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Hidden in plain sight: Foreign ownership of real estate in Norway and Dubai

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Overview

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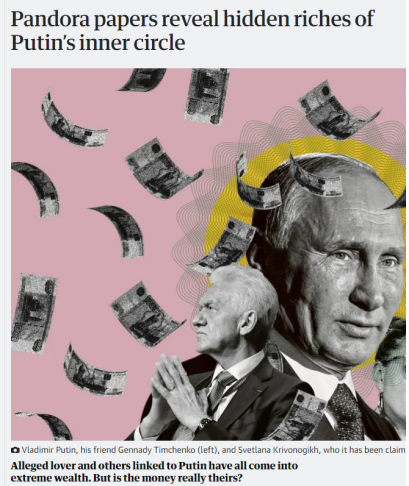
Motivation I

- Globalisation and liberalisation of capital markets has lead to cross-border investments – also in real estate
- Research, news organisations and consultancy firms has documented large inflows in real estate markets
- But we only have good estimates of offshore financial wealth (bank deposits, listed equities and bonds)

Motivation II

- Associated with money laundering – foreign ownership is a red flag
- Widespread worry that it increases prices
- Secret/foreign owners may wield influence over important infrastructure, development of cities etc.
- Recent sanction policies have increased the awareness of the importance of knowing ultimate ownership



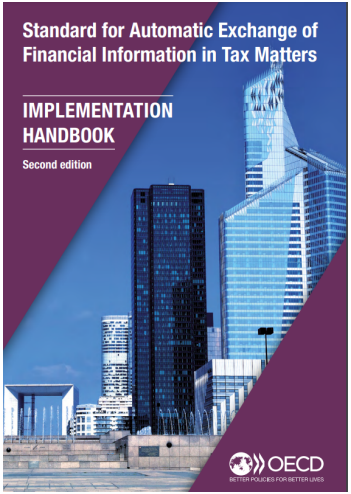
Pandora papers reveal hidden riches of Putin's inner circle

Vladimir Putin, his friend Gennady Timchenko (left), and Svetlana Krivonogikh, who it has been claim

Alleged lover and others linked to Putin have all come into extreme wealth. But is the money really theirs?

Motivation III

- Real estate and real estate companies are exempted from FATCA and CRS
- Real estate now more attractive for those who want to hide assets and money flows:
  - Money laundering
  - Tax evasion
  - Or other purposes



What we do

Dubai (with Annette Alstadsæter, Bluebery Planterose, Gabriel Zucman):

- Unique data: Accessed the C4ADS's Dubai Property Database.
- Estimate country of ownership and the property values.
- Zoom in on Norwegian owners to estimate the evasion rate and positions in the wealth distribution

Norway (with Annette Alstadsæter):

- Unique data: Wealth tax records and comprehensive shareholder registry
- Estimate country of ownership and the property values.
- Show development over time

What we find I

Dubai:

- At least USD 146 billion is foreign owned – that is more than a quarter of the total real estate market.
- Owners from India, the UK and neighbouring countries are the most important owners
- But other countries also have marked presence: Conflict ridden countries, Russia, citizenship-by-investment countries and tax havens
- Norwegian tax payers own properties worth USD 65 million. But only 30 percent of the properties are reported to the Norwegian tax administration.
- Probability of owning increased for the Norwegian sub-sample.

What we find II

Norway:

- 2 percent of Norwegian real estate is owned from abroad
- 10 percent when we only look at corporate owned real estate
- Increase between 2011 and 2017
- Sizeable share from tax havens – and relative increase over time

What we know I

- The best estimates to this date:
- Morel and Uri (2021): USD 140 billion worth of residential real estate was owned by non-residents at the end of 2019. This corresponds to 1.5 percent of the total residential real estate.
- Bomare (2019) use Panama Papers and related leaks to estimate the backgrounds of the owners of tax haven companies that own land or property in London. Estimate that USD 95.4 worth of properties is owned by foreign companies. Of which 1/3 are assumed to be owned by British owners through foreign shell companies.

