

What does federal tracking of luxe homebuyers mean for Broward and Palm Beach?

Brokers, lawyers and consultants weigh in on new disclosure requirements

August 04, 2016 02:15PM

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When the federal government announced in January that it would track shell companies buying luxury homes in Miami, many real estate players were worried the move would sabotage an already soft market.



2014 aerial view of Lantana in Palm Beach County (via WFPilot)

Fast forward eight months later, with those regulations now expanded to Broward and Palm Beach counties, and those players are singing a different tune: it's business as usual.

Last week, the Treasury department's Financial Crimes Enforcement Network (FinCEN) announced it was greatly expanding a pilot program meant to uncover money launderers in luxury U.S. real estate.

The so-called "Global Targeting Orders" require title insurers to turn over information about the beneficial owners of shell companies that pay more than \$1 million in cash for a home. Miami-Dade County and Manhattan [were the first to be scrutinized](#), with the orders now covering Broward County, Palm Beach County, several major cities in California, San Antonio in Texas and all boroughs of New York City.

"At the time, none of us really knew how it would affect the market," **Joe Hernandez, chair of the real estate practice group for law firm Weiss Serota Helfman Cole & Bierman**, told *The Real Deal*.

With the market already facing headwinds like a strong U.S. dollar discouraging foreign buyers, he worried the Treasury department's search for money launderers would become another obstacle. Foreign buyers are frequent users of companies like the ones covered by FinCEN's order, for both favorable tax treatment and privacy.

"It turns out, it really did not affect many, if any transactions for us," he said.

His experience echoes that of many in the real estate industry, who [heavily criticized FinCEN's disclosure rules](#) as having no teeth. The reporting requirements cover paper checks and cash but not wire transfers, which are commonly used for luxury home purchases. They also exclude commercial properties entirely.

For Pascal Liguori, broker associate at Premier Estate Properties in Delray Beach, [FinCEN's announcement](#) has prompted little more than a few curious phone calls. The brokerage only takes listings for homes above \$1 million, so its entire business is within the coverage zone.

He told *TRD* that he fielded questions from a couple of clients, but they weren't overly concerned after learning FinCEN was only after money launderers.

"Last week on Friday I met with our attorney, had a brief discussion about it, and now what he's going to do is have a company-wide meeting to make sure everybody understands it," Liguori said.

But not everyone in South Florida's real estate industry is taking the Treasury department's announcement lightly. Jack McCabe, head of McCabe Research & Consulting, said FinCEN's growing database on luxury homeowners could become a "powder keg," similar to the [recent Panama Papers investigation](#) that revealed a deep connection between foreign dollars and Miami's explosive rise as an international real estate market.

"The wheels of justice move [slowly], especially at the federal level," he said. "At this point, all we know is there's been enough information to originate the investigation, and now to increase the scope of it."

McCabe also had a few choice words for those brushing off the issue: "If I [were] an industry professional making my money off the market, I'd probably try and downplay it as much as possible."

As FinCEN officials said last week, 25 percent of the reported transactions so far have been linked to people who have been the subject of a "suspicious activity report," prompting the agency to broaden its search. "We go where the data takes us," Steve Hudak, FinCEN's chief of public affairs, told *TRD* on Thursday.

FinCEN itself is not a law enforcement agency, officials said during last week's announcement, and its main goal with the global targeting orders is to gather enough information about money laundering for a long-term solution through legislation.

Besides tracking cash deals, FinCEN is also pushing for transparency on several other fronts: the agency has sent legislation to Congress that would require companies to disclose their beneficial owners at the time of their creation, and has put forward a new rule for financial institutions to vet the owners of companies when they open accounts.

Hudak also said the tips FinCEN has received from law enforcement showed a clear money laundering threat in residential real estate, but the targeting orders could expand to the commercial sector as the investigation continues.

"Hopefully, it is not a huge regulatory burden on the industry," Hudak said. "But we do have to keep our goals in mind for increasing transparency."