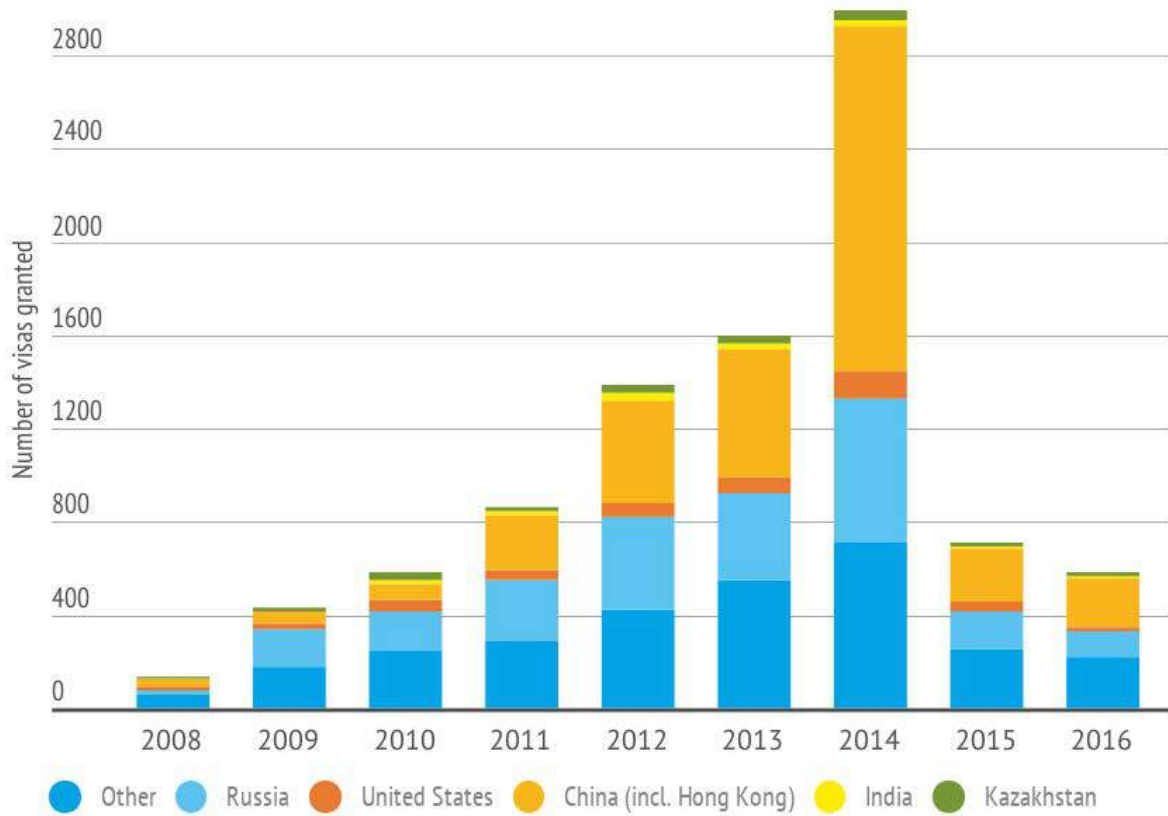
⁷¹ <http://economictimes.indiatimes.com/news/international/world-news/china-tracks-126-billion-embezzled-by-corrupt-officials-abroad/articleshow/49302836.cms> [Accessed 23 January 2017]

⁷² <http://www.reuters.com/article/2013/02/20/us-russia-cbank-idUSBRE91J0J020130220> [Accessed 23 January 2017]

⁷³ TI-UK analysis of Home Office data available at <https://www.gov.uk/government/collections/migration-statistics> assuming all investments were the minimum £1m up to Q4 2014, and subsequently £2m [Accessed 23 January 2017]

⁷⁴ Figure includes main applicant for Tier 1 Investor Visa and their dependants

Chart 1: Number of tier 1 (investor) visas granted (2008 to 2016) including both main applicants and their dependents by nationality



Source: Home Office immigration statistics (Feb 2017) Figures include main applicants and dependents.

Citizenship by Investment and Cash for Residency Schemes around the world

Outside of the UK there are other cash for residency schemes like the UK's Tier 1 (Investor) visa system as well as citizenship by investment schemes. Both types of system provide visa-free, 'backdoor' access to the UK in return for varying levels of up-front investment.⁷⁵ Schemes like this are in place across the EU such as those offered by Cyprus, Portugal and Malta.

A number of Commonwealth Countries also offer this type of system which gives residency or citizen status to that country and visa-free access to the UK for as little \$100,000 in Dominica.⁷⁶ St. Kitts and Nevis also offer a scheme like this, where citizenship can be gained in exchange for a \$400,000 investment in real estate or a \$250,000 non-refundable donation to the country's sugar industry.⁷⁷ In May 2014 the US Treasury issued advisory information about how passports gained through the St. Kitts and Nevis citizenship-by-investment program had been used to facilitate financial crime by masking the jurisdiction individuals originated from.⁷⁸

Because these schemes offer visa-free access to the UK and are vulnerable to abuse by those seeking to launder illicit wealth, they expose the UK to further money laundering risk posed by those making use of them.

Case Study: Maltese Citizen Investment Scheme

Offering visa-free travel to the UK and other EU countries and the US, the Maltese citizen investment scheme – exchanging Maltese passports for between €25,000 and €650,000 – has attracted criticism as a conflict of interest concern arose over its due diligence arrangements.

The Maltese Government hired Henley and Partners – a UK consultancy firm specialising in advising high net worth clients on cash for citizenship and residency schemes – to design the legal and administrative structures governing the citizenship by investment scheme in exchange for a 4 per cent cut of the €650,000, €50,000 and €25,000 passport fees. In addition the firm provided day-to-day services including a risk weighting assessment after due diligence is conducted on each would-be client.ⁱ

This service informs 'Identity Malta', the body with the final say on who is eligible to buy the passports. Critics say this constitutes a conflict of interest as it creates incentives for positive risk assessments, with Henley gaining directly from each passport granted. The firm have since stated their due diligence personnel and its sales staff are separated by a "Chinese wall."ⁱⁱ

The system is also reliant on Malta's anti-money laundering defences which came under scrutiny after Maltese officials were named in the Panama papers.ⁱⁱⁱ

ⁱ <https://euobserver.com/investigations/122627> [Accessed 23 January 2017]

ⁱⁱ <http://www.independent.co.uk/news/uk/home-news/passports-for-profit-british-company-to-make-disgusting-amounts-of-money-from-controversial-eu-9094251.html> [Accessed 23 January 2017]

ⁱⁱⁱ <http://www.politico.eu/article/maltas-money-laundering-headache-scandal-panama-papers-joseph-muscat/> [Accessed 23 January 2017]

⁷⁵ <https://www.ft.com/content/155936ec-2728-11e6-8ba3-cdd781d02d89> [Accessed 23 January 2017]

⁷⁶ <http://www.dominicacitizenshipbyinvestment.com/> [Accessed 23 January 2017]

⁷⁷ <http://www.bbc.co.uk/news/business-27674135> [Accessed 23 January 2017]

⁷⁸ <https://www.fincen.gov/resources/advisories/fincen-advisory-fin-2014-a004> [Accessed 23 January 2017]

1.5 UK as a haven for ‘crisis capital’

As well as attracting illicit wealth, the UK is also an attractive haven for overseas money fleeing from corruption and uncertainty abroad. Academic studies suggest corruption’s role in destabilising countries means it has a ‘positive and significant impact’ on capital flight; funds being rapidly transferred out of a country due to instability.⁷⁹

Crisis capital is a distinct type of capital flight with corruption and political risk as the key driving factors behind it. For example, anger about endemic corruption was one of the key forces which ignited the Arab Spring. During this period billions of dollars were taken out of economies in the Middle East and moved to more stable countries around the world.⁸⁰ The funds involved in the movement of crisis capital are often legitimate and obtained through legal means, however illicit wealth can also form a part of these flows. Both illicit financial flows and crisis capital are symptoms of corruption in the country they come from and can be reduced by tackling this corruption.

For many of the same reasons that the UK is attractive to illicit wealth, it is also attractive to crisis capital: it provides a stable political, legal and economic environment whilst consistently high property prices offer an opportunity to ‘park’ further gains on investments.

The UK has been a destination for capital flight from a number of high-corruption risk jurisdictions in the last 20 years. The following country case studies provide some context to capital flight to the UK and identify corruption’s role in driving this investment.

Corruption as a cause for global insecurity and political risk

Corruption is a leading factor in global insecurity. Research by Transparency International Defence and Security Programme shows how corruption strengthens extremist groups around the world.ⁱ Abuse of power in state institutions facilitates the sales of arms to extremist groups and corruption within armed forces tasked with defeating extremists heavily weakens them. Endemic corruption within the Iraqi Army meant that nobody could stand in the path of ISIS as it took over Mosul, and similar problems have affected the fight against Boko Haram in Nigeria.ⁱⁱ

Corruption also undermines political stability. Political corruption causes public unrest which can result in protests and in the case of the Arab Spring revolutions.ⁱⁱⁱ Corruption also undermines the rule of law; results from the 2015/16 Global Corruption Barometer show that bribery amongst the police and the judiciary remains commonplace amongst African^{iv} and Middle Eastern^v countries, meaning the outcome of the judicial process can be heavily influenced by the presence of corruption in the system.

ⁱ Transparency International Defence and Security, *The Big Spin: Corruption and the Growth of Violent Extremism* (February 2017) http://ti-defence.org/wp-content/uploads/2017/02/The_Big_Spin_Web.pdf

ⁱⁱ Suadad al-Salhy, ‘How Iraq’s ‘ghost soldiers’ helped ISIL,’ Al Jazeera, 11 December 2014, <http://www.aljazeera.com/news/middleeast/2014/12/how-iraq-ghost-soldiers-helped-isil-2014121072749979252.html>

ⁱⁱⁱ <http://www.worldaffairsjournal.org/article/wikihistory-did-leaks-inspire-arab-spring> [Accessed 23 January 2017]

^{iv} http://www.transparency.org/whatwedo/publication/people_and_corruption_africa_survey_2015 [Accessed 23 January 2017]

^v https://www.transparency.org/whatwedo/publication/people_and_corruption_mena_survey_2016 [Accessed 23 January 2017]

⁷⁹ <http://www.tandfonline.com/doi/abs/10.1080/10168730601027161?journalCode=riej20> [Accessed 23 January 2017]

⁸⁰ <http://www.thenational.ae/business/industry-insights/finance/capital-flight-from-egypt-and-libya-hit-8-billion-during-arab-spring> [Accessed 23 January 2017]



Russian capital flight and crisis capital

Capital flight from Russia has been noticeable since the mid-1990s, when the rapid transition to a market economy created an 'adverse business environment' where corruption was commonplace.⁸¹ Fear about corruption remains prevalent in Russia today. 61 per cent of respondents to the 2016 Global Corruption Barometer (GCB) – a public opinion survey conducted by Transparency International – stated corruption had stayed the same or increased over the last four years and 71 per cent believed corruption was present amongst Russian Government officials.⁸²

“Corruption is endemic in Russia and is a major concern for businesses operating there.”

Foreign and Commonwealth Office, *Overseas Business Risk - Russia*⁸³

Capital Flight escaping from Russia rose to record levels in 2015, with \$131 billion leaving the country⁸⁴ and \$110 billion expected to have left during 2016.⁸⁵ This flight is being driven by a multitude of factors, one being widespread corruption which has caused economic instability and political uncertainty.⁸⁶ Skolkovo, a Moscow based wealth management centre highlighted how fortunes amassed over a number of decades cannot be simply passed down due to the extensive control Putin exerts over the economy.⁸⁷ They estimate that 60,000 business owners in Russia face this problem which could result in even higher levels of capital flight.

“Owners of major enterprises are basically hostages... they can suggest their kids as hostages to take their place, but only Putin's system will decide whether to incorporate them or not.”

Alena Ledeneva, Professor of Russian Politics
University College London⁸⁸

⁸¹ <http://www2.warwick.ac.uk/fac/soc/pais/research/researchcentres/csqr/research/keytopic/global/capflight.pdf> [Accessed 23 January 2017]

⁸² Transparency International, *People And Corruption: Europe And Central Asia 2016* (November 2016) http://www.transparency.org/research/gcb/gcb_2015_16

⁸³ <https://www.gov.uk/government/publications/overseas-business-risk-russia/overseas-business-risk-russia#bribery-and-corruption> [Accessed 23 January 2017]

⁸⁴ <https://themoscowtimes.com/articles/russia-massive-capital-flight-continues-46263> [Accessed 23 January 2017]

⁸⁵ <https://themoscowtimes.com/articles/110-billion-expected-to-flee-russia-this-year-as-sanctions-bite-46950> [Accessed 23 January 2017]

⁸⁶ <http://www.heritage.org/research/reports/2014/09/russias-avoidable-economic-decline> [Accessed 23 January 2017]

⁸⁷ <https://www.bloomberg.com/news/articles/2015-11-13/putin-s-gilded-cage-russia-s-rich-are-facing-cash-out-conundrum> [Accessed 23 January 2017]

⁸⁸ <https://www.bloomberg.com/news/articles/2015-11-13/putin-s-gilded-cage-russia-s-rich-are-facing-cash-out-conundrum> [Accessed 23 January 2017]

As a consequence of high capital outflows, the Russian Government is trying to reduce ‘offshorisation’ – wealthy Russian individuals taking their assets out of the Russian economy and transferring it overseas. This process is seen by experts, such as Professor Anastasia Nesvetailova of London City University, as another measure to exert control over the Russian economy by Putin and the state.⁸⁹ There is emerging evidence that the deoffshorisation process may be having the opposite effect, with wealthy Russians redoubling their efforts to move their assets out of Russia before the Government seizes them.⁹⁰

A 2015 study by Deutsche Bank, using figures from the Russian Central Bank and Bank of England, indicates around £100 billion of hidden wealth has secretly flowed into the UK since 2006, much of this will be from Russia.⁹¹ These flows have not been tracked by the Office of National Statistics (ONS) as they appear as net errors and omissions meaning there is a lack of detailed information as to the nature of these investments.

Since this study was conducted, Deutsche Bank have been fined £163 million by the UK’s Financial Conduct Authority (FCA) for money laundering control failings.⁹² The FCA noted Deutsche Bank failed to prevent around \$10 billion of suspicious wealth from Russia to flow through its UK office.

Property is a popular ‘asset class’ for Russian investment, in 2013 Knight Frank placed Russians as the biggest spenders on property worth more than £1 million in London.⁹³ More recently it appears that Russian investors are looking further afield as Clapham, Islington and Pimlico showed higher levels of Russian investment, rising from two to 11 per cent of market share in those areas between 2014 and 2015.⁹⁴

In addition to this at least £729 million of Russian wealth has been invested into the UK through the Tier 1 (Investor) visa scheme.⁹⁵ Incentives like fast-tracked residency mean the actual level of investment through this scheme could be far higher than this.

“Due to current uncertainty, Russian money is making its way into the bricks-and-mortar assets of London – seen as a safe haven,”

Tom Mundy, JLL⁹⁶

⁸⁹ <http://www.taxjustice.net/2015/09/11/russias-offshore-financial-nexus-threatening-financial-stability-and-security/> [Accessed 23 January 2017]

⁹⁰ <http://www.newstatesman.com/politics/economy/2016/02/privatisation-russia-here-s-why-it-won-t-happen> [Accessed 23 January 2017]

⁹¹ Deutsche Bank Markets Research, *Dark matter* (March 2015) <https://assets.documentcloud.org/documents/3036316/Special-Report-9-Mar-2015-2.pdf>

⁹² <https://www.fca.org.uk/news/press-releases/fca-fines-deutsche-bank-163-million-anti-money-laundering-controls-failure> [Accessed 8 February 2017]

⁹³ <http://www.knightfrank.co.uk/research/international-buyers-in-london-oct-2013-1579.aspx> [Accessed 23 January 2017]

⁹⁴ <https://www.ft.com/content/fe1b1010-f0e8-11e5-9f20-c3a047354386> [Accessed 23 January 2017]

⁹⁵ Transparency International UK: *Gold Rush* (October 2015) <http://www.transparency.org.uk/publications/gold-rush-investment-visas-and-corrupt-capital-flows-into-the-uk/>

⁹⁶ <http://www.telegraph.co.uk/finance/newsbysector/constructionandproperty/10716894/Russians-pour-money-into-London-property.html> [Accessed 23 January 2017]

The Chinese Anti-Corruption Drive and crisis capital outflows

China is another country which has experienced huge capital flight, with corruption as a key factor behind it. In 2016 £600 billion left China in capital flight, at a rate of £40 to £80 billion per month.⁹⁷ On Transparency International's Corruption Perceptions Index for 2016 China scored 40 on a scale of 0-100 where zero represents high levels of perceived public sector corruption.⁹⁸ In a separate poll by the Pew Research Centre, four out of five Chinese citizens considered official corruption a big problem and of even greater concern than pollution and food safety.⁹⁹

Fears about a weakening currency explain capital flight to some extent, however Chinese President Xi Jinping's wide ranging anti-corruption campaign launched in 2012 has caused a degree of instability.¹⁰⁰ In 2015, 282,000 officials were punished for 'discipline violations',¹⁰¹ with an estimated 99 per cent conviction rate once an official has been charged with corruption.¹⁰² This has been a key factor behind high levels of illicit outflows and capital flight. Corrupt individuals are moving their wealth out to avoid being caught and those with legitimate wealth are doing the same for fear of having their assets confiscated as part of the often indiscriminate anti-corruption campaign.

