WHO IS BUYING SEATTLE?

THE PERILS OF THE LUXURY REAL ESTATE BOOM FOR SEATTLE

Institute for Policy Studies

INEQUALITY.ORG
AN INSTITUTE FOR POLICY STUDIES PROJECT

OCTOBER 2019

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About the Luxury Real Estate Project of the Institute for Policy Studies.

The Luxury Real Estate Project, a project of the Program on Inequality and the Common Good at the Institute for Policy Studies, is undertaking several activities, including:

- Mapping the trends — local, national, global — at the intersection of global/hidden wealth and local real estate/luxury housing.
- Researching and articulating the public interest case for taxing and regulating luxury real estate.
- Identifying the best policies and practices for reforming and regulating luxury real estate activities and hidden wealth practices.
- Generating city-by-city and national reports and series of articles and op-eds about the problems luxury real estate creates.
- Supporting local affordable housing coalitions as they press for rule changes and revenue for permanently affordable housing.

About the Program on Inequality and the Common Good

The **IPS Program on Inequality and the Common Good** was founded in 2006 to draw attention to the growing dangers of concentrated wealth and power, and to advocate policies and practices to reverse extreme inequalities in income, wealth, and opportunity. The program has been investigating the intersection of inequality and race, taxation, philanthropy and the problem of hidden wealth.

Other Reports

For more on luxury real estate, see our September 2018 report on luxury real estate in Boston, "**Towering Excess: The Perils of the Luxury Real Estate Boom for Bostonians**," available here: https://ips-dc.org/report-towering-excess/

For more on wealth inequality, see our Billionaire Bonanza series of reports on wealth inequality, including the most recent, "**Billionaire Bonanza 2018: Inherited Wealth Dynasties in the 21st Century United States**," available here: https://ips-dc.org/report-billionaire-bonanza-2018/

For more on the racial wealth divide, see our 2019 report, "**Ten Solutions to Bridge the Racial Wealth Divide**,"co-released by the Institute for Policy Studies, the National Community Reinvestment Coalition, and the Kirwan Institute for the Study of Race and Ethnicity, available here: https://ips-dc.org/report-racial-wealth-divide-solutions/

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Graphic Designer: Sarah Gertler. Thanks to Josh Hoxie for editorial layout assistance.

Acknowledgements: Many thanks to the team that helped produce this report, including Harry Smith, Jessicah Pierre, Jen Wofford, Nora Collins, Josh Hoxie.

The **Institute for Policy Studies** (www.IPS-dc.org) is a multi-issue research center, founded in 1963, that has been conducting path-breaking research on inequality for more than 20 years.

The IPS Program on Inequality and the Common Good was founded in 2006 to draw attention to the growing dangers of concentrated wealth and power, and to advocate policies and practices to reverse extreme inequalities in income, wealth, and opportunity. The program has been investigating the intersection of inequality and race, taxation, philanthropy and the problem of hidden wealth. The IPS Inequality.org website (http://inequality.org/) provides an online portal into all things related to the income and wealth gaps that so divide us, in the United States and throughout the world**. Subscribe to our weekly newsletter at Inequality.org or follow us on Twitter and Facebook: @inequalityorg**

The **Luxury Real Estate Project**, a project of the Program on Inequality and the Common Good at the Institute for Policy Studies, is undertaking several activities, including mapping trends at the intersection of global and hidden wealth and researching policy solutions and best practices for reforming and regulating disruptive luxury real estate practices.

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Key Findings and Executive Summary

Seattle is experiencing a luxury real estate boom, with thousands of new luxury residential and rental units in different stages of development. A decade from now, Seattle's skyline and population demographics will be fundamentally altered by decisions being made today.

This boom does have benefits, providing jobs in the building trades and increasing property tax revenue for the city. But the boom poses numerous perils for a city like Seattle and is not helping address Seattle's acute affordable housing crisis. This report encourages policy makers to look beyond the promotional hype and ask critical questions about the disruptive impact of Seattle's luxury real estate boom.

These challenges are not unique to Seattle. In fact, the city's existing affordable housing problem is being supercharged by global capital seeking a stable and safe haven. These are not investors looking for a home, but to use Seattle real estate as a "wealth storage unit." This problem is much worse in cities like New York, Boston, Vancouver and San Francisco, but Seattle is attractive and not immune from these trends.

This report takes a preliminary peak at the challenges posed by Seattle's luxury boom by looking at a snapshot of luxury condominiums and their ownership and occupancy trends. We look at eight fully sold luxury buildings to see what we can learn. From this, we encourage the city and policymakers to monitor the thousands of new luxury units in the pipeline and consider increased transparency requirements around ownership. We identified, for example, five new luxury-building projects with 1,664 units in development, most coming on market at much higher prices.

