



Common Financial Crime Risks in the UAE's Real Estate Sector





With the real estate sector in the UAE continuing to see an unprecedented boom in activity and an increasingly international clientele base, it is important to keep in mind how the market could be exposed to criminals, corrupt individuals, and other financial crime risks. As an attractive money laundering avenue globally, real estate is susceptible to abuse by savvy criminals and their networks of business associates, front companies, and intermediaries.

The Central Bank of the UAE has noted real estate's attractiveness from an illicit finance perspective, with the 2018 National Risk Assessment highlighting key potential money laundering and terrorist financing risks related to the sector. Additionally, the Financial Action Task Force's (FATF) Mutual Evaluation Report of the UAE, issued in April 2020, deemed risk associated with real estate to be high in the UAE.

Below is a breakdown of these key financial crime risks. For more in-depth analysis on financial crime risks in the UAE's real estate sector, see this research report.

MONEY LAUNDERING

As a high-end and highly internationalised market, the UAE real estate sector poses an attractive prospect to illegitimate actors wishing to launder illicit proceeds from crimes such as drugs and arms trafficking, as well as corrupt activities, including conflict financing and evading sanctions. The property market can be used to disguise the origin of the funds and invest the proceeds of criminal activities in legitimate assets. Once a real estate asset has been sold, that transaction provides 'proof' of acceptable source of funds, so illicit funds can effectively be laundered through property before being invested elsewhere.

TERRORIST FINANCING AND SANCTIONS EVASION

In the past, certain property in the UAE has been linked to:

- Lebanese businessmen sanctioned by the US in 2014 for helping Hezbollah purchase sophisticated electronics for military drones.
- Individuals associated with the Altaf Khanani money laundering organisation, a Pakistani criminal enterprise that has aided and abetted drug traffickers and Islamic extremists, including al-Qaeda, through its currency exchange houses.
- A Mexican national indicted in the US for importing mass quantities of precursor chemicals used in the manufacture of methamphetamine.
- Two Iranians formerly sanctioned for their involvement in Iran's missile programme.
- The executive director of a cryptocurrency exchange that was sanctioned by the US for enabling criminals who had obtained money through ransomware to transmit their illicit proceeds.
- Sanctioned Russian public officials close to the Kremlin (property purchases by Russians in Dubai surged by 67% in the first three months of 2022).
- A sanctioned cousin of Syrian President Bashar Assad.





CORRUPTION

There are public officials (politically exposed persons (PEPs)) whose ownership of expensive properties in the region is at odds with their known incomes, including those from countries with poor governance and high levels of corruption - indicating a risk that real estate has been purchased with the proceeds of corruption or bribery. There is further evidence that certain individuals who are fugitives from corruption charges are hiding in the UAE, having purchased real estate in the country, as well as European officials and lawmakers who have been accused of mishandling public funds owning property in Dubai.

ORGANISED CRIME, DRUGS AND ARMS TRAFFICKING

The market is known to attract organised criminal groups, with the purchase of real estate and investment in the local economy facilitating their stay in the wider Middle East region, which draws in organised crime gangs, given the region's status as a key location for arms and human trafficking. Purchasing real estate also gives criminals a physical base from which to operate. Major criminals from the Balkans have invested large amounts of money in the country through the real estate sector.



A recent high-profile example of organised crime making inroads in the Dubai property market is Daniel Kinahan, the alleged leader of a renowned Irish criminal group, who has primarily been based in the UAE in recent years. He owned multiple properties in Dubai, including a €1 million luxury apartment in the exclusive Elite Residence Tower. The Kinahan family also owns office spaces in the country, with illicit business reportedly conducted from these spaces. After the US sanctioned Kinahan in 2022, the UAE followed suit and froze his assets, including both personal and business bank accounts.



VULNERABILITIES

- Normal, everyday transactions like real estate purchases offer criminals convenient cover for the source of funds in large transactions without attracting undue attention.
- Comparatively fewer checks are carried out in real estate transactions than in the financial sector.
- Openness to non-residents and non-citizens exposes the sector to illicit funds generated across the globe – and comparatively low taxes and fees alongside the ease of obtaining residency visas in the UAE all act as enticements for criminal actors.
- Lack of transparency of beneficial ownership enables the use of transactions via shell companies and use of intermediaries like lawyers to distance purchasers from the purchase, particularly given the openness to foreign purchasers.
- High liquidity of the market attracts illicit actors who may be seeking to buy and sell properties in quick succession as a means of laundering ill-gotten funds, as property “flipping” is a common practice and therefore raises less suspicion than other laundering techniques. A highly liquid market facilitates this practice by increasing the likelihood that the sale price will meet or exceed the purchase price.
- Subjective rather than fixed property prices, which generally appreciate over time, enable the disguise of particular typologies (for example, undertaking small property renovations before reselling to an associate at an inflated price – the difference between the market value and which can be covertly refunded to the purchaser in cash). Having an asset that appreciates over time attracts illicit actors as much as licit ones, as they can launder criminal proceeds whilst also generating profit.
- The high value of real estate attracts criminals because it enables them to launder large sums of money in a single transaction rather than multiple transactions, reducing the amount of effort they must go to in order to “wash” their funds.
- As a cash-heavy industry, real estate allows transactions to take place outside the formal financial system - even though the UAE now has an AED 55,000 threshold for the amount of cash or virtual assets that can be used for a real estate transaction before it needs to be reported to the Financial Intelligence Unit (FIU), this is still a substantial amount that can fly relatively under the radar.
- The use of virtual currencies, such as crypto, in the purchase of property can enable a level of anonymity with respect to the source or beneficial ownership of funds, and thus heighten the chance of illicit funds being deployed in the real estate transaction.





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About Themis

Themis helps clients identify and manage their specific financial crime risks, through a combination of innovation, insight and intelligence.

Our cutting edge platform helps organisations understand these strategic threats through an ESG and socio-economic lens and protects their clients, suppliers and 3rd parties from criminal attacks or association. Founded, developed and delivered by financial crime subject matter experts.

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