A survey into Chinese investor attitudes showed political risk and corruption to be a major factor in transferring funds abroad, with over 60 per cent of respondents saying their primary motive in investing overseas was to escape the risks they saw in China.¹⁰³

One Hubei based businessman admitted he paid 13 people to wire funds to his daughter in Australia after the local government confiscated his coal mines and jailed him for 18 months on bribery charges. He knows little about overseas markets but sees no alternative given that his political supporters, including the county Communist Party head, are in prison.

"I am scared – my priority is to park my money in a safe place,"

Hubei based businessman¹⁰⁴

⁹⁷ <http://www.bbc.co.uk/programmes/p04mnsjk> [Accessed 30 January 2017]

⁹⁸ <https://www.transparency.org/country/CHN> [Accessed 30 January 2017]

⁹⁹ <https://www.ft.com/content/02f712b4-8ab8-11e6-8aa5-f79f5696c731> [Accessed 23 January 2017]

¹⁰⁰ <http://www.bloomberg.com/news/articles/2016-01-14/china-s-capital-flight> [Accessed 23 January 2017]

¹⁰¹ <http://blogs.wsj.com/chinarealtime/2016/01/25/chinas-anticorruption-campaign-will-continue-party-watchdog-pledges/> [Accessed 23 January 2017]

¹⁰² <http://www.forbes.com/sites/johnlee75/2016/01/29/why-xis-anti-corruption-campaign-wont-work/#4f0b4c4721cd> [Accessed 23 January 2017]

¹⁰³ http://www.ilongterm.com/en/act-view_id-43396.html [Accessed 23 January 2017]

¹⁰⁴ <http://clickfinancialnews.com/chinas-controls-fail-to-curb-outbound-investment/> [Accessed 23 January 2017]

When money is invested out of China, residential property is a popular investment vehicle, with over 70 per cent of respondents to an investors survey saying they had already invested in residential property overseas.¹⁰⁵ Charles Pittar, chief executive of Juwai.com estimated that up to £150 billion of Chinese wealth would be invested in foreign property annually for the next 10 years.¹⁰⁶ Chinese investors are particularly interested in new build property in the UK. According to Juwai – a Chinese property site – the UK received the fourth highest number of property enquiries in 2016 from Chinese investors.¹⁰⁷ In 2013 a Savills report indicated that investors from China and Hong Kong were the biggest buyers of prime new build property.¹⁰⁸

Chinese investment does not always feature prominently in the official buying figures; this can be explained by how Chinese investors have turned to Hong Kong through which to funnel their wealth.¹⁰⁹ This practice is used in order for Chinese citizens to avoid controls over transferring their wealth overseas, which have been introduced in response to high capital flight levels.¹¹⁰ Therefore, when investment from Hong Kong is highlighted this may actually be mainland Chinese investment.¹¹¹

New-build developments around London have been heavily marketed towards Chinese buyers with billboards and full page advertisements in Hong Kong and Chinese media and seminars on “London Property Buying Procedures & Regulations” being offered.¹¹² Chinese investment into the UK has not just come through property but also the Tier 1 (Investor) scheme through which at least £1.15 billion has been invested since 2008.

¹⁰⁵ <http://clickfinancialnews.com/chinas-controls-fail-to-curb-outbound-investment/> [Accessed 23 January 2017]

¹⁰⁶ <https://www.theguardian.com/cities/2016/sep/29/inside-china-passion-foreign-property-investment-uk> [Accessed 23 January 2017]

¹⁰⁷ <https://list.juwai.com/where-chinese-are-looking-globally> [Accessed 15 February 2017]

¹⁰⁸ <http://pdf.euro.savills.co.uk/residential---other/spot-worldlondon-lr.pdf> [Accessed 23 January 2017]

¹⁰⁹ <http://www.scmp.com/comment/insight-opinion/article/2055503/hong-kongs-curious-capital-flows-result-launders> [Accessed 30 January 2017]

¹¹⁰ <http://www.scmp.com/business/banking-finance/article/2057673/china-may-tighten-capital-controls-yuan-outflow-continues> [Accessed 23 January 2017]

¹¹¹ <http://www.bloomberg.com/news/articles/2016-11-07/china-seeks-to-plug-capital-control-gaps-as-evaders-get-creative> [Accessed 23 January 2017]

¹¹² <http://www.independent.co.uk/news/uk/politics/london-nine-elm-flats-buyers-far-east-china-feng-shui-10448177.html> [Accessed 23 January 2017]

Arab Spring Countries

Any country which experiences a political crisis is likely to see high levels of capital flight from the country, leading to higher levels of investment into UK property. Corruption was cited as a key driver in the Arab Spring protests and the capital flight which followed.¹¹³ In 2009, Transparency International's GCB indicated that petty bribery and police corruption were encountered by citizens in the Middle East and North Africa (MENA) the most.¹¹⁴ In the 2011 GCB, citizens from the MENA region overwhelmingly reported that corruption was increasing; for example, in Yemen 73 per cent of people felt corruption had increased over the three previous years.¹¹⁵

This corruption did not just involve petty bribery, but the widespread misuse of power by the countries' elites, involving billions of pounds being stolen from state budgets and illegally siphoned out of the economy. Eventually anger about this corruption resulted in protests and in many cases revolutions. Throughout this period the MENA region saw massive amounts of capital flight, with individuals wishing to place their assets in safe havens away from the instability faced by the region.¹¹⁶ \$8 billion is said to have left Egypt and Libya in the three months following the revolutions there.¹¹⁷

Talking about capital flight from the Middle East to the UK, Fadi Moussalli, head of JLL's Middle East and North Africa group indicated that the political unrest caused by the Arab Spring was a trigger for significant investment in the UK property market.¹¹⁸ In October 2012, following the Arab Spring, property investment in London from countries including Egypt, the United Arab Emirates, Israel and Jordan was 50 per cent higher than it had been previous year.¹¹⁹ Research by Knight Frank showed how in 2015 as a result of geopolitical instability in the region, with corruption as one of the driving forces, Middle Eastern investment rose from 11 per cent to 16 per cent in 2014-15.¹²⁰ This trend is likely to continue with future crises promising more crisis capital, much of which will be invested into the UK property market.

Case Study: Capital flight through the UK financial system

Capital flight can involve multi-billion pound transactions with one example of this coming to light in 2015 as Barclays were fined £72 million by the FCA for facilitating an 'elephant deal' worth £1.9 billion. The deal, originally taking place in 2011/2012, is said to have involved PEPs based in Qatar which at the time was surrounded by the instability of the Arab Spring. It is likely that the PEPs involved were seeking to move their wealth to a safer destination, in this case the UK.ⁱ

The FCA fined Barclays due to failures by senior management to carry out sufficient due diligence on their clients, going to "unacceptable lengths to accommodate" the ultra-high net worth individuals' transaction.ⁱⁱ Whilst there is no indication that this particular transaction was illicit, the incident shows the vulnerability of the UK financial system to this kind of payment as well as the attractiveness of the UK as a destination for flight capital.

ⁱ <https://www.ft.com/content/6ef6c5b4-9422-11e5-b190-291e94b77c8f> [Accessed 25 January 2017]

ⁱⁱ <https://www.fca.org.uk/publication/final-notice/barclays-bank-nov-2015.pdf> [Accessed 25 January 2017]

¹¹³ <https://www.ciaonet.org/attachments/27513/uploads> [Accessed 23 January 2017]

¹¹⁴ http://www.transparency.org/whatwedo/publication/global_corruption_barometer_20091 [Accessed 23 January 2017]

¹¹⁵ <http://www.transparency.org/gcb201011/results> [Accessed 23 January 2017]

¹¹⁶ <http://www.telegraph.co.uk/finance/personalfinance/expat-money/8882242/The-UK-a-port-in-a-storm-for-the-wealthy.html> [Accessed 23 January 2017]

¹¹⁷ <http://www.thenational.ae/business/industry-insights/finance/capital-flight-from-egypt-and-libya-hit-8-billion-during-arab-spring> [Accessed 23 January 2017]

¹¹⁸ <http://www.worldpropertyjournal.com/real-estate-news/united-kingdom/london-real-estate-news/middle-east-property-investor-report-2016-fadi-moussalli-jll-london-real-estate-investors-middle-east-sovereign-funds-buying-real-estate-in-2016-declining-oil-prices-9761.php> [Accessed 23 January 2017]

¹¹⁹ <http://uk.reuters.com/article/uk-britain-london-gulf-property-idUKLNE8A600X20121107> [Accessed 15 February 2017]

¹²⁰ <https://kfcontent.blob.core.windows.net/research/185/documents/en/summer-2015-3126.pdf> [Accessed 23 January 2017]

2. How does overseas corruption affect the London housing market?

The UK's Housing Crisis

The UK and London in particular, is suffering from a housing crisis. In February 2017 the UK Government acknowledged this, releasing a White Paper entitled “Fixing our broken housing market”.¹²¹ Figures show that the average house price in inner London is now ten times the average salary, the biggest disparity since records began.¹²² In outer London the problem is almost as bad with homes nine times the average salary of those living there.¹²³

Home ownership is also historically low; 2016 saw levels drop to their lowest point in 30 years.¹²⁴ Outer London experienced one of the biggest falls between 2015 and 2016 with 13.5 per cent less people owning their own homes.

Shelter identifies one of the contributing factors to the housing crisis as the supply of affordable and social housing.¹²⁵ Not enough homes are being built¹²⁶ and those that are being built are not being marketed as homes for ordinary people, rather as assets for investors.¹²⁷ There is a clear need and demand for more affordable homes in London as evidenced by the number of people living in informal housing including resorting to living in sheds and the abuse of the houses of multiple occupation system.¹²⁸ This has reached record levels in areas like Ealing with 60,000 people believed to be living in substandard housing in 2013.¹²⁹

Concerns also exist that large numbers of homes in the capital are empty or underused which has a damaging impact on the local communities as well as wasting precious housing stock. In addition a number of iconic London landmarks which have community value are being bought and closed down – often with a view to being converted to luxury flats – harming local communities which use these venues.¹³⁰

The housing crisis has also damaged people's trust in the housing market to provide the homes they need. There is a growing perception that London is too expensive, a record 63,000 Londoners relocating outside the capital in search for better value for money in 2015 alone.¹³¹

The following sections outline how many of the problems within the UK housing market can be at least partly explained by the huge scale of investment from corrupt individuals and those seeking a safe haven from corruption risk in their home country.

¹²¹ <https://www.gov.uk/government/collections/housing-white-paper> [Accessed 8 February 2017]

¹²² <http://data.london.gov.uk/dataset/ratio-house-prices-earnings-borough> [Accessed 23 January 2017]

¹²³ Ibid.

¹²⁴ Resolution Foundation, *Living Standards 2016* (2016) <http://www.resolutionfoundation.org/app/uploads/2016/02/Audit-2016.pdf>

¹²⁵ http://england.shelter.org.uk/campaigns/why_we_campaign/the_housing_crisis/what_is_the_housing_crisis [Accessed 23 January 2017]

¹²⁶ <http://www.thetimes.co.uk/article/not-enough-homes-being-built-to-solve-crisis-fmftg9h6r> [Accessed 23 January 2017]

¹²⁷ <http://www.getwestlondon.co.uk/news/west-london-news/mps-urge-developers-sell-homes-10688956> [Accessed 23 January 2017]

¹²⁸ <http://www.ourcity.london/case-studies/houses-multiple-occupation-scam-warehousing-poor-ripping-off-public/> [Accessed 19 February 2017]

¹²⁹ Migrants Rights Network, *Beds in Sheds and Rogue Landlords* (October 2103)

<http://www.migrantsrights.org.uk/files/publications/MRN-briefing-Beds-and-sheds-Oct-2013.pdf>

¹³⁰ <http://www.closedpubs.co.uk/london.html> [Accessed 23 January 2017]

¹³¹ <https://www.hampsons.co.uk/news-research/press-releases/dec-26-2015/> [Accessed 23 January 2017]



2.1 House Prices

House prices in London have been rapidly rising since the 2008 financial crisis caused a temporary price freeze, with there being a 7.5 per cent rise over the past year.¹³² The pace of house price growth is far beyond that of wage increases, the Social Mobility Commission has reported that housing costs have risen twice as fast as the incomes of Britain's under-44s.¹³³ This has led to many being priced out of the property market. Record numbers of people in their thirties have left London in the past three years and key workers are unable to live in London due to price.¹³⁴ A 2016 survey of the Metropolitan Police found that over half of police officers didn't live in London, the main reason for this being affordability.¹³⁵

The Office for National Statistics (ONS) gave a simple explanation for house price growth when it released price data for 2014-2015; "an ongoing shortage of supply coupled with strengthening demand may be behind this increase in the growth rate."¹³⁶ There is no clear consensus as to whether a restricted supply or an overheated demand is most to blame. The UK Government's white paper on how to fix the UK's broken housing market identifies a lack of supply as the key issue behind a "broken" housing market; however this paper looks to address UK-wide housing issues.¹³⁷ Reports which have purely assessed London's housing crisis such as the Bow Group's,¹³⁸ Civitas'¹³⁹ and the Smith Institute's¹⁴⁰ place more emphasis on the demand side. They each state that high levels of overseas investment in recent years have been the primary driving force behind rising house prices.

Amidst the backdrop of the housing crisis, the London Mayor, Sadiq Khan, has launched an inquiry into foreign investment into London's housing market to assess the scale and impact of this investment. Sadiq Khan also spoke of the need for more transparency in the property market and fears about illicit wealth being used to buy homes.

"We urgently need more transparency around overseas money invested in London property. Londoners need reassuring that dirty money isn't flooding into our property market."

Mayor of London, Sadiq Khan¹⁴¹

¹³² <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/dec2016> [Accessed 23 January 2017]

¹³³ HM Government, *State of the Nation 2016: Social Mobility in Great Britain* (November 2016)

¹³⁴ <https://www.theguardian.com/money/2016/sep/26/rising-london-house-prices-spark-departure-30-somethings> [Accessed 23 January 2017]

¹³⁵ Policy Exchange, *Commuter Cops: Helping our police to live in the city they serve* (August 2016) <https://policyexchange.org.uk/wp-content/uploads/2016/09/commuter-cops-august-16-1.pdf>

¹³⁶ <http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/september2015> [Accessed 23 January 2017]

¹³⁷ HM Government, *Fixing our broken housing market*, (2017) <https://www.gov.uk/government/collections/housing-white-paper>

¹³⁸ The Bow Group, *Solving the UK Housing Crisis* (November 2015)

[https://www.bowgroup.org/sites/bowgroup.uat.pleasetest.co.uk/files/The%20Bow%20Group%20-%20The%20UK%20Housing%20Crisis%20\(2015\)%20FINAL.pdf](https://www.bowgroup.org/sites/bowgroup.uat.pleasetest.co.uk/files/The%20Bow%20Group%20-%20The%20UK%20Housing%20Crisis%20(2015)%20FINAL.pdf)

¹³⁹ Civitas, *Finding Shelter* (February 2014) <http://www.civitas.org.uk/content/files/FindingShelter.pdf>

¹⁴⁰ The Smith Institute, *Britain for sale* (May 2016) <http://www.regionalstudies.org/uploads/documents/Britain-for-sale.pdf>

¹⁴¹ <https://www.theguardian.com/cities/2016/sep/29/london-mayor-sadiq-khan-inquiry-foreign-property-ownership> [Accessed 23 January 2017]

Investment driven by overseas corruption

The scale of investment driven by overseas corruption in the UK housing market is likely to be significant. Since 2008 £100 billion of London property has been bought by overseas companies based in secrecy jurisdictions; an indicator for illicit wealth or investors seeking to evade capital controls like those of China and Russia.