- These 8 residential developments in our sample, totaling 1,635 residential units, have an average condominium taxable property value of $2 million. This is more than 23 times higher than Seattle's median household income, and nearly 28 times that of the median black family's income.

- Across our sample, 12 percent of these units are owned by limited liability companies (LLCs) or trusts that obscure the real owners and beneficiaries, but in one building this is as high as 47 percent. Out of 1,635 residential units, 116 are LLCs and 73 are owned by trusts.

- At the 99 Union condominium development, 47 percent of the units are owned by trusts, trustees, LLCs, and corporations. In only 19 percent of units is the owner registered to vote there.

- The more expensive the unit, the more likely it is to be owned by a trust, trustee, LLC, or other corporate entity. We confirmed that 3 percent of the LLCs owning Seattle luxury properties have organized themselves in the state of Delaware, the premiere secrecy jurisdiction in the United States. In a great number more, we could not trace the registration to a level where we could *exclude* Delaware, making the 3 percent figure the "floor."

- To understand whether or not the units are owner-occupied, we compared property ownership to voter records. In the 1,635 units, only 39 percent of owners are registered to vote at the property, a figure nearly 40 percent lower than that of Washington State as a whole.

With thousands of new luxury units either under construction or seeking permits, city officials ought to be seriously exploring the perils these units pose. Among the negative impacts the luxury boom invites:

Higher Land and Housing Costs. The luxury building boom is driving up the cost of land in central neighborhoods, with a ripple impact on the cost of housing throughout the city and into surrounding municipalities. Affluent, but not superrich, households in Seattle find themselves pushed to outer neighborhoods, increasing competition for scarce affordable and moderately priced housing.

A More Unequal City. The luxury housing boom will exacerbate Seattle's already extreme inequality of income, wealth, and opportunity and worsen the city's racial wealth divide.

Wealth Storage and Phantom Capital. Luxury real estate is a form of anonymous wealth storage and exposes the city to criminal activity ranging from international money laundering to tax avoidance. The increase in cash sales and anonymous property ownership is a "red flag" of potential criminal activity. Because of this, King County was added in November 2018 to the Treasury Department's Financial Crimes Enforcement Network (FinCEN) watchlist. Cash transactions, LLC ownership, and EB-5 fraud mark Seattle are both the result of and further facilitate Seattle's inflated housing market.

Greening Luxury. The City has made admirable efforts on setting and achieving climate goals. But when it comes to buildings, this often takes the form of positive incentives for the most profitable developers. This represents a lost opportunity to simply increase standards and use those positive incentives subsidize less-profitable green affordable housing programs.

An Unequal Immigration Welcome Mat. Destitute asylum seekers fleeing persecution and danger are currently facing family separation and deportation. But wealthy foreign investors are buying their citizenship through the EB-5 visa program by investing in luxury properties such as the $440 million "Fifth & Columbia", or the $190 million "Potala Tower." EB-5 recipients receive a two-year green card and a pathway to apply for full citizenship in exchange for their cash. Nationally, the EB-5 program is notorious for its opacity as well as fraud and abuse, and this is no different in Seattle. Lobsang Dargey's $24 million EB-5 fraud case is just one example of many abuses in Seattle wrought by a broken EB-5 visa program.

Neighborhood Apartheid. Seattle's luxury buildings function as vertical gated communities, walling off their residents from surrounding neighborhoods and communities. Developers are even constructing privatized recreation facilities. As one *Architectural Digest* article about luxury buildings put it: "Who Needs a Neighborhood When You Can Have These Wild Amenities?" Seattle's luxury condos openly advertise themselves in this way. One development, "Nexus," even bills itself as a "vertically integrated neighborhood."

A More Vulnerable Future. If the luxury real estate market crashes, will the people of Seattle be stuck holding the bag? After the bubble of 2008, cranes stopped in mid-air for years in luxury housing havens like New York City. What will be the impact on Seattle in the event of a global slowdown or depression in real estate? What will happen with these dozens of behemoth buildings that require extraordinary amounts of energy and maintenance? Seattle taxpayers may end up subsidizing luxury white elephants long after the developers, with profits already in their pockets, have walked away

Recommendations

We urge the City of Seattle to ***monitor luxury housing activities***. This report provides a window into several existing buildings. But the city should monitor the thousands of new units coming on the market and analyze their ownership patterns.

1. **Require Municipal Disclosure of Beneficial Ownership in Real Estate**. It is in the public interest to know who is buying Seattle. Seattle should require property owners,

as part of recording deeds, to disclose the actual human being who owns the property. Getting a Seattle Public Library card — a task that requires full disclosure of identity and a real address — should not be more onerous than creating a shell company and possibly using criminally obtained funds to purchase a luxury condo in Seattle.