What we know II

- Little have been done to map foreign ownership of real estate, but multiple research projects are looking into this in multiple countries at the moment.
- Johannesen, Miethe and Weishaar (in progress): Present overview of foreign ownership of residential real estate in England and Wales. Show that there is a price effect from foreign investments – that there seems to be tax and secrecy motives behind investments – that foreign investors react to policy changes.
- Bomare and Le Guern Herry (in progress): Also looks at properties in England and Wales. Use a novel identification strategy to show that the announcement of the CRS framework in 2014 led to inflow in real estate.

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Data and methodology

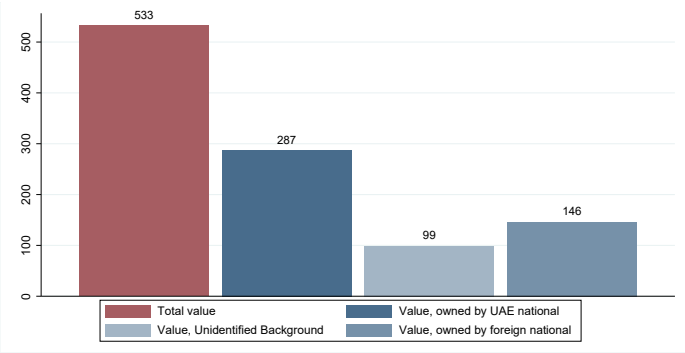
- Leak of data on property ownership, which is current in early 2020. Was leaked to C4ADS – we were allowed to access. (Also shared with media outlets, which has published stories under the tagline **Dubai Uncovered.**)
  - Full Dubai property market by property or ownership share of property.
  - Data included detailed information about the owner and the property.
- Hugh effort to structure and clean this data to give a good overview of ownership of different properties.
- Then we estimated the property values by using information about the properties and public information on average square meter prices for different districts.
- There was a lot of direct nationality information in the data. But we also imputed nationality from information in the data (e.g. phone numbers and addresses) and public sources (prior leaks, public registries, etc.).

Dubai Uncovered

Initial coverage: Reports in more than 20 publications all over Europe.

Dubai - Overview

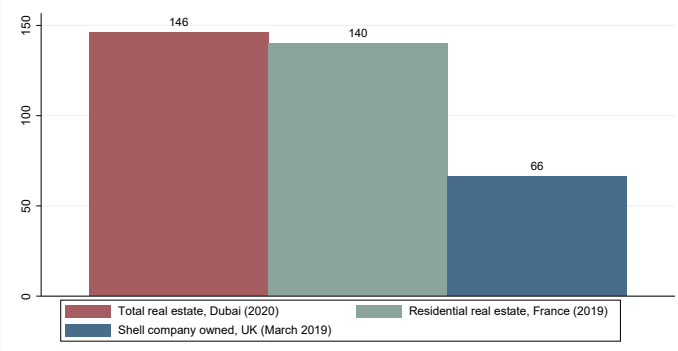
Figure 1: Value of Real Estate in Dubai in 2020 (USD Billion)



Notes: This figure shows the aggregate market value of Dubai real estate in 2020. It breaks down this aggregate into domestically-owned, foreign-owned, and uncertain owner's nationality/residency. All values are USD billions.

Dubai - In context

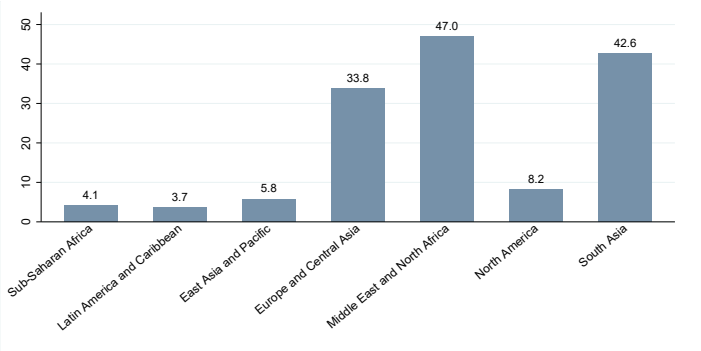
Figure 2: Dubai vs. Other Cities and Countries



Notes: This figures compares foreign-owned real estate in Dubai in 2020 to foreign-owned real estate in London and in France. Panel A) shows the value of residential real estate in France owned by non-residents, retrieved from Morel and Uri (2021), and the value of London real estate owned by foreign shell companies with non-British owners, from Bomare (2019).

