

3.3 Estate Agents

The purchase of real estate is commonly used as part of the last stage of money laundering (**integration**). Large amount of illicit funds can be concealed in such a purchase, which in turn projects an appearance of financial stability for the criminal. Hence, estate agents should be vigilant in exercising the CDD by obtaining customer's information and should comply with the record-keeping requirement as stipulated by the Estate Agents Authority.



3.3.1 Suspicious Activity Indicators

3.3.1.1 Customer Identification

- (a) Incommensurate background of property purchaser/seller (e.g. profession & age versus the amount of transaction);
- (b) Property purchaser/seller is a shell company/offshore company (residential address/registered in a tax haven, e.g. British Virgin Islands); and
- (c) Transaction conducted by a third party (e.g. under a power of attorney).

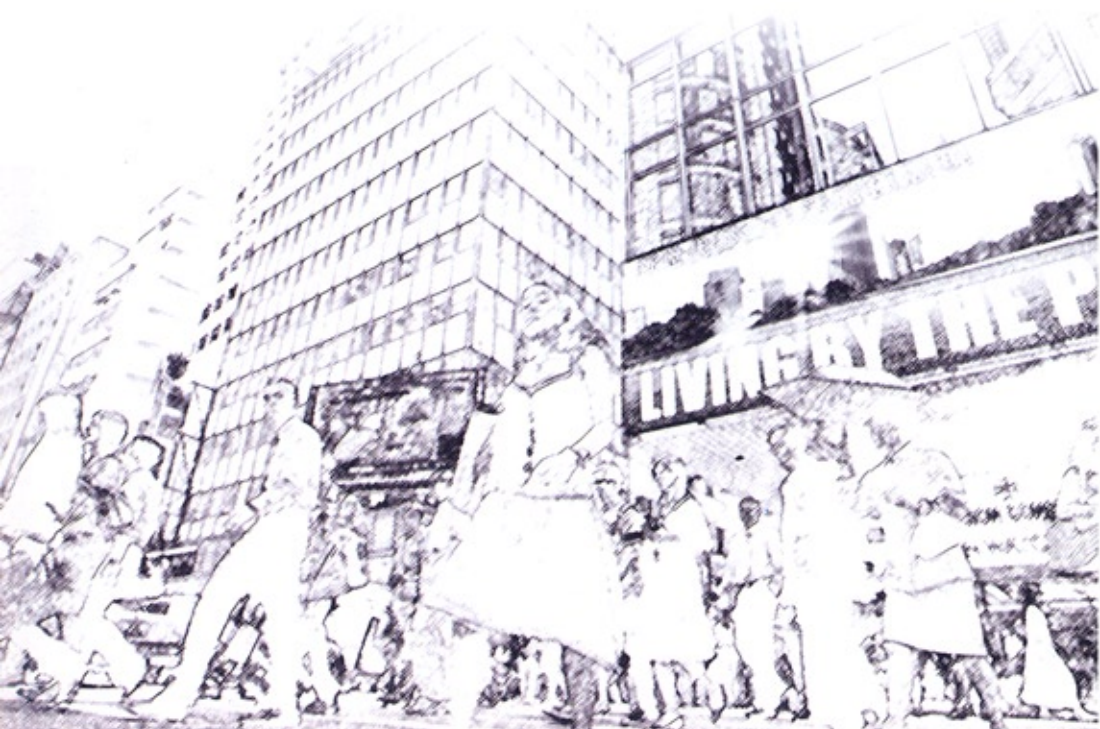
3.3.1.2 *The Transaction*

- (a) Cash transactions in large amounts;
- (b) Substantial difference between the transaction price and the market price without apparent reason;
- (c) Unknown source of funds for purchasing the property;
- (d) Unusually short period for completion of sale and purchase;
- (e) The transaction proceeds are directly transferred between the purchaser and the seller, not routing through a law firm; and
- (f) Unreasonably high commission is offered to the estate agent.



3.3.1.3 Others

- (a) The person who negotiates the transaction and the ultimate purchaser are not the same person;
- (b) The property seller and the purchaser know each other but choose to act through an estate agent as if they did not know each other;
- (c) Frequent sale and purchase of properties within related parties; and
- (d) Unusual ownership history of a property.



3.3.2 Below are four case examples for illustration.

Case Example 1: Use of Shell Company in Sale & Purchase of Property to Conceal Crime Proceeds

A drug trafficker Mr. X purchased a property at HK\$6.5 million. He made a downpayment of HK\$2.5 million in cash and took out a HK\$4 million mortgage. Three months later, he sold the property to a shell company Y, which he controlled. The company Y further sold the property to an innocent third party for the original purchase price in a month. By this means, Mr. X concealed his proceeds of crime in a shell company Y, and thereby attempted to disguise the origin of the original purchase funds.

Key Message

This case illustrates that the sale and purchase of property by a shell company could be used to conceal crime proceeds. The ownership history of a property can be an indicator of suspicion.



Case Example 2: Direct Purchase of Property to Launder Crime Proceeds

A drug trafficker Mr. Z had made several investments in real estate and was planning to buy a hotel. An assessment of his financial situation did not reveal any legal source of income. He was subsequently arrested and charged with an offence of money laundering. Further investigation substantiated the charge that part of the invested funds were proceeds of his own drug trafficking.



Key Message

This case illustrates that the purchase of real estate is commonly used as part of the last stage of money laundering (**integration**). Such a purchase offers the criminal an investment which gives the appearance of financial stability. The purchase of a hotel has an added advantage for money laundering as hotel business is often a cash intensive business.

Case Example 3: Unusual Property Transactions between Family Members of a Drug Trafficker via a Third Party



A drug trafficker Mr. A was arrested. Fearing that his assets would be restrained and confiscated, he asked his wife to immediately arrange to sell their property to a friend, who would then sell the property back to his sister-in-law. It is worth noting that these consecutive sale and purchase transactions were arranged through the same estate agent who just turned a blind eye to the suspicious circumstances of these property transactions.

Key Message

This case illustrates that unusual property transactions would be an indicator for money laundering. The estate agent should have made a suspicious transaction report to the Joint Financial Intelligence Unit.



Case Example 4: Direct Purchase of Property to Launder Crime Proceeds by Family Member

Mr. B in Country S was the leading member of a syndicate involving in smuggling of refugees. From 1998 to 2003, Mr. B received 81 money orders for a total amount of HK\$40 million from 14 different individuals from four foreign countries. This money was believed to be derived from organizing illegal migration. The main portion of this money remained in Country S and was used for investment into real estate and was also distributed among other syndicate members. In 2000 alone, Mr. B's wife who did not file an income tax statement for that year, used HK\$14 million to buy real estate. Investigation revealed that Mr. B and Mrs. B had made transactions representing several times their apparent incomes. They were finally charged and convicted, in connection with the amount of HK\$40 million, for organizing illegal migration.

The case showed the following patterns:

- (a) Very high fees were paid for the money transfers which could have been executed at much lower costs; such economically illogical transactions are, as a rule, highly likely to be connected with money laundering; and
- (b) The monies spent by Mrs. B to buy real estate amounting to HK\$14 million did not originate from her own, but was given to her by Mr. B, who received it for organizing illegal migration. In the real estate purchase contract, the buyer was Mrs. B. That was to conceal the source and the real beneficiary of the dirty money.

Key Message

This case illustrates that the purchase of real estate by relatives of criminals is not uncommon as a practice for money laundering.