2. **Leverage Washington's Real Estate Excise Tax to capture more value.** Global capital is flowing into Seattle and the rest of Puget Sound because of its stable and appreciating market, public investments, and other public and cultural amenities. In April 2019, the Washington state legislature revised the Real Estate Excise Tax, creating a progressively tiered system and enabling cities and counties to levy a local option for affordable housing and homeless services. Prior to this action, only six states had a progressive real estate excise tax structure.[1]

3. **Institute a Vacancy Tax and Ordinance**. Seattle could discourage high-end vacant properties by taxing buildings that sit empty for more than six months a year. We can learn from other jurisdictions such as neighboring Vancouver that have created incentives to use their city's housing stock to house people, not wealth.

4. **Require New Buildings to be Carbon Emissions Neutral**. All future luxury properties should be state of the art "net zero carbon emissions" green construction, not requiring any additional fossil fuel inputs.

5. **Support State and National Transparency Policies**. Seattle should be back Washington Attorney General Bob Ferguson and his partnership with other attorney generals around real estate ownership transparency as well as other national efforts to increase oversight of potential criminal activities. We should join national efforts to scrutinize the weak corporate transparency laws in Delaware.

Hidden Wealth Meets Seattle's Housing Crisis

Estimates of wealth inequality around the world are extreme. They also greatly underestimate the concentration of wealth at the top of society's wealth pyramid. This is because trillions of dollars of "hidden wealth" assets are not measured because their ownership is masked. An estimated one eighth of global wealth is hidden according to the economist, Gabriel Zucman.[2] A recent study by the International Monetary Fund estimates that globally 40 percent of foreign direct investment –about $15 trillion – "passes through empty corporate shells" with "no real business activities."[3]

This hidden wealth is often held in trusts and shell corporations, often booked in offshore tax havens, and run through banks and fiduciaries that are not required to disclose their real beneficial owners. In the aftermath of the journalistic revelations of the *Panama Papers* and the *Paradise Papers*, a growing number of countries are instituting greater transparency rules.[4] But the United States has been a laggard in increasing transparency, leading to a new inflow of global money.

"Money has flooded into the United States as the United Kingdom and other European countries have been smart enough to enact laws and regulations to improve beneficial ownership transparency," said Sen. Charles Grassley (R-Iowa), Chairman of the Senate Judiciary Committee at a hearing on money laundering.[5]

According to the UK-based Tax Justice Network, the United States is now the world's second largest tax haven, after Switzerland. According to their report, the U.S. now accounts for 22 percent of offshore global services.[6]

This wealth is not idly lounging on some sandy isle. A portion touches down to earth in the form of real property and luxury real estate. Across the world, skyscrapers and mansions are rising in globalized super-cities, a form of "wealth storage" for the world's wealthy who are seeking to diversify their asset holdings. Seattle is by no means the leader in this area. As a result, there are opportunities for municipalities and states to regulate this place-based investment in order to offset the disruptive impact it is having on communities.

This can include taxing transactions and vacancies, increasing property taxes on luxury units, and requiring greater transparency to discourage criminal activity and tax dodging.

Why Is It Harder to Get a Seattle Library Card Than to Create a Shell Company for Illicit Activities?

In order to get a library card from the Seattle Public Library, you need to prove you are a real person and that you reside at a real address, not a post-office box. You must present yourself in person at a Library branch and prove who you are and where you live.

To succeed in getting a library card, you need a Washington ID with your address, such as a driver's license. Lacking that, you need official mail sent to you at your Seattle address, such as a utility bill, mortgage statement, or bank statement.

When someone goes online to start a criminal enterprise-- a sex and drug trafficking website that also sells ivory elephant tusks, they have no trouble creating a Limited Liability Company in the state of Delaware. Using this LLC, they could acquire web domains, purchase services and even purchase Seattle real estate with cash to launder illicitly obtained revenue and avoid taxes. They could use an anonymous email account, a post-office box, and an ambiguous name to form their LLC. But getting a library card would be more onerous in terms of disclosure.

A Housing Emergency

Seattle has a well-documented problem of affordable housing emergency and extreme inequality (See Appendix A. Seattle's Affordable Housing Crisis). There is a startling gap between the median income and housing costs.

