

# Irish Security Soundings

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## DISTORTING THE MARKET – THE IMPLICATIONS OF MONEY LAUNDERING IN AN ALREADY HEATED PROPERTY CONTEXT

In the backdrop of what many are calling a housing crisis in Ireland, recent rhetoric on investment funds buying up housing estates has been met with hostility. The logic of funds investing in bricks and mortar should not be surprising, given that many such funds are increasingly viewing construction as a secure investment opportunity. Unpalatable as that might seem, however, they are not the only groups looking to property investment as a form of financial security. Equally concerning and worth highlighting is that the property market is also an attractive target for individuals and groups seeking to launder money, with expensive, high end property often the commodity of choice. Ireland is unlikely to be immune to such a risk - a risk identified in the National Risk Assessment (2016). University cities and towns like Dublin, Cork, Galway, and others may be likely attractive targets, especially if patterns and trends in the UK are anything to go by. A recent UK government report (National risk assessment of money laundering and terrorist financing 2020) noted that criminals favoured such locations regarding property investment. While these practices have increased in the UK over the last three years, the implications of COVID are likely to exacerbate the risk further. As people and companies feel the financial impact of COVID restrictions, criminals (be they organised or those seeking to avoid tax, albeit not mutually exclusive) may wait in the wings to exploit those who need to sell out of desperation or bankruptcy. Money laundering of this nature may appear to be a relatively invisible crime, one usually without a clear victim. This sounding aims to demonstrate that this is not the case, by examining the topic in the Irish context as it relates to the Irish property market.

### The Irish property market and criminal activity

In Ireland, property prices have continued to increase, as the supply remains low, resulting in a housing crisis ([Burke-Kennedy, 2021](#)). These price increases make it unaffordable for the average person to purchase property. Criminals seeking to launder money will only exacerbate the issue, by adding another cash buyer to an already heated bidding war. The attraction to them is like any investor, property prices do not fluctuate significantly like other commodities, and commonly appreciate over time. However, criminals often differ in the sense that they are generally less rationale to normal buyers, as profit, value for money, and liquidity are unlikely motivational factors. This removes the very logic and rationale the market is supposedly based upon. In short, it shifts from a market of competing interests (the buyer wants the lowest possible purchase price and the seller the opposite), to one where both buyer and seller want the largest price because the aim of most money launderers is to move as much money as possible, as quickly as possible. This differing motivation often drives up the market, especially in times of limited supply, as it is quite common for such criminals (national and international) to outbid other buyers.

These practices are not confined to the housing market, although it has been found to be a highly attractive market for such activities (at least in the UK). Similar actions and illegally acquired assets have been seen in

transactions in the commercial sector too. Commercial property has the added benefit that it poses a presentable front for hiding fraudulent activities. Criminals seeking to launder money can benefit in at least two ways. The first is investment in bricks and mortar, and the second is the property and activities undertaken within. Properties such as restaurants and shops can pose as a front for illegal activity, enabling criminals to clean their money through business practices, as well as through the structure. EUROPOL stated that “more than 80% of the criminal networks active in the EU use legal business structures for their criminal activities” (EUROPOL, 2021, p. 11). Mooney (2020) also recognised this, in Ireland, postulating that “criminals have financed the opening of barber shops, whose cash receipts show they groom hundreds of men a month, while restaurants are a favoured vehicle for drug dealers, with eateries recording full houses most nights of the week, even when they are mainly empty”. The work of the Criminal Assets Bureau (CAB) reiterated this, when in 2017 they (CAB) recovered several vehicles in connection with a Car Sales Company, allegedly operating as a bogus front.

Not only do these investments and laundering activities hide and clean mostly illegally gained assets, they also can provide the front to launder image, presenting those involved as legitimate investors or business owners. The attractiveness of the Irish market has not gone unnoticed abroad. International investment funds are entering the Irish property market, and it is likely international criminals will follow suit, with gangs from across Europe and Asia potentially purchasing property in Ireland in order to clean their money, or alternatively to set up illegal activities here. If a recent incident is anything to go by, this may already be happening. In January 2021, a Chinese criminal gang was investigated for buying two houses with profits from cannabis grow houses (Tallant, 2021). This represents but one example of how the property market is vulnerable to criminals, often cash buyers, cleaning their money. There is a risk that COVID will have exacerbated this further. Businesses who have struggled throughout the pandemic may be especially vulnerable to exploitation by criminal gangs in the medium term. The hospitality and retail sectors have been closed, on and off for months, making it extremely difficult to make a profit. Criminal gangs may identify this as an opportunity and purchase the business off the owner at a lower price or they might offer the owner an incentive to launder money through their property on their behalf.

Many criminal endeavours influence such activities, for example, the sale and supply of illegal goods (be that drugs, weapons, counterfeit goods, etc.), the trafficking of people and goods, embezzlement and frauds, amongst many more. Taking the sale and supply of drugs, for example, the global demand makes it a very lucrative business (at least, for those at the top), Ireland is no different. The demand for drugs in Ireland has continued to increase over the last number of years, with cocaine the second most commonly used drug. While the pandemic is reported to have had “an immediate, disruptive impact on drug use, supply and services” (McDermott, 2020), large-scale drug trafficking, however, has been largely unaffected. This insight is shared by EUROPOL (2021), who acknowledges that the cocaine trade in the EU is the highest it has ever been, resulting in the increased wealth of some drug dealers and smugglers. It is worth noting, however, such activities do not have to be as nefarious. Illicit funds may be acquired by evading legislation and controls (for example, tax avoidance). Despite the difference, these activities can leave criminals with vast sums of dirty money. Funds derived from both practices frequently require cleaning, and property is a highly attractive option. It provides a means of getting illicit assets into the legal economy. Once invested, it provides a camouflaged means to disguise it from its original origin.

