Scoring and Flagging ML Risks in BC Real Estate

Bert Pereboom

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Two Step Methodology

1. Estimate a Real Estate Market Integrity Index (MII)© based on a set of 28 indicators drawn from Unger et al. (2010) and FINTRAC (2016).

    - BC Land Registry data as provided to CMHC allows 6 Indicators to be evaluated

    - Quebec data, providing names of buyer, seller and notary/lawyer supports 17 indicators

    - All Residential Real Estate Transactions from BC since 2005 (≈1.7 million transactions) Note: Assessed values are available only since 2005

    - Neither BC or Quebec data supports remaining 11 indicators

2. Examine details of transactions with higher MII Scores and check for corroborating material from internet searches on property, individuals and associates.

MII Indicators Evaluated with Available BC Data

Property Characteristics

1. The property is traded multiple times in the observed period
2. The property in question is bought and sold within 12 months (flipping)
3. The property is located in a higher valued neighborhood

Transaction Details

4. The purchase price is considerably high / low compared to average price in the neighborhood in the same year within the same property category
5. The purchase price is considerably high / low compared to assessed value
6. The purchase price is considerably higher / lower compared to previous price of the same property

MII Indicators Evaluated with Quebec Data (Not BC)

Buyer Characteristics

1. The buyer is from abroad
2. The buyer is a corporation
3. The buyer owns large number of properties
4. The average value of the properties owned by the buyer is significantly high
5. The average number of properties purchased by the buyer in a year is high
6. The number of days between two purchases of the buyer is very low
7. The buyer provided incomplete address in transaction record

Transaction Financing

8. The mortgage is provided by a natural person
9. The mortgage provider is from abroad
10. No Mortgage: property is purchased in cash
11. The Mortgage provider is not approved by CMHC (unregulated, private lenders)

Other MII Indicators Not Currently Supported for BC or QC

Buyer Characteristics

1. Owner is a person with antecedents (allegation or proven misconduct)
2. Owner is a straw man (buyer is not really the beneficial owner)
3. Owner is a company with an unclear Ultimate Beneficial Owner
4. Owner is a company with a particular exploitation (suspicious business)
5. Owner is a company just established
6. Owner is a company almost closed
7. Owner is a company without employees
8. Owner is a 'world citizen' (unknown by the Tax Administration)

Transaction Financing

9. Financier is a non-business party
10. Financing is an unusual amount compared to income

Property Characteristics

11. Real estate object is in a high crime neighborhood

Measurement and Aggregation

- Each transaction gets a score for each indicator ranging from 0 to 1

- Each indicator gets equal weight – need corroborating evidence to know which indicators carry more evidence of suspicion

- All the indicators summed for each transaction to form a MII Score

- 6 indicators for BC, so highest possible score is 6.

Descriptive Statistics

- Number of transactions: 1,703,866
- Average MI Index (MII):   2.8
- Standard Deviation: 0.9
- Minimum Observed Score: 0.0003
- Maximum Observed Score: 5.96

Properties Flipping Picks up Again in BC

- Among all properties sold since 2005, 28% had a least one sale within 12 months of purchase

- Of all properties sold in a given year, on average 7% were sold within 12 months of purchase

- This has remained low compared to pre-Great Recession (2008) era

- This analysis excludes flipping of options on strata property pre-sales

Flips - Properties Sold Within 12 Months

% of annual transactions
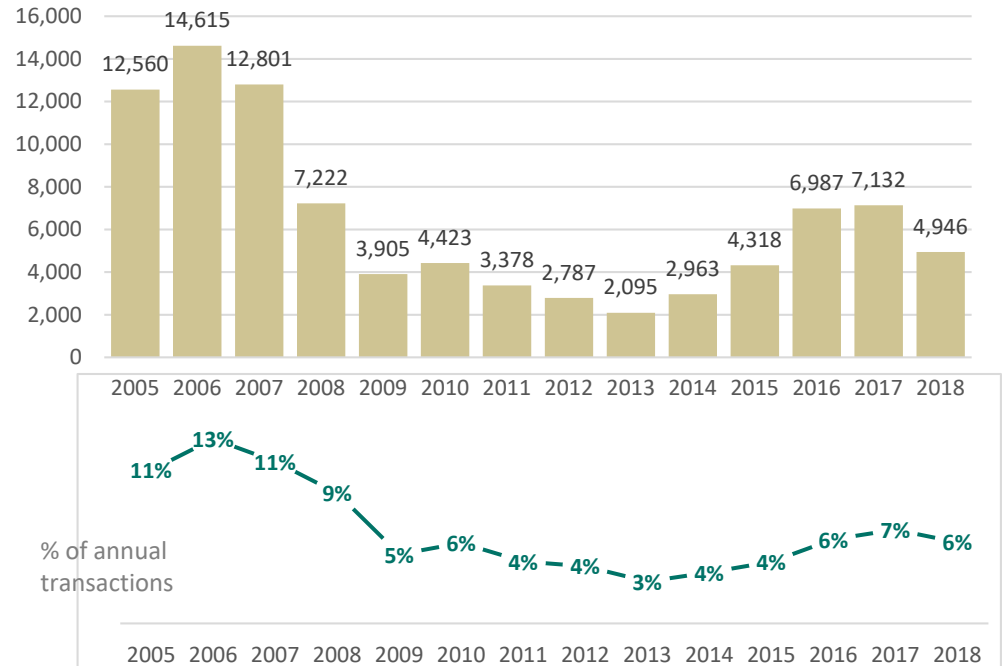
Distribution of MII Scores for BC (all transactions 2005-2019)
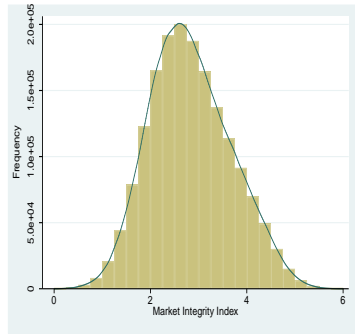
MII Score (to nearest integer	Transactions	Percent	Cum Pct	
0	947	0.1	0.1	Lower Risk
1	76,185	4.5	4.5	
2	558,543	32.8	37.3	
3	689,377	40.5	77.8	
4	324,440	19.0	96.8	Uncertain
5	53,810	3.2	100.0	Higher Risk
6	564	0.0	100.0	
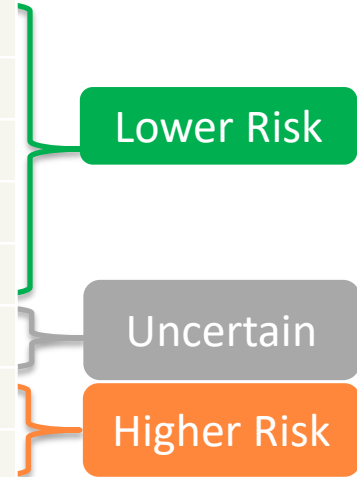
Source: CMHC calculations on BC Assessment Data.

Step 2: Secondary Sources Validation if Names Available

- Dow Jones PEP database for sanction / criminal information

- Bureau van Dijk (Moody's) / Dun and Bradstreet database for Ultimate Beneficial Ownership

- Federal and Provincial corporate ownership registries

- Canadian Legal Information Institute (CANLII) database

- Real Estate Listings (possibly match with RE Broker data for Agents)

- Build evidence on cases with elevated ML risk