1. Introduction

The real estate sector is a growing and fascinating market, not only for those who are fond of gorgeous properties in breathtaking locations or of the beautiful architecture of Frank Lloyd Wright, Gerrit Rietveld, Adolf Loos or I.M. Pei. It has become a magnet for people searching for profitable investment opportunities without even intending to set foot in one of these marvellous buildings. In addition, in combination with the subprime mortgage market, the real estate sector has also recently become a highly debated cause of the financial crisis. Notwithstanding all scandals and fascinating features, this book looks at the real estate sector from a different angle, namely as a prominent candidate for money laundering and criminal abuse.

Given the sector's economic importance in many countries, several studies have been made on criminal behaviour in the real estate sector (e.g. FATF/GAFI, 2007). Most prominent amongst them is the OECD (2006) report by the Centre for Tax Policy and Administration on tax fraud and money laundering vulnerabilities involving the real estate sector. It is based on a survey concerning key tax evasion and money laundering issues in which 18 countries participated: Argentina, Australia, Austria, Canada, Czech Republic, Denmark, Germany, Ireland, Japan, Mexico, the Netherlands, Norway, Portugal, Spain, Sweden, Turkey, the United Kingdom and the United States. The report concludes that, in most of the countries surveyed, the real estate sector is identified as a sector that is used to facilitate tax fraud and money laundering.

In the Netherlands, two detailed studies have been done by two government related research centers. These are the study of the Dutch Scientific Research Documentation Center (WODC) by Ferwerda et al. (2007), which gives a good overview of maleficent behaviour in the Dutch real estate sector, and the Financial Expertise Center (FEC) report of 2008 on money laundering techniques used in this sector.

However, so far there has been no systematic study on the importance and frequency of diverse maleficent behaviour constructions for money laundering in the real estate sector. How many of the real estate objects are suspicious? This book tries to use all available information to systematically identify and analyse criminal investments in the real estate sector. Though the data refer to the Netherlands, the method described can be used for other countries as well.

This book is the outcome of a study jointly financed by three Dutch ministries. The pioneering idea of the Dutch Ministry of Finance, Ministry of

Justice and Ministry of the Interior and Kingdom Relations to jointly finance a project that studies criminal investments in the real estate sector by combining the knowledge of the diverse ministries and by bringing together different academic disciplines, allowed us to compile a report on Criminal Investment in the Dutch Real Estate Sector in January 2010 (Unger et al., 2010). The Utrecht University School of Economics and Maastricht University engaged in a multidisciplinary project of economists and criminologists in cooperation with all three ministries to identify criminal investments in the Dutch real estate sector.

We would like to thank the pioneers of the three ministries and all of the members of the advisory board who gave considerable help and support to this project, especially for providing data access. In particular we want to thank Erik van Andel, Jan Glimmerveen and Brigitte Slot (Ministry of Finance) for their courage and drive to start this project. We are heavily indebted to the latter for her sharp intellect, communication skills and enthusiasm that greatly inspired and helped this project. We thank Paul van Voorst (Ministry of Justice) and Karel Schuurman (Ministry of the Interior and Kingdom Relations) for their involvement in work across ministries. We would like to thank Jaap Trouw for his assistance in this project, especially the data mining process and for making some of the graphs. Without Bernd Veldman from the Tax Administration Office Real Estate Knowledge Center (VKC), who himself is writing a PhD thesis on this topic, the study would not be what it is. Nico van Waarden helped to combine the large datasets at the Tax Administration Office (Belastingdienst). Arjen Cuijpers and Ruud Leijenaar from the Real Estate Intelligence Centre (VIC) helped in particular by quickly arranging workplaces at the centre and thus giving us the opportunity to make use of their intelligence facilities and sources. We thank Arjen Siegmann from the Finance department of the University of Amsterdam for his original idea of using unusual prices to identify conspicuous objects and for providing graphical support. We thank John Zdanowicz for his great idea of using unusual prices for identifying trade-based money laundering, which inspired this study. Aart Hordijk from the University of Maastricht was so kind to provide us his estimates of the real values of European real estate markets. We thank Jan Rijk and Luud Geerlings for providing us with data for the region of South Limburg. We thank Niels Laheij from the Research Intelligence Expertise Center Limburg and Grazielena Marcus from the municipality of Maastricht for preparing the essential data. Last but not least, we thank Martin Grimbergen of the Dutch Financial Intelligence Unit and Eugene Heijnen, Peter Vincent and Bert Stevens from the Police Limburg South for the granting of access to and the preparation of closed-source materials (Suspicious Transaction Reports and Police dataset Blue View). We thank Henk Polet from the Office of the Land Registry (Kadaster) for his support and the Mayor of Utrecht, Aleid Wolfsen, for his interest in the research and support of the project. We thank Joost Simons and his wife for correcting our English. We would also like to thank our student assistants Jorrit Hendriksma and Melody Barlage, and the employees of the G.J. Wiarda Institute for Legal Research, specifically Klaartje Hoeberechts, Titia Kloos, Frans van Eck and Willemien Vreekamp-Douwes, for editing and preparing the lay-out of this book.

With this book we hope to show new ways of detecting crime, which can be used for establishing early warning systems. Based on a number of unusual characteristics of an object or transaction, such as an unusual price, strange ownership characteristics or unusual bank relations, we identify those objects that should be further investigated by the authorities because they might be related to money laundering or other criminal activities. We also calculate the probability that an object with certain characteristics is being abused by criminals. Needless to say, the assumption of innocence holds true as long as a building has not been identified by the police as being related to criminal abuse.

In Part One of this book we will first show the importance of the real estate sector for money laundering and criminal investments (Chapter 2) and then discuss the most typical money laundering constructions mentioned in the literature (Chapter 3). Chapter 4 describes the research method and derives objective indicators from the literature that could point to suspicious money laundering constructions. Chapter 5 describes the data collection. Chapter 6 shows the results of the data analysis and derives a list of 150 objects that we consider unusual, which is then mixed with a list of 50 seemingly normal objects as a control group. Chapter 7 investigates the results of this data analysis. Part Two of this publication is the criminological part of the study. Chapter 8 describes the criminological methods with which the list of 200 objects handed over by the economists was analysed, the results of this analysis are presented in Chapter 9. Chapter 10 gives the major findings of the criminologists. Part Three of this study consists of a statistical and econometric analysis of all of the data in order to determine the importance of the various indicators (Chapters 11, 12 and 13). Chapter 14 presents the major findings of this analysis. Chapter 15 gives some suggestions for further research and the whole study is summarized in Chapter 16.