## What does this mean for Ireland’s property market?

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Property ownership provides a veneer of respectability and legitimacy, whether that be residential or commercial, thus when criminals purchase property they often take on the guise of legitimate property ownership in the eyes of the state. One might think it is easy to implement rules against well-known criminals acting in this way, but even where high profile individuals are concerned, it can be a tedious process to prove the funds were derived from illicit activities. This is much like the case of Daniel Kinahan’s involvement with the company, MTK, where it has been alleged that the success of the company in the boxing arena has

stemmed from drug trafficking and laundering activities ([Hand, 2021](#)). The layering of illegal monies into legal markets is often highly complex, with a range of different actors and activities involved. While some may be illegal actors, many are often professionals turning a blind eye. Family members, the gang members themselves, professionals, and even offshore companies are often used on behalf of the criminals to clean money. It is suspected that the well-known Irish drug gang, the Kinahan cartel “has used offshore trust funds to finance property renovations in Dublin. The gang has an estimated €1bn in assets” ([Mooney, 2020](#)). Assets often change structures, geographical location, and ownership over time, making it harder for law enforcement to identify purchases with illegal funds.

It is a complex problem, therefore, one that carefully requires consideration and awareness. Three key reasons will be highlighted here: legitimising funds, expanding social influence, and state reputation. First, contrary to what one may think, it does not take a vast amount of investment to distort certain asset markets, which is one reason the stock market is so highly regulated. In property, this distortion can squeeze those with legitimate funds out of the market, which also has a knock-on impact for renters. Once criminal gangs have cleaned their money and own a property, they may rent it out to further increase their legitimate income. Members of the public could be unknowingly renting from a criminal and thus supporting criminal activity. If rents increase, criminals laundering money can clean their cash even quicker adding another legitimate layer to the process of cleaning. If the magnitude of investment of dirty funds is large enough, it can result in those involved cornering a market, and sometimes dwarf government budgets. This not only has a direct impact on the market, but investments associated with money laundering can also be unpredictable and be moved quickly, which often threatens stability.

Second, money laundering through the property market also has social influences beyond home ownership and rent prices. There are significant social costs associated. Money laundering provides criminals with another tool in their arsenal to expand their operations. This can have a direct impact on the cost of the enhanced government responses that are required to combat the consequences of money laundering. Moreover, it transfers certain economic powers from the market, government, and citizens to criminals. Therefore, it is very important for the government to prevent or at least significantly deter illegal asset money from being cleaned through the property market, because once in, there is the potential for market capture, or at least partial capture. Once criminals own a certain percentage of property in an area, their influence increases. The community may engage with the criminals rather than their local government in order to solve residential problems. Moreover, it can be difficult for the government to trace back where the money came from to purchase the property in the first place; thus, providing a veil of legitimacy. If multiple properties are bought in one area, the criminals could effectively hold properties hostage by leaving them unused, which is likely to have a significant impact for the government as they face a growing housing crisis. The need for such properties to be released into the rental market, for example, may be enough to empower such owners to make their own demands of the government or local authority, further empowering nefarious actors and in many ways showing that crime can pay.

Finally, these practices have a direct impact on the reputation of a country, which is very important in Ireland given its attractiveness as a location for foreign direct investment. There are people involved in criminal activities that don't come in contact with the authorities here for a myriad of reasons; they commit crime abroad and launder the moneys at home, often coming to Ireland to invest wealth derived in their home country. One area of growing concern in relation to this latter factor relates to national residency or citizenship for investment schemes, where foreigners are attracted to a country and in exchange for certain investments are provided with residency or citizenship. Risks associated with this very issue, amongst others, were raised in [Transparency International Report February 2021: The 'Safe Haven'?](#) in relation to tax avoidance. Such practices, however, also raise risks for money laundering. Risk arises where the investor is using illicit funds. This type of reputation damage can reduce confidence in that country as a place for legitimate opportunities and sustainable growth, which can cause diminished development and economic growth. Once a country's

financial reputation is damaged, reviving it is very difficult and requires significant government resources to rectify a problem that could be prevented with proper anti-money-laundering controls.

## Time to be pro-active in response

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Although Ireland's property market has yet to be overrun with criminal oligarchs, the potential risk should not be underestimated: "increasing residential and commercial property prices promise a solid short-to-medium term investment for anyone looking to launder money, and the controls around the sector leave some room for concern", especially given the low level of anti-money laundering compliance by property service providers such as real estate agents (Transparency International Ireland, 2021, p. 15). Criminal money laundering continues to develop in creative ways. Thus, it is imperative that the government puts more resources into tackling the problem, because as every layer of the process occurs, the more complex differentiating between illicit and licit assets becomes. Money laundering may seem like a crime without a clear victim, but from these three elements identified alone, the state, the economy, and its citizens are all affected by this so-called invisible crime. More needs to be done to protect them from it.

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