Savills' data indicates London is seen as a safe destination for billions of pounds of investment from high corruption risk jurisdictions. Their 2014 report shows investors from the Middle East, Russia and Eastern Europe play a significant role in the luxury home market, with Russians buying 8.5 per cent of all London properties worth more than £2 million between March 2012 and March 2013.¹⁴² Buyers from South East Asia are another significant investor group, favouring new build property; in 2013 investors from Hong Kong and China were the biggest demographic in London's new build prime in 2012-13, accounting for 27 per cent of the market by volume.

Is overseas corruption driving property prices?

A number of research pieces have already looked into the London housing market's status as a safe haven for those fleeing uncertainty, often driven by corruption, or those seeking a safe place to launder illicit wealth. They indicate that periods of intense investment have a measurable and direct impact on house prices throughout the capital.

Research conducted by Tarun Ramadorai and Dr Cristian Badarinza from the Saïd Business School at the University of Oxford links political risk and uncertainty overseas with house price increases in specific areas of London.¹⁴³ The research consists of sub-dividing London into electoral wards which are then linked to overseas countries based on whether those wards have communities that correspond with those particular jurisdictions. For example, an area of Kensington has such a high density of Russian investors that it has earned the nickname 'Red Square'.¹⁴⁴

The research findings showed that when countries experienced times of political uncertainty, such as during China's anti-corruption drive or the aftermath of the Arab Spring, the areas of London which had corresponding communities experienced increases in house prices.¹⁴⁵ It is estimated these areas experienced both an average 1.84 per cent increase in the volume of transactions and 1.41 per cent increase in house prices because of overseas demand effects. The research suggests this is due to individuals in these countries moving assets into London property as a safe haven asset, leading to increased competition and higher prices.

According to the report foreign demand accounted for at least 7.9 per cent of the total variation of London house prices over the sample period, which focused on the two years after major global crises. Whilst this may seem like a small direct effect, the researchers add this represents the 'lower bounds' of the overall impact of international investment driven by political risk as there is potential for this demand to have indirect effects on house prices. Many of the countries experiencing instability covered in the research – China, the Middle East, East Asia, and Russia – have corruption playing an important role in creating an unstable environment.

¹⁴² <http://pdf.euro.savills.co.uk/residential---other/spot-worldlondon-lr.pdf> [Accessed 23 January 2017]

¹⁴³ Cristian Badarinza and Tarun Ramadorai, *Home Away From Home? Foreign Demand and London House Prices* (November 2016) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2353124

¹⁴⁴ <https://www.theguardian.com/uk-news/2016/feb/04/mega-rich-homes-tour-london-oligarchs-russia-alexei-navalny-putin> [Accessed 23 January 2017]

¹⁴⁵ Cristian Badarinza and Tarun Ramadorai, *Home Away From Home? Foreign Demand and London House Prices* April 2015)

Deutsche Bank have also produced research which links Russian capital flight with rising UK house prices, the report shows that around £1 billion per month of ‘secretive’ wealth is flowing into the UK, with significant levels of this coming from Russia.¹⁴⁶ The data uses net errors and omissions – statistical anomalies which indicate unrecorded investment flows – from Russia to the UK which may have passed through secrecy havens. The hidden nature of these flows makes it more likely that this wealth is either illicit wealth or crisis capital fleeing the unstable and high corrupt-risk political environment in Russia. There is a strong correlation between inflows from Russia and property prices in the London, according to this research.

The Ripple Effect and London House Prices

Overseas investment driven by corruption is more likely to be invested in higher end property to store as much money as possible. Land Registry data shows that the average price of a London property bought by a company registered in a secrecy haven is £1.9 million. Using open data sources, the average value of a property owned by an individual with an arrest warrant against them or that has been arrested or convicted in relation to a corruption offence exceeds £6 million.

“The values (of houses bought using the proceeds of corruption) will be significant — multi-millions. We are talking about high-value residential property”

Donald Toon, NCA’s director of prosperity¹⁴⁷

Despite most property transactions with corruption as a driver taking place at the higher end of the market, there is emerging evidence that this activity could have an impact on the market as a whole. This phenomenon is known as ‘the ripple effect’, which is used to reflect the outward movement of price rises deriving from central, high-value areas. As demand exceeds supply in central London, house prices rise in these areas, making buyers look further outwards to more affordable areas. This in turn leads to house prices in more affordable areas rising due to increased demand.

There is some emerging anecdotal evidence to show the ripple effect can begin at the very high end in what is termed *alpha territory*, property in London only accessible to the super-rich (£2 million+).¹⁴⁸ Using ethnographic methods like participant observation and interviews collected over 2 and a half years, Dr. Luna Glucksberg’s research found that wealthy London ‘elites’ felt they were being displaced by a new class of global super-rich. Interviews showed those who felt they were being displaced by overseas buyers either selling and moving out to other areas of London or the UK or buying flats for their children in surrounding areas, resulting in increasing demand in these neighboring areas.

“The changes happening at the top end of the market are real, and although they do not affect large numbers of people directly, the ripple effects they generate do resonate across London. What is more, if we are to resist the financialisation of our real estate – if we don’t want London to succumb to being simply a safe place for global capital to be parked – we better pay attention to what is happening in Chelsea and Mayfair”

Dr. Glucksberg, LSE¹⁴⁹

¹⁴⁶ Deutsche Bank, *Dark Matter* (March 2015) <https://assets.documentcloud.org/documents/3036316/Special-Report-9-Mar-2015-2.pdf>

¹⁴⁷ <http://www.standard.co.uk/news/crime/britain-s-fbi-finds-170m-of-assets-funded-by-illegal-foreign-money-a3401496.html> [Accessed 23 January 2017]

¹⁴⁸ Luna Glucksberg, *A view from the Top* (April 2016) <http://www.tandfonline.com/doi/abs/10.1080/13604813.2016.1143686>

¹⁴⁹ <https://www.rgs.org/NR/rdonlyres/EDB8D919-0762-415D-9AD6-79F287BFF4A1/27279/20160831StudyfindsLondonestablishedelitesfeelpush.pdf> [Accessed 23 January 2017]

There are relatively few pieces of quantitative research on the ripple effect within London; however, a report by academics Andrew Abbott and Glauco De Vita shows that house prices in central London (or as they term it “the City of London”) have a contagious effect on areas around the centre with prices rising in these areas as prices in the heart of London rise.¹⁵⁰ Whilst this reaffirms the notion that the ripple effect in London starts in the high-value central neighbourhoods, further research is needed to fully test this theory.

Much of the investment at the top end of the market will be legitimate, however according to the information that is publically available a great deal comes from high corruption risk jurisdictions, making it more likely that much of these flows into high-end property is being driven by a desire either to launder corrupt funds or seek safe haven from the instability of corruption.

Demand, in part generated from those moving outside London’s prime market, is outstripping supply in the rest the housing market, leading to increased competition throughout London.

“As one area becomes unaffordable, people look to the next area offering affordability. It seems that the outer London suburbs — such as Tower Hamlets and Newham in the east, and Merton and Sutton in the south — are still considered relatively affordable. But with everyone looking in the same places, competition is created.”

Simon Tollit, sales director of Sotheby’s International Realty

In 2016, estate agents Marsh and Parson noted that investors were vying with first-time buyers and young professionals for better deals in the outer Boroughs of London.¹⁵¹ In the first quarter of 2015 an average of 16 buyers were competing for every property for sale in ‘outer prime areas of London’, whilst in areas like Balham this figure rose to 21 prospective buyers for a single home, pushing house prices in these areas higher and higher.

Figures indicate the prime London property market has become so overheated that even overseas investors from high corruption risk jurisdictions like Russia and China, who have typically bought in prime London, are turning their attention to more affordable areas. Hamptons research has shown that these nationalities are becoming more prominent outside of central prime areas of London as these areas offer better value for money. “Russians retained their appetite for ‘safe haven’ London property” said Fionnuala Earley, research director at Hamptons, but were buying less expensive homes due to currency fluctuations and international sanctions from the Ukraine crisis.¹⁵² In turn this could be contributing to the ripple effect as demand outside of prime London intensifies price increases.

¹⁵⁰ Andrew Abbott and Glauco De Vita ,*Pairwise Convergence of District-level House Prices in London* (2012) <http://journals.sagepub.com/doi/abs/10.1177/0042098011405690?journalCode=usja>

¹⁵¹ <https://www.propertypriceadvice.co.uk/property-news/general-news/Ripple-effect-drives-up-property-prices-in-outer-London-areas> [Accessed 23 January 2017]

¹⁵² <https://www.ft.com/content/fe1b1010-f0e8-11e5-9f20-c3a047354386> [Accessed 23 January 2017]



Shelter has raised concerns that ‘flipping’ (buying and selling property off-plan before it is built) is potentially distorting the housing market by inflating prices of unbuilt homes.¹⁵³ In 2014 the Evening Standard showed how investors were able to make a £675,000 profit on a single property, which reflected the trend of flipping property at the time.¹⁵⁴ As explained in the Evening Standards’ article, flipping attracts additional demand into the new build market as it offers the chance to make a quick profit – early investors in the Battersea Power Station scheme made 10 per cent profits – inflating property prices before they are even built. The impact of flipping seems to be responsive to demand; therefore its effects will be felt most at times of high demand for new build property.

Off-plan sales are attractive to speculative investors who view property more as an asset than as a home. This means it is just as easy for them to withdraw their funds as it is to invest them. Whilst a quick profit is one reason to flip off-plan property there are a number of other reasons why off-plan contracts are flipped, including a change in the contract holder’s financial circumstances or that of the developer’s circumstances. The external environment can also be a determinant on whether a person wants to complete the financial transaction.

Due to the lack of transparency around the process, the scale of this activity is unknown. In a small assessment by Shelter over three Central London housing developments, around one in five contracts were being offered for resale.

In the UK system there is a high degree of opacity with regard to flipping off-plan homes. It is not compulsory for transactions between different buyers in the pre-completion stage to be recorded on the Land Registry, meaning the process is vulnerable to abuse by corrupt individuals. If two parties want to exchange a contract for a property worth £1,000,000, this can be done in total secrecy before it is built. The only check in the system is through conveyancing firms who may be unaware that flipping represents a money laundering risk. The Law Society list flipping property as a money laundering red flag¹⁵⁵ and the process has also been identified in Canada as a money laundering risk, however overall awareness of these risks appear limited.¹⁵⁶

¹⁵³ Shelter, *City or Casino?* (April 2016) https://england.shelter.org.uk/_data/assets/pdf_file/0011/1254449/2016_04_12_-_The_role_of_speculative_investment_in_London_s_new_build_housing_market.pdf

¹⁵⁴ <http://www.homesandproperty.co.uk/property-news/buying/new-homes/the-art-of-flipping-how-to-buy-property-offplan-and-sell-at-a-profit-37451.html> [Accessed 23 January 2017]

¹⁵⁵ <http://www.lawsociety.org.uk/support-services/advice/practice-notes/aml/money-laundering-warning-signs/> [Accessed 23 January 2017]

¹⁵⁶ <http://www.vancouversun.com/business/shadow+flipping+could+vancouver+real+estate+deals+under+scrutiny+from+taxman/1714181/story.html> [Accessed 23 January 2017]

2.2 Housing Supply

There is a major shortage of housing being built for ordinary citizens, current levels are two to three times below what is estimated to be needed across the UK.¹⁵⁷ Analysis by the Greater London Authority in the Greater London Plan shows between 49,000 and 62,000 new homes per year need to be built accommodate the demand for housing depending on population change.¹⁵⁸ Studies show the new homes being built are not addressing this problem, with only 24,180 homes being completed in 2015/16.¹⁵⁹

Not only are there not enough homes being built, but the majority of homes that are being built are unaffordable to the average Londoner. The average price of a new home in London stands at £900,000;¹⁶⁰ this is out of reach to the majority of people in London as this is almost 26 times the average London salary.¹⁶¹ An audit by the Mayor of London, Sadiq Khan, showed that 2015 yielded the lowest number of affordable homes in London since records began in 1991 at just 4,880.¹⁶² The data also shows a massive undersupply of new social housing with just three per cent of planning approvals in 2014/15 being for social housing.

Whilst levels of affordable home building are low, luxury new build market has produced a glut of prime property. A study in early 2016 showed 54,000 luxury homes (£1 million+) are currently planned or under construction across London.¹⁶³ In November 2016 a record number of 10,829 luxury new-build homes were scheduled to be built without a buyer, indicating the supply of luxury properties is higher than demand warrants.¹⁶⁴ These new homes appear to be planned in a response to historic international demand for prime London homes; overseas buyers accounted for 73 per cent of new build sales in Prime London property in 2012.

International demand has been driven by the perception that London property is a stable and attractive investment class.¹⁶⁵ This makes it attractive for both those seeking shelter from corruption in their home country and those looking to launder corrupt wealth. Although we have not examined the reasons behind developer's reliance on overseas investors funding new build properties, anecdotal evidence like this suggests it is contributing towards a mismatch between the demand and supply of new build properties.

This mismatch in priorities has led to some of the lowest ever figures for home ownership in the UK and London as first-time buyers struggle to get on the market.¹⁶⁶ Analysis by Shelter in April 2015 revealed just 43 properties for sale in Greater London were genuinely affordable for first time buyers.¹⁶⁷ At the same time, some luxury developments are promoted for their exclusivity, for example the Abbey Tower in Greenwich, where over 11,000 people are on the waiting list for social housing, described the block as totally private "with no social housing".¹⁶⁸

¹⁵⁷ <https://www.parliament.uk/business/publications/research/key-issues-parliament-2015/social-protection/housing-supply/> [Accessed 23 January 2017]

¹⁵⁸ <http://www.insidehousing.co.uk/london-needs-59000-homes-per-year-to-meet-demand/7010774.article> [Accessed 23 January 2017]

¹⁵⁹ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building> [Accessed 23 February 2017]

¹⁶⁰ <http://www.cityam.com/247550/tale-two-cities-sales-london-new-build-homes-have-plunged> [Accessed 23 January 2017]

¹⁶¹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2016provisionalresults#regional-earnings> [Accessed 23 January 2017]

¹⁶² <https://www.london.gov.uk/press-releases/mayoral/londons-housing-crisis-revealed-by-mayor> [Accessed 23 January 2017]

¹⁶³ <http://www.ionres.com/public/resources/press/surfeit-high-priced-london-homes-likely> [Accessed 23 January 2017]

¹⁶⁴ <https://www.bloomberg.com/news/articles/2016-11-08/unsold-new-london-luxury-home-glut-to-reach-record-on-oversupply> [Accessed 23 January 2017]

¹⁶⁵ <http://www.bpf.org.uk/sites/default/files/resources/Investing%20in%20residential%20property%20%E2%80%93%20a%20BPF%20guide%20for%20asset%20allocators.pdf> [Accessed 23 January 2017]

¹⁶⁶ <http://qz.com/797541/british-30-somethings-have-the-lowest-home-ownership-rates-in-half-a-century/> [Accessed 23 January 2017]

