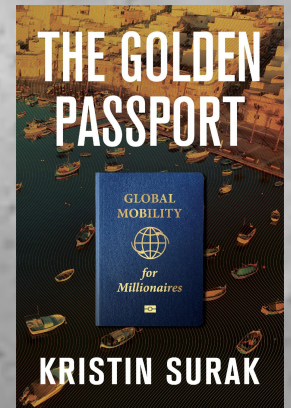


Why hide?

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The UK property market has in recent years become an internationally recognised place to store wealth

Super-rich pick flats with private security as sales rise of £15m-plus London homes

Centrally located apartments rather than houses popular with buyers from US, Middle East and China



FT Wealth Management Nov 7 2023

Why London is still calling the world's wealthy



The super-rich are gobbling up prime London properties at a rate not seen since Brexit

A new report notes the wealthy are using houses as a hedge against inflation

By Cassie Werber Published May 11, 2023



Super-rich make London the global hotspot for luxury homes

▶ High-end buyers spent \$4bn in the UK capital last year on properties worth \$10m or more



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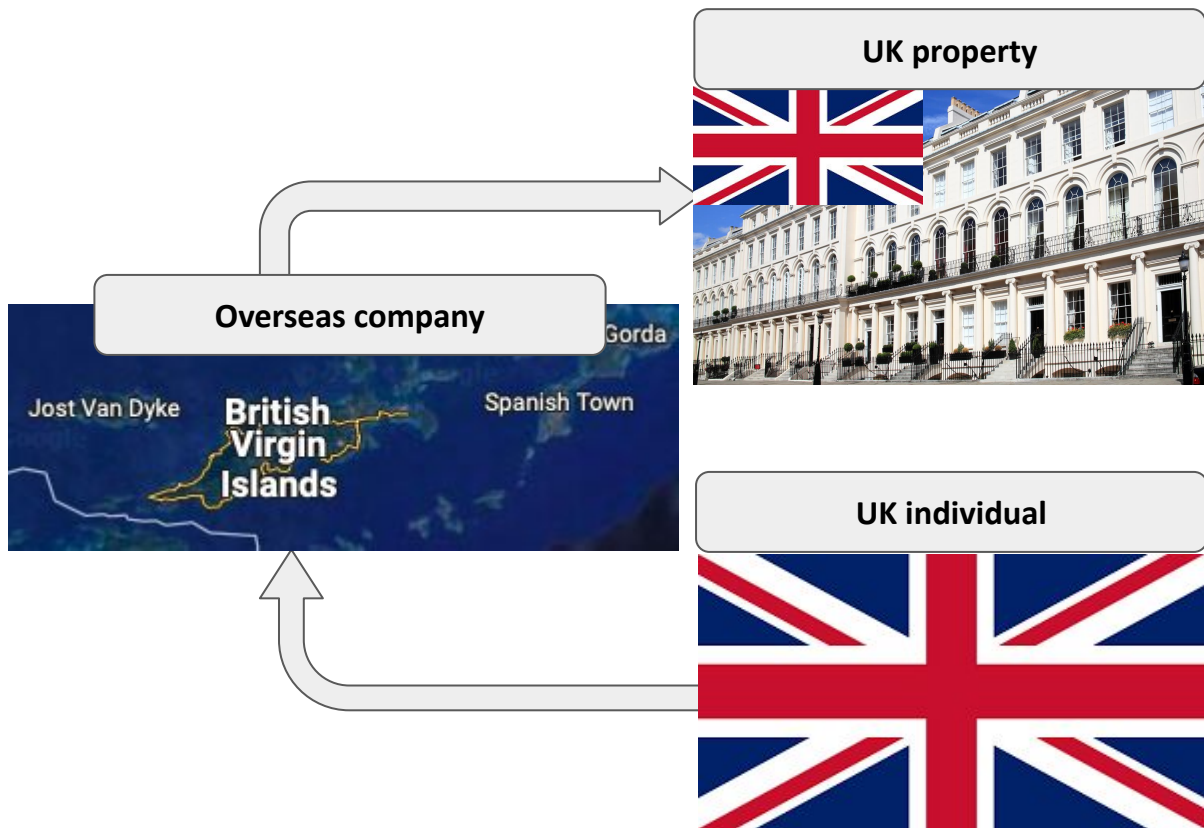
Wealth

World's Rich Reveal How They Spend Their Billions on UK Property

Corporate titans, Gulf royalty and Russian tycoons all use offshore companies to buy UK real estate. The British government wants to know their names.

- Real estate in London has allowed the city to act as a 'safe deposit box' for ultra wealthy individuals across the globe (Fernandez et al., 2016)
- An estimated £16bn to £19bn was invested in UK property on the back of CRS tax changes (Bomare, 2022)

Individuals can either buy real estate directly or “hide” their ownership with the use of holding companies



- While companies holding UK property are spread across the globe, 90% of property is held by companies located in offshore financial centres such as the British Virgin Islands and Jersey
- Offshore financial centres were estimated to hold 10% of the world's GDP in 2015 (Alstadsætera et al., 2018)

There are two main reasons why individuals might choose to use holding companies: tax reasons and secrecy reasons

Tax reasons

- Allows UK property and capital gains taxes to be avoided *in theory* by selling company, not property. Evidence of such behaviours are hard to observe in available data
- When UK government made capital gains tax payable by overseas companies except those from Luxembourg in 2019, shift to companies based in Luxembourg was observed (Johannesen et al., 2022)

Secrecy reasons

- Individuals not only wish to hide their ownership from governments, they may also wish to hide their wealth from the wider public - a subtle difference
- Historically, holding a property via an overseas company provided anonymity for the true owners
- Following the announcement of a public register of beneficial ownership in the UK, the probability of overseas purchases fell by about 13pp (Collin et al., 2022)

These are not mutually exclusive!

Question: how are these two factors driving the way in which UK property is held offshore?

Several datasets can help us start to answer these questions.

