Money Laundering and the Societal Impact of Millionaire Migrants in Australia

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Abstract

In 2023, Australia reclaimed the title of attracting more net millionaires than any other country – and there was a big reason they all wanted to live here. However, by mid- 2024, Australia had slipped to fifth place. This article sets out to discuss what underlying conditions that had changed in this period, and what the societal impact of this drop in millionaire migration is to local residents.

Several forces converged to make Australian housing very attractive for foreign buyers from 2009 onwards, culminating in absolute 'honeypot' conditions in 2023. These were (1) allowing temporary migrants to purchase established housing in 2009; (2) Australia having some of the weakest anti-money laundering (AML) laws in the world, which made Australian housing an easy conduit for laundering dirty money; and (3) Australia's 'golden ticket' visa scheme, which has operated for 10 years with near zero rejections.

In 2024, out of more than 200 countries, Australia still is, alongside China, Haiti, Madagascar and the United States, countries that have not regulated *'Tranche 2 entities'* (accountants, lawyers and real estate agents) to report 'suspicious transactions'. As such, Australia now is at risk of being "grey-listed" by the international *Financial Action Task Force (FATF)* for failing to meet global AML standards.

In mid-2024 there was an announcement by the Australian Federal Government that these easy 'laundromat' conditions may change. The current Australian Federal Labor Government under Prime Minister Anthony Albanese announced that it will undergo another industry consultation process on the Tranche 2 AML laws.

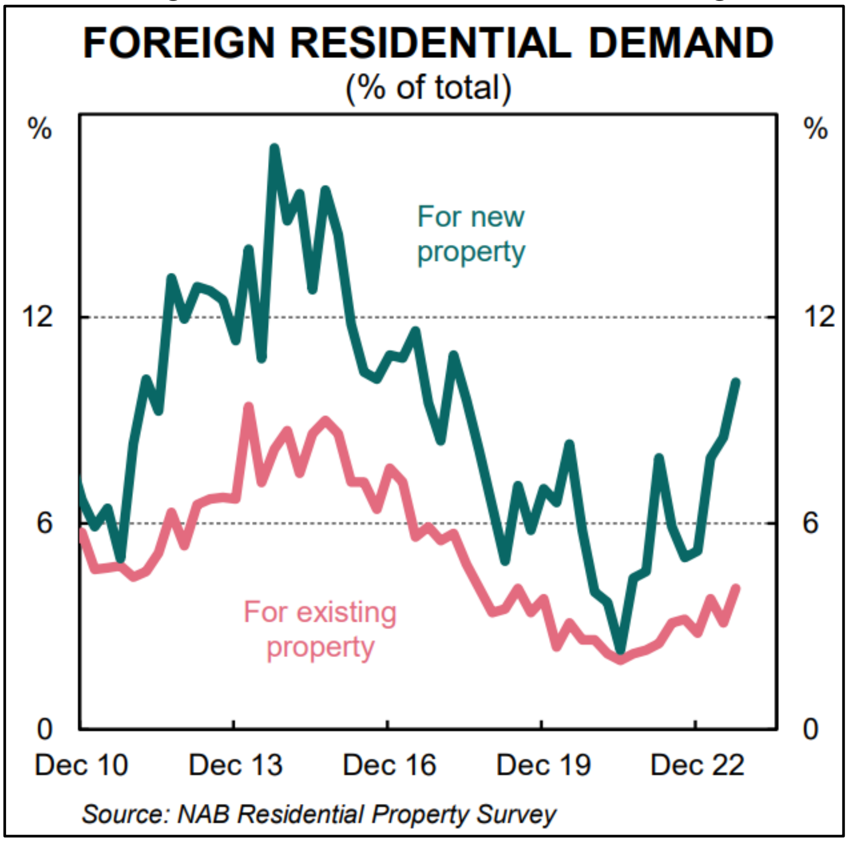
This had an immediate effect on the millionaire migrant market for Australian real-estate investments. Whilst the market share of foreign buyers in new Australian housing markets remained above the long-term average, the number of millionaires coming to Australia dropped sharply compared to the previous year.