Median household income for Seattle residents is $86,882, according to the U.S. Census.[7] An Economic Opportunity Institute analysis pegs Seattle incomes much lower with an estimated 51 percent of Seattle residents making less than $50,000, and half of that group living on less than $25,000 per year.[8]

Washington State is the tenth most unequal state in the country. This is measured in terms of the ratio between the incomes of the top 1 percent and the bottom 99 percent, which is 24.2 to 1 in Seattle.[9]

Washington has the distinction of being the number one most unfair and regressive tax system in the country according to the Institute on Taxation and Economic Policy. The state's poorest residents pay 16.8 percent of family income in state and local taxes while the wealthiest 1 percent pay only 2.4 percent.[10]

Seattle's racial wealth divide is severe—the income of the median white household is more than $53,000 higher than the median black household.[11] As Seattle's housing prices have shot up, the rate of homeownership among black families has decreased by 21 percent since 1970; from one of the nation's highest rates of black homeownership to one of it's lowest.[12]

Forced into the rental market by rising home prices, working families and families of color are denied a major avenue for building wealth, exposed to the increased precariousness of renting, and eventually forced out of the city. One study found that 1 in 11 black adults in King County experienced eviction between 2013 and 2017, compared to a white eviction rate of 1 in 100.[13] "Losing Home," a landmark study on evictions in Seattle, found that in 2017 more than half the tenants in eviction filings were people of color despite them making up only 30 percent of the population, with black tenants facing the greatest eviction disparity of 4.5 times what would be expected based on their demographics in Seattle.[14] This can partially be explained by the racial wealth gap, but *Losing Home* found that people of color were more likely to be evicted for smaller amounts of money than white tenants and experienced racial discrimination from landlords.[15]

Moreover, these researchers identified an association between gentrification and eviction. While people of color faced disproportionate levels of evictions, *Losing Home's* zip code analysis found that nearly three-quarters (71.1 percent) of evictions were filed

in majority-white zip codes, and that nearly half (43 percent) occurred in zip codes where the white population increased from 2011-2016.[16] Further, nearly all (95.8 percent) evictions filed in Seattle in 2017 occurred in a zip code where the median income increased from 2011-2016.

Within Washington, the Seattle-Tacoma-Bellevue metro area is the most unequal in the state, where the top 1 percent make an average income of $1.7 million, compared to $69,000, the average income for the lower 99 percent.[17] And King County, which includes Seattle and Bellevue, is the 3rd most unequal county in Washington State. The richest 1 percent of King County residents has an average income of $2,303,961, which is 29.3 times the $78,736 average income of the bottom 99 percent.

The consequences of Seattle's luxury housing boom have had devastating effects on working families, and families of color in particular. In the 1970s, 49 percent of black families in King County, WA, owned their own homes.[18] Today, King County has the 5th lowest level of black homeownership in the country, at 27.8 percent.[19] One neighborhood, Central District, was more than 70 percent black in the 1960s; today only 20 percent of central district residents are black.[20]

More housing, built exclusively for people in the richest 1 percent of income and wealth holders, has accelerated, not reversed the city's unaffordability problem and persistent racial wealth divide. Nationally, African American households are more likely to be rent burdened than white households. From 2001 to 2015, the difference between the shares of white and black renter households that were severely rent burdened widened by 66 percent.[21]

“Who Is Buying Seattle?” Examining Luxury Condos

Seattle, like a lot of global cities, is experiencing a luxury building boom. While one of the drivers of this is the growing number of U.S. super-wealthy, global investors are adding fuel to the fire.

We looked closely at 8 completed luxury housing projects, described below. These buildings have 1,635 units with an average condominium price of $2 million dollars. Of these, we could only verify three units as limited liability companies organized in the state of Delaware, notorious for their lack of transparency. But we found another 33 units that *may* be registered in Delaware - perhaps more ominous is being unable to verify whether or not a unit is owned by a Delaware corporation or not. Put together, nearly a third of units owned by LLCs or corporations in our sample may be registered in Delaware. Nearly one in ten of the units in the 8 projects we examined were owned by LLCs, which is similar to the overall LLC ownership rate in King County.[22]

With trusts, the owner is obscured by a trustee who manages the asset on behalf of an anonymous beneficiary. In the sample, we found 73 units that were registered to trusts or trustees.

Limitations

Our study looked narrowly at a few buildings in Seattle proper. There are many more luxury condo buildings in the city, and in neighboring jurisdictions like Bellevue and Tacoma. Research that is both geographically expansive and comprehensive is necessary to fully understand the state of property values, ownership, and residence today and over time.

It’s also important to point out that typical of a hot market like Seattle, the average taxable value of a unit is often significantly lower than the actual sale price. For example, Unit 1202 at 99 Union has an average taxable value of $6.5 million but is currently for sale and listed at $9.5 million, a difference of $3 million.[23] Because we didn’t have the ability to look at sale price in a systematic way, we had to rely on the average taxable value figure, which only captures a fraction of the value contained in these luxury leviathans.

