

The Miami Herald

January 13, 2015

Circulation: 164,332 / UMV: 1,484,553

Feds crack down on secret real estate deals in Miami-Dade and New York

BY NICHOLAS NEHAMAS
nnehamas@miamiherald.com

Federal authorities on Wednesday announced a temporary, anti-money-laundering crackdown on pricey homes bought secretly with cash in Miami-Dade County and New York City.

The new policy will require title insurance companies to identify the true owners of shell companies that pay \$1 million or more in cash for homes in Miami-Dade and \$3 million or more for homes in New York City. Insurers will then have to report the names of the buyers to the U.S. Treasury Department.

The move reflects concerns that dirty money from abroad is helping fuel the local residential real estate boom. Wealthy buyers in South Florida often use a network of domestic and offshore companies to prevent their names becoming public. Using a limited liability company to buy property also offers owners legal benefits such as liability protection and tax breaks.

South Florida real estate brokers expressed concerns that the crackdown could have a chilling effect on the luxury market.

Multi-million cash home sales represent a big business locally.

In Miami-Dade, buyers paid cash for more than 1,150 homes priced at \$1 million or more last year, according to EWM Realty International. That means cash deals accounted for 60 percent of home sales valued at more than \$1 million.

The U.S. Financial Crimes Enforcement Network (FinCEN) issued the so-called “geographic targeting order,” which will remain in effect from March 1. to Aug. 27. If the policy uncovers serious evidence of money laundering, it could be extended across the country.

“We are seeking to understand the risk that corrupt foreign officials, or transnational criminals, may be using premium U.S. real estate to safely and secretly invest millions in dirty money,” FinCEN director Jennifer Shasky Calvery said in a statement. “Over the years, our rules have evolved to make the standard mortgage market more transparent and less hospitable to fraud and money laundering. But cash purchases present a more complex gap that we seek to address.”

Accused Spanish drug lord Alvaro López Tardón was sentenced to 150 years in prison two years ago for laundering millions of dollars through waterfront condos and exotic cars.

Under the new rules, title insurance companies will now have to investigate who is behind the shell companies that spend big on Miami real estate. That information must be reported to federal authorities so they can investigate the buyers for possible money laundering. Buyers’ identities will not be revealed to the public.

Ron Shuffield, CEO of EWM, said legitimate buyers might still be wary of handing their names over to the government.

“There are going to be some people who have nothing to hide, no criminal activity, but who value their privacy,” Shuffield said. “Actors and athletes and politicians who don’t want the whole world potentially camping out on their front step.”

The new rules are in some sense bringing banking compliance regulations into real estate. Banks must perform due diligence on clients moving money into the U.S. in order to ensure that they’re not connected to terrorism, drug smuggling, corruption or other crimes.

“This is the regulatory world of today,” said Alan Lips, an accountant at Gerson Preston. “More information, more disclosure ... bringing in the title insurance companies is kind of a second step in the process of making sure the money is clean and legitimate.”

Lips said even law-abiding buyers have reasons to remain private.

“You see a lot of safety concerns with people from Brazil or Argentina, for example,” he said. “They don’t want people from their home country to go and look on the Internet and see that they paid a lot of money for a house and become a target for kidnapping.”

Foreign buyers will also be nervous about the prospect of Treasury officials contacting their governments, said Jeff Rubinger, an attorney at Bilzin Sumberg who specializes in international tax law. Information sharing could expose them to more tax liabilities.

“From a tax perspective alone, this is definitely going to scare people,” Rubinger said.

Secret sales

Eye-popping home sales to secret buyers have brought national attention to Miami’s real estate market.

On Monday the buyer of a \$47 million Key Biscayne mansion was revealed to be an untraceable Delaware shell company. Last month, a secret trust spent \$19.5 million on a luxe Miami Beach home. Country records don’t show mortgages being recorded on either deal, meaning the buyers may have paid cash.

Federal agencies have targeted South Florida for special attention in the past. The area is known as a hotspot for money laundering.

Over the summer FinCEN said that check-cashing stores in Miami-Dade and Broward would need to record more information about customers cashing tax refunds of more than \$1,000. The two counties have the highest rates of identity theft and tax-refund fraud in the country.

In April, U.S. Immigration and Customs Enforcement ordered 700 electronic export businesses in Miami-Dade, many of them in Doral, to file reports to the federal government every time they receive more than \$3,000. The feds suspected drug and other illicit money may have been flowing through the companies.