

SEMINAR (in English)

"Straw Purchase or Safe Haven? The Hidden Perils of Illicit Wealth in Property Markets"

By Professor Sumit Agarwal

Low Tuck Kwong Distinguished Professor of Finance at the Business School
Professor of Economics and Real Estate
National University of Singapore



Date: 8 March, 2021 (Monday)

Time: 10:30 - 12:00

Venue: Zoom (ID:942 5766 4124)



ABSTRACT

Real estate markets are highly vulnerable to inflows of illicit wealth, given the clandestine nature of dark money, making these activities difficult to detect and estimate. We exploit one of the largest offshore data leaks – the Panama Papers – to study how the associated individuals behave in housing transactions and quantify the effects of their housing market participation. We find that buyers linked to offshore secrecy purchase properties at a premium of 3.8%. Additional robustness and heterogeneity tests evidence that this premium is driven by these individuals' secret funding and agenda to park money in properties as a safe haven. We further explore two policy shocks: the 2007 introduction of a cross-border cash movement policy and the 2010 implementation of the Estate Agents Regulations (EAW). After the former, the property selling prices of these individuals decreased by 5.5%, while their property purchase prices decreased by 2.7% after EAW. In addition, we document a negative externality of Panama-linked purchases on properties in the same projects and neighborhoods, revealing price increases of 5.1% and 7.3%, respectively. The back-of-the-envelope analysis further provides an aggregate estimate of illicit wealth in Singapore's housing market, which is approximately S\$0.65 billion to S\$3.72 billion per year on average.

BIOGRAPHY

Prof. Sumit Agarwal is Low Tuck Kwong Distinguished Professor of Finance at the Business School and a Professor of Economics and Real Estate at the National University of Singapore. In the past, he has held positions as a Professor of Finance at the Business School, Georgetown University. Before that he was a senior financial economist in the research department at the Federal Reserve Bank of Chicago and prior to joining the Chicago Fed, he was a senior vice president and credit risk management executive in the Small Business Risk Solutions Group of Bank of America. He has published over ninety research articles in journals like the American Economic Review, Quarterly Journal of Economics, Journal of Political Economy, Journal of Finance, Journal of Financial Economics, Review of Financial Studies, etc.

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Enquiry: 2616 7381 (Silvia)