Units in 8 Luxury Buildings that Don't Have Registered Voters

It is not possible to gage whether units are owner occupied or even occupied at all. Other cities, such as Boston, have residential property tax exemptions that provide a fair picture of whether properties are the primary residence of an owner. Seattle or Washington state do not have a residential property exemption, so we compared ownership records to Seattle's database of registered voters to estimate how many units in our luxury buildings are primary residences. Voter registration is obviously not a perfect proxy for primary residence, but affluent households typically have the highest percentage of voter registration of all social classes.[24] Overall, only 39 percent of residential units had the same person registered to vote as the person on the deed. 30 percent had no registered voter at all. This is nearly half than the overall average voter enrollment in Washington State, which was 77 percent in 2016.[25]

The More Expensive the Condo, the More Likely It is Owned by a Trust or LLC

In March 2019, Seattle headlines noted that the region's most expensive condo sold for $12 million in Belltown - a 5,700 square foot, two-story penthouse with 270-degree views and custom fixtures.[26] The seller is a trust called "Aerie Trust" and the buyer is an anonymous, "Belltown Skyline LLC." The public may never know the owners of this record $12 million property - and there are hundreds of similar cases.

Analysis of these 8 luxury Seattle condo buildings found that the more expensive the unit, the more likely it is to be owned by a trust, trustee, LLC, or other corporate entity. On average across 8 buildings, the average taxable value of units owned by these entities was significantly higher than the average taxable value of units owned by individuals. The average taxable value of units owned by a trust or trustee was $207,357 greater than the average value of units owned by identified individuals. The disparity in value between units owned by LLCs and units owned by individuals was even greater, at $439,060 across the 8 buildings we analyzed.

Moreover, across our 8 buildings we found that the greater the average taxable value of the units, the lower the percentage of units owned by individuals, compared to companies or trusts. The most expensive buildings had the lowest percentage of units owned by individuals.

- 99 Union, with an average value of almost $5 million, had an individual ownership percentage of only 53 percent.
- A "second tier" of the Millennium Tower and 1521 Second Avenue both had values in the high $2 millions, and had individual ownership percentages between 80 percent-85 percent.
- A "third tier," with buildings between $1,350,000 and $900,000, all had individual ownership percentages greater than 85 percent.
- Obviously, this correlation is not 1:1. Olive8, the lowest-priced luxury building, has an individual-ownership rate of 86 percent, while the Escala, the 5th lowest-value building, had the highest individual ownership rate at 94 percent.

Profiles of Eight Luxury Buildings

99 Union. Seattle's Four Seasons Residences at 99 Union is an example of hotel and residences that share amenities, including an infinity pool and spa. Built in 2008, the building is located two blocks from Seattle's Waterfront Park, a block from the Pike Place Market, and across the street from the Seattle Art Museum. Many condos have expansive balconies and dramatic views of both the ocean and the mountains. Units are described as "estate[s] in the sky,"[27] and, "the ultimate in downtown luxury living."[28]

So who wouldn't want to live here? Apparently, the owners of the condos. We found that only 53 percent of units at 99 Union are registered to an individual, and in less than 19 percent of units is the owner registered to vote at that address. On average across the 8 buildings, 88 percent of units are registered to individuals, and in 38 percent of units is the property owner registered to vote at that address.

33 percent of the units at 99 Union are registered to an LLC or corporation, compared to the 7 percent average across the 8 buildings. Moreover, we could neither verify nor exclude Delaware as the location in which these LLCs were registered in 33 percent of the corporate-owned units at 99 Union, and traced one corporate entity to Delaware. Additionally, we found that 14 percent of 99 Union's condos are registered to Trusts or Trustees, the second highest percentage in this study and far above the average rate of 4 percent.

At 99 Union, the taxable value of a unit owned by an LLC is a whopping $1,568,342 greater than that of a unit owned by an individual, by far the greatest difference in the set. The average taxable value of a unit owned by a trust or trustee is $799,842 greater than that of the average unit owned by an individual, which is the greatest difference in the set by nearly $400,000.

Despite its gorgeous views and central location, it appears that 99 Union is being used for wealth storage as much as it is for residence.

Millennium. Millennium Tower, where "every home is a penthouse" is relatively old compared to some of the other examples.[29] Built in 2001, the tower is light on amenities, but its units have the second highest average taxable value of the buildings in this study at nearly $3,000,000. Part of the reason it has such a high value is its location in Pioneer Square, only a few blocks from the waterfront and surrounded by city amenities like parks and museums. It is the smallest residential building in this setting, with only 19 units across six floors, sitting atop 14 stories of office space. One condo, previously owned by Starbucks founder Howard Schultz for ten years, sold in 2017 for $7.5 million.[30]

Perhaps because of its size, it is something of an outlier in other ways. It is the only building in this set in which none of its units are owned by LLCs. Across the 8 buildings, an average of 7 percent of units are owned by LLCs or other corporate entities; this rises to 11 percent if we exclude Millennium Tower. At the same time, 3 units are registered to trusts or trustees, which make up 16 percent of its total units. These 3 units alone place Millennium Tower slightly higher than average in terms of the total percentage of units not-owned by individuals across this study. The average taxable value of a unit owned by a trust or trustee at Millennium is $199,979 less than that of a unit owned by an individual, which is another oddity in this set. In 58 percent of the units was the owner registered to vote at the address, the highest for this set.

