Toronto Star

Dirty money is driving up Toronto real estate prices, report says

By Marco Chown Oved Investigative Reporter
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Toronto’s real-estate market welcomes criminals, giving them an easy way to invest dirty money and driving up housing prices for regular people, according to a report published today by Transparency International Canada.

“Our laws and regulations are full of cracks that can be exploited by criminals, and they appear to be doing so in growing numbers,” the report says. “Domestic criminals have known for decades that Canada is ‘la la land’ for financial crime, but word has spread internationally too. … Canadian real estate has attracted the attention (and money of dubious origin) of corrupt government officials and organized crime syndicates from across the globe.”

In the federal budget released this week, the government announced measures to combat money laundering through property in British Columbia, but ignored the Toronto market.

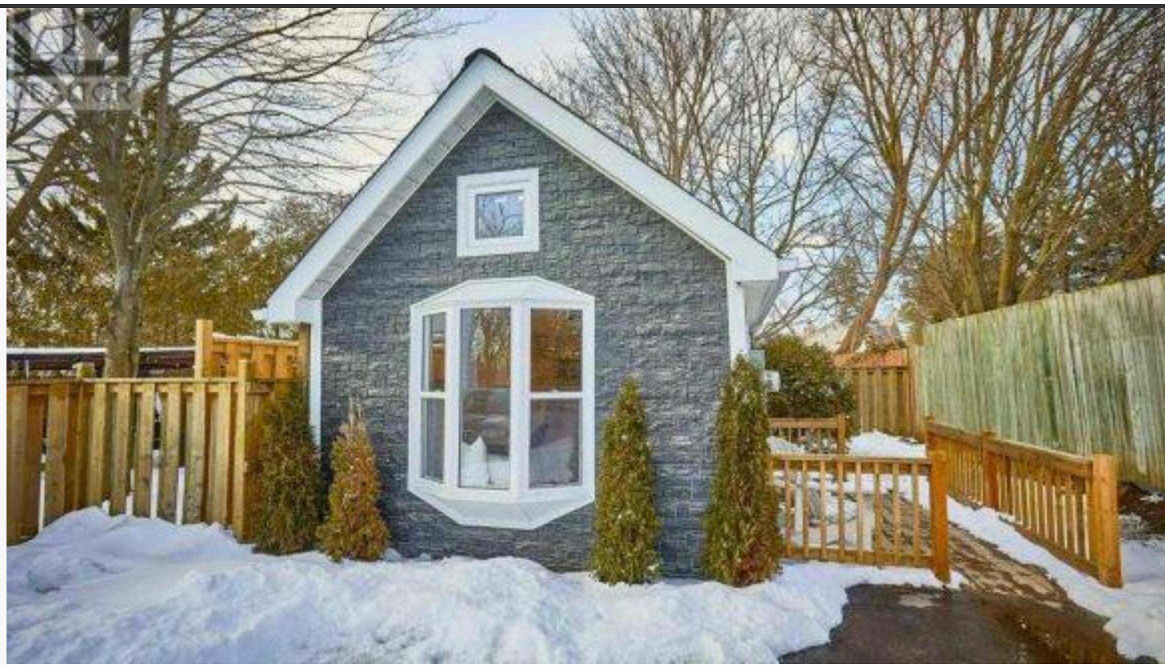
Transparency International Canada studied all residential property transactions in the GTA since 2008 and discovered more than $20 billion in anonymous money entered the real estate market without any oversight or due diligence.

During this period, more than 50,000 homes were purchased by corporate entities, which can easily hide their real owners behind straw men directors — people paid a nominal fee to put their name on corporate documents. More than two-thirds of the money used to buy these residences came from untraceable sources: $9.8 billion was in cash and $10.4 billion was in the form of mortgages from unregulated lenders, which aren’t subject to anti-money laundering reporting rules.

“A worrying amount slips past regulators who don’t really know who owns what, nor how much is being used for money laundering and tax evasion,” states the report, titled “Opacity: Why criminals love Canadian real estate (and how to fix it).”