Data on who owns property:

- Properties held *individually* by overseas individuals - made available as the result of FOI requests (Centre for Public Data, 2023)
- Properties held by overseas companies - available in a publicly available dataset known as OCOD, released by the Land Registry (monthly, at present)

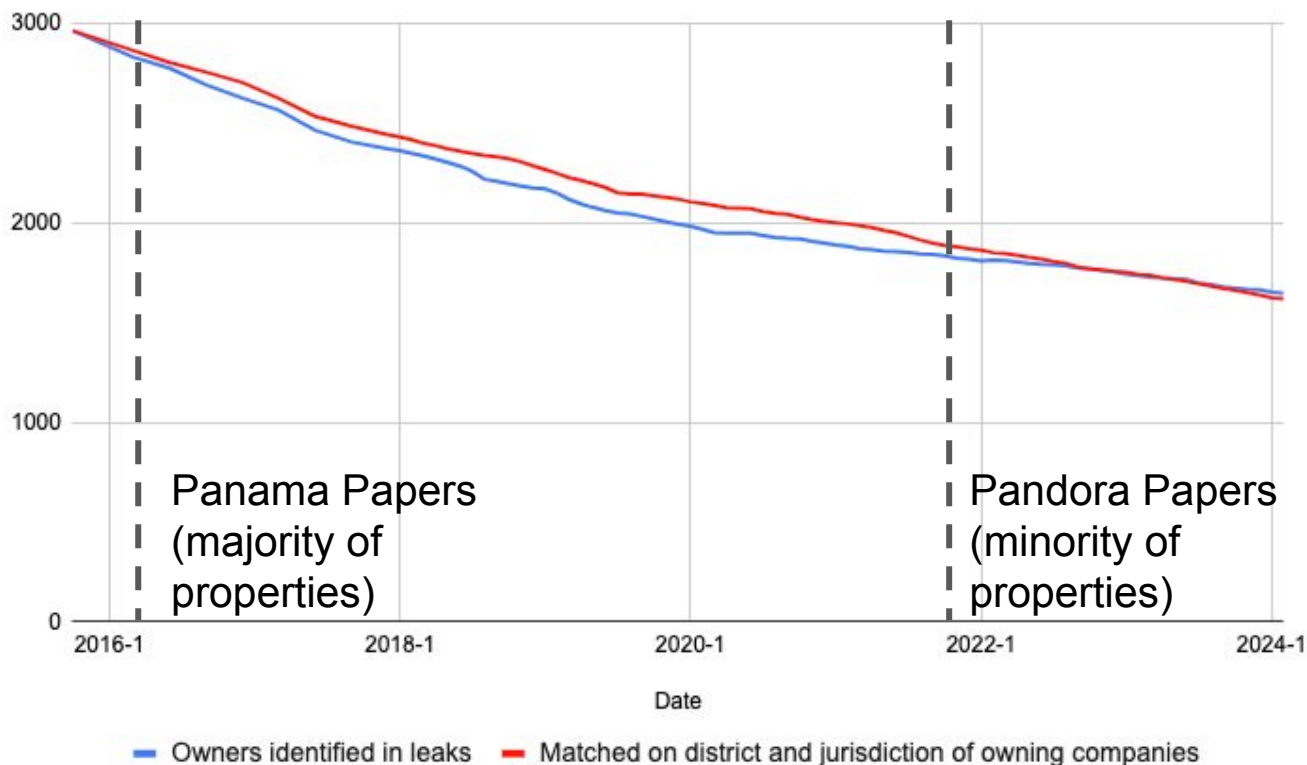
Data on who benefits from property:

- Offshore leaks such as the Panama and Pandora papers - released by the ICIJ and containing information on 810,000 offshore entities
- The Register of Overseas Entities (ROE) - official UK government data on the beneficial owners of overseas entities holding UK property and land

Common approach: match data from the leaks and the ROE to OCOD

Surprisingly, the release of offshore leaks did not seem to strongly influence the overall holding of exposed properties