1521 Second Avenue. In addition to the standard luxury amenities, the building includes a "Sun-terrace" and dedicated children's playroom.[31] Specific units even

contain motorized blinds[32] and heated limestone floors in the shower.[33] Similar to the Millennium and 99 Union, 1521 Second Ave is located in Pike Place, in a confluence of luxury development, geography, and city amenities. Completed in 2008, the building rises 38 stories and includes 143 residential units.

Units in 1521 Second Ave have an average taxable value of nearly $2,628,00, the third highest in survey sample. 1521 also has the second lowest proportion of units owned by individuals of any building in the set. We found that 7 percent of the residential units at 1521 Second Ave were registered to LLCs and corporations, and another 13 percent were registered to trusts and trustees. Of those units registered to LLCs or corporations, we found that more than half – 60 percent - *may* be registered in Delaware. Condos owned by LLCs and Trusts were both significantly more valuable than the units owned by actual individuals. The average taxable value of units owned by LLCs and corporations in this building was $820,443 higher than that of units owned by individuals - almost one million dollars. The average value of units owned by trusts and trustees was $400,821 greater than that of units owned by individuals. In only 51 percent of units is the owner registered to vote at the address.

Madison Tower. "You really can have it all at Madison Tower."[34] Along with typical luxury amenities like a spa, fitness center, and rooftop deck, Madison Tower also incudes novelties like "virtual golf."[35] Like many of Seattle's highest-priced condos, it is located near the Pike Place Market area in the West Edge neighborhood. It also bills itself as downtown Seattle's first hotel/condo combination building, and the residences sit atop the "Hotel 1000,"[36] - which allows condo marketers to pitch the residences as "[offering] residents the resort hotel lifestyle."[37] Completed in 2006, Madison Tower holds 47 residences across 24 floors.

Units in Madison Tower have an average taxable value of a little over $1,205,000, the fourth-lowest in this study. We found that 9 percent of its units were owned by LLCs or corporations, and none by trusts or trustees. We also found that none of the units owned by LLCs or corporations are registered in Delaware.

Surprisingly, the average taxable value of units owned by LLCs and corporations was $400,821.26 *less* than that of units owned by individuals. In only 53 percent of cases was the condo owner registered to vote at that address, meaning that many more units may sit unoccupied even though they are registered to individuals.

Escala. While not the most expensive building in the set, it is certainly one of Seattle's most renowned luxury spaces. The building is famous for inspiring the *50 Shades of Grey* series[38] and boasts some high-profile residents. Indeed, the building has cultivated an

image of elegance and exclusivity.[39] It also has the full suite of luxury amenities from fitness center and spa to an "exclusive club for homeowners" and even a wine cellar.[40] Like many other luxury condos, the Escala is located in the Pike Place Market district on the West Edge. Built in 2009, the Escala is one of the newer and larger buildings in this study, with 269 residential units across 30 floors.

Curbed.com recently reported that one of the Escala's penthouses is currently on the market for $3.25 million.[41] This is nothing strange; properties exchange hands all the time. What *is* remarkable is that Curbed reported that this is one of three penthouses in the Escala owned by ex-Microsoft executive Jyoti Paul, and that these three penthouses have *never been lived in*. The Escala has 6 Penthouses, and three of them are owned by one man who has never inhabited them. Naturally, this all takes place through the proxy of his LLC, Paul Northwest Investments.[42]

Other residents of note include Howard Behar, the former president of Starbucks, who listed their 24th floor unit for $8.6 million—twice its taxable value.[43] Edward and Cynthia Maletis, Washington philanthropists and beverage magnates, also own a penthouse with a taxable value of nearly $8 million, the only penthouse registered to individuals in the building.

Units in the Escala have an average taxable value of $1,348,614, the fourth highest in this study. We found that 5 percent of the Escala's units are owned by LLCs or corporations and another 1 percent are owned by trusts or trustees. Of the 5 percent of units owned by LLCs or corporations, we found that 46 percent *may* be registered in Delaware.

The average taxable value of units owned by LLCs or corporations was significantly higher than that of units owned by individuals by $975,344.31 - nearly one million.

In only 46 percent of units is the owner registered to vote at that address, meaning that many more units may sit unoccupied even though they are registered to individuals.

Insignia. The Insignia is actually two buildings - two towers. It is even described as a "neighborhood within a neighborhood."[44] Its amenities are numerous and luxurious, including an indoor swimming pool, top-floor lounge, and fitness center.[45] Built in 2015, Insignia is the largest project in this study, comprised of 689 units across a combined 82 floors (41 floors each).

