

'Panama Papers' reveal money laundering in real estate market ^①

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Miami Herald

At the end of 2011, a company called Isaias 21 Property paid nearly \$3 million — in cash — for an ocean-front Bal Harbour condo.

But it wasn't clear who really owned the three-bedroom unit at the newly built St. Regis, an ultra-luxury high-rise that pampers residents with 24-hour room service and a private butler.

In public records, Isaias 21 listed its headquarters as a Miami Beach law office and its manager as Mateus 5 International Holding, an offshore company registered in the British Virgin Islands, where company owners don't have to reveal their names.

There the trail ran cold.

Until now.

That's because the Miami Herald, in association with the International Consortium of Investigative Journalists, has obtained a massive trove of confidential files from inside a secretive Panamanian law firm called

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Mossack Fonseca. The leak has been dubbed the "Panama Papers."

Mossack Fonseca specializes in creating offshore shell companies for the world's richest and most powerful people.

The firm's leaked records offer a glimpse into the tightly guarded world of high-end South Florida real estate and the global economic forces reshaping Miami's skyline.

And MF's activities bolster an argument analysts and law-enforcement officials have long made: Money from people linked to wrongdoing abroad is helping to power the gleaming condo towers rising on

South Florida's waterfront and pushing home prices far beyond what most locals can afford.

The leak comes as the U.S. government unleashes an unprecedented crackdown on money laundering in Miami's luxury real-estate market.

Buried in the 11.5 million documents? A registry revealing Mateus 5's true owner: Paulo Octavio Alves Pereira, a Brazilian developer and politician now under indictment for corruption in his home country.

An analysis of the never-before-seen records found 19 foreign nationals creating offshore companies and buying Miami real estate. Of them, eight have been linked to bribery, corruption, embezzlement, tax evasion or other misdeeds in their home countries.

That's a drop in the ocean of Miami's luxury market. But Mossack Fonseca is one of many firms that set up offshore companies. And experts say a lack of controls on cash real-

See PANAMA, 4D

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Continued from Page 1D

estate deals has made Miami a magnet for questionable currency.

"The guys who want to clean up dirty money are always going to try to penetrate the system at its weakest spot," said Joe Kilmer, a former Drug Enforcement Administration special agent. "You've got so much real estate being bought and sold in South Florida. It's easy to hide in plain sight."

Take Octavio, a dentist's son who built a fortune developing shopping malls and hotels in Brazil and married the granddaughter of a former Brazilian president before launching his own political career.

In late 2009, Octavio was serving as the vice governor of the capital state of Brasilia when federal police filmed his boss, the governor, accepting a thick stack of bills. Prosecutors said it was a bribe. Other tapes caught their associates stuffing pockets, bags and even their socks with cash. Their alleged total take? About \$43 million.

When Gov. Jose Roberto Arruda was arrested early the next year, Octavio replaced him. But an informant claimed Octavio also took bribes. The newly minted governor didn't appear in the videos and denied the allegations, but he resigned anyway. His term lasted 12 days.

Six months later, Octavio's Miami lawyer asked Mossack Fonseca — which has recently been implicated in a bombshell Brazilian corruption scandal — to set up Mateus 5.

In Miami, secretive buyers often purchase expensive homes using opaque legal entities such as offshore companies, trusts and limited liability corporations.

Offshore companies are legal as long as the companies declare their assets and pay taxes. But the secrecy that surrounds those companies makes it easy and tempting to break the law.

The U.S. Treasury Department is so concerned about criminals laundering dirty money through Mi-

ami-Dade County real estate that in March it started tracking the kind of transaction most vulnerable to manipulation: shell companies buying homes for at least \$1 million using cash.

Those deals are considered suspicious because a) the real buyers can hide behind shell companies and b) banks aren't involved in cash transactions, circumventing any checks for money laundering.

Cash deals accounted for 53 percent of all Miami-Dade home sales in 2015 — double the national average — and 90 percent of new construction sales, according to the Miami Association of Realtors.

The initiative also applies to Manhattan and expires in August. It requires that real-estate title agents identify the true, or "beneficial," owners behind shell companies and disclose their names to the federal government. In Miami-Dade, the rules apply to homes sold for \$1 million or more.

The feds will know the real buyers but won't make the information public. Experts say the crackdown could be the first in a series of stronger regulations on cash deals.

Miami has a long history of money laundering. Its financial institutions report more suspicious activity than any other major U.S. city besides New York City and Los Angeles, according to FinCen data. And a recent case of money laundering involving fancy condos and the violent Spanish drug gang Los Miami drew further scrutiny to South Florida.

Jack McCabe, an analyst who studies the booming local housing market, said it's impossible to know how many homes are purchased with dirty money.

Flight capital from other countries fuels Miami's economy. It revived the construction, real-estate and tourism industries after the Great Recession.

Foreign nationals bought nearly \$6.1 billion worth of homes in Palm Beach, Broward and Miami-Dade counties last year, more than a third of all local home spending, according to the Miami Association of Real-

tors. It's not only foreign money that's suspect. Mauricio Cohen Assor and Leon Cohen-Levy, a Miami Beach father-and-son duo convicted of a \$49 million tax fraud in 2011, used Mossack Fonseca offshore to hide assets.

Law firms like Mossack Fonseca and their Miami partners operate in a shadow economy, largely free from the "know-your-customer" rules imposed on U.S. banks. Others in the real-estate industry, including Realtors, are also exempt.

In Brazil, prosecutors claim Mossack Fonseca created offshore companies that allowed officials of the state oil company to collect and hide bribes. At a news conference in January 2016, prosecutors called the firm "a big money launderer" and announced they had issued arrest warrants for four employees of its Brazilian office for crimes ranging from money laundering to destroying and hiding documents.