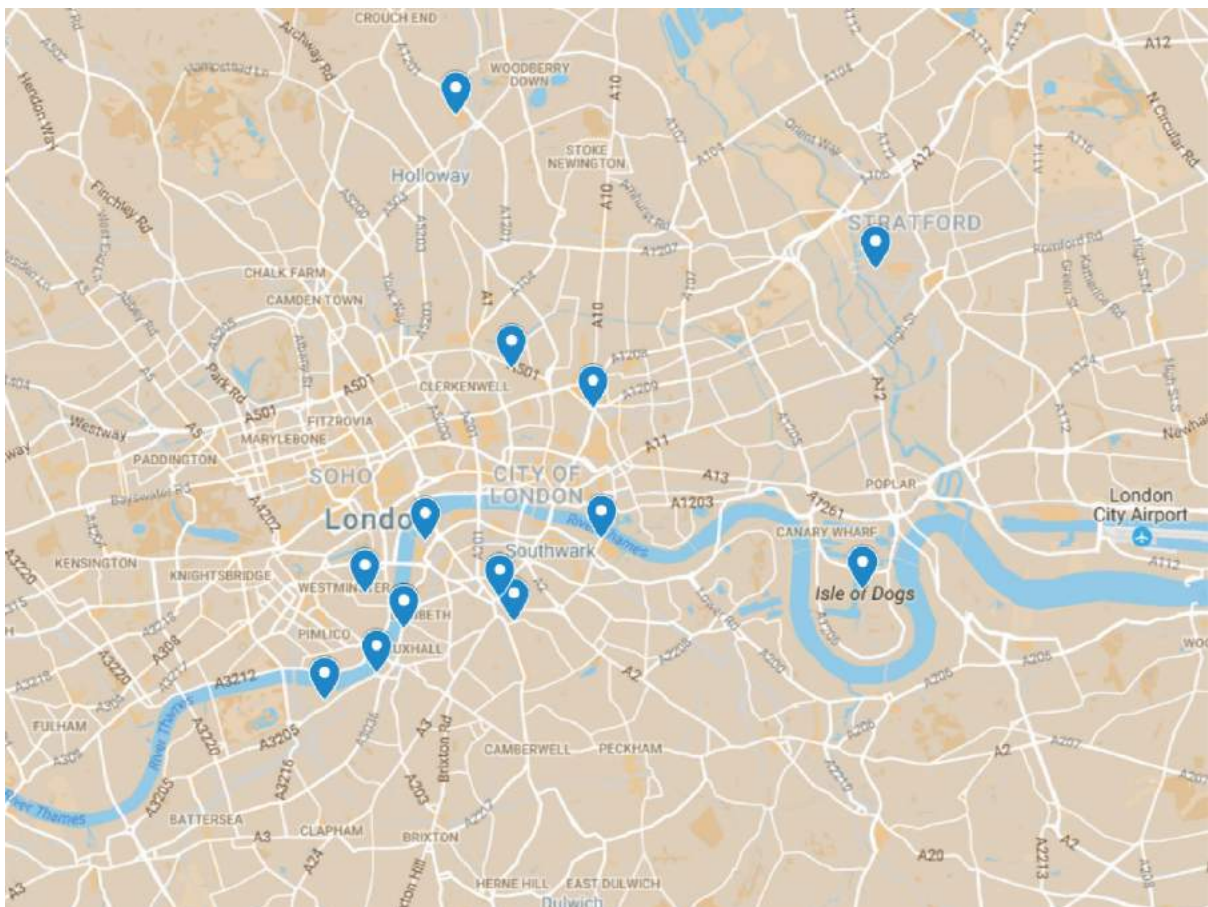
¹⁶⁷ https://www.theguardian.com/money/2015/apr/29/just-43-homes-on-the-market-affordable-for-first-time-buyers-in-london?CMP=share_btn_tw [Accessed 23 January 2017]

¹⁶⁸ <https://www.theguardian.com/society/2015/jan/30/london-abbey-tower-homes-flats-hong-kong> [Accessed 23 January 2017]



Analysing Land Registry data to reveal the nature of off-plan investment

Using data from the Land Registry, TI-UK has carried out analysis on 14 developments, looking at 2,066 properties bought by 1,744 beneficiaries; the individuals or entities who will gain ownership of the property once it has been built. This analysis looks across London to assess who is buying new build property. Developments like Nine Elms and Battersea Power station were chosen due to size as well as their high profile in the media. Whilst many of the developments are located in Central London, there is a degree of geographical spread to the projects included in the analysis. This shows to an extent that the trends revealed in the analysis are not limited only to Central London.



Map 2: Map of developments used in TI-UK Land Registry analysis

Land Registry documents contain a 'charges register' which shows a list of the development's beneficiaries. This data is limited in that the individuals or entities listed may not be the ultimate beneficiaries of the property:

- the name might be a family member or close associate who is buying the property on behalf of someone
- since the entry has been recorded, the off-plan property may have been resold, this information is not required to be recorded therefore the entry may be out of date

In addition beneficiaries may give an address that is not their full time residence. Our research focused on the beneficiaries listed under the charges register. When a beneficiary is listed, varying levels of detail on that individual or entity are shown:

- every beneficiary entry contains a name, be it of a person or a company
- there is sometimes a registered address given for the beneficiary; our analysis shows 69 per cent of properties were bought by beneficiaries who did not include a registered address
- the entry may also give details of the beneficiary's solicitor and the address of the solicitor; 48 per cent of beneficiaries included details of the solicitor used to process the transaction

The analysis shows that data included on the charges register differs greatly. For example over 30 per cent of entries gave no registered address, but included the details of a solicitor. The variance in information included on the register often made it difficult to assess whether the individual was an overseas buyer.

185 of the 449 beneficiaries who gave a UK address also listed information suggesting they may themselves be overseas investors. The following criteria were used to identify overseas buyers as different to domestic buyers:

- property bought using solicitor actively promoting overseas property investment
- overseas address given
- offshore company used
- overseas PSC listed in the UK company register
- non-anglicised name

Where more of these indicators were present, there was greater confidence that the beneficiary was an international investor. However a limiting factor to this was that the stated residence may not be their full time residence, for example a member of a Middle Eastern royal family stated their residence was in the UK.

In addition to analysing whether the beneficiaries were overseas investors, the analysis has taken into account the relative corruption and money laundering risks posed by beneficiaries. Key indicators of this have been:

- use of companies registered in secrecy jurisdictions
- beneficiaries investing from jurisdictions with a corruption risk i.e. those scoring 60 or below on Transparency International's Corruption Perceptions Index¹⁶⁹

¹⁶⁹ Where 0 indicates very high perceptions of corruption risk and 100 indicates very low perceptions of corruption risk

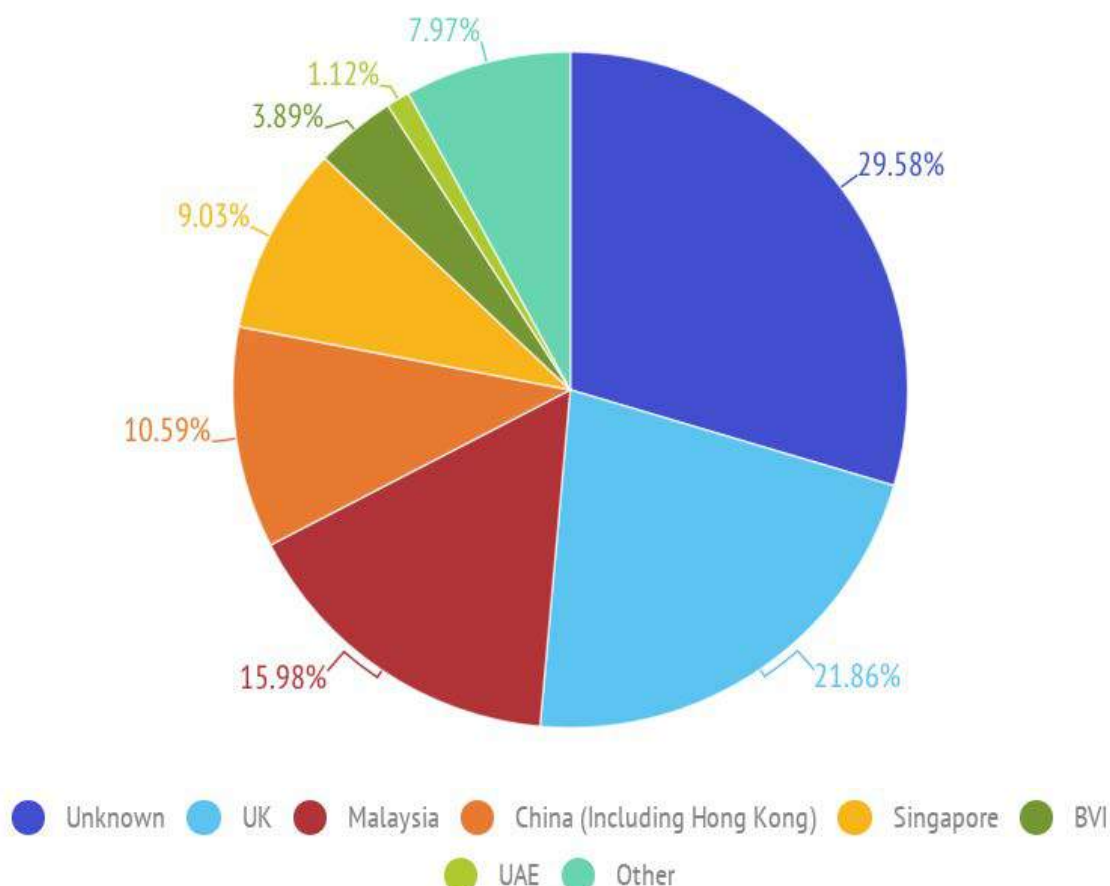
Off-plan property as a destination for crisis capital and illicit wealth

According to the data we collected across the 14 developments and 2,066 properties, at least 76 per cent of properties were bought by beneficiaries coming from overseas. TI-UK does not allege that any of the developers or companies involved in these properties are complicit in corruption or money laundering.

- of the beneficiaries that could be categorised with reasonable confidence - those that included details of an address, those that used a solicitor who specialised in helping overseas clients buy property and those that used an offshore company to purchase property – 85 per cent of buyers were judged to have been international
- the UK was the most represented country, however UK buyers were still in the minority with only 22 per cent of the 2,066 properties bought by those listing the UK as their country of residence

30 per cent of properties were bought by beneficiaries who did not reveal their country of residence, instead listing their solicitors. TI-UK has not analysed the precise role played by each solicitors firm and makes no allegation of complicity in money laundering or corruption. The data showed over 130 different solicitors were used by beneficiaries across the 14 developments. Just five of these firms were involved with the purchase of over 65 per cent of properties which stated the solicitor used. These five solicitors all listed assisting overseas investors acquire UK property as one of their primary functions, with a number specifically targeting clients in high corruption risk markets. South Gardens in Elephant Park, on the site of the former Heygate estate, were exclusively represented by a single firm, which specialises in international property investor purchases.

Chart 2 Proportion of beneficiaries by stated jurisdiction



Money Laundering risk and crisis capital in Off-Plan Investment

Based on our analysis around 40 per cent of all 2,066 properties were sold to beneficiaries originating from high corruption risk jurisdictions or using a company registered in a secrecy haven. We could not identify corruption risk for the 30 per cent of properties bought by beneficiaries that did not list their place of residence.

The second most represented country after the UK, Malaysia, has recently had a significant corruption scandal involving the embezzlement of funds from the state investment fund 1MDB. The Malaysian Prime Minister, Najib Razak, who denies the claims of siphoning over \$1 billion into personal bank accounts, is the subject of a US Department of Justice investigation.¹⁷⁰ 44 per cent of Malaysian people surveyed in the 2013 GCB said that they felt that parliament was corrupt or extremely corrupt.¹⁷¹ In addition Malaysia was ranked as a high corruption risk country in Transparency International's Government Defence Index, with limited budget transparency highlighted as a specific concern.¹⁷²

The 1MDB scandal has exposed how grand corruption and the subsequent laundering of illicit wealth could occur in the country. As well as this, the scandal has caused economic uncertainty in the country with currency fluctuations, which has resulted in higher levels of capital flight.¹⁷³ Whilst the Battersea Power station was being developed, former London Mayor Boris Johnson specifically targeted Malaysia for overseas trips encouraging investment into the development.¹⁷⁴ These could be explanatory factors behind high levels of Malaysian investment in the properties we analysed.

Investors from China and Hong Kong were prominent, accounting for at least 10 per cent of beneficiaries. In addition a number of beneficiaries did not list their address but were using the China specialist law firms of Lu Oliphant¹⁷⁵ and Zhong Lun.¹⁷⁶ As previously outlined, China is the source of high levels of both illicit outflows as well as crisis capital, which may be being exhibited in high levels of off-plan purchases. No allegation is made of Lu Oliphant or Zhong Lun of complicity in corruption or money laundering.

¹⁷⁰ <https://www.justice.gov/opa/pr/united-states-seeks-recover-more-1-billion-obtained-corruption-involving-malaysian-sovereign> [Accessed 31 January 2017]

¹⁷¹ <http://www.transparency.org/gcb2013/country?country=malaysia> [Accessed 31 January 2017]

¹⁷² <http://government.defenceindex.org/countries/malaysia/> [Accessed 31 January 2017]

¹⁷³ <http://www.forbes.com/sites/riskmap/2016/04/05/a-political-battle-in-malaysia-signals-far-reaching-fallout/#462d27c46405> [Accessed 31 January 2017]

¹⁷⁴ <http://www.bbc.co.uk/news/uk-england-london-30325705> [Accessed 31 January 2017]

¹⁷⁵ <http://luoliphant.com/> [Accessed 31 January 2017]

¹⁷⁶ <http://www.zhonglun.com/en/> [Accessed 31 January 2017]

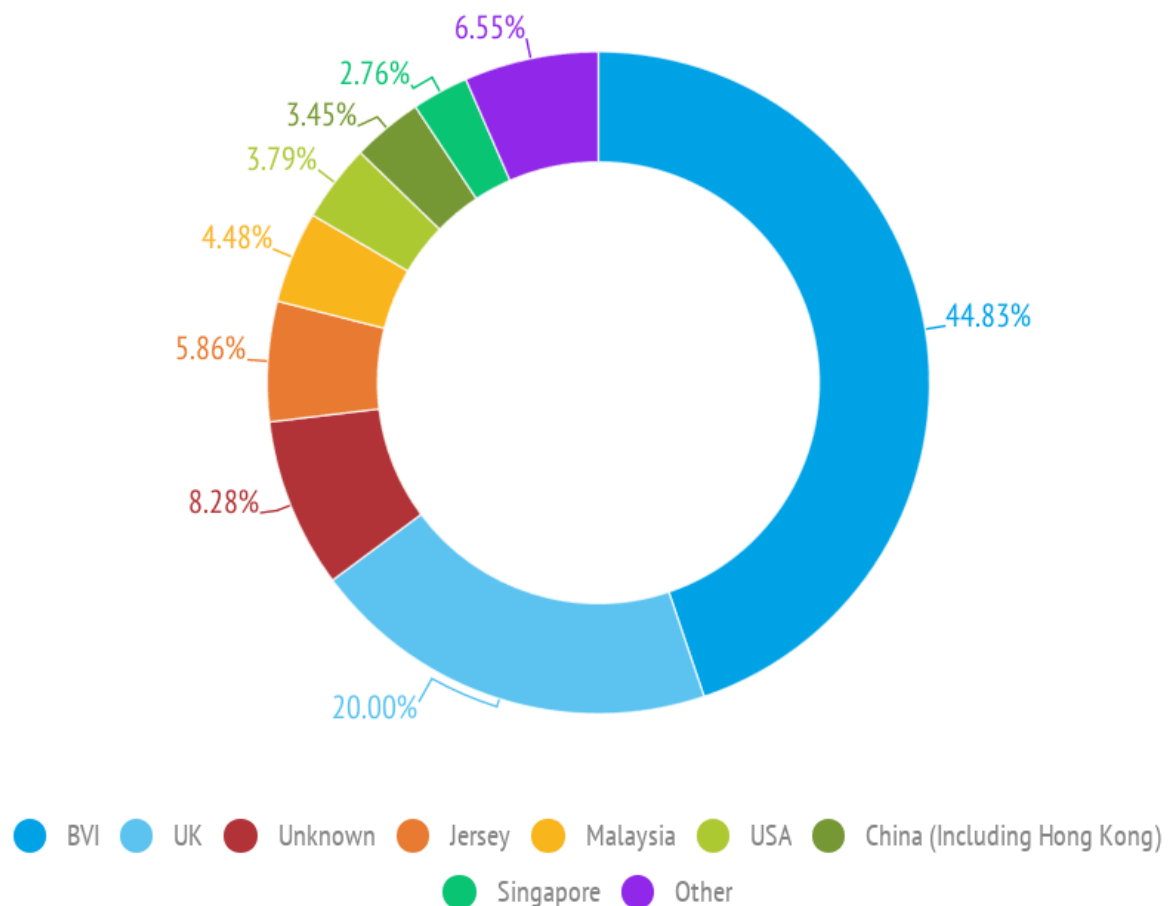
Use of Companies in Secrecy Havens

Data from the 14 developments shows that around 14 per cent of properties were bought with a company listed as a beneficiary. These companies came from at least 17 different jurisdictions, with some companies not including their country of registration. Over 76 per cent of the companies used were registered in secrecy havens. The most prominent jurisdiction was the BVI; almost half the companies purchasing off-plan property were registered here.