Number of OCOD entries

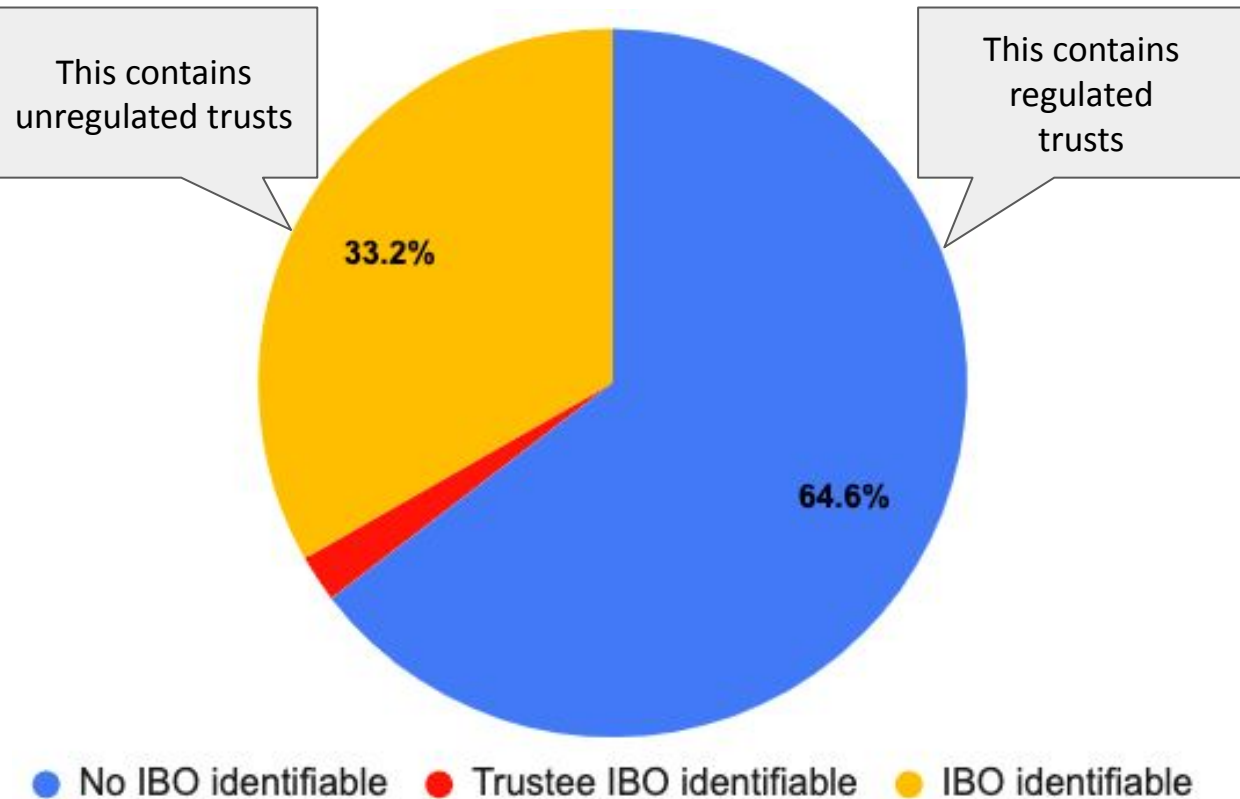


- For each property whose owners can be identified in the leaks, it is useful to know whether the leaks caused them to sell or restructure their holdings.
- Each property was matched with one in the same district and with holding companies in the same jurisdictions to capture similar dynamics of ownership and property characteristics
- Properties with similar characteristics were sold at a similar rate

The Register of Overseas Entities was introduced to make public the beneficial owners of property-holding foreign entities



Only around a third of entries have identifiable individual beneficial owners - secrecy still prevails

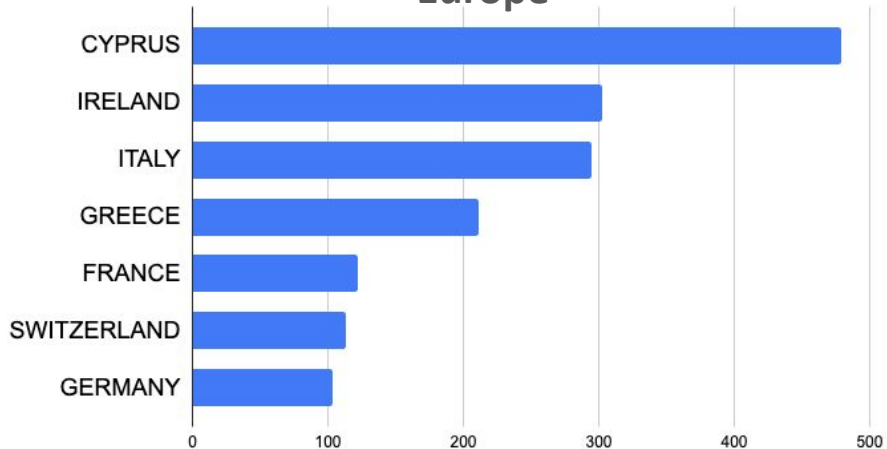


- While the the number of companies registering individual beneficial owners has increased substantially since the ROE was established, we are still able to find individual beneficial owners for only 33% of OCOD entries
- 2% of entries list trustee shareholders - obfuscating the true ownership of the property
- Trusts, high percentage ownership thresholds and poor data are responsible for the low percentage amongst others

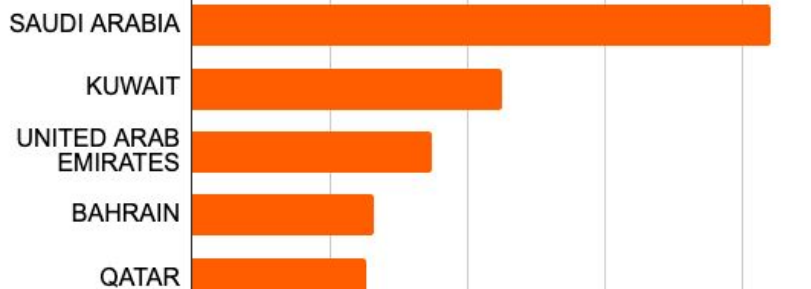
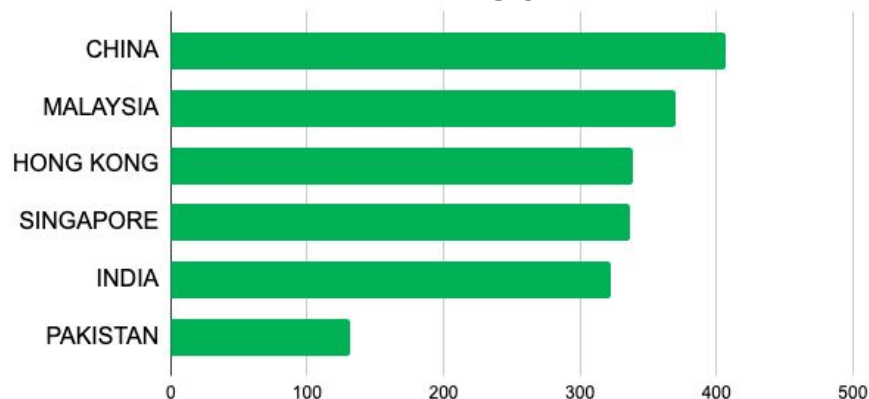


Individuals from 143 countries have been reported as owners, with 35% of all reported owners being listed as British (4330)