Introduction

In November 2023, the Australian Treasury reported that approvals for foreign purchases of Australian homes increased by 40 per cent in the last quarter versus the previous year, with buyers from mainland China, Hong Kong, Taiwan, and Vietnam leading the way (van Onselen, 2023).

In fact, the *National Australia Bank's Residential Property Survey* of real estate professionals in 2023 reported that the proportion of Australian homes sold to foreign buyers increased sharply since Australia's borders were reopened in late-2021 after the Covid-19 lockdowns as shown in Table 1 (NAB Group Economics, 2024a).

Table 1: Foreign Demand for Australian Residential Housing



Confirmation of this was also obtained from real estate professionals, the property portal *Juwai IQI*, and *PropTrack* – all showed that overseas demand for Australian housing surged in 2023. Chinese buyers snapped up some of the most luxurious properties in Australia's property markets – and they were doing it with cash (Mascarenhas, 2023).

The Property portal *Juwai IQI* which ranked Australia as the number one choice for Chinese buyers in 2023. Overseas searches on *realestate.com.au*, reported by *PropTrack*, also showed that foreign buyer interest in Australian housing has hit record highs, led by China (van Onselen, 2023).

Chinese buyer inquiries through *Juwai IQI* surged 158 per cent in the third quarter of 2023, which was the second consecutive quarter with double-digit growth. Juwai spokesperson David Platter told *The Australian Financial Review (AFR)* in September 2023 that his firm had

"… been working with a lot of Chinese ever since the borders opened. Presumably as flights continue to increase, we will see buying increase. These people are upper-middle-class and wealthy from a Chinese standpoint. They are buying townhouses, houses and large apartments at $1.5 million, $2 million, $2.5 million and up" (van Onselen, 2023).

Various other Real Estate Agents have been quoted by van Onselen (2023) as saying:

"They come to Melbourne on a private jet, and I'll meet them at the airport with a nice car. Then we go out and look at real estate."

"We are seeing jumps of $2-3 million dollars on properties"

"We have a marketplace that is disproportionately being sold to Chinese buyers, relative to the rest of the population".

Over the 2022-23 year, home buyers from China significantly stepped up their push for a slice of the Australian housing dream, racking up $3.4 billion worth of approved residential real estate purchases, up more than 40 per cent on the previous year.

The *Foreign Investment Review Board's* June quarter report showed the Chinese appetite for residential real estate accelerated in the 2022-23 year, with 826 approvals granted in the June 2023 quarter alone, worth $1.1 billion (Lenaghan, 2023).