Dubai - Regional Overview

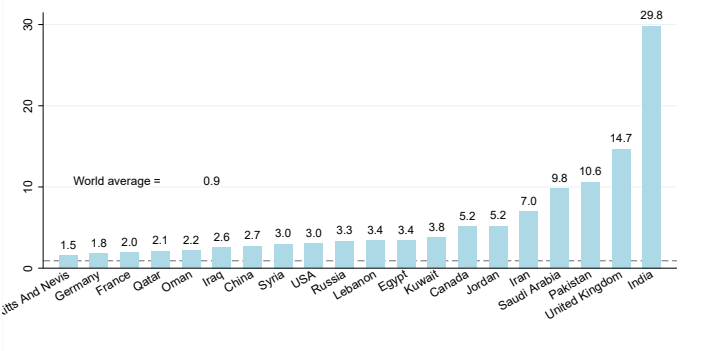
Figure 3: Value of Real Estate in Dubai in 2020 (USD Billion)



Notes: This figure shows the aggregate market value of Dubai real estate in 2020. It shows the total value of foreign-owned real estate broken down by regions. The regions are based on the World Bank classification of countries. All values are USD billions.

Dubai - Top 20 countries

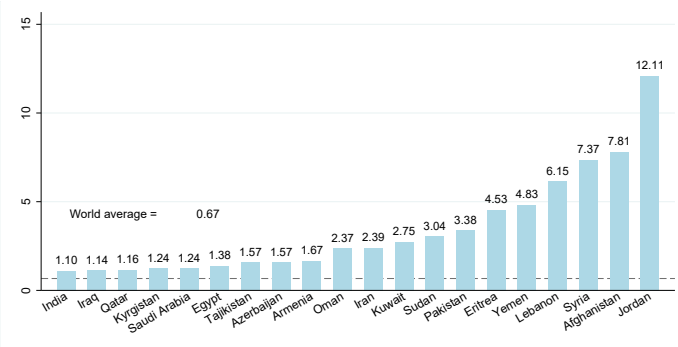
Figure 4: Real Estate Held in Dubai in 2020: Top 20 Countries



Notes: This figure shows statistics on the ownership of real estate in Dubai by the top 20 investing countries (other than the United Arab Emirates). Panel A) shows the value of Dubai real estate owned by these countries, in USD billions.

Dubai - Top non-havens by value/GDP

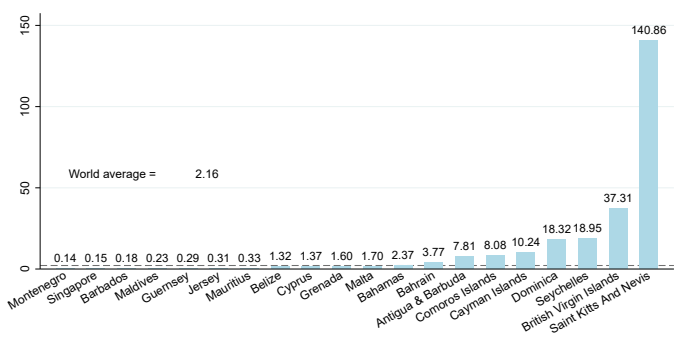
Figure 5: Total Value (% of GDP)



Notes: Panel A) shows the value of properties owned in Dubai divided by GDP, for the top 20 investing countries excluding tax havens and citizenship by investment countries. Countries with less than 5 unique owners of Dubai real estate are excluded from the figure. World average is the average for all non-UAE countries (with 5 or more unique owners of Dubai real estate), excluding tax havens and citizenship by investment countries.