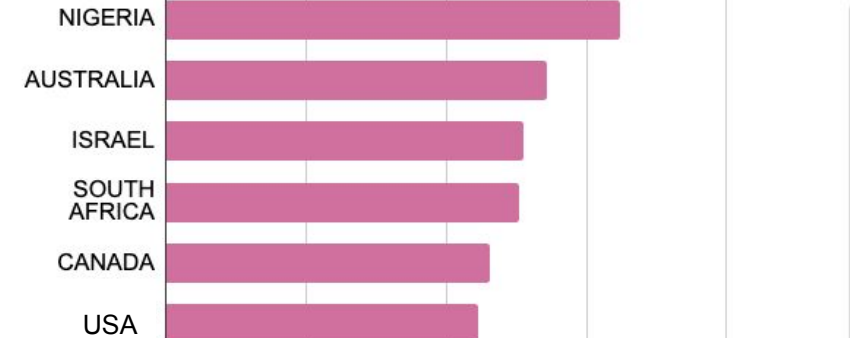
Europe



Asia



Gulf countries

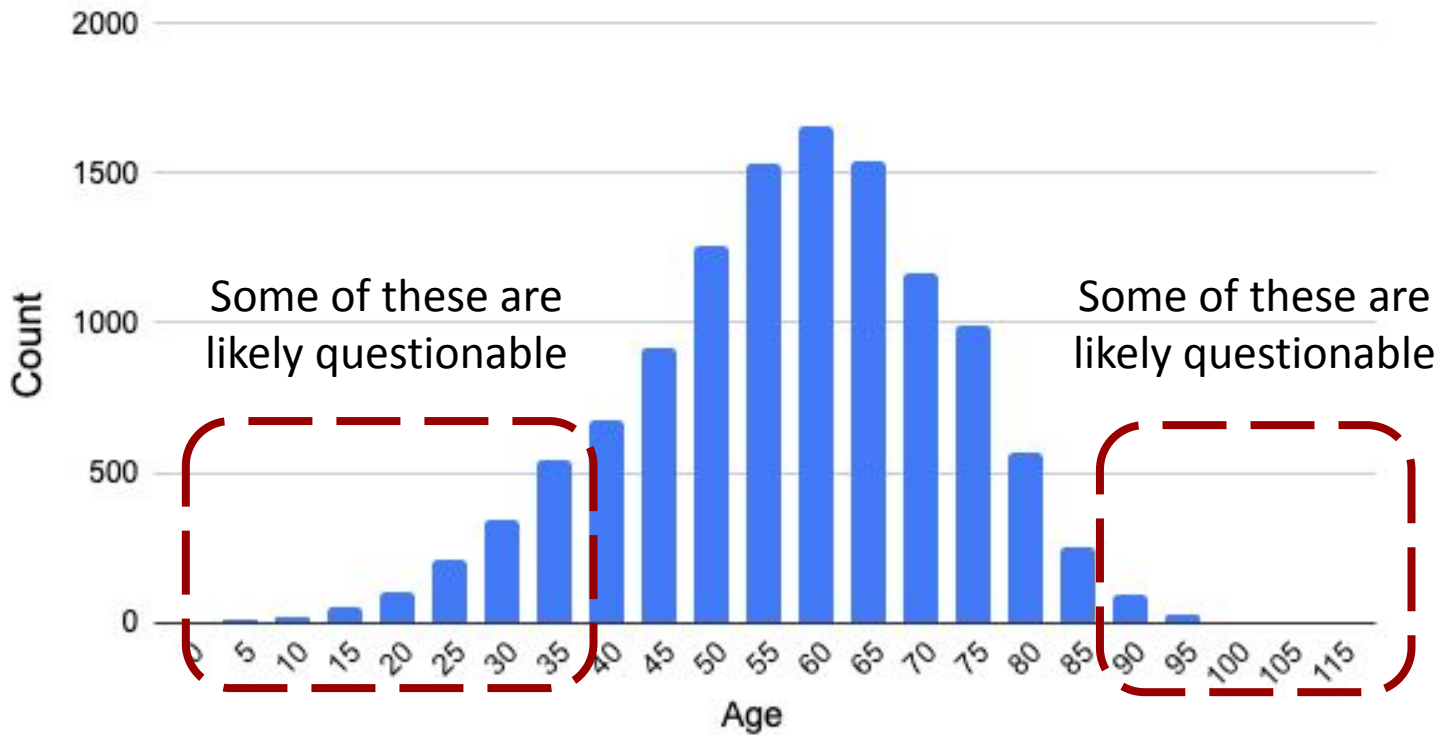


Other countries with >100 beneficial owners



Owners range from 115 years old to apparently born in 2024, suggesting both mistakes and non-regulated trustee use

Age distribution of identified beneficial owners





The British Virgin Islands is the jurisdiction of choice for individuals from most countries, but exceptions exist

Countries where BVI most popular jurisdiction

- Qatar
- UK
- Canada
- Germany
- Switzerland
- Turkey
- Sweden
- Israel
- France
- China
- Kenya
- UAE
- Egypt
- Malaysia
- Saint Kitts
- Greece
- Jordan
- Bahrain
- Malta
- Iraq
- Russia
- Nigeria
- Portugal
- Lebanon
- Hong Kong
- Thailand
- Pakistan
- Singapore
- Saudi Arabia
- Cyprus
- India

Countries where they themselves are most popular jurisdiction

- Italy
- Japan
- Ireland
- Belgium
- Spain
- New Zealand
- Australia
- Denmark
- Netherlands

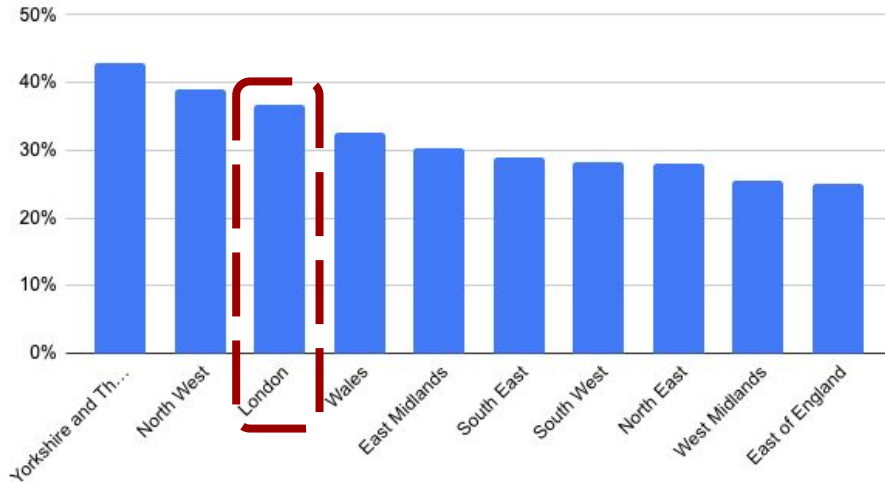
Countries where other jurisdictions are most popular