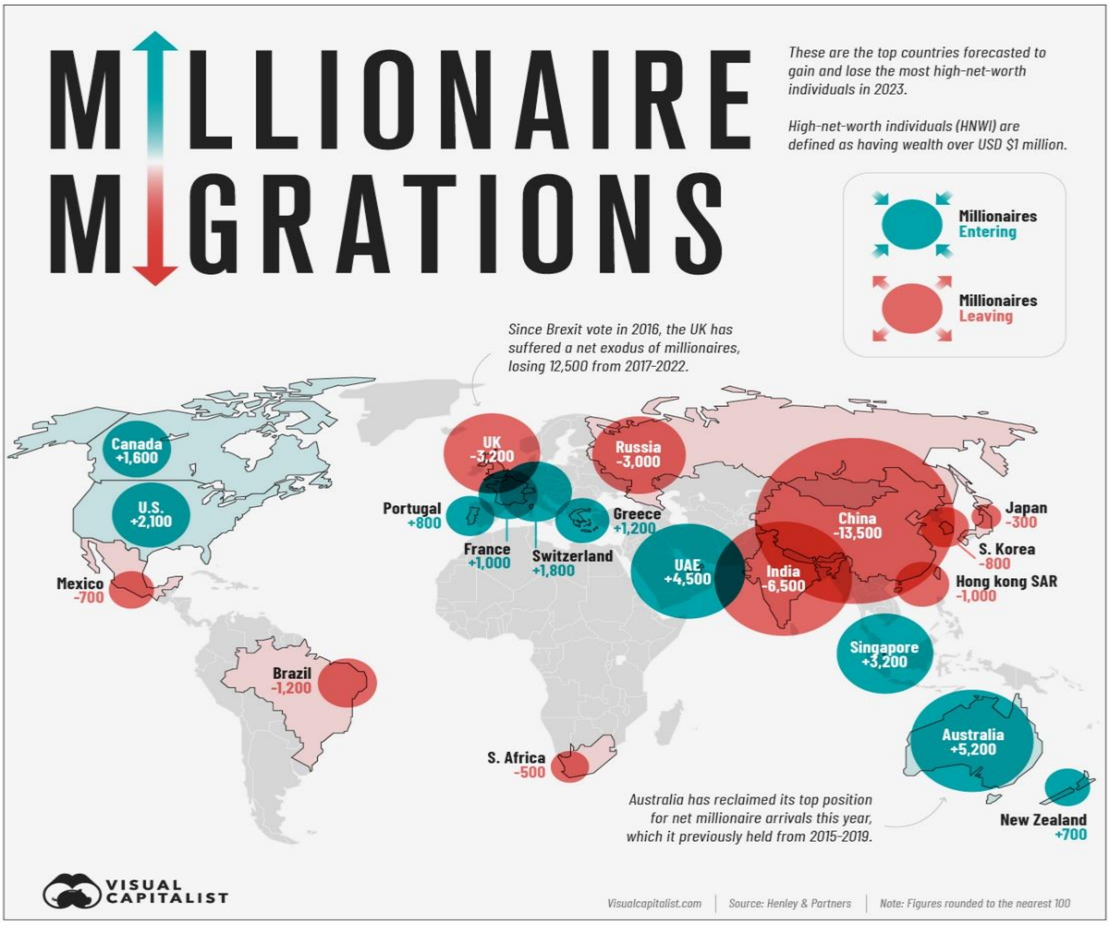
In the first quarter of 2024, the market share of foreign buyers in new Australian housing markets in Q1 fell slightly, from the last quarter's 6½ year high, to 10% (from 11% in Q4), but remained above the long-term survey average (9.1%). The market share of foreign buyers remained above average in all surveyed states (NAB Group Economics, 2024b).

Millionaire Migration Patterns

In 2024, whilst the market share of foreign buyers in new Australian housing markets remained above the long-term average, the number of millionaires coming to Australia dropped sharply.