In an email, Mossack Fonseca spokesman Carlos Sousa defended its business practices: "Our firm, like many firms, provides worldwide registered agent services for our professional clients (e.g., lawyers, banks, and trusts) who are intermediaries. As a registered agent we merely help incorporate companies, and before we agree to work with a client in any way, we conduct a thorough due-diligence process, one that in every case meets and quite often exceeds all relevant local rules, regulations and standards to which we and others are bound."

Octavio was indicted on corruption charges a year after stepping down as governor. He did not respond to a request for comment. But his local lawyer Julio Barbosa, who keeps an office on pricey Lincoln Road and asked Mossack Fonseca to set up the offshore, said the purchase of the Bal Harbour condo violated no laws.

"Any transactions in South Florida handled by my firm complied with all applicable laws, including U.S. and Brazilian taxation and disclosure requirements," Barbosa wrote in an

email.

Owning U.S. property through offshore companies allows foreign nationals to claim significant breaks on their estate taxes, thanks to the U.S. tax code. But offshores are also useful for shifting money around beyond the reach of regulators and tax authorities — not to mention estranged spouses and angry creditors.

Routing money through a web of offshores and other entities can help add a patina of legitimacy to dirty cash, said Ellen Zimiles, a former federal prosecutor in New York. That's crucial for bringing tainted money from abroad into the United States without raising suspicion, Zimiles said.

Others in the files include:

■ **Helder Rodrigues Zebral**, the former owner of a popular Brazilian steakhouse convicted twice for embezzling public funds and avoiding public bidding in his home country. Known for driving a Mercedes and dating socialites, Zebral paid \$1.9 million for a condo in Sunny Isles Beach in 2011, between his two trials.

■ **Marcelo Carvalho Cordeiro**, the former president of Rio de Janeiro's pension fund, was fired after allegedly handing out a multimillion-dollar contract through improper back channels. Cordeiro paid \$2.7 million for a home on Key Biscayne last year. He is suing a business partner in Miami for libel.

■ **Luciano Lobao**, a construction magnate and the son of Brazil's former energy minister. The elder Lobao is under investigation for corruption in a massive scandal over alleged bribes for state oil company contracts.

Lobao himself has been investigated over allegations he overcharged the government on 2014 World Cup contracts. He bought a condo at Eden House in Miami Beach for \$636,000 in 2013 and sold it for \$1.1 million the next year.

There's no proof that dirty money was used in any of the transactions uncovered by the Herald.

Several of the men, including Lobao and Cordeiro, made no effort to hide

the deals. They set up BVI offshores and then bought the properties using Florida companies registered under their own names. Emails between Mossack Fonseca employees and the men's lawyers say the purpose of the offshores was to purchase Florida real estate but don't go into detail.

The Miami Herald called, emailed or sent registered letters to the buyers, as well as their lawyers, asking what role the offshore companies played in the transactions or whether their assets were declared to Brazilian tax authorities, as required by law. Two of them responded.

Marcelo Calvo Galindo is a top executive at a Brazilian network of universities that is facing criminal charges for tax evasion in Brazil. He paid \$2.7 million for two units — one of them a 2,900-square-foot penthouse — at the St. Tropez in Sunny Isles Beach. He showed the Miami Herald tax returns stating that he had paid taxes for his offshore companies in Brazil.

Marcos Pereira Lombardi, who runs a newspaper, as well as several other businesses in Brasília, said he set up an offshore for estate-tax benefits. He spent \$2.7 million on two condos at Trump Towers I and II in Sunny Isles Beach and said he pays all his taxes in Brazil and the United States.

Lombardi, known as "Marcola," has been investigated in Brazil for allegedly getting an insider deal on government land and conspiring to fix gas prices, charges he denies. He bought one Trump Tower unit through a Florida company that listed him as its manager and another under his own name.

But transparency doesn't always mean legality.

The alleged Spanish drug lord **Alvaro Lopez Tardon** owned fancy condos in Miami through companies registered under his own name or the names of his associates, including a \$1 million condo at the Continuum in South Beach.

After his arrest in 2011, Lopez Tardon's lawyers defended his actions as legal and transparent.

Prosecutors argued that

he was laundering profits from a lucrative cocaine-smuggling business. They said he had been the leader of a violent drug ring called Los Miami and seized his assets, including a fleet of luxury cars and 13 condos, after he was found guilty of money laundering.

Peter Zalewski, a local condo market analyst, said Lopez Tardon's case prompted the feds to take a hard look at Miami real estate.

"Funny money" includes more than briefcases brimming with hundred-dollar bills, a common sight during Miami's cocaine cowboy era in the 1980s. Today, "cash" more commonly signifies certified checks, traveler's checks, cashier's checks and money orders.

For now, FinCen is tracking only transactions that use cash in those forms, as well as hard currency. It will not require reporting on deals that use wire transfers or personal checks, which leave more of a paper trail at banks, opening up a potential loophole.

Theresa Van Vliet, a former federal prosecutor in South Florida, said FinCen could have been uncomfortable stretching its authority to cover wire transfers.

"This is a strategic move," she said. "It's good to start small."

Cash home deals are one of the last unregulated sectors of the U.S. real-estate market; there are already strict reporting requirements for homes bought with mortgages.

Despite the federal scrutiny, most industry professionals say money laundering doesn't play a role in real estate — at least not anymore.

"When I was selling real estate in Davie in the late '80s, we used to get bags of cash," said Jeff Morr, a Realtor at Douglas Elliman. "There were no rules. ... Today, everything is watched. It's clean."

Between the federal crackdown on secret cash home deals and strengthening anti-money-laundering rules around the world, it may grow harder to pump dirty cash through Miami real estate.