Dubai - Top havens by value/GDP

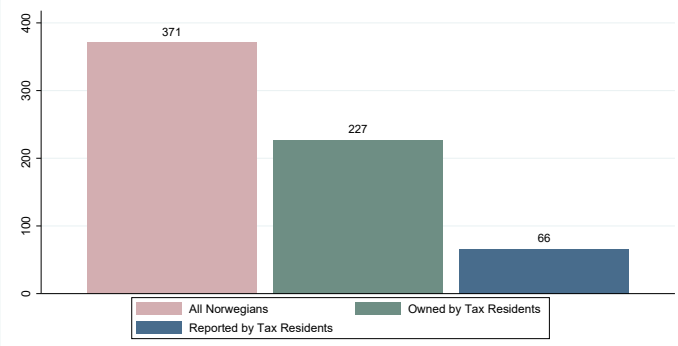
Figure 6: Total Value (% of GDP)



Notes: Countries with less than 5 unique owners of Dubai real estate are excluded from the figure. World average is the average for all non-UAE tax havens and citizenship by investment countries (with 5 or more unique owners of Dubai real estate).

Dubai - Evasion rate I

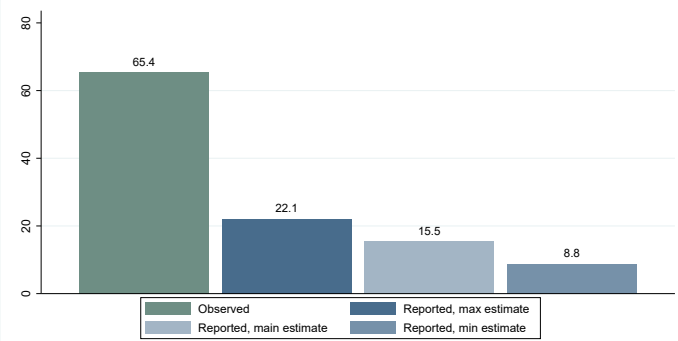
Figure 7: Reported vs. Total Dubai Real Estate of Norwegians



Notes: This figure compares United Arab Emirates real estate which is reported to the Norwegian tax authorities (no statistic is available for Dubai separately) and Dubai real estate owned by Norwegians in our data. The numbers for real estate reported to tax authorities from the Norwegian 2019 tax records, which capture wealth as of 31 December 2019. Shows the number of properties.

Dubai - Evasion rate II

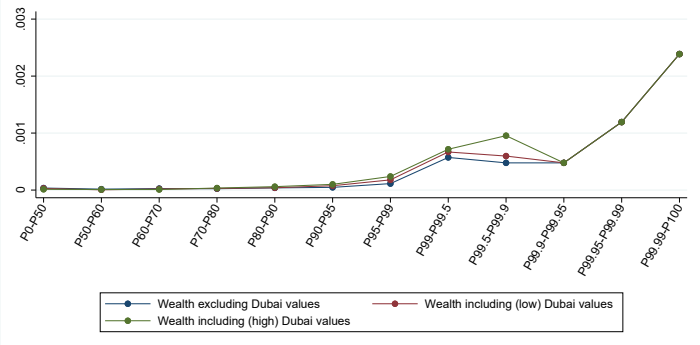
Figure 8: Reported vs. Total Dubai Real Estate of Norwegians



Notes: This figure compares United Arab Emirates real estate which is reported to the Norwegian tax authorities (no statistic is available for Dubai separately) and Dubai real estate owned by Norwegians in our data. The numbers for real estate reported to tax authorities from the Norwegian 2019 tax records, which capture wealth as of 31 December 2019. The values are in USD millions.

Dubai - owners in wealth distribution

Figure 9: Ownership of Dubai Properties Across Wealth Groups



Notes: This figure shows the probability to own real estate in Dubai across the distribution of wealth in Norway. A value of 0.002 for a given group means that 0.2% of all Norwegian taxpayers in that group appear in our data as owning a property in Dubai. The sample of Norwegian Dubai property owners include the 172 owners of Dubai real estate who are identified as Norwegian tax residents.