“For individuals looking to buy real estate undetected, corporations are extremely effective camouflage. Companies can register title to property in Ontario without disclosing any information about their directors, owners or even their country of registration. All that needs to be disclosed is the company’s name and an address — a post-office box or a lawyer’s address will suffice.

“In cases where the company cannot be located, it is practically impossible for the police or tax authorities to investigate suspicious activity,” states the report.

- 

Homebuyers went ‘bananas’ for this $200,000, 253-square-foot ‘bungaloft’ in Oshawa

While it’s impossible to quantify how much dirty money has been invested in the property market, and to what extent that criminal activity has driven up housing prices, the report states “it is clear that real estate is attractive to criminals with money to launder, and basic economics suggests that prices increase in response to added demand.”

Average housing prices in the GTA have more than doubled in the last decade, and the impacts have been felt far and wide: Condos sit empty, or are rented out night-by-night on Airbnb, contributing to a shortage of rental housing. Rising prices push workers out of the city and large mortgages have driven household debt to record levels, according to Statistics Canada.

The Star has reported extensively on how Canada has developed a reputation as a tax haven and a destination for dirty money. In the

Panama Papers, Canadian companies were sold by the now-defunct law firm Mossack Fonseca as vehicles to avoid tax.

This activity was facilitated by a large number of loopholes in Canada's anti-money laundering rules. Getting real estate professionals to comply with the law has also been a challenge.

A Star investigation published last year revealed that Canadian real-estate agents submitted suspicious transaction reports in less than 0.008 per cent of property sales made between 2013 and 2017.

"While the proceeds of crime can be laundered through any strand of the economy, there are several characteristics of the real-estate sector that make it particularly attractive for money laundering," states the report, listing "weak regulation, lax enforcement, and the ability to hide in plain sight through anonymous ownership structures."

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B.C. manhunt suspects recorded final message on phone found with bodies, family says

The report found that anonymous owners are concentrated in the high-end luxury market, far more likely to buy homes with cash, and when they do take out a mortgage, they rely on alternative lenders, which are not subject to the same anti-money laundering rules as banks.

While only 4 per cent of GTA residential property transactions involved a corporation, the report found the more expensive the house, the more likely it has an anonymous owner. Only 3.5 per cent of residential properties bought for under $1 million have corporate owners. But 54 per cent of homes purchased for $7 million — $10 million are owned through a company.

A Star investigation into the Four Seasons Private Residences Toronto found that nearly one-quarter of the units in the Yorkville luxury condo development were held by private corporations.

Anonymous owners are more than three times as likely as individuals to pay for their homes in cash, which “enables a buyer to avoid the scrutiny of financial institutions,” the report says.

While alternative lenders only account for 3 per cent of mortgages taken out by individuals, they provide 49 per cent of mortgages held by corporations, which means these loans were not subject to reporting rules, nor the federal stress test designed to ensure the loan can be repaid.

Potential solutions for Canada and Ontario are already being implemented in real estate markets around the world, where it is becoming more difficult to anonymously own property.

In 2016, the United States Treasury Department started tracking real-estate purchases by shell companies in Manhattan and Miami. In the months that followed, cash purchases by corporations dropped 70 to 95 per cent, and the monitoring program has now been expanded to six other areas including San Francisco, Los Angeles, San Diego and San Antonio.

British Columbia has plans to establish a public registry of the real owners behind companies that purchase real estate.

The U.K. has proposed a ban on real-estate ownership through shell companies. It already has a public registry of the real owners of every company incorporated in the country, and will soon extend that registry to include the many island tax havens under its jurisdiction, including Bermuda, the Cayman Islands and the British Virgin Islands.

In January next year, all EU members will have to make their corporate ownership registries public.

In Canada, the provincial finance ministers have pledged to collect more information — without making it public — on who owns corporations and make that information available to authorities, though there is no timeline on when that will happen and little urgency to get it done.

In the meantime, anonymous ownership is still a reality in Toronto's property market, the Transparency International Canada report states, attracting dirty money from far and wide.

"By hiding behind companies, trusts or straw men, criminals can enjoy the spoils of their crimes in plain sight while making it exceptionally difficult for law enforcement agencies to detect, investigate and prove their ultimate ownership."

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