- Jersey
 - USA
 - Kuwait
- Seychelles
 - South Africa
 - Botswana

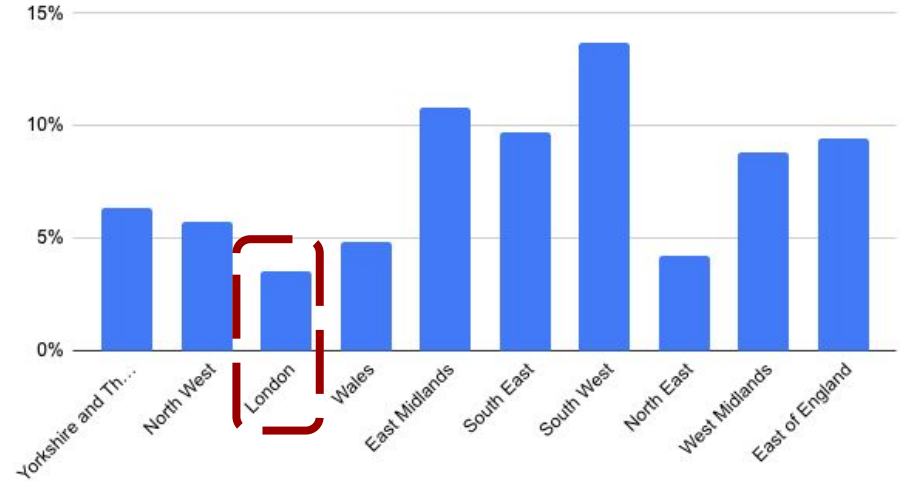


Surprisingly, opacity is not highest in London or the South East...

Entries with identifiable BOs, %



Entries with BOs who have trustees, %



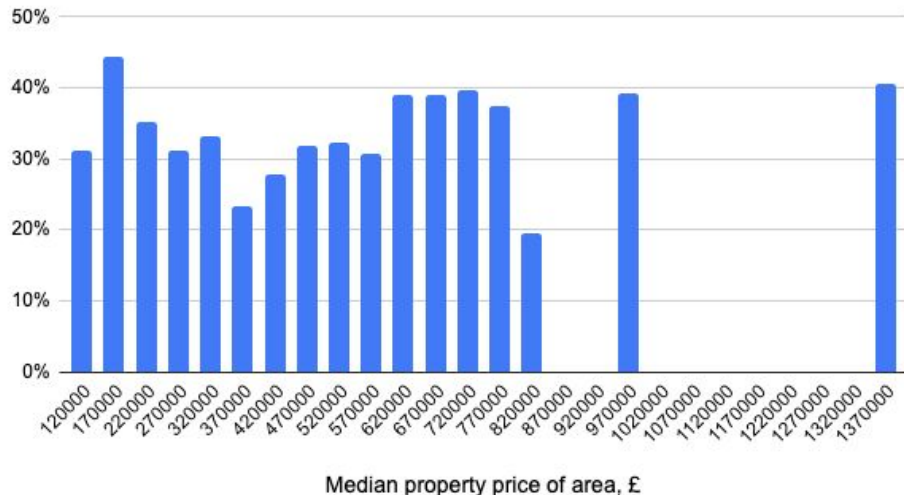
- While London has a far above average number of OCOD properties, it does not have notably high or low levels of ownership reporting

- The transparent use of trustees is most visible in the East Midlands and the South West
- Low levels of transparent trustee use are seen for London, Yorkshire, the North East and West, and Wales