The value of properties bought over the 14 developments using companies based in secrecy havens was at least £204 million. The real total is likely to have been far higher as this calculation used the price of a one bedroom apartment in each development to calculate this value.

The use of companies based in secrecy havens to conduct property purchases signifies a money laundering risk as it is difficult for professionals conducting due diligence to identify the beneficial owners of the company. Therefore it is more likely that some of these properties were purchased with illicit wealth.

Chart 3: Proportion of company beneficiaries by jurisdiction



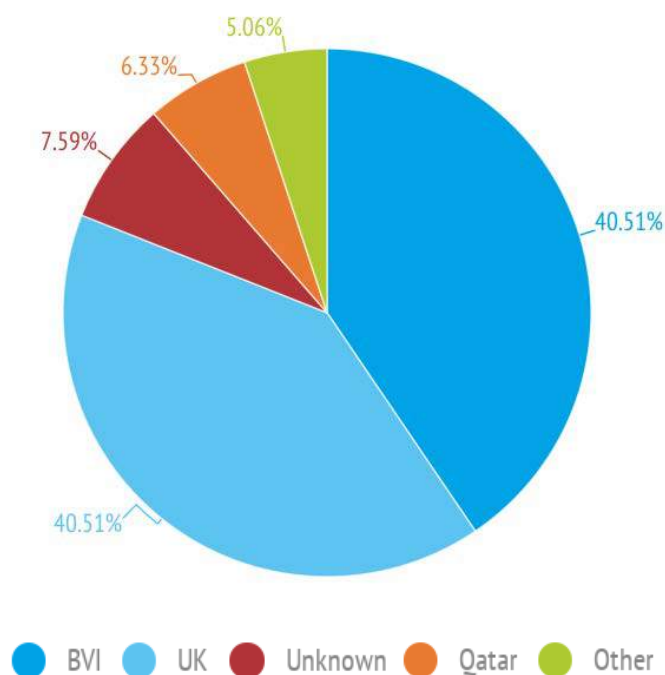
Case Study: Southbank Place (The former Shell Centre)

The regeneration of the Shell Centre on London's South Bank has attracted a great deal of dispute since the scheme was given permission in May 2013. At the centre of this controversy have been numerous claims around the suitability of the development. A judicial review of the decision to grant planning permission dubbed the 'Battle of Waterloo' saw local resident, George Turner, highlight how the scheme was, in Turner's words: "flawed in so many ways".¹⁷⁷

Amongst the issues raised were:¹⁷⁸

- the lack of transparency around the viability report which led to the scheme getting planning permission
- the views of Unesco world heritage site Westminster Palace from Green Park would be obstructed
- a lack of affordable homes – latest plans indicate 20 per cent of homes will be affordable however 70 of these homes will be on a separate estate in the borough
- insufficient natural daylight which will affect surrounding buildings as well as the public space in the scheme

Chart 4: Proportion of beneficiaries by jurisdiction in Southbank Place data



Our Land Registry analysis of one of the residential units in the scheme shows that many of the buyers are corporate entities registered in secrecy havens, in particular the BVI. Over 40 per cent of the beneficiaries for this building were companies based here, with a single BVI company purchasing over 30 per cent of the properties in this block to date. The high number of anonymous companies used indicates a higher than average money laundering risk. There is no suggestion that any of the developers have been complicit in corruption or money laundering.

¹⁷⁷ <http://www.bbc.co.uk/news/uk-england-london-33095007> [Accessed 23 January 2017]

¹⁷⁸ <http://www.bdonline.co.uk/george-turner-on-his-shell-centre-defeat-i-did-what-i-could/5075916.article> [Accessed 23 January 2017]

Table showing 14 developments analysed by TI-UK

Development	Starting/Maximum price of homes for sale ¹⁷⁹	No. of apartments sold	Percentage of Overseas Investors ¹⁸⁰	Percentage of beneficiaries from high corruption risk jurisdictions
One Tower Bridge	£2,100,000-Unknown	168	76.05%	41.32%
250 City Road (Towers 1 and 2)	£885,000-£3,100,000	126	96.40%	21.43%
Southbank Place Unit B4A (Former Shell Centre)	£1,050,000-£3,060,000	79	88.46%	46.84%
Baltimore Wharf	£400,000-£3,500,000	299	87.37%	39.13%
Circus West, Phase 1, Battersea Power Station	£645,000-£8,300,000	831	85.73%	44.77%
City North Islington Estate	£380,000-£1,500,000	107	77.78%	35.51%
Manhattan Loft Gardens	£750,000 - £1,500,000	33	82.14%	9.09%
Market Towers, One Nine Elms	£750,000-N/A	147	97.18%	39.46%
Merano Residences	£2,016,000-N/A	8	100%	75%
South Gardens Elephant Park	£790,000-£1,500,000	51	100.00%	N/A ¹⁸¹
The Corniche, Albert Embankment	£3,350,000 – £7,300,000	7	100.00%	42.86%
The Stage, Shoreditch	£685,000-£2,570,000	17	68.75%	5.88%
Two Fifty One Southwark Bridge Road	£675,000- N/A	163	50.86%	25.15%
Westminster Quarter	£959,000 - £3,200,000	30	92.59%	60%

¹⁷⁹ Figures obtained where available from developer websites or from other open source material

¹⁸⁰ Beneficiaries that could be classified with 'high confidence'

¹⁸¹ No beneficiaries gave details of place of residence, therefore no corruption risk could be ascertained



London's Super-Prime crisis

Developers need to front-load developments with investment.¹⁸² This often comes from off-plan sales to cash rich investors as this reduces the need for loans from banks. A 2014 Moliոր report stating that in developments of over 20 units in London, over 70 per cent of new-build sales in the £1,000 to £1,500 per square foot range went to those looking to invest.¹⁸³ These investors come from the UK and overseas but our figures collected from Land Registry data show overseas buyers play a major role, with investment from high corruption risk jurisdictions a significant factor.

The need to sell off-plan to investors incentivises developers building luxury property – often in the form of high-rise apartments – as these are viewed as more attractive to overseas investors.¹⁸⁴ This trend runs counter to the desires of the general public with survey data from Ipsos MORI showing only 27 per cent of Londoners saying they would be happy to live in a high-rise tower.¹⁸⁵

Mark Cleverly, a partner at the building consultancy firm Arcadis, said developers typically plan for a 20 per cent profit on projects.¹⁸⁶ In recent years this has been realised by tapping into the overseas need for safe haven assets.

“The only market was the foreign market, had it not been for the Far-East by and large, very little would have been built between 2008-2010/11, they (overseas market) were pretty much fueling it... it (overseas investment) started off being a good thing, keeping the market ticking over... with all these things you need a bit of balance though and I think it tilted far too far, that became a purpose for developers so they could go off and sell it as investments to foreign investors.”

Stephen Burns,
Executive Director of Community Investment, Peabody¹⁸⁷

¹⁸² <https://www.london.gov.uk/press-releases-6319> [Accessed 23 January 2017]

¹⁸³ British Property Federation *Who buys new homes in London and why?* (2014) p20

¹⁸⁴ <http://www.bpf.org.uk/sites/default/files/resources/BPF-Who-buys-new-homes-in-London-and-why.pdf>

¹⁸⁵ <http://www.economist.com/news/britain/21589442-why-influx-foreign-money-good-londons-property-market-live-and-let-buy> [Accessed 23 January 2017]

¹⁸⁶ <https://www.ipsos-mori.com/researchpublications/researcharchive/3361/high-rise-in-the-capital-londoners-split-on-merits-of-more-tall-buildings.aspx> [Accessed 23 January 2017]

¹⁸⁷ <https://www.ft.com/content/0e154da8-2d8b-11e6-a18d-a96ab29e3c95> [Accessed 23 January 2017]

¹⁸⁸ Interview, June 2016

International interest is attracted by emphasising the investment value in luxury London property; a development at Vauxhall was described as “‘gold bullion’ of international property markets” in a presentation to investors.¹⁸⁸ This kind of pitch has been effective in enticing investors based in environments high in political risk as almost 40 per cent of future homes across the 14 developments analysed by TI-UK were purchased were bought by buyers from high corruption risk jurisdictions.

"apartments in Manhattan, apartments in Vancouver [and] in London," along with fine art, have now replaced gold as the primary store of wealth."

**Laurence D. Fink,
Chairman and Chief Executive Officer of BlackRock¹⁸⁹**

A Times investigation in 2013 revealed the extent to which developers prioritised overseas investment over that from a UK market as half of developments in Central London Boroughs were marketed overseas first.¹⁹⁰ Meanwhile MPs found how estate agent JLL had held 40 overseas cocktail parties to market homes to investors in 2015.¹⁹¹

This mutually beneficial relationship between wealthy overseas investors and developers needing upfront investment has resulted in developers building assets targeted at investors, whilst ignoring the demand for affordable housing from ordinary people.¹⁹² Research by Arcadis shows that building of prime property in London has increased by 40 per cent over 18 months, which appears to have been driven by the perception that there will be an unending global demand for new build luxury property.¹⁹³

Overseas demand for luxury new build property has fluctuated in recent years. Commentators have speculated prices are correcting after a period of growth,¹⁹⁴ although in the aftermath of the Brexit vote, international interest in UK property rose to a degree, due in part due to investors getting better value because of falling sterling value.¹⁹⁵

Fluctuation in demand for prime new build property has resulted in what London Central Portfolio – a company specialising in Central London property – have called a ‘new build crisis’¹⁹⁶ or alternatively a ‘super prime crisis’.¹⁹⁷ In November 2016 the number of new homes being built in Central London without a buyer had reached its highest since records began; another indicator that developers were creating an oversupply of new build luxury housing, whilst there is an undersupply of homes for ordinary people.¹⁹⁸

¹⁸⁸ <https://www.theguardian.com/society/2015/jan/15/foreign-investors-buy-80-per-cent-developments> [Accessed 23 January 2017]

¹⁸⁹ <http://www.citylab.com/housing/2015/06/the-big-money-behind-tall-buildings/395690/> [Accessed 23 January 2017]

¹⁹⁰ <http://www.thetimes.co.uk/tto/business/industries/construction-property/article3952394.ece> [Accessed 23 January 2017]

¹⁹¹ JLL were approached for comment but did not respond <http://www.getwestlondon.co.uk/news/west-london-news/mps-urge-developers-sell-homes-10688956>

¹⁹² <http://www.theguardian.com/cities/2016/apr/20/london-housing-crisis-sub-prime-problem-super-prime> [Accessed 23 January 2017]

¹⁹³ <http://www.building.co.uk/london-prime-resi-pipeline-still-growing/5081109.article> [Accessed 23 January 2017]

¹⁹⁴ <https://www.london.gov.uk/decisions/add2062-research-overseas-buyers-london-new-build-property> [Accessed 23 January 2017]

¹⁹⁵ <http://www.selectproperty.com/2017/01/uk-assets-still-17-affordable-international-investors/> [Accessed 23 January 2017]

¹⁹⁶ [http://us9.campaign-archive1.com/?u=0b868a8abe5c50365ed71874e&id=86d364fc97&e=\[UNIQID\]](http://us9.campaign-archive1.com/?u=0b868a8abe5c50365ed71874e&id=86d364fc97&e=[UNIQID]) [Accessed 23 January 2017]

¹⁹⁷ <https://www.theguardian.com/cities/2016/apr/20/london-housing-crisis-sub-prime-problem-super-prime> [Accessed 23 January 2017]

¹⁹⁸ <https://www.bloomberg.com/news/articles/2016-11-08/unsold-new-london-luxury-home-glut-to-reach-record-on-oversupply> [Accessed 23 January 2017]



A Guardian investigation into the Elephant Park development on what used to be the Heygate Estate showed that Savills had factored in an ‘acceptable level of profit’ at 25 per cent. As a result the site which had once been home to 1,194 social-rented homes would now only have 74.¹⁹⁹ A 25 per cent profit margin was deemed to be excessive by the district value service reviewing the assessment and could have been reduced to increase the social housing on offer; however this was not carried through.

Many original residents who bought their council homes under the right to buy scheme in the 1980s were forced to leave the area as the new property on offer is far beyond the compensation they were given; some of these figures were as low as £80,000.²⁰⁰

“The purchase order will result in us being dispossessed of our homes and permanently priced out of central London. Residents are being displaced and the housing is being replaced with a citadel of luxury housing we won’t be able to afford.”

Adrian Glasspool
Spokesman for the Heygate Leaseholders Group²⁰¹

Prices start in Elephant Park at £569,000 for a studio flat and go higher than £1 million, meaning the homes are out of reach to those on the average Southwark wage of £34,139. The homes on offer in the new development were being marketed as assets to global investors with adverts seen in China, Malaysia, and Hong Kong.²⁰² Due to these high prices and extensive marketing, sales of homes in the development have been dominated by overseas investors.

Land Registry data confirm that the initial off-plan sales in the development are dominated by overseas investors: all current beneficiaries listed have their address listed as ‘care of 2 Tower St, London WC2H 9NP’,²⁰³ which is the address of Riseamsharples, a property firm who lists its business aim as “to specialise in advising Asian and other offshore investors in purchasing London property”.²⁰⁴

Terry Redpath, a former Southwark housing officer, lived on the estate since 1974 but had to move to Sidcup using his £45,000 life savings. “I feel I have been forced to give up my home to accommodate the building of homes for overseas investors,” he said.²⁰⁵

¹⁹⁹ <https://www.theguardian.com/cities/2015/jun/25/london-developers-viability-planning-affordable-social-housing-regeneration-oliver-wainwright> [Accessed 23 January 2017]

²⁰⁰ <http://www.standard.co.uk/news/london/residents-of-the-heygate-estate-forced-to-move-out-of-london-8743216.html> [Accessed 23 January 2017]

²⁰¹ <http://www.bbc.co.uk/news/uk-england-london-19371334> [Accessed 23 January 2017]

²⁰² <http://www.independent.co.uk/news/uk/home-news/end-of-an-area-for-notorious-heygate-estate-social-housing-gives-way-for-high-rise-in-prices-8929998.html> [Accessed 23 January 2017]

²⁰³ As of November 2016

²⁰⁴ <http://www.riseamsharples.com/about-us> [Accessed 23 January 2017]

²⁰⁵ <http://heygatewashome.org/img/examples/PROPWK170513.pdf> [Accessed 23 January 2017]

2.3 Community

Investment flows driven by corruption may also be having a damaging impact on local communities. The way in which these homes and businesses are used, or not used as the case may be, can have negative consequences for the community as a whole.

Anecdotal evidence, as well as a growing body of statistical evidence, shows that communities with high numbers of properties owned by anonymous companies suffer from higher levels of empty or underused properties. These communities suffer the numerous negative effects of empty properties with the local character being lost and local small businesses struggling to survive. Whilst it is difficult to measure empty properties precisely, new measures are being developed to give a greater insight into areas with high levels of underused homes.

Property ownership driven by a desire to park assets here, either due to a fear of corruption in home countries or possibly to launder proceeds of corruption is having a tangible impact on businesses that have historically been extremely successful and represent the centre of London communities. Another area of concern is the cases of a number of popular pubs across London being bought as assets with a view to being converted to more luxury flats.