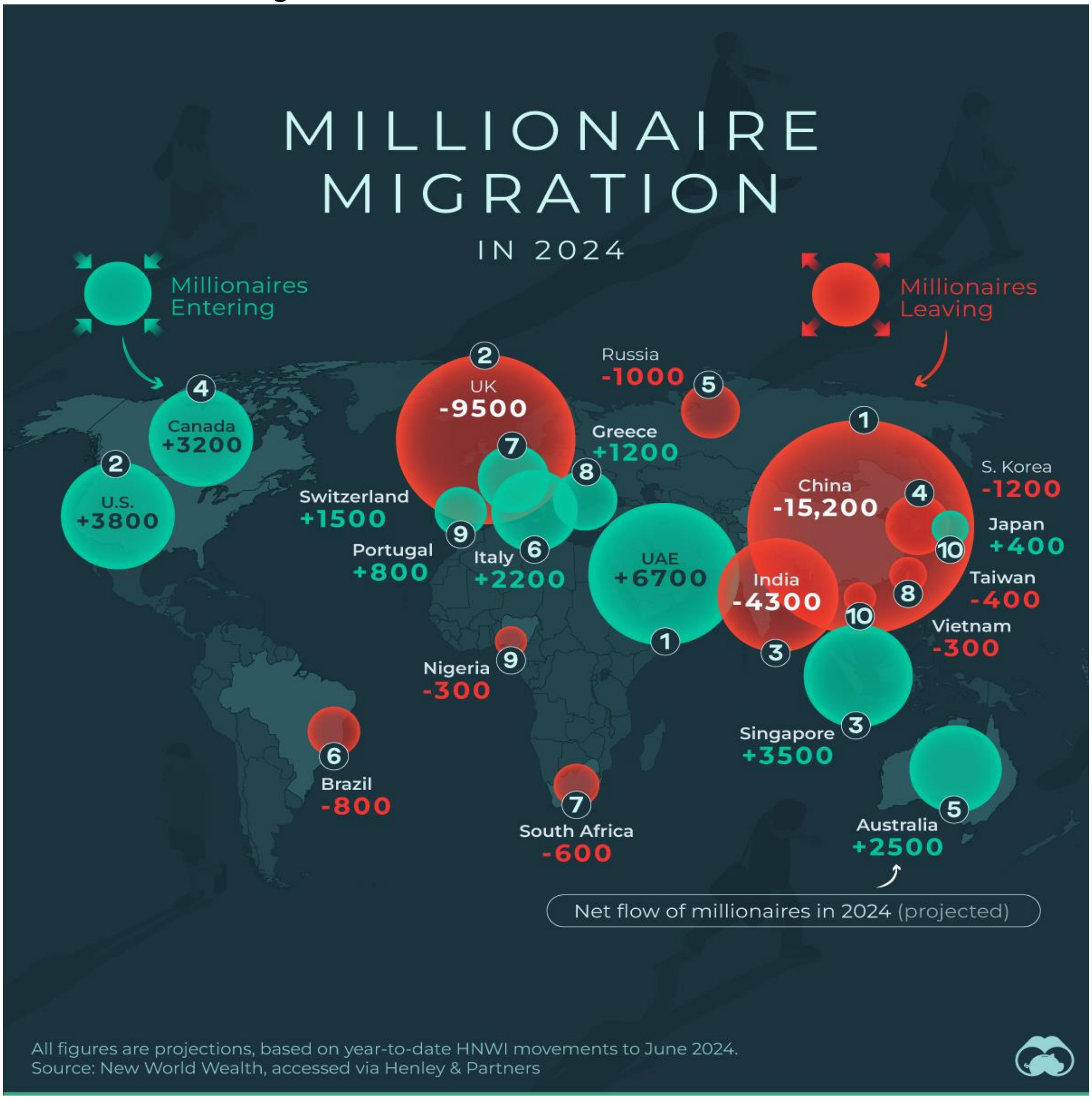
In 2023, the *Visual Capitalist* published a map of the migration patterns of the world's *high-net-worth individuals (HNWIs)*, i.e. those who are defined as having a liquid investable wealth of **$1 million** or more and forecast that Australia will experience the highest influx of millionaire migrants (+5,200), while China will suffer the greatest loss (-13,500) (Koop, 2023). This forecast was by-and-large accurate (Table 2).

Table 2: Millionaire Migrations in 2023



However, projections made by the *Visual Capitalist* in mid-2024 (Table 2) shows Australia slipping to 5th place, behind UAE, USA, Singapore and Canada. China and the UK are expected to lose the largest number of high-net-worth individuals (HNWIs) (Lu, 2024).

Table 3: Millionaire Migrations in 2024



Australian Real Estate Foreign Investment 2009-2023

Several forces converged to make Australian housing very attractive for foreign buyers from 2009 onwards, culminating in absolute 'honeypot' conditions in 2023.

First, in 2009, the former Australian Government (under Prime Minister Kevin Rudd) decided to allow temporary migrants to purchase established housing. The subsequent boom in temporary migration – in particular, international students (the largest share of whom come from China) – boosted demand for Australian homes.

Second, Australia still has some of the weakest anti-money laundering (AML) laws in the world, which has made Australian housing an easy conduit for laundering dirty money (more on this later in the article).

Third, Australia has a ‘golden ticket’ visa scheme, which was introduced by former Labor Treasurer Chris Bowen in 2012 and has operated for 10 years with near zero rejections. These ‘golden ticket’ visas grant automatic permanent residency in Australia, and unlike other visa classes, no English language proficiency is necessary. Chinese citizens make up 90 percent of successful applicants. And over 20,000 Chinese have been approved for the Significant Investor Visa scheme, which requires a $5 million minimum commitment.

As expected, money laundering has also been facilitated by the ‘golden ticket’ visa scheme (van Onselen, 2023). Anti-corruption campaigners have long lobbied for these visas to be abolished, claiming that corrupt officials are using them to enter Australia and launder funds. Australia’s *Productivity Commission* has also called for the ‘golden visa’ program to be axed, noting they are conduits for laundering ‘dirty money’ into Australia.