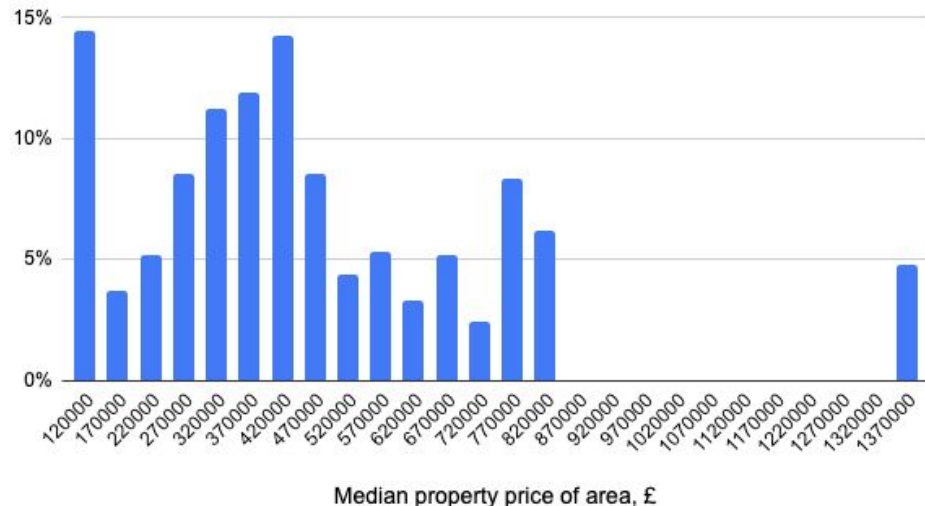


...nor much higher in areas with the most expensive properties

Entries with identifiable BOs, %



Entries with BOs who have trustees, %



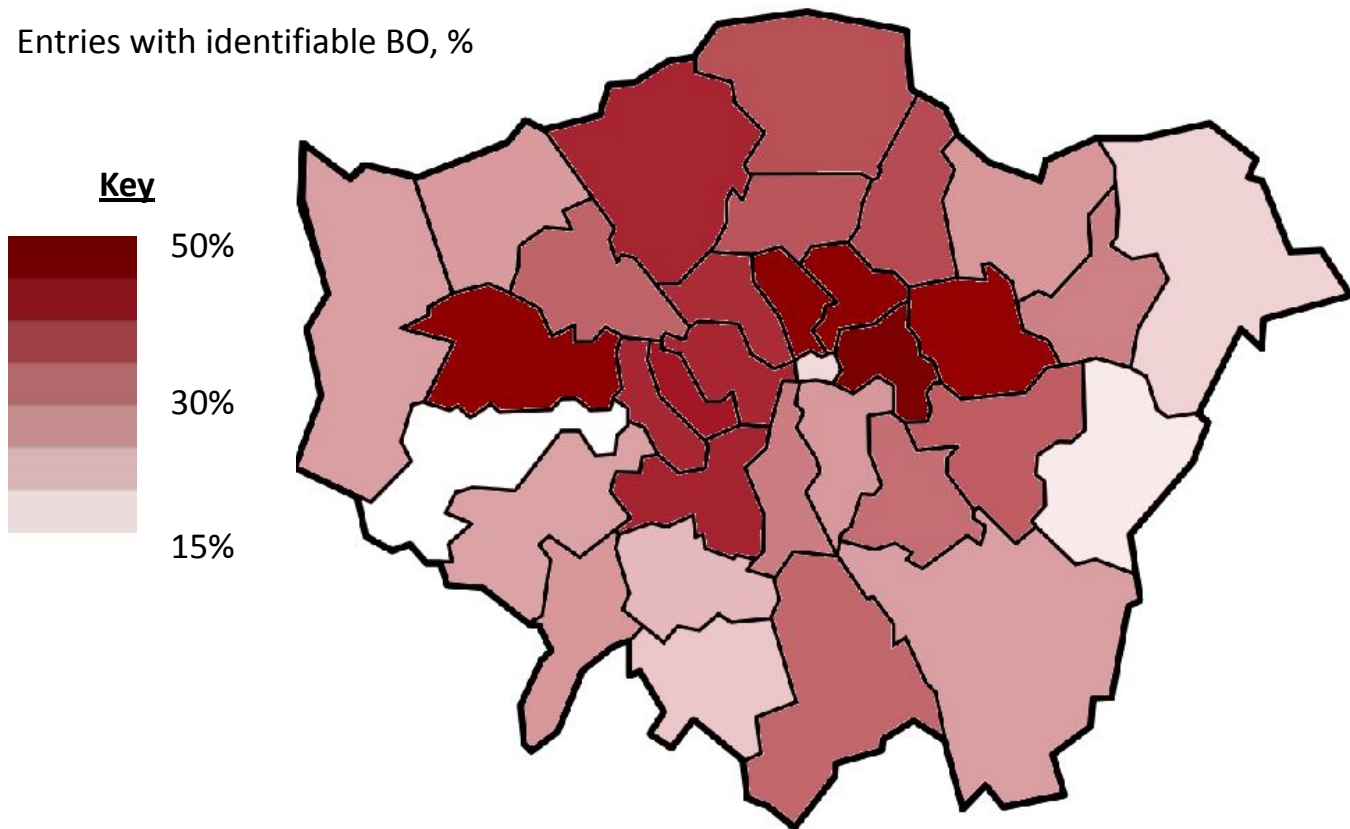
- The percentage of properties where an ultimate beneficial owner can be identified is surprisingly unrelated to the average property price in an area
- This suggests the use of a particular property is secondary to its function as wealth storage

- It is areas towards the lower-middle of the price distribution that have the highest amounts of trust use reported
- Whether trust use is lower for top end properties, or simply better hidden, remains to be answered



However within London, properties in more central locations are more likely to have reported an individual beneficial owner