Buy to leave with corruption as a driver

The logic behind leaving property empty makes it more likely that those doing so are the same investors buying a home in London as a safe haven asset or bolt holes for when turmoil arises at home. Eyewitness accounts of the Gaddafi family's home in London point to this being the case. Despite spending £10 million on the house, Saadi Gaddafi did not rent it neighbours reported seeing the Gaddafis use the house on three occasions over the 2 years in which it was owned.²⁰⁶

Leaving a home empty means it can be sold at a moment's notice, rather than waiting for tenants to leave. This would be an attractive proposition to those facing risks in their home country and may need cash at short notice. In the immediate aftermath of the Arab Spring media articles noted how the Assads, particularly Bashar al-Assad's uncle Rifaat al-Assad, started trying to sell the numerous properties he had in the West to free-up assets.²⁰⁷

There are also economic reasons to leaving a property empty which apply to investors driven by corruption in their own country or seeking to launder wealth. Keeping the property empty preserves its condition, specifically in new-build, because its newness is what helps it hold much of its value – “the new build premium”.²⁰⁸

“The more international an area, the more common it is. There's an arc from Knightsbridge through Belgravia, Mayfair and up as far as St John's Wood and Hampstead where this has been especially popular,”

Roarie Scarisbrick of Property Vision, a buying agency²⁰⁹

²⁰⁶ <http://www.bbc.co.uk/news/world-asia-17561111> [Accessed 23 January 2017]

²⁰⁷ <http://www.telegraph.co.uk/news/worldnews/middleeast/syria/8811097/Syria-Assad-family-selling-off-overseas-property-empire.html> [Accessed 23 January 2017]

²⁰⁸ <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/planningandbuildingcontrol/publicity/publicconsultation/20152016/20150921preventingwastedhousingsupplyspdadopte djuly2015> [Accessed 23 January 2017]

²⁰⁹ <https://www.ft.com/content/6954f798-cb2c-11e5-a8ef-ea66e967dd44> [Accessed 23 January 2017]



Case Study: 250 City Road

The development on 250 City Road in Islington – “An exciting new landmark in London's most exhilarating location”²¹⁰ – is a clear indicator of the influence of estate agents and solicitors specialising in selling property as investment to clients in high corruption risk jurisdictions.

According to the developers' website prices start at £885,000 for a single bedroom apartment. Prices for the cheapest single bed apartment in the development are over 25 times the Islington average wage of £35,353.²¹¹ 30 per cent of apartments are marked as 'affordable', however the Islington council's executive member for housing at the time, James Murray, highlighted how this was a scheme approved by former Mayor of London Boris Johnson and not Islington council.

“[Developers] are going to make a lot of money from this scheme and who we believe could provide many more genuinely affordable homes for Londoners on this site...it's galling for Londoners to see homes being sold overseas before they're even built – and it's outrageous for new homes to then stand empty in the middle of a housing crisis.”

James Murray
former Islington Council executive member for housing²¹²

We can reveal, using Land Registry data, fewer than 14 per cent of properties purchased on this development have been bought by those with a UK address.

Due to the high prices of the apartments, the development is very likely to be seen as an ideal destination for illicit wealth and crisis capital fleeing corruption. A prominent feature of the data is the high number of beneficiaries listing a solicitor whose work is dominated by catering to international investors. Lu Oliphant LLP – “The London Chinese Solicitors” – represented over 50 per cent of beneficiaries which listed a solicitor on the charges registers. Zhong Lun law firm had the third highest market share and is referred to as “one of the most powerful law firms in China” on its website.²¹³ By actively targeting a high corruption risk market, these firms are exposing themselves and the London property to higher levels of money laundering risk.

²¹⁰ <https://www.berkeleygroup.co.uk/new-homes/london/islington/250-city-road> [Accessed 23 January 2017]

²¹¹ <http://metro.co.uk/2015/11/18/how-does-your-salary-compare-with-the-rest-of-the-country-5511194/> [Accessed 23 January 2017]

²¹² <http://www.bdonline.co.uk/khan-appoints-mount-pleasant-opponent-to-key-housing-post/5081843.article> [Accessed 23 January 2017]

²¹³ <http://www.zhonglun.com/en/> [Accessed 23 January 2017]

In addition, 15 per cent of properties we analysed were purchased using a single company not listed on 'Open Corporates', indicating it could be registered in a secrecy jurisdiction and therefore far more difficult for both the estate agents and solicitors to identify its beneficial owners. A further 16 per cent of homes went to investors with registered addresses in the UAE.

Since 250 City Road was granted planning permission, Islington Council have adopted further measures to prevent housing supply in new developments being wasted through underuse. In particular the measures are aimed to stop "individuals or companies buy(ing) new residential dwellings for speculative investment purposes only".²¹⁴ These measures were brought in after 250 City Road received planning permission, so it was not subject to any of its conditions.

Negative impacts of buy to leave

- **Wasted housing stock** – The impact of empty homes is felt in areas with limited space for development, a problem encountered by much of inner London. Therefore it is necessary to protect scarce land for key priority uses such as housing, and to ensure that supply that does come forward is not wasted.
- **Diminished sense of community** – In areas where there once was a sense of community, the empty homes problem is disrupting this, causing some long term residents to leave and communities to break down.²¹⁵ In newer developments, the high proportion of investors rather than occupants means homes are left vacant and underused, resulting in a real lack of community spirit to begin with.²¹⁶
- **Puts local small businesses at risk** – The rise in underused homes also has an impact on local businesses, with less footfall leading to falling profits, causing some once profitable and highly regarded businesses to close down. One of London's best known French restaurants was forced to close in 2015 due to a lack of permanent residents in the area.²¹⁷

"Buy to leave is endemic in prime central London and the new-build sector. [It is] a grave issue in a city where many people are looking for somewhere to live," **Guy Meacock, Prime Purchase- the buying arm of Savills**²¹⁸

²¹⁴ https://www.islington.gov.uk/~/_media/sharepoint-lists/public-records/planningandbuildingcontrol/publicity/publicconsultation/20152016/20150921preventingwastedhousingsupplyspdadoptedjuly2015.pdf [Accessed 23 January 2017]

²¹⁵ <http://www.citymetric.com/politics/richest-londoners-are-being-priced-out-their-homes-too-here-s-why-matters-1511> [Accessed 23 January 2017]

²¹⁶ <http://uk.businessinsider.com/st-georges-wharf-tower-development-lies-nearly-empty-2016-5> [Accessed 23 January 2017]

²¹⁷ <http://www.standard.co.uk/news/london/lights-go-out-at-stars-favourite-french-restaurant-racine-marooned-in-non-doms-land-9974514.html> [Accessed 23 January 2017]

²¹⁸ <https://www.ft.com/content/6954f798-cb2c-11e5-a8ef-ea66e967dd44> [Accessed 23 January 2017]

Empty Homes data

A great deal of what is written about empty homes in London and more specifically the 'buy to leave' phenomenon has been based on anecdotal evidence,²¹⁹ however according to official statistics just under 21,000 homes in London are classified as 'long term empty'.²²⁰ The true scale of wasted housing in London is hidden by the way in which empty homes are recorded. Some investors in prime property are likely to use their home sporadically over the course of the year, meaning the home does not qualify as 'long term empty' for Council Tax purposes and is, therefore, not reflected in official statistics on long-term empty homes which are built from local authorities' Council Taxbase returns to central Government.²²¹ In other cases where a property might count as long-term empty, local authorities may not know this is the case as it has not been reported to them. This means that there is likely to be a degree of undercounting of properties left long-term empty. Knight Frank's 2016 wealth report shows how London's population of multi-millionaires worth over \$10 million varies from 34,230 in the summer to 10,450 in the winter, potentially leaving almost 24,000 homes empty at a time.²²²

According to Marsh and Parson's property monitor, 23 per cent of purchases of prime London property were purchased as a second home, indicating that a high number of properties in this area will be underused. A report by Molior – a property consultancy – on overseas investment into London property also acknowledges that some overseas buyers use their apartments in London as 'a permanently available hotel suite'.²²³

Alternative data sources offer more of an insight into the phenomenon of 'buy to leave' and the underuse of empty homes. A report by the ONS which uses data produced by the Department for Energy and Climate Change shows how electricity consumption could be used to measure underuse of homes throughout the UK and in London.²²⁴

The report shows that many London boroughs, predominantly those in Central and Western London, have high levels of extremely low electricity consumption, with over 5 per cent of homes in these boroughs exhibiting these traits. The numbers of households using very low levels of electricity is also much higher than the number of empty households recorded using local council data with the 'long term empty' description.

The boroughs which exhibit high levels of electricity underuse are predominantly located in prime London; the area favoured by overseas investors seeking safe haven assets.²²⁵

In figures 4 and 5 on the next page we contrast a map showing where properties owned by anonymous companies appear most in London with a map showing areas of London with abnormally low electricity usage. There is a clear overlap between the two in particular in West London boroughs like Westminster and Kensington. This shows it is possible that those seeking to escape corruption or hide corrupt activity are contributing to the underuse of houses and the buy to leave phenomenon in London.

²¹⁹ <https://www.theguardian.com/uk-news/2015/jan/25/its-like-a-ghost-town-lights-go-out-as-foreign-owners-desert-london-homes> [Accessed 23 January 2017]

²²⁰ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants> [Accessed 23 January 2017]

²²¹ Empty Homes, *Empty Homes in England* (September 2016) <http://www.emptyhomes.com/assets/empty-homes-in-england-final-september-2016.pdf>

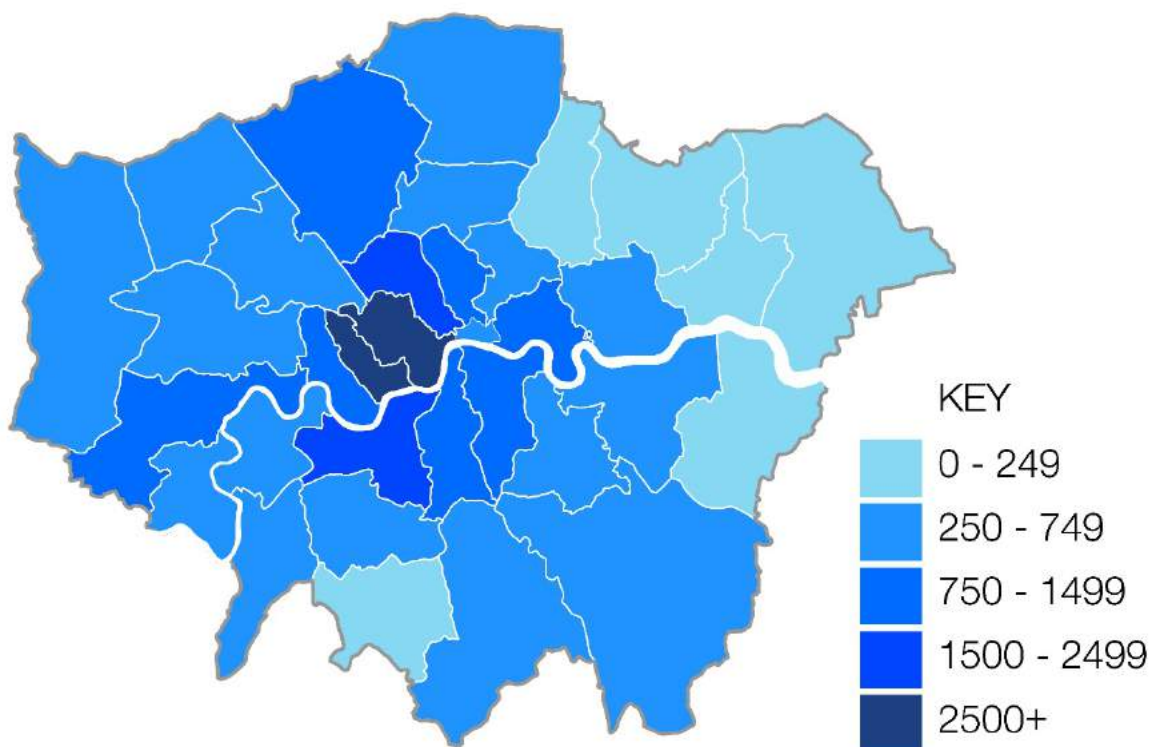
²²² Knight Frank, *The Wealth Report* (2016) <http://content.knightfrank.com/research/83/documents/en/wealth-report-2016-3579.pdf>

²²³ British Property Federation, *Who buys new homes in London and why?* (, 2014)

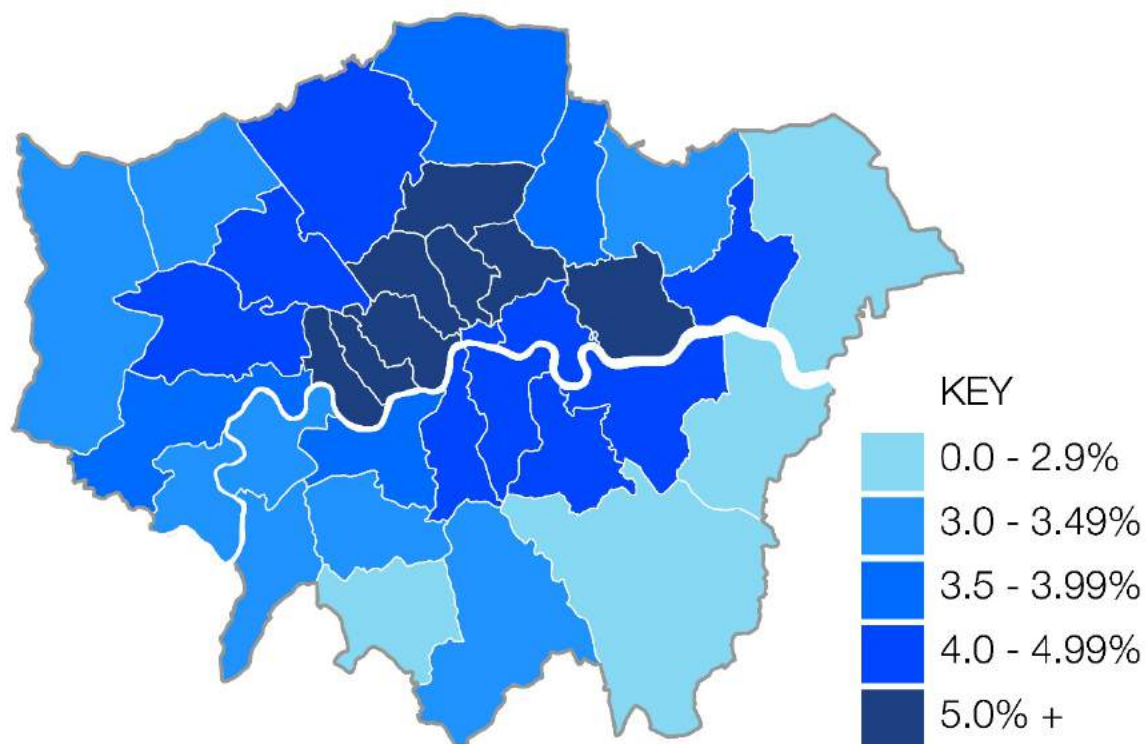
²²⁴ Office of National Statistics, *Analysing low electricity consumption using DECC data* (October 2015) https://www.ons.gov.uk/file?uri=/aboutus/whatwedo/programmesandprojects/theonsbigdataproject/analysinglowelectricityconsumptionusingdeccdata_tcm77-418326.pdf

²²⁵ <http://pdf.euro.savills.co.uk/residential---other/spot-worldlondon-lr.pdf> [Accessed 23 January 2017]

Map 4: Number of properties owned by anonymous companies



Map 5: Percentage of homes per borough with abnormally low levels of electricity usage





Case Study: The Black Cap Pub

Residential property is not the only type of asset being bought as a hedge against global risk; pubs across the UK and London are also being purchased by those from high corruption risk jurisdictions. Pubs are often a profitable investment as they can be converted in luxury flats for a profit.²²⁶

An investigation into the ownership structure of the Black Cap Pub in Camden has shown its purchase in 2010 for £13.3 million (including VAT) was originally funded by Russian investors Alexander Abramov and Alexander Frolov.

According Land Registry data, the Jersey company which bought the Pub, Kicking Horse Limited, was lent the money by a BVI company, Vollin Holdings. Documents released from the US Federal Communications Commission from 2012²²⁷ and 2013²²⁸ show Vollin is owned by another BVI company, Whiteclif Enterprises Limited with Alexander Abramov and Alexander Frolov listed as the ultimate beneficial owners of Whiteclif Enterprises Limited and therefore Vollin Holdings. In January 2016 further Land Registry records show that Vollin Holdings transferred financial backing to a Luxembourg company, DRAGONFLY FINANCE S.A.R.L.. Following this, Vollin Holdings ended their involvement with the Black Cap pub.