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Data: Property values

- Retrieve property values reported in the tax records (either by individuals or limited companies).
- The property values are produced in order to calculate the wealth tax burden of individuals. They are estimated using a centralised model.
  - Housing: Hedonic model
  - Commercial: Includes a common, time-varying discount rate, (imputed) rental value (turnover) of the property and a fixed discount for depreciation (No scope for profit shifting to reduce value)
- **Exempted:** Listed firms and their companies do not report property values because the taxable value is the market value of the listed shares. Government owned firms to do not report because they do not lead to wealth tax burden.

Data: Property values

We trust these because:

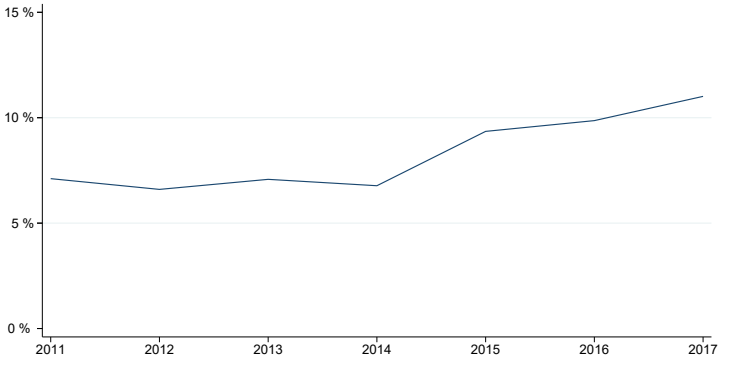
- Norwegian tax system is based on widespread third-party reporting and detailed central registries.
- The property market is well regulated and central registers strive to record all owners of properties as well as transfers of ownership.
- The tax administration makes use of this information and keep their own registry of Norwegian real estate and the legal owners.
- Wealth tax.

Data: Country distribution

- Use the information from the shareholder registry and other registries to identify country background of owners of real estate
- The country we impute is either:
  - The ultimate owner of (the shares of) the real estate
  - Immediate foreign owner if the ownership chain has multiple layers abroad
- Our information is what is collected by the Norwegian authorities.

Offshore ownership of domestic Norwegian properties

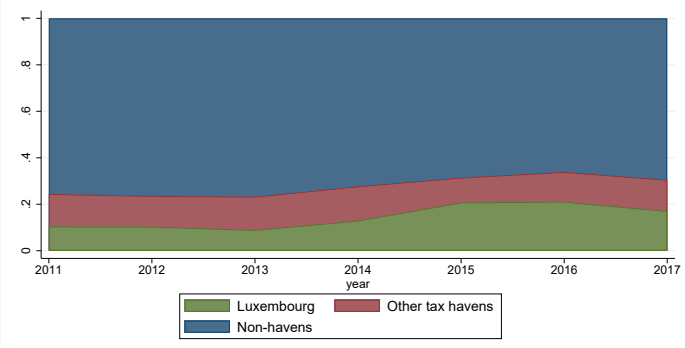
Figure 10: Corporate owned real estate, foreign share (2011-2017)



Notes: The figure shows the foreign ownership share of total real estate wealth booked in the tax returns of organisations incorporated in Norway. This importantly excludes real estate owned by listed or state-owned companies and government organisations.