Other developed countries have already discontinued similar ‘golden ticket’ visa programs which, when combined with Australia’s lax AML rules, has made Australian real estate an easy conduit for laundering funds (Onselen, 2023).

Whilst by no means insinuating that all Chinese Migrant millionaires have bought real estate in Australia with laundered money, the fact that they comprise the largest investment group indicates that there is a possible strong correlation between the two variables.

Australia’s Anti-Money-Laundering (AML) Legislation

For decades Australia has lagged the world in anti-money-laundering legislation, meaning real estate agents, lawyers, accountants and dealers in precious metals and stones did not have to report suspicious transactions or do "due diligence" — i.e. *Know Your Customer* (KYC) checks — on their clients.

As far back as April 2021, it was reported that Australia’s financial crimes watchdog the *Australian Transaction Reports and Analysis Centre* (AUSTRAC) was concerned that lawyers and real estate agents were being used for money laundering purposes (Ratnatunga, 2021).

At that time, there was some evidence at the time that laundered money was being ‘integrated’ in the trust funds of lawyers, accountants, and real estate agents (referred to as Tranche 2 entities) to buy legitimate assets such as real estate and share investments. Some of these professionals were being unwittingly used to avoid money laundering detection; but there were also those who were intentionally involved in criminal activity.

These concerns were raised in October 2020, following reports in the *media in Australia and USA* revealing how a secretive international operation was targeting dozens of Australian taxpayers to use a Puerto Rican bank, *Euro Pacific*, co-owned by American celebrity business figure Peter Schiff (Galloway, 2020).

The revelations sparked renewed calls from financial crime experts for the Australian federal government to introduce long-stalled laws that would force lawyers, accountants, and real estate agents to report their clients to authorities if they move money in a suspect fashion, including offshore. If this legislation is passed it would include a requirement to submit suspicious matter and transaction reports.

At that time (2021), the Australian federal government was again considering whether to introduce the "tranche 2" laws, after lawyers, accountants and real estate agents successfully lobbied for the regulations not to apply to them in 2018. If this legislation were passed, it would have included a requirement to submit suspicious matters and transaction reports. However, the lobby groups once again successfully prevailed in 2021, and stalled the legislation.

The Money Laundering Process: A Primer

Money laundering is the process of making illegally gained proceeds ("dirty money") appear legal ("clean"). In Australia, historically, most of its anti-money laundering laws link money laundering (which is concerned with *source* of funds) with terrorism financing (which is concerned with *destination* of funds) when regulating the financial system. Using 'dirty money' obtained overseas to purchase Australian property has been seen as good for economic growth. The only concern of some State governments was that prices of real estate are rising astronomically as foreign buyers with deep pockets are outbidding local (voting) families who may vent their anger at the polling booths.

In essence, money laundering involves three steps: '*placement*', *'layering'*, and *'integration'.*

First, the illegitimate funds are introduced into the legitimate financial system (placement). Then, the money is moved around to create confusion, sometimes by wiring or transferring through numerous accounts (layering). Finally, it is integrated into the financial system through legitimate looking transactions — such as buying real estate — until the "dirty money" appears "clean (integrated).

The 'placement' of dirty money can take several forms, although most methods can be categorised into one of a few types. These include "bank methods; smurfing (also known as structuring); using legitimate cash businesses (such as casinos); currency exchanges, and double invoicing". 'Bulk cash smuggling' involves physically smuggling cash to another jurisdiction and depositing it in a financial institution, such as an offshore bank, with greater bank secrecy or less rigorous money laundering enforcement.

Often a corporate entity is used for 'placement' either knowingly or unknowingly using the following vehicles:

- *Shell companies and trusts:* Trusts and shell companies disguise the true owner of money. Trusts and other corporate vehicles, depending on the jurisdiction (such as in the State of Delaware, USA), need not disclose their true, beneficial owner. Such companies are sometimes referred to as *ratholes*.
- *Controlled Foreign Corporations:* Here, money is deposited in a controlled foreign corporation offshore, preferably in a tax haven where minimal records are kept, and then shipped back as a foreign direct investment, exempt from taxation. This is called *'round-tripping'.* A variant on this is to transfer money to a law firm or similar tranche 2 entity, as funds on account of fees, then to cancel the retainer and, when the money is remitted, represent the sums received from the lawyers as a legacy under a will or proceeds of litigation.