Since the Black Cap was purchased in 2010, the owners attempted to convert it into luxury apartments.²²⁹ When this failed it was closed in April 2015 just after being given Asset of Community Value status.²³⁰ This decision has caused high levels of distress to the local community and beyond due to it being one of London's best known LGBTQ venues, and has resulted in regular vigils being held outside the pub.²³¹ As noted in the Ham and High newspaper a number of other pubs in North London are being bought through anonymous companies, making it harder to get to the bottom of who owns them.²³²

Russian State interference in the assets of high net worth Russians

In 2009 Vladimir Putin singled out Evraz and its co-owner for criticism over the pricing strategy of the company.ⁱ Subsequently Evraz has been subject to investigations by Russia's Federal Anti-Monopoly Serviceⁱⁱ which is viewed as mechanism for Putin to exert further control over the economy, commentators like the Wilson Center say "this approach inflates prices, fuels corruption".ⁱⁱⁱ

ⁱ <http://www.theotherrussia.org/2009/03/05/putin-strikes-out-at-steel-company/> [Accessed 23 January 2017]

ⁱⁱ <http://www.rapsinews.com/news/20160721/276539203.html> [Accessed 23 January 2017]

ⁱⁱⁱ <http://europe.newsweek.com/how-putin-puts-squeeze-dissenters-533220?rm=eu> [Accessed 23 January 2017]

²²⁶ <http://www.dailymail.co.uk/news/article-2709729/Make-double-en-suite-Landlords-pulling-pounds-transforming-pubs-luxury-apartments-20-000-boozers-shut-30-years.html> [Accessed 23 January 2017]

²²⁷ https://apps.fcc.gov/edocs_public/attachmatch/DOC-317551A1.pdf [Accessed 23 January 2017]

²²⁸ http://licensing.fcc.gov/mybfs/download.do?attachment_key=1030234 [Accessed 23 January 2017]

²²⁹ <http://www.weareblackcap.com/> [Accessed 23 January 2017]

²³⁰ <http://www.independent.co.uk/news/uk/home-news/londons-historic-gay-pub-the-black-cap-in-camden-closed-by-owners-a-week-after-being-awarded-asset-10176344.html> [Accessed 23 January 2017]

²³¹ http://www.hamhigh.co.uk/news/vigil_held_for_camden_lesbian_gay_and_transgender_pub_the_black_cap_1_4295800 [Accessed 23 January 2017]

²³² http://www.hamhigh.co.uk/news/heritage/in_depth_the_pubs_bought_with_off_shore_cash_1_4700480 [Accessed 23 January 2017]



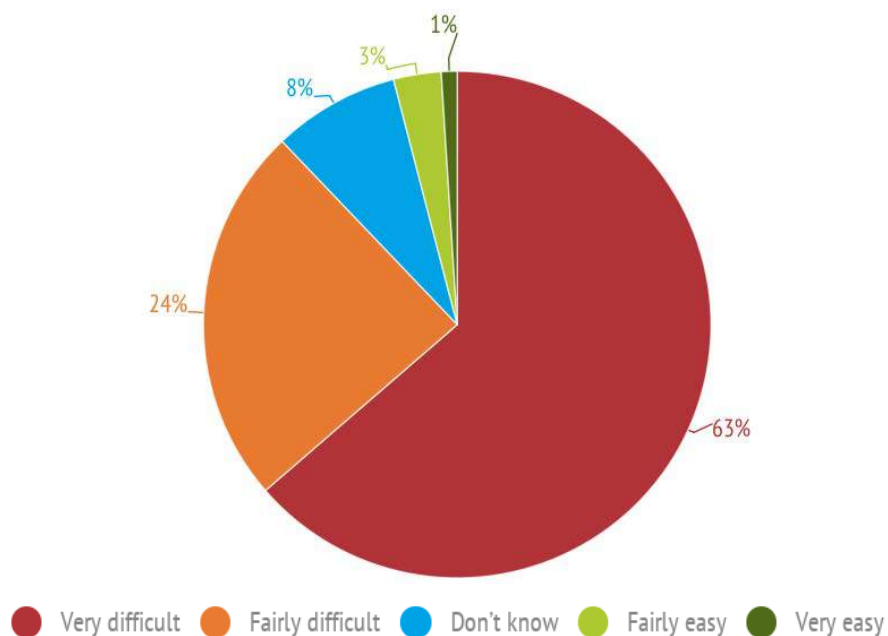
2.4 Perceptions

Measuring how Londoners feel about the cost of housing and what they feel is driving the housing crisis offers an insight into how perceptions could be influencing behavior. A survey of 1,036 people living in London aged over 18, conducted by YouGov on behalf of Transparency International UK, shows overwhelmingly that the vast majority (87 per cent) of Londoners feel the cost of housing in London makes it difficult to live there.²³³

The impact of the cost of housing on Londoners is clear: our survey results showed 41 per cent of Londoners had recently considered moving out of London due to the cost of living. These feelings were most strongly felt amongst young adults of 25-49, with 50 per cent of this age group considering moving out of London to find more affordable housing.

These figures are backed-up by the rising levels of people in their 30s being forced out of London by the spiralling prices. Based on data published by Generation Rent, 65,890 people in their 30s moved from London to another part of the UK in 2014-15, the net loss in 2014-15 represented a 48 per cent increase on the number of people in their 30s who moved out in 2011-12.²³⁴

Chart 5: Does the cost of housing make it easy or difficult to live and work in London?



²³³ All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1,036 adults. Fieldwork was undertaken between 27th September - 3rd October 2016. The survey was carried out online. The figures have been weighted and are representative of all London adults (aged 18+). YouGov is a member of the British Polling Council.

²³⁴ <https://www.theguardian.com/money/2016/sep/26/rising-london-house-prices-spark-departure-30-somethings> [Accessed 23 January 2017]

Business consultants who monitor the attitudes and behaviour of house-hunters in London say that the cost of housing and widespread desire to move out could result in a ‘reverse brain drain’ with young, talented people moving out of the capital.²³⁵ Another YouGov survey from April 2014 for London First revealed 38 per cent of London businesses are currently concerned about the impact of high housing costs on their ability to recruit and retain staff, with a further 8 per cent saying they’d become worried if prices continue to rise for the next ten years.²³⁶

As well as forcing people out of the capital, research by the Sutton Trust shows how London’s high cost of housing is also seen as a barrier to those looking to move into the city.²³⁷ According to its research, fewer than six per cent of new graduates moving to London come from the most disadvantaged fifth of UK neighbourhoods, with price of housing viewed as a driver of this.

When our survey asked respondents what they felt was driving house prices, the most common factor they identified was wealthy overseas investors buying top-end property as an investment, with 54 per cent of people listing this as one of their leading factors.

Chart 6: Which of the following do you think are the biggest reasons for the increases in house prices in London in recent years? (Please tick up to three options)*



*Results add up to more than 100 per cent due to respondents choosing more than one answer

²³⁵ <https://www.theguardian.com/uk-news/davehillblog/2014/sep/26/london-housing-crisis-reverse-brain-drain-ahead> [Accessed 23 January 2017]

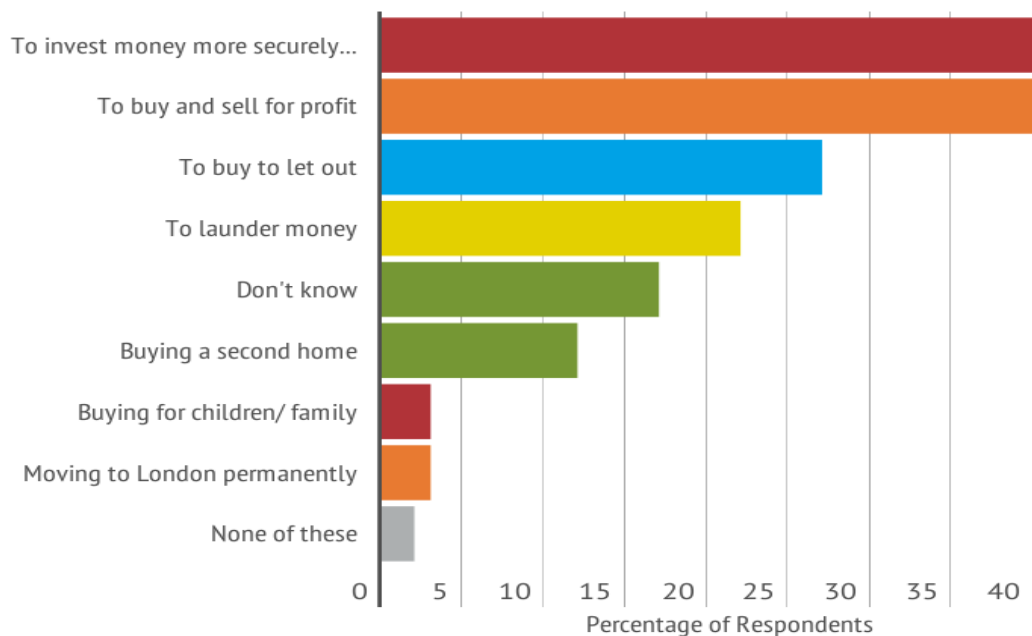
²³⁶ <http://londonfirst.co.uk/wp-content/uploads/2014/09/Moving-Out-Final.pdf> [Accessed 23 January 2017]

²³⁷ <http://www.independent.co.uk/news/uk/home-news/graduates-and-young-professionals-are-being-priced-out-of-londons-housing-market-sutton-trust-warns-10505128.html> [Accessed 23 January 2017]

A significant proportion of Londoners felt people from overseas were investing in London due to its position as a safe haven with 43 per cent saying London represented a safer investment than their home countries and 22 per cent saying overseas investors chose London to launder money through.

When the survey asked respondents whether they thought it was OK for individuals to own property anonymously, 72 per cent thought that it was unacceptable. This suggests that the vast majority of people would feel uncomfortable living in a community which had anonymous companies owning property in it. Most people said that anonymous companies were used to either avoid tax (52 per cent) or launder money (17 per cent), showing that people often associated these companies with ethically questionable and illicit activities.

Chart 7: Overseas investment in London’s residential property market exceeds £7 billion each year. Which one or two, if any, of the following do you think are the biggest drivers of this investment? (please tick up to two options)*



*Results add up to more than 100 per cent due to respondents choosing more than one answer



3. International Comparison

London is not the only city which attracts high levels of corrupt wealth and crisis capital; a number of other global hubs offer safe haven assets in the form of property.

In order to look at how other countries have responded to this issue, we have examined the policy context in:

- Melbourne
- Vancouver
- New York

These cities have identified overseas investment more generally as a driver of spiralling house prices and have taken a number of different approaches to address this. The policies these cities have implemented and the results of these policies could provide lessons for the UK.

3.1 Melbourne

Melbourne, like London, is a global city which has attracted a great deal of overseas investment due its reputation as a safe haven for assets and proximity to South-East Asia.²³⁸ As in London, a great deal of foreign investment into Melbourne has corruption as one of the driving forces. For example, Chinese investors eager to escape the often indiscriminate anti-corruption crackdown look at Melbourne as a location to escape this uncertainty.²³⁹

Those looking to launder their money through property purchases also see Melbourne property as an ideal investment opportunity. In 2012, Sam Koim, head of the anti-corruption task force in Papua New Guinea labelled Australia as the 'Cayman Islands' of Asia Pacific due to the ease with which corrupt individuals could launder money through the property market.²⁴⁰

In June 2015 Australian Federal Police Officers launched raids on properties across Melbourne which were suspected to be part of a global bribery and corruption scheme. One such purchase involved a block of student apartments sold for almost \$5 million more than they were worth, which was part of a kickback scheme to pay bribes to Malaysian officials.²⁴¹

The high levels of overseas investment with corruption as one of the driving forces has been identified as a possible factor in making Melbourne one of the least affordable cities in the world, with prices rising 64 per cent between 2004 and 2014.²⁴² However in Melbourne, as in London, data on overseas investment into the property market is lacking making it difficult to draw definitive conclusions.

²³⁸ <http://www.australianationalreview.com/melbourne-cbd-safe-haven-property-investors-2016/> [Accessed 23 January 2017]

²³⁹ <http://thediplomat.com/2015/06/property-probity-high-prices-china-and-australias-real-estate-market/> [Accessed 23 January 2017]

²⁴⁰ <http://www.pmc.aut.ac.nz/pacific-media-watch/png-australia-cayman-png-politicians-says-anti-corruption-expert-8391> [Accessed 23 January 2017]

²⁴¹ <http://www.theage.com.au/national/corrupt-malaysia-money-distorts-melbourne-market-20150622-ghu6a0> [Accessed 23 January 2017]

²⁴² <https://theconversation.com/was-the-housing-boom-in-sydney-and-melbourne-driven-by-foreign-buyers-51389> [Accessed 23 January 2017]

“No-one really knows how much foreign investment there is in residential real estate”

Australian Parliamentary Inquiry into overseas investment into the property market²⁴³

Investors looking to park their wealth in Melbourne property may be exacerbating the housing crisis in the city by leaving their property empty most of the year and effectively wasting it. Water consumption data for Melbourne shows 4.8 per cent of homes – over 82,000 – in the city were largely vacant in 2014,²⁴⁴ echoing the problem parts of London face with speculative investment incentivising leaving homes empty.

Are Australian controls effective at limiting corrupt flows and crisis capital?

Australia’s Foreign Investment Review Board (FIRB) system of scrutinising and regulating foreign investment aims to ensure overseas investment is made in the national interest, with the following taken into consideration on a case by case basis:

- national security
- competition
- other Australian government laws and policies (including tax and revenue laws)
- the economy and the community
- the character of the investor²⁴⁵

The system is effective in providing an overview of the scale of overseas investment as it leads to significant levels of data on overseas investment being collected. Both illicit financial flows and crisis capital could be mitigated through the FIRB system due to the factors considered by the review board.

In reality the system contains a number of loopholes, allowing illicit financial flows and crisis capital into the property market.