Units at the Insignia have an average taxable value of $1,068,567, the third lowest in the set. We found that LLCs and corporations and trusts own 6 percent of units or trustees

own another 4 percent. This is a total of 68 units, by far the most in the set owing to the Insignia's massive number of units. Of units registered to LLCs or corporations, we found 5 percent - two units - that are registered Delaware companies, and an additional 31 percent that *may* be registered in Delaware.

The average taxable value of units owned by LLCs or corporations was higher than that of units owned by individuals by $111,271. The disparity was even greater in units owned by trusts or trustees, which were $257,529 more valuable on average.
In only 34 percent of units was the owner registered to vote at that address, meaning that many more units may sit unoccupied even though they are registered to individuals.

Cristalla. "Beloved."[46] Inspirational."[47] "Second to none,"[48] the Cristalla building is another typical luxury condo project in the West Edge/Belltown/Pike Place area. From a design perspective, the Cristalla is unique because the tower is incorporated into a base with the facade of an original 1906 Italian Renaissance style building, and the top of the building is adorned with a glowing gold band. The building also has a wide array of amenities that include fitness center, rooftop deck, pet run, and a "party room").[49] Built in 2005, the Cristalla holds 191 units across 23 floors.

Units in the Cristalla have an average taxable value of $922,254, the second lowest in the set. We found that 8 percent of units were owned by LLCs or corporations, and another 3 percent were owned by trusts or trustees. Of the units owned by LLCs, we found that 20 percent *may* be registered in Delaware.

The average taxable value of units owned by LLCs or corporations was slightly less than that of units owned by individuals, at a level $36,672, but the average value of units owned by trusts or trustees was significantly greater than units owned by individuals by $428,394 - nearly five hundred thousand dollars.

In only 40 percent of units was the owner registered to vote at that address, meaning that many more units may sit unoccupied even though they are registered to individuals.

Olive 8. Olive 8 boasts more than 15,000 square feet of amenities spaces, including a pool, fitness center and spa, conference and dining rooms, private lounge, and in-room services like housekeeping and room service.[50] While most of the buildings we examined are located around Pike Place, close to the water, Olive 8 is located at 737 Olive Way, roughly eight blocks from the harbor. The Olive 8 Condos sit on top of a

Hyatt Hotel, which occupies the first 17 floors of the building. The next 22 floors are occupied by 231 condominiums.

Units at Olive 8 have an average taxable value of $903,437, the lowest in this study. We found that LLCs or corporations own 10 percent of units, and trusts or trustees own another 4 percent. Of the units owned by LLCs, we found that 9 percent *may* be registered in Delaware.

The average taxable value of units owned by LLCs or corporations was greater than that of units owned by individuals, at a level $128,901, and the average value of units owned by trusts or trustees was significantly greater than units owned by individuals by $160,310. In only 33 percent of units was the owner registered to vote at that address.

Of the 23 units owned by LLCs, we found that one company, Kaypi Realty LLC, owns 9 units -almost 40 percent -. This LLC is a Washington registered company with a corporate address list in Chicago.[51] So who owns this entity? Washington state corporations are required to register an agent in Washington and provide their address. Kaypi Realty LLC's Washington agent is *another corporation*, United States Corporation Agents LLC[52]. Mark Jason and Peter Poole, two individuals, are listed as the governors.

Seattle's Swanctuary Building Boom

There are thousands of additional luxury condominiums in the pipeline, with thousands of more high-end rental properties coming on the market each year. Seattle is making up for lost time after several decades of slow condominium development relative to the rest of the country. The real estate market of previous decades focused on rising single-family home values and rental units. But now a new fleet of luxury condominium buildings are nearing completion that guarantee both gilded living for Seattle's urbane upper crust, and a safe place to store wealth. Here's a sampling of a five condominium projects that are in the pipeline, with 1,664 units coming on the market.

First Light - 2000 Third Ave. The land for this 500-foot skyscraper was purchased for $35 million,[53] and the project is costing an estimated $145 million. But this 459-unit behemoth will bring in many times that in revenue.[54] First Light is pitched as a luxury condo-cum-artwork, even combining the entrance lobby with an art gallery.[55] If the aesthetics aren't enough, there is a suite of amenities to amuse residents, including a "luxury car share" alongside residential parking (for when you want a break from your car), a "residents' salon" for hosting parties, a fully-wired "screening lounge," a 3,000 square foot penthouse gym, a rooftop pool, and a rooftop "secret garden," accessible by

private elevator.[56] So how rich do you need to be to live here? Studio apartments start in the $500,000s, but 2-bedroom apartments range from $900,000 to $1.6 million based on the height and size of the unit. 45th floor penthouses, however, start at $4.3 million dollars. Want a parking space? It's an additional $90,000. First Light is set to open in 2022, but over 60 percent of their units have already sold.[57]