In Australia, the most common form of money laundering is where corporations or individuals purchase real estate with illegal proceeds obtained overseas and transferred to a tranche 2 entity (lawyers, accountants, or real estate agents) to purchase a property. Often this is the final resting place of the dirty money.

However, there are those who want 'clean cash' rather than real estate. In such cases, the tranche 2 entity makes arrangements to sell the property. The proceeds from the sale look like legitimate income. Alternatively, the price of the property is manipulated with the seller agreeing to a contract that underrepresents the value of the property and receives criminal proceeds to make up the difference.

Legislating Tranche 2 Global AML rules: The History of Resistance

In 2003, Australia agreed to implement comprehensive 'Tranche 2' global AML rules covering so-called real estate gatekeepers: accountants, lawyers, and real estate agents. Unfortunately, passing legislation to implement these rules have been continually postponed by Australian Federal Governments (with Prime Ministers from both the Liberal and Labor parties) due to strong pushback from the same industries that would be subject to the regulation.

This resulted in the global AML regulator, the Paris-based *Financial Action Taskforce (FATF),* issuing a warning in 2015 that large sums of money were being laundered through Australian residential housing, mostly from China. As such, the FATF urged Australia to implement AML regulations to bring real estate gatekeepers under regulatory scrutiny. The FATF again warned before the Covid pandemic that large sums of money were "*suspected to be laundered out of China into the Australian real estate market".*

Likewise, the *Australian Transaction Reports and Analysis Centre (AUSTRAC)* warned that *"laundering of illicit funds through real estate is an established money laundering method in Australia".*

All of these warnings have fallen on deaf ears to date.

In 2023, it was estimated that billions of dollars have been laundered through Australian homes over the past two decades, primarily by Chinese nationals (van Onselen, 2023). As shown in the previous section of this article, the lax AML laws in Australia, attracted migrant millionaires in droves to Australia from 2009 to 2023, having a significant societal impact on housing availability in Australia.

Fast Forward to 2024 – Can Australia close the Loopholes?

Like Groundhog Day, the current Australian Federal Labor Government under Prime Minister Anthony Albanese is undergoing another industry consultation process on the Tranche 2 AML laws.

Australia still has some of the weakest anti-money laundering (AML) laws in the world, which has made Australian housing an easy conduit for laundering dirty money

Today, out of more than 200 countries, Australia still is, alongside China, Haiti, Madagascar and the United States, countries that have not regulated 'Tranche 2 entities' (accountants, lawyers and real estate agents).

As such, in a speech to the *National Press Club* in May 2024, Australian Attorney-General Mark Dreyfus said Australia now is at risk of being "grey-listed" by the international *Financial Action Task Force (FATF)* for failing to meet global standards.

"Australia is continuing to fall behind global standards on anti-money laundering and counter terrorism financing measures, with cash, banks, luxury goods, real estate and casinos providing continued channels for money laundering." (Chau and Khadem, 2024).

In May 2024, the government began the next stage of consultation on reforms to Australia's anti-money laundering and counterterrorism financing regime, aiming to reduce the criminal abuse of our financial system after what the attorney-general called *"nearly a decade of inaction by the former government".*

AUSTRAC will get $166.4 million in the budget to help affected professions abide by the new laws. and to support industries to meet their obligations. This will mean, for example, education programs for real estate agents on what to do when they are confronted with a suspicious transaction (Ziffer, 2024).

Transparency International Australia (TIA) has welcomed the government's reforms. Clancy Moore, CEO of TIA, said:

"Financial crime impacts all of us. When kleptocrats, criminals and corrupt officials hide their ill-gotten gains in Australia, it robs local communities of money for essential services and distorts our economy. Too often, lawyers, accountants, and real-estate agents choose to look the other way, actively support, or unknowingly enable criminals to launder their proceeds of crime in Australia. It's time to close this massive loophole in Australia's financial system."