- In the Malaysian case of buying student accommodation above the asking price to mask bribes, investors listed themselves as 14 per cent shareholders of a company used to buy property, thus evading the 15 per cent shareholding threshold imposed by the FIRB system.²⁴⁶
- In the same case overseas ownership was concealed by listing a willing Australian nominee as majority shareholder.
- The visa system can also be abused to purchase property. Individuals on temporary visas are permitted to purchase property in Australia, thus allowing students to buy property for their family living abroad.²⁴⁷
- Like in the UK, corporate vehicles like trusts are also abused in order for overseas investors to buy property and potentially launder corrupt wealth through the property market by masking their identities.²⁴⁸

²⁴³

http://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/Foreign_investment_in_real_estate/Tabled_Reports [Accessed 23 January 2017]

²⁴⁴ https://www.prosper.org.au/wp-content/uploads/2015/12/11Final_Speculative-Vacancies-2015.pdf [Accessed 23 January 2017]

²⁴⁵ <http://www.whitecase.com/publications/insight/national-security-reviews-global-perspective-australia> [Accessed 25 January 2017]

²⁴⁶ <http://www.theage.com.au/national/corrupt-malaysia-money-distorts-melbourne-market-20150622-ghu6a0> [Accessed 23 January 2017]

²⁴⁷ <http://www.theaustralian.com.au/business/property/tougher-new-firb-rules-for-foreign-home-buyers/news-story/b3d9c664c098da9fccfdb243b558eb0c> [Accessed 23 January 2017]

²⁴⁸ <http://www.macrobusiness.com.au/2015/03/chinese-illegals-dodge-firb-property/> [Accessed 23 January 2017]

In the UK there is no directly comparable system to Australia's FIRB. The UK's money laundering regulation does however explicitly cover the estate agency sector, which Australia's does not. because of this the Australian property market is particularly exposed to corrupt wealth; estate agents are not covered by regulations and are therefore not obliged to report suspicious activity, conduct source of wealth checks on the purchaser or identify the beneficial owner of a company seeking to purchase property.²⁴⁹ The Attorney General's office committed to review Australia's money laundering laws in 2015,²⁵⁰ assessing whether estate agents should be covered. This resulted in a consultation paper on regulating estate agents. Whilst real estate remains unregulated Australia remains exposed to money laundering.²⁵¹

²⁴⁹ <http://www.austrac.gov.au/sa-brief-real-estate-amlctf-regulation> [Accessed 23 January 2017]

²⁵⁰ <http://www.smh.com.au/business/the-neverending-money-laundering-review-20160306-gnbse0.html> [Accessed 23 January 2017]

²⁵¹ <https://www.ag.gov.au/Consultations/Documents/AML-CTF/real-estate-model-for-regulation.pdf> [Accessed 23 January 2017]

3.2 Vancouver

Vancouver is another global city which is seen by overseas investors as a safe haven for their wealth. The dominant buyer group in Vancouver is Chinese investors. From 2005 to 2012 37,000 Chinese millionaires made use of an immigrant investor programme to become residents in and around Vancouver.²⁵²

“What you have is a huge pool of very wealthy people who want to hedge against uncertainty back home,”

Thomas Davidoff
Associate Professor University of British Columbia
Sauder School of Business

Figures released in July 2016 show that over a five week period, overseas investment equated to 10 per cent of all sales in Vancouver totalling almost \$900 million of investment.²⁵³ In Vancouver there is an overwhelming view that overseas investment,²⁵⁴ with money laundering making up an unknown portion of that, is driving house prices.²⁵⁵ In June 2016, Canadian Prime Minister Justin Trudeau joined the debate saying overseas wealth was obviously a factor in the affordability crisis.²⁵⁶

“There is evidence now that suggests that very wealthy foreign buyers have raised the price, the overall price of housing for people in British Columbia,”

Christy Clark
Premier of British Columbia²⁵⁷

Between mid-2015 and mid-2016 the price of a detached home in Vancouver rose 37 per cent²⁵⁸ resulting in Vancouver becoming one of the least affordable cities in the world with a house price to income ratio of 11.8 to 1, greater than London’s which stands at 8.5 to 1.²⁵⁹ Young professionals have become increasingly frustrated at the situation resulting in protests and a viral twitter campaign highlighting the exclusion of most young people from the property market.²⁶⁰

Money laundering controls are weak in Canada. In 2016 a FATF report identified the Canadian real estate sector as “highly vulnerable to money laundering,”²⁶¹ reiterating the findings of a Canadian government risk assessment conducted the previous year.²⁶² A recent review by Canada’s finance regulator, FINTRAC, found of some 800 estate agencies, 60 per cent had “significant” or “very significant” deficiencies in their money laundering controls.²⁶³

Analysis of land title records by Transparency International Canada showed that nearly half of the 100 most valuable residential properties in Greater Vancouver are held through structures that hide their

²⁵² <http://calgaryherald.com/storyline/in-vancouver-there-are-lots-of-kids-of-corrupt-chinese-officials-here-they-can-flaunt-their-money> [Accessed 23 January 2017]

²⁵³ <http://www.bnn.ca/foreign-investors-pump-885m-into-vancouver-real-estate-in-five-week-span-b-c-report-1.533171> [Accessed 23 January 2017]

²⁵⁴ <http://www.tandfonline.com/doi/abs/10.2747/0272-3638.31.6.724> [Accessed 23 January 2017]

²⁵⁵ http://www.huffingtonpost.ca/ike-awgu/canadian-real-estate-foreign-buyers_b_10329000.html [Accessed 23 January 2017]

²⁵⁶ <https://www.theguardian.com/world/2016/jun/17/canada-housing-prices-vancouver-asia-justin-trudeau> [Accessed 23 January 2017]

²⁵⁷ <https://www.theguardian.com/world/2016/aug/02/vancouver-real-estate-foreign-house-buyers-tax> [Accessed 23 January 2017]

²⁵⁸ http://www.huffingtonpost.ca/ike-awgu/canadian-real-estate-foreign-buyers_b_10329000.html [Accessed 23 January 2017]

²⁵⁹ Demographia International Demographia International Housing Affordability Survey: 2017 <http://www.demographia.com/dhi.pdf>

²⁶⁰ <https://www.theguardian.com/cities/2016/jul/07/vancouver-chinese-city-racism-meets-real-estate-british-columbia> [Accessed 23 January 2017]

²⁶¹ FATF, AML and counter-terrorist financing measures Canada Mutual Evaluation Report, (2016) <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Canada-2016.pdf>

²⁶² Department of Finance Canada. “Assessment of inherent risks of money laundering and terrorist financing in Canada”, (2015) p.32 <http://www.fin.gc.ca/pub/mltf-rpcf/mltf-rpcf-eng.pdf>

²⁶³ <http://www.cbc.ca/news/business/fintrac-real-estatemoney-laundering-1.3761343> [Accessed 23 January 2017]

beneficial owners.²⁶⁴ Nominees also play a prominent role in masking the true owners of property with more than a quarter of the luxury homes in Vancouver bought in the last five years owned by students or homemakers with no clear source of income.

How effective is Vancouver's approach to controlling illicit financial flows and crisis capital?

To address the issue of overseas investors impacting the Vancouver property market, the provincial Government of British Columbia has imposed a 15 per cent tax on foreign purchasers seeking to buy property in the region. This includes all home buyers in metro Vancouver who are not Canadian citizens or permanent residents and will also cover companies not registered in Canada or which are controlled by overseas investors.

The tax is not directly aimed at investment driven by corruption however it may help reduce demand from all investors through the increased costs involved. Initial analysis by the Royal bank of Canada indicates a slow cooldown in the market will lead to prices falling,²⁶⁵ which has coincided with sales to foreign buyers dropping from around 13 per cent to 1.3 per cent of total sales volumes.²⁶⁶ More recently however the Royal bank of Canada has indicated the shock of the overseas buyer's tax has begun to 'taper off'.²⁶⁷

The tax has a number of limitations: it relies on overseas investors self-reporting with sanctions for non-compliance however details of how the tax will be policed still unclear. The benefits of buying property are so high that investors from overseas may take the risk to save more money and not report themselves as offshore buyers.²⁶⁸ International buyers can also evade the tax by getting Canadians to purchase homes for them. The lack of enforcement already seen in estate agents' approach to money laundering may limit the impact of the tax. Those with enough wealth and high levels of political risk in their home country may be inclined to pay the tax in order to escape uncertainty at home.

"We have a wild west real estate market where there is really very little auditing or policing... around money laundering... this tax is going to be subject to all of those weaknesses."

David Eby

Member of the Legislative Assembly of British Columbia ²⁶⁹

As a means of preventing money laundering and mitigating the effects of crisis capital, Vancouver's tax is not efficient. Whilst it provides a deterrent due to increased transaction costs, it takes too broad an approach and does not target individual high risk jurisdictions. The pre-existing vulnerabilities in Canada's money laundering system can also be exploited to circumvent the tax.

In the UK, whilst there is no comparable tax on overseas investors per se, the annual tax on enveloped dwellings targets companies registered overseas. This system does not target corrupt funds but may provide a disincentive to those buying through an anonymous company. The system is currently undergoing expansion with homes worth £500,000 now covered by the tax. Although there is not yet data on houses bought for below £1 million, initial figures collected shows there are still many willing to pay a premium for anonymity.

²⁶⁴ Transparency International Canada, *No Reason to Hide* (December 2016) <http://www.transparencycanada.ca/wp-content/uploads/2016/08/TIC-BeneficialOwnershipReport-Interactive.pdf>

²⁶⁵ <http://news.buzzbuzzhome.com/2016/10/vancouver-housing-market-factors-that-could-trigger-crash.html> [Accessed 23 January 2017]

²⁶⁶ <http://www.theglobeandmail.com/real-estate/vancouver/foreign-buyers-13-per-cent-of-vancouver-region-real-estate-sales-since-tax/article32572605/> [Accessed 23 January 2017]

²⁶⁷ <http://www.rbc.com/economics/economic-reports/pdf/canadian-housing/housespecial-oct16.pdf> [Accessed 23 January 2017]

²⁶⁸ <https://www.bloomberg.com/news/articles/2016-07-26/foreigner-property-tax-set-to-cool-vancouver-s-decade-long-tear> [Accessed 23 January 2017]

²⁶⁹ <https://www.theguardian.com/world/2016/aug/02/vancouver-real-estate-foreign-house-buyers-tax> [Accessed 23 January 2017]



3.3 New York

New York ranks alongside London as one of the world’s most well-known safe haven cities. Since the financial crisis, overseas investment into U.S. property has increased significantly. In 2015 overseas buyers spent \$87.3 billion on real estate, up from less than \$5 billion in 2009.²⁷⁰ Data from Real Capital Analytics Inc. shows investment into the Manhattan property market, amounting to \$23.5 billion worth of properties, constituted 27 percent of total overseas investment into the US property market in 2015.

Like London, New York’s luxury market attracts a huge amount of crisis capital as it represents a safe place to store wealth. PropertyShark figures show over half of the \$8 billion spent each year on New York City homes costing more than \$5 million involved offshore companies.²⁷¹ Record high levels of overseas investment at the very top end of the New York property market has resulted in the same situation as London faces: “a remarkable imbalance of demand and supply” with too many luxury homes and not enough affordable houses on the market.²⁷²

Historically New York and the US as a whole have been highly vulnerable to money laundering through the property market because the system relies primarily on bank checks with real estate agents not covered by regulations. Estate agents have never had to collect the names of individuals hiding behind anonymous company purchases or submit suspicious activity reports.²⁷³ There are fears that money laundering of corrupt wealth into New York property has been a factor in the problems faced by the city, with the abuse of anonymous companies a common feature.²⁷⁴

“FinCEN continues to see the use of shell companies by international corrupt politicians, drug traffickers, and other criminals to purchase residential real estate in cash”

Jennifer Shasky Calvery
Director of the US Treasury Department’s
Financial Crimes Enforcement Network (FinCEN)²⁷⁵

There are also concerns that the vast amounts of secretive money entering the New York luxury property market are having a damaging impact on the market more general. James Parrott of The Fiscal Policy Institute, a nonprofit in New York, indicated he believed the ripple effect of high levels of overseas demand at the top of the market could have far reaching consequences.

²⁷⁰ <http://www.ibtimes.com/us-real-estate-attracting-more-foreign-investment-2016-new-york-city-remains-top-2247705> [Accessed 23 January 2017]

²⁷¹ http://www.nytimes.com/2015/02/08/nyregion/stream-of-foreign-wealth-flows-to-time-warner-condos.html?_r=0 [Accessed 23 January 2017]

²⁷² <https://www.luxurydaily.com/oversupply-halts-new-york-real-estate-but-ultra-high-end-flourishes/> [Accessed 23 January 2017]

²⁷³ <http://www.realtor.org/articles/spotlight-on-real-estate-money-laundering> [Accessed 23 January 2017]

²⁷⁴ <https://www.washingtonpost.com/news/wonk/wp/2016/04/12/how-secretive-shell-companies-shape-the-u-s-real-estate-market/> [Accessed 23 January 2017]

²⁷⁵ <https://www.washingtonpost.com/news/wonk/wp/2016/04/12/how-secretive-shell-companies-shape-the-u-s-real-estate-market/> [Accessed 23 January 2017]

“There’s a downside to having such pressure at the top. It pulls up the prices overall”

James Parrott, the Fiscal Policy Institute²⁷⁶

The Fiscal Policy Institute also raises concerns similar to those felt by many in London. Ultra high net worth investors do not live in New York all year round meaning fewer people go to neighbourhood restaurants or other local businesses which can have a broader negative impact through the local multiplier effect.

How effective is New York’s approach to controlling illicit financial flows and crisis capital?

To address the vulnerability of the US property market to money laundering and the possible negative effects that come with this, FinCen – the bureau of the Department of the Treasury with responsibility for implementing AML regulations – has introduced Geographic Targeting Orders (GTOs). GTOs now require title insurance companies in a number of areas²⁷⁷ to identify the beneficial owner of companies buying high-end properties there. GTOs only cover cash purchases – those without bank financing – over a certain thresholds ranging from \$500,000 to \$3 million depending on the area.

The initial trial period GTOs in Manhattan and Miami-Dade, Florida were viewed by FinCen as a success, “helping law enforcement identify possible illicit activity and informing future regulatory approaches”.²⁷⁸ A significant portion of transactions in the initial GTO period pointed to possible illicit activity; 25 per cent of transactions covered in the initial inquiry involved a beneficial owner that was also subject of a suspicious activity report.²⁷⁹ It is unclear as to whether GTOs have acted as a deterrent to illicit activity and it is unlikely they will have diminished crisis capital in areas like New York.

A number of loopholes have been identified in the system which leaves the US vulnerable to illicit wealth:

- The thresholds on covered transactions are still reasonably high, meaning cash transactions under the thresholds would not face scrutiny.
- The geographic range is also limited to just six high risk areas which could easily be circumvented by those wishing to launder corrupt wealth elsewhere in the US.
- Transactions may be missed by the regulation as the requirements are only applied to title insurance companies which are not always required to complete a property transaction.²⁸⁰
- There are also issues around the use of multiple companies or individuals to obscure the ultimate beneficial owner, resulting in situations where no person or entity owns the 25 per cent of shares needed to reach reporting requirements.

The UK already requires parties undertaking due diligence in property transactions to identify the beneficial owner of companies involved, therefore the US system does not represent a significant step beyond this. Furthermore the UK Governments’ commitment to establish a public register of beneficial ownership for companies owning UK property would go significantly beyond the measures taken by the US to increase transparency about who really owns property through offshore companies.²⁸¹

²⁷⁶ http://www.nytimes.com/2015/02/08/nyregion/stream-of-foreign-wealth-flows-to-time-warner-condos.html?_r=0 [Accessed 23 January 2017]

²⁷⁷ all boroughs of New York City; Miami-Dade County and the two counties immediately north (Broward and Palm Beach); Los Angeles County, California; three counties comprising part of the San Francisco area (San Francisco, San Mateo, and Santa Clara counties); San Diego County, California; and the Bexar County that includes San Antonio, Texas

²⁷⁸ <https://www.fincen.gov/news/news-releases/fincen-expands-reach-real-estate-geographic-targeting-orders-beyond-manhattan> [Accessed 23 January 2017]

²⁷⁹ <http://www.housingwire.com/articles/37637-us-expands-investigation-into-money-laundering-by-foreign-cash-buyers> [Accessed 23 January 2017]

²⁸⁰ <http://www.law360.com/articles/775863/loopholes-in-fincen-s-luxury-real-estate-rules> [Accessed 23 January 2017]

²⁸¹ <https://www.ft.com/content/c1a49662-17a1-11e6-b197-a4af20d5575e> [Accessed 25 January 2017]

4. Conclusions

This report has explored the scale of investment driven by corruption into the London property market and describes how this is contributing to the capital's housing crisis.

The London property market attracts billions of pounds of overseas investment each year, with much of this investment driven by corruption.

- The UK's AML system is weak and allows tens to hundreds of billions of pounds of illicit wealth to enter the UK each year.
- Using open source material alone we have identified over 140 London properties worth £4.2 billion of bought by high money laundering risk individuals.
- Corruption causes instability overseas which then leads to 'crisis capital' escaping to 'safe havens' like the UK and London's stable property market in particular.

As a result of global corruption, demand for London property increases, contributing to rising property prices across the capital.

- In periods after global uncertainty like the Arab Spring or the Chinese anti-corruption drive, demand for London property increases causing house prices to rise.
- Activity at the top end of the market can affect prices throughout the property market through the ripple effect, although more research is needed to examine this in more detail.

The supply of London housing is being distorted by financial flows driven by corruption.

- To finance developments developers have been building luxury property targeted at international investors who often come from high corruption risk jurisdictions.
- Our analysis of 14 developments showed around 40 per cent of future homes were sold to investors from high corruption risk countries.
- There is currently an oversupply of new-build luxury housing whilst affordable housing is in shorter supply than ever.

Communities in London have also been affected, with investors seeking a safe haven asset often leaving their homes empty for much of the year.

- Anecdotal evidence and statistical data show that significant a level of housing is underused in the capital whilst many struggle to find a place to live.
- Iconic community assets like pubs, which have been bought by anonymous companies and closed, often with the intent to be converted in luxury flats.

These trends are impacting peoples' perceptions of the market and subsequently their behaviour.

- Over half of respondents to our survey identified wealthy overseas investors buying luxury property as a major factor behind rising prices.
- Half of 25-49 year olds were considering leaving London due to affordability of housing.
- Over a fifth of people felt that international buyers purchased London property for money laundering purposes.

If these issues are not addressed through following TI-UK's recommendations, corruption abroad will continue to have a negative impact on the London housing market.