Entries with identifiable BO, %

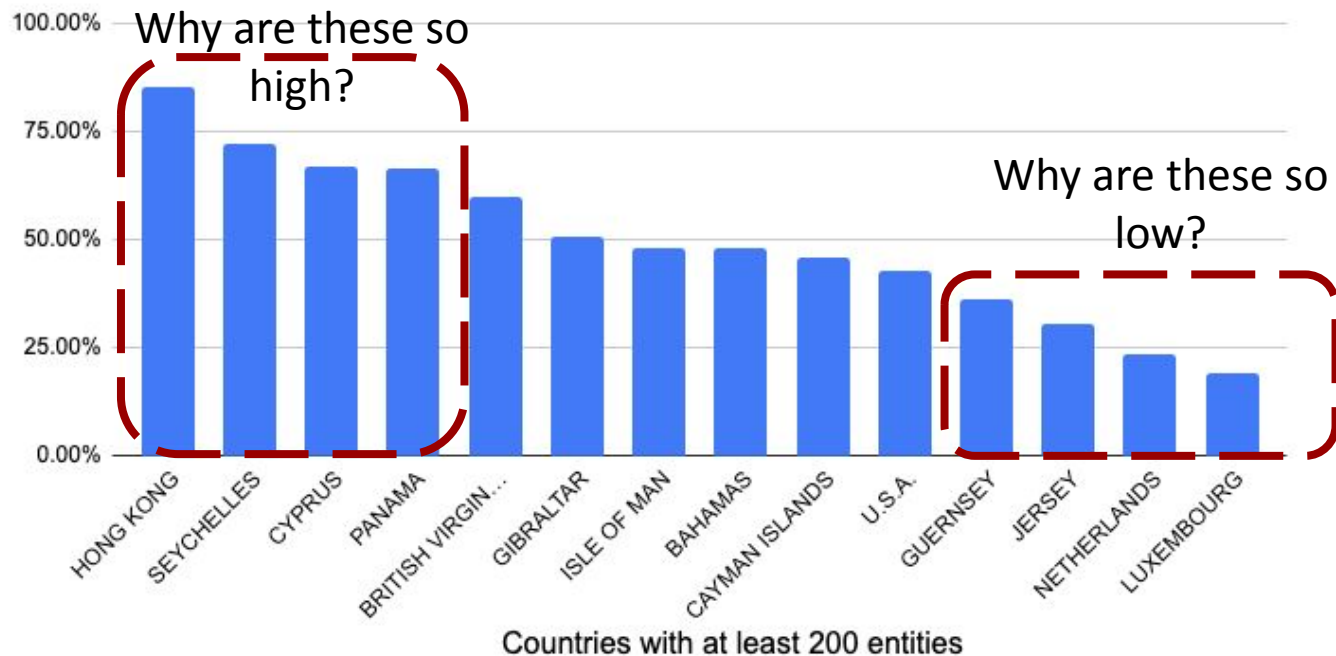


- The ability to identify beneficial owners by borough varies wildly.
- Outer boroughs seem to have lower levels of identifiable beneficial owners, while inner London boroughs have higher levels
- The City of London is an outlier



While we know there are gaps in the register, we should also ask can we trust the data we do have?

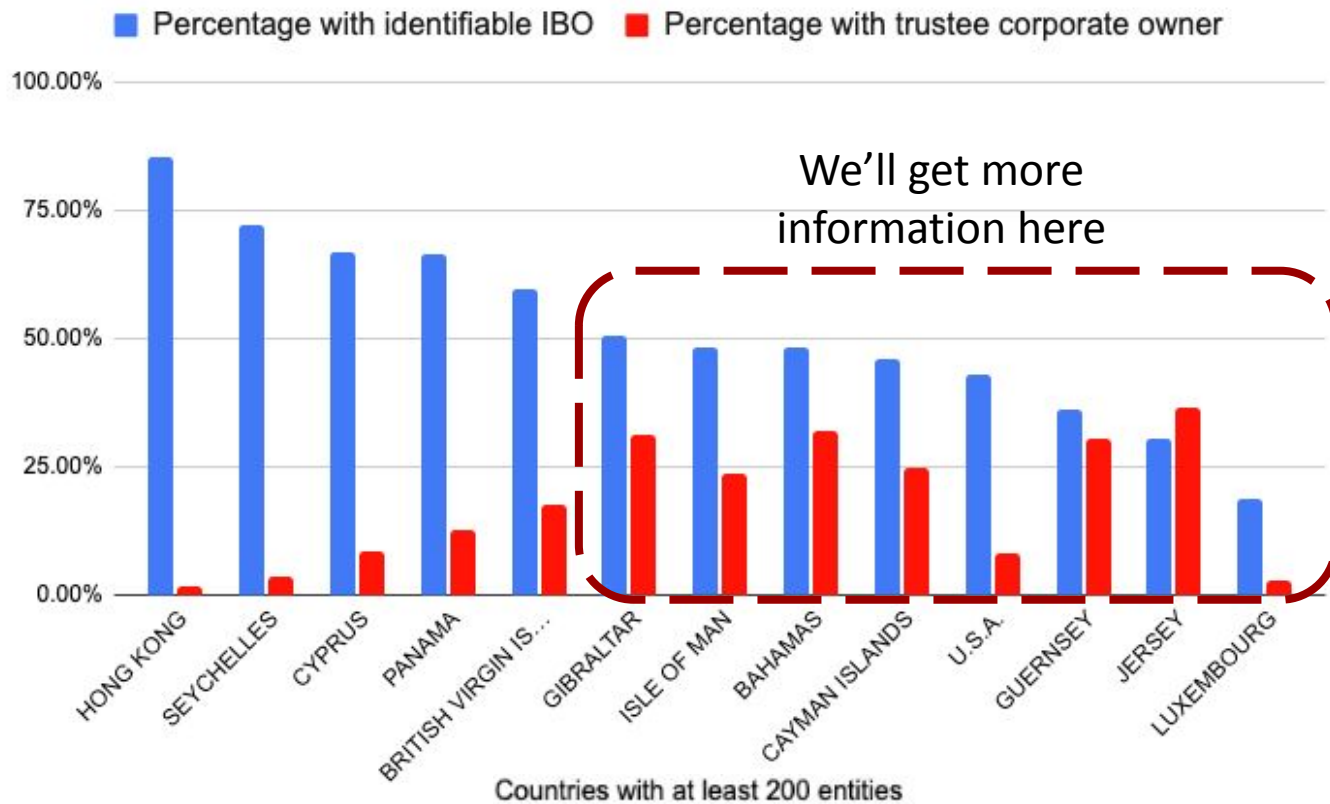
Companies in ROE declaring at least one IBO, %



- These countries are all known to be offshore financial centres (U.S.A because of Delaware amongst other states)
- Thus it is surprising to see such large variation
- WHAT IS CAUSING THIS?



