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Increasing Cross-Border Ownership of Real Estate: Evidence from Norway

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Foreign investment in real estate markets has been met with great interest

Balearic Islands seek to ban non-residents from buying property

Officials point to similar policy in Canada and ask Madrid to lobby EU as high prices push out local people

Stephen Burgen *in Barcelona*

Mon 16 Jan 2023 13.52 GMT

At €6,091 a square metre, property in Deià, western Mallorca, is the second most expensive in Spain. Photograph: Greg Balfour Evans/Alamy

Research has started to quantify the extent of cross-border investments in real estate

- Morel and Uri '21:
  - Find that foreign residents own French residential real estate worth USD 140 billion at end of 2019.
- Bomare and Le Guern Herry '22:
  - Find that foreign corporations directly held real estate worth USD 143 billions in the UK in 2018 (and even more owned directly by foreign individuals).
  - At least 1.25 percent of investments in UK real estate was in reaction to the CRS during the period 2013-2016.
- Alstadsæter et al. '22:
  - The offshore share is 27 percent of the real estate market in Dubai in 2020. Amounts to USD 136 billion.
  - Offshore real estate is at least USD 2 trillion globally.

This project looks at how demand for cross-border investments in real estate affect **the host countries.**

Cross-border ownership of real estate is problematic for several reasons

- Influx of foreign capital in residential real estate markets may **increase prices** (Johannesen et al. '22).
- Facilitates corruption and tax evasion, by enabling **money laundering** (FATF '22).
- Unknown owners may wield **influence** over important infrastructure, development of cities etc.
- FATCA and CRS do not cover real estate ownership, which undermine **transparency and tax compliance.**

Ukraine war has highlighted the importance of knowing ultimate ownership of real estate

- Oligarchs are central to the war machinery, but sanctions enforcement has been paralysed by hidden ownership.
- Collin et al. '23: Investment from offshore companies fell dramatically in the UK after the introduction of UBO registry.
- Properties are very sanction resilient compared to other assets.
- Alisher Usmanov was sanctioned in February 2022, his Bavarian properties were raided in September.
- Germany introduced UBO reporting for real estate in December 2022.

We answer some key questions about offshore real estate in a host country

- **How large it is:** We estimate the offshore ownership of Norwegian real estate – the first comprehensive overview in Western country.
- **How it develops over time:** Wealth tax records and comprehensive shareholder registry let us map it over time.
- **The role of tax havens:** The shareholder registry let us follow the actual owners, at least to the border.
- **Geographical patterns:** I will also show a preliminary graph using new data.

What we find

- **How large it is:** 2 percent of Norwegian real estate – 10 percent when we only look at corporate-owned real estate
- **How it develops over time:** From 7 percent in 2011 to 10 percent in 2017
- **The role of tax havens:** Sizeable share from tax havens - from 31 to 38 percent between 2011 and 2017
- **Geographical patterns:** Interesting variations across Norwegian municipalities.

Data preparations

We retrieve property values from tax records

- The nominal owners (individual or corporation) report the property in their tax records.
- The property values are produced in order to calculate the wealth tax burden. They are estimated using a common model.
  - Residential properties: Hedonic model
  - Commercial properties: $MV_{p,t} = \frac{R_{p,t}}{i_t}(1 - \sigma)$

    where $R_{p,t}$ is the (imputed) rental value, σ a fixed discount for depreciation, and i_t a time-varying discount rate.
- Exemption: We use the financial accounts of listed firms, as they are not reporting property values for the purpose of the wealth tax.

We trust them 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.

Registry data give us the residence country of the immidiate owners

Nominal owner: Corporation

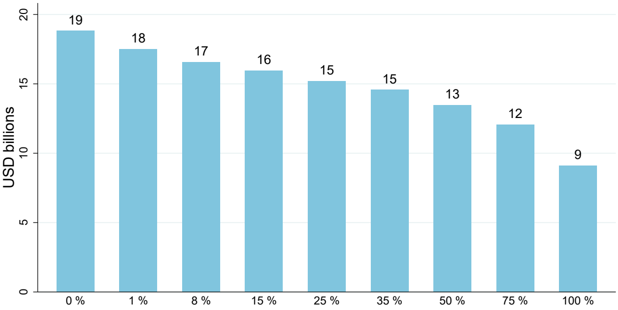
- We construct ownership chains from the Norwegian shareholder registry, which gives us the full ownership chain within Norway for all shares in the corporation.
- Thus ends up with either a Norwegian individual or a foreign individual or corporation as owner of each share.
- We know the residence country of the foreign owners, but not much else (like person/company and ownership).

Nominal owner: Individual

- Combine residence information from the Shareholder registry and emigration records.

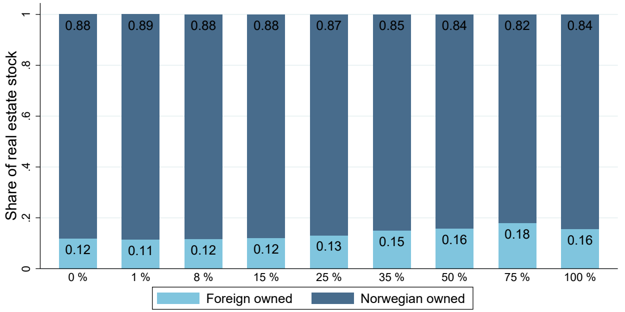
Foreign majority-ownership is widespread

Figure 1: USD billions owned by foreigners, given different thresholds for 'valid' ownership



Foreign ownership increases in ownership concentration

Figure 2: Share owned by Norwegians and foreigners, given different thresholds for 'valid' ownership



Unit of observation at this point is owners with assigned real estate values

- After this process we have a sample of owners with their **country background** and **real estate values** for each year between 2011 and 2017.
- We take the sum of real estate values over year and country.