Offshore ownership of domestic Norwegian properties

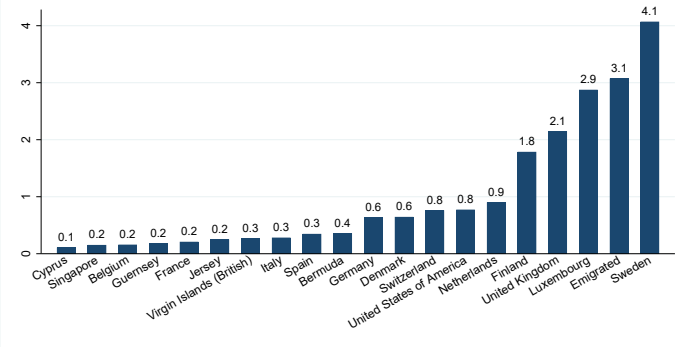
Figure 11: Corporate and foreign owned real estate, by country of owner, shares



Notes: The figure shows the foreign ownership of total real estate wealth booked in the tax statements organisations incorporated in Norway, broken down on owners from Luxembourg, other tax havens and non-havens. This importantly excludes real estate owned by listed or state-owned companies and government organisations. The list of tax havens is supplied in appendix.

Offshore ownership of domestic Norwegian properties

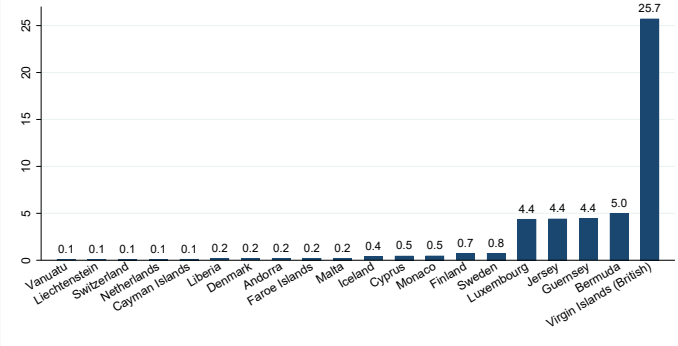
Figure 12: Top foreign countries, real estate wealth (2017)



Notes: Denoted in billions of USD. This figure shows the foreign ownership of total real estate wealth booked in the tax statements of individuals and corporations in Norway, broken down on their ultimate/exit country background. This importantly excludes real estate owned by listed or state-owned companies and government organisations.

Offshore ownership of domestic Norwegian properties

Figure 13: Top foreign countries, real estate wealth vs. GDP (2017)



Notes: The figure shows the foreign ownership of total real estate wealth booked in the tax statements of individuals and corporations in Norway, broken down on their ultimate/exit country background, relative to the GDP of the home country. This importantly excludes real estate owned by listed or state-owned companies and government organisations. The numbers are denoted as share of GDP.

Top foreign countries, real estate wealth vs. GDP

This measure highlights countries that are punching "above their weight"

- Luxembourg (USD 2.9 billion – 4.4 percent of GDP)
- Bermuda (USD 0.4 billion – 5.0 percent of GDP)
- Guernsey (USD 0.4 billion – 4.4 percent of GDP)
- British Virgin Islands (USD 0.3 billion – 25.7 percent of GDP)
- Jersey (USD 0.2 billion – 4.4 percent of GDP)

Top foreign countries, real estate wealth vs. GDP

What is the motivation for investments through these countries?

- Can be demand for secrecy.
- But the rerouting of FDI is probably also an important contributor. See for instance van 't Riet and Lejour (2018) and Damgaard, Elkjaer, Johannesen (2019).
- Also Garcia-Bernardo, Fichtner, Takes, et al (2017) discuss global networks and conduit jurisdictions, points to The Netherlands and United Kingdom. British Virgin Islands, Jersey and Bermuda seems to be end station (but could be result of data constraint).

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Why is all of this important?

- Helps us understand the range of this ownership and the magnitude of the potential consequences. Foreign ownership, especially from tax havens, is associated with a range of problems.
  - Tax evasion and avoidance
  - Money laundering and other illicit finance activities
  - Secret PEP ownership
- Shows the need for enhanced automatic exchange agreements

Summary of findings

- Foreign ownership of real estate is large – in Norway and in Dubai.
- The large foreign ownership in Dubai, a tax haven, is worrying from a tax compliance stance for the home country of the investors.
- The ownership in Norway from tax havens, which is also substantial, shows Norway's vulnerable for secret ownership, tax treaty abuse and other sorts of tax avoidance.