Nexus - 1808 Minor Ave. This 41-story tower describes itself as a "vertically integrated neighborhood"[58] (the allusion to monopoly is *surely* a slip of the tongue), where you'll never have to leave your home or interact with the broader community. This aloof philosophy extends to the sidewalk, where a modified" integrated curb cut" will allow cars to maneuver as close to the building door as possible for pickup – minimizing the time residents will have to interact with the outside world. Like other luxury condos, the centerpiece is amenities. Typical residents can visit the 7th floor "Podium Club" to access to a "Pet Lounge" complete with an outdoor run and a washing station, fitness center and yoga room, media room, mini workspaces, and an outdoor veranda. On the 41st floor, Sky Club patrons encounter grander amenities: multiple conference rooms and kitchens staffed with professional chefs, a "BBQ terrace," a game room, and an indoor-outdoor living room they call the "Sky Parlor."[59] Construction is completed, and Nexus is set to open in late 2019. There are only 28 units available for sale from the original 389 condos. A sample of the remaining units quotes a 751 square foot one-bedroom apartment at $999,950, and a penthouse at $2,199,950.[60]

"The Emerald" – 121 Stewart St.: The Emerald is selling more than just luxury condos – they're selling "an experience." The project website prominently features a video montage of an urbane, sophisticated couple traversing Seattle, shopping, dining at restaurants – and smiling and laughing with each-other. The Emerald promises that its condos and amenities will be the medium through which the upper-class urban professional can find love and live the good life. 40 stories high, the Emerald holds 265 luxury condos and fills the rest of the space with the typical luxury amenities like a catering kitchen, a yoga studio, and a pet spa. But perhaps most excessive is a "full-floor rooftop amenity space with indoor / outdoor lounge."[61]

The Emerald doesn't just place itself above the rest of the city, though. The building is internally organized along a hierarchy of money. A one-bedroom unit will cost you at least $695,000 if it's a "City Home" on the first 16 floors; the price jumps to over one million dollars from the 17th-33rd. How much does a penthouse cost? These units are so exclusive, their pricing is available only by request.[62] Expect to find The Emerald in your neighborhood in 2020. Developer: Create World.

Spire – 600 Wall St. with 41 stories and 350 condos. Set to open in 2021, Spire has been in development since 2006, and was originally slated to be a rental apartment development.[63] Amenities include a two-story lobby lounge, two-story fitness center, an "on-site concierge team" to handle all deliveries, a mini-theatre, a "gaming room," and dozens of other cleverly named but ambiguously purposed spaces, views, and rooms.[64] Spire's gimmick is an emphasis on "smart home" automation technology integrated into its condos. Spire's pricing is opaque. Some condos cost "as little" as $450,000, while penthouse suites are estimated at more than $5,000,000.[65] Developer: Laconia Development.

Koda – 420 S Main St. Koda's tagline is, "Own the City." This ultraluxe building boasts 201 condos that will be sold from around $450,000 to over $1.4 million.[66] The building is set to open in 2020, but better be quick: over 95 percent of the units have been reserved with $5,000 deposits.[67] Amenities include a 17th floor "club," a fitness center, a zen garden, a private library, and a "virtual park" rooftop terrace.[68] Opponents in the community have argued that, "Only rich white yuppies drinking lattes will be allowed to use this space and everybody else will be forced out by security."[69] This development, located in the historic Chinatown International District, constitutes a massive gentrification of a historically redlined space.[70] Developer: Da-Li Development

The Perils of High End Real Estate

There are obvious benefits of luxury real estate in Seattle. Construction creates jobs in the building trades and high-end real estate contributes to the city's tax base. And there will be some jobs in the "service-rich lifestyle" sector. But there are also a number of reasons why communities like Seattle should be concerned about the growth in luxury real estate.

Disruption to Affordable Housing Market. Luxury real estate has a disruptive impact on local housing markets, pushing up land values and housing costs. Local gentrification trends are being supercharged by global wealth as centi-millionaires displace mere millionaires and push rising housing costs to outlying neighborhoods.

A UBS Global Real Estate Bubble Index warned, "Soaring home prices come with a downside. They nudge low- and middle-income earners out of the market, increase the gap between rich and poor, and even lead to a rush to build homes that critics say can make us sick."[71]

Other global cities, such as Vancouver and London, have suffered the disruptive impact of huge amounts of foreign investment. As Paul Roberts writes in *Mother Jones*, Vancouver has become for wealthy Chinese the perfect "hedge city" full of "real estate where capital can be sheltered against mounting economic and political uncertainties back home." Canada's National Bank Financial estimates that Chinese purchases of real estate was almost $10 billion in 2015, almost a third of the entire amount spent on Vancouver area real estate. Fueled by global capital from emerging Asian markets, Vancouver real estate prices have doubled since 2006.[72]

Vancouver's evolution was rapid. As Roberts describes, "Fueled by steadily more offshore capital, the city began morphing in almost real time