Descriptive results

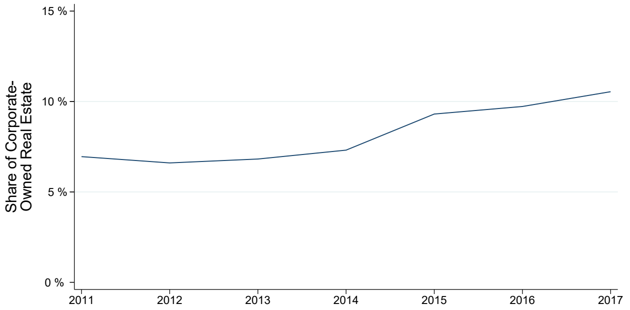
Foreign ownership mostly concentrated in commercial real estate

Table 1: Norwegian real estate stock, in billions of USD.

	Individual	Corporate	Housing	Business	Other	Total
Total stock	878.8	178.5	841.3	151.6	64.5	1,057.3
Foreign-owned	5.3	18.8	5.2	15.9	3.0	24.1
Tax haven	0.5	7.1	0.5	6.4	0.7	7.5
Foreign Share	0.6 %	10.5 %	0.6 %	10.5 %	4.7 %	2.3 %
Haven Share	0.1 %	4.0 %	0.1 %	4.2 %	1.0 %	0.7 %

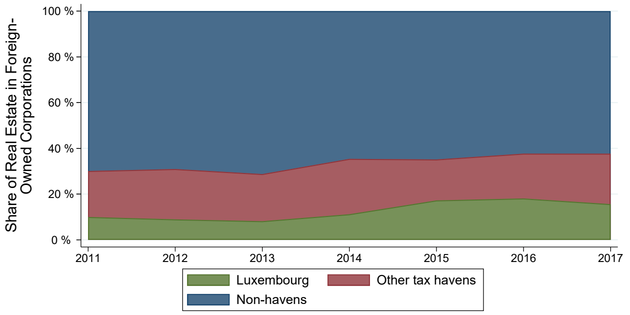
Foreign ownership has increased over time

Figure 3: Offshore ownership of corporate-owned real estate in Norway



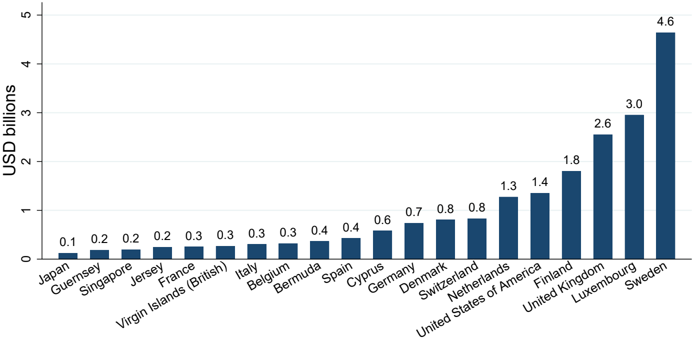
Especially from Luxembourg

Figure 4: Corporate and foreign owned real estate, by country of owner



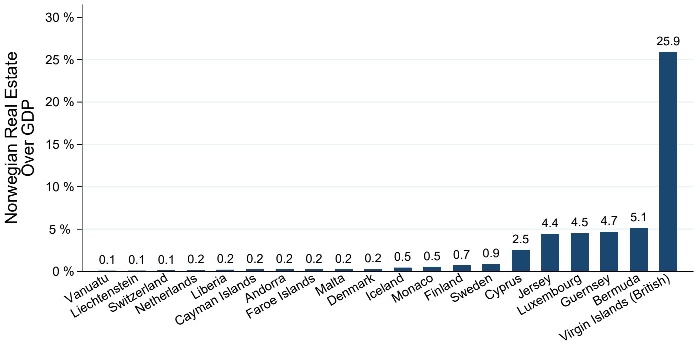
Only Sweden beats Luxembourg in terms of nominal values

Figure 5: Top foreign countries, real estate wealth (2017)



But other tax havens are also substantial compared to home GDP

Figure 6: Top foreign countries, real estate wealth vs. GDP (2017)



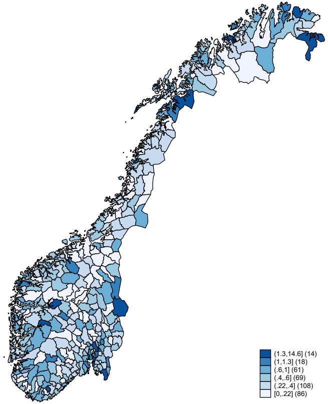
New data: Property-level data on ownership and estimates of value

This gives new possibilities

- Data limitations have held the project back for a while.
- We have now gained access to data that let us observe specific properties.
- New possibilities
  - Looking at geographical variations.
  - Investigate local effects of foreign investments.
  - Can build a gravity-like model that predicts foreign ownership.
- Can also see transactions.

Large variation across the country

Figure 7: Foreign ownership of residential real estate in Norwegian municipalities



Concluding remarks

Summary of findings

- **How large it is:** 2 percent of Norwegian real estate – 10 percent when we only look at corporate-owned real estate
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No casual inference or evasion estimates, but gives an overview of the issue

- 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
- Show the need for enhanced automatic exchange agreements