Resistance from the Real-Estate Industry

Implementation of these rules could result in more than 100,000 real estate gatekeepers being subject to AML regulation, which has caused another round of fierce pushback from the impacted industries.

These vested interests defeated similar stakeholder consultations in 2008, 2010, 2012, 2014, and 2017. And there is the concern that they will be successful again, delaying the implementation of the global AML rules first agreed by Australia in 2003 into the never-never.

As expected, the lobbying has recommenced, with the *Real Estate Institute of Australia (REIA)* cautioning against changes to money laundering laws, saying that the federal government needs to be careful not to hurt businesses as part of its crackdown on money laundering.

REIA Deputy President Hannah Gill said that introducing blanket compliance requirements on all real estate businesses appears once more to be *'taking a sledgehammer to a walnut'.*

"The Attorney General himself has said today that he has no knowledge and there is no evidence to substantiate that money laundering is driving house price growth. The last thing we want is Australian homes falling into the hands of sophisticated criminals with legitimate buyers who are hardworking Australian families and individuals missing out." (Khadem, 2024).

Case Study: Cambodia

Despite the objections from the Real Estate Institute, the problems caused by international money laundering are far from theoretical. In addition to concerns about money coming from China, a new report from *Transparency International Australia* reveals millions of dollars of dirty money could be flowing from the impoverished nation of Cambodia to Australia annually, with gaps in the law-making Australia's real estate sector an attractive destination for money laundering.

The report from advisory firm *KordaMentha* suggests that in the five years to 2022, 118 properties with a combined value of $110 million were settled in Australia by Cambodian foreign persons (Ziffer, 2024).

To give a sense of the scale, in 2020 more than $516 million in total funds was transferred from Cambodia to Australia. Much of it could be legitimate financial activity or investment. But the value of money flowing from Cambodia is vastly disproportionate to the nation's wealth — just under 1 per cent of Cambodia's gross domestic product. (The average income in the authoritarian state is just $1,690 annually).

Although Cambodia is an incredibly poor country with lots of people living in poverty, it is also a regional hub for money laundering, human trafficking and the drug trade as well. So that amount of money (coming in) is quite concerning. It raises serious red flags as to the source of those funds. Those who work in the field have welcomed the news that greater diligence will be required in future when suspicious transactions are made.

KordaMentha partner Alice Saveneh-Murray, who works in the field of financial crime, says signing up to Tranche 2 laws will make the nation safer.

"This brings into focus the regulatory gaps in Australia's regime and how AML/CTF reform will bring Australia closer to being compliant with its international obligations. We know that this issue is not isolated to Cambodia and the Asia-Pacific region, but our research clearly emphasises the need the to take urgent steps to reduce the risk of Australian real estate being used by criminals for money-laundering and terrorism financing, as well as in other industry sectors that will be covered by the AML/CTF tranche 2 reforms proposed by the government." (Ziffer, 2024).

Summary

The Australian Federal government of Prime Minister Anthony Albanese needs to break the 20-year cycle of stonewalling and implement the Tranche 2 AML rules once and for all.

The government should also follow the Productivity Commission's recommendation to scrap the 'golden ticket' visa program, as well as ban temporary migrants from purchasing established Australian homes.

Otherwise, the government will need to face the wrath of locals who will continue to be priced out of housing by foreigners, and Australian housing will remain a global magnet and shelter for dirty laundered money.

Money laundering risk is a real risk not only in the banking and finance institutions, but also in legal, accounting, and real estate professions. Effective Know-Your-Customer (KYC) protocols are a vital part of any anti-money laundering (AML) regime.

It is therefore refreshing that a crackdown on money laundering has been proposed so that real estate agents, lawyers and accountants will need to report suspicious transactions. If passed by the Australian Parliament, such laws will bring Australia into line with similar nations and stem the process of criminals converting illegal profits into money that looks legitimate.

When done right, KYC processes can help financial institutions better understand and manage their risks and prevent money laundering. However, it is one thing to have strong KYC guidelines on paper and another to implement them. Therefore, it is good that AUSTRAC will get A$166.4 million in the budget to help affected professions abide by the new laws.

The question is, will the lobby groups be successful once again is stalling the legislation?

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