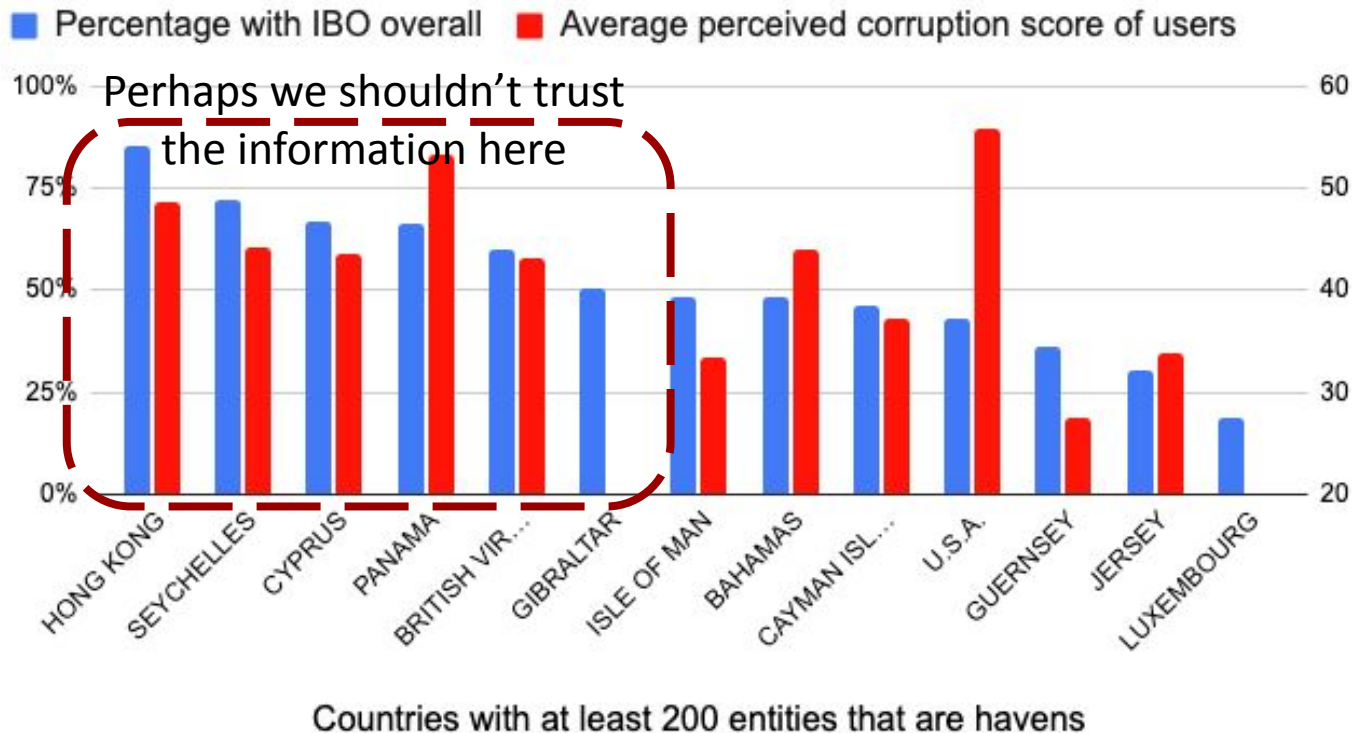
Lack of identifiable individual owners is associated with use of regulated trustee owners - publishing trust data will help here



- Many companies owning property have corporate beneficial owners who are trustees
- Making the beneficiaries of trusts registerable will help fill in gaps for these properties
- This is useful for property owned by companies in Jersey and Guernsey, for example



However, we likely do not and will not have true beneficial owners for countries where unregulated trustee use is occurring



- Reporting rates are high in countries such as Hong Kong, The Seychelles, Cyprus and Panama
- The offshore leaks shows that users of these financial centres are on the whole more corrupt
- This suggests non-regulated trustee use is taking place



Hypotheses

We may expect...

- More wealthy countries to be represented
 - More national wealth means more overall more investment possible
- More unequal countries to be represented
 - If that wealth is concentrated, those with it are more likely to invest

But this would be tempered by hiding...

- Secrecy - countries with high perceptions of corruption may be **under** represented
 - If corruption is low, less pressure may be felt to hide wealth
- Secrecy - Countries that are known 'tax havens' may be **over** represented
 - Individuals wishing to hide but be compliant with the law may institute non-transparent nominee shareholders
- Tax - Countries with low capital gains tax rates may be **over** represented
 - Individuals with low tax rates at home may feel less pressure to hide their wealth



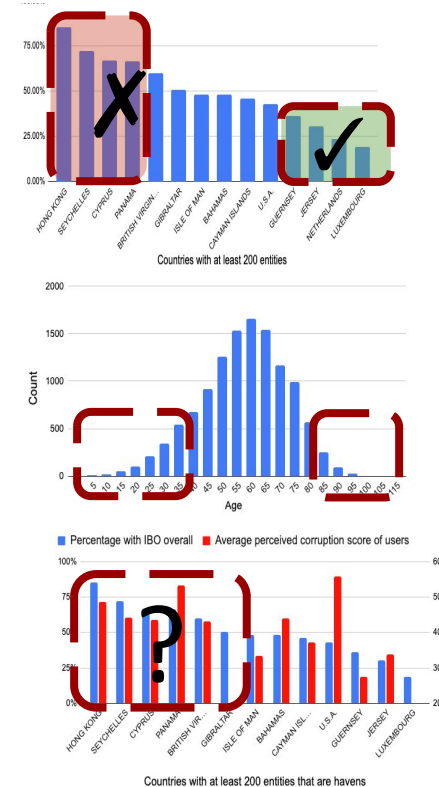
While secrecy does seem to be a driver of hiding, transparent tax reasons are not significant for directly held properties

Intercept	-60.8364 (46.362)
Private national wealth	1.4452*** (0.326)
Top 1% share of wealth	1.8810* (1.129)
CPI score	1.3745*** (0.488)
Capital gains tax rate	-0.9321 (0.753)
Haven or not?	57.8987** (25.090)
R ²	0.274
No. observations	114

- The most statistically significant contributors to expected levels of beneficial ownership reporting are wealth of the home nation and perceived corruption of that country
- However, the single largest contributor to the expected number of reported beneficial owners is whether the home nation is a offshore financial centre or “tax haven”
- Tax rates in the home nation do not have a statistically significant effect on the number of beneficial owners reported from a given nation

Upshots

1. While the Economic Crime and Corporate Transparency Act 2023 will correct for some shortcomings, it will not penetrate unregulated trust use and may in fact encourage it
1. As the questionable identities of many registered beneficial owners demonstrates, current safeguards and penalties aren't sufficient to prevent people from abusing the system
1. In order to understand the scale of unregulated trust use in certain offshore jurisdictions, further qualitative work is needed to unpack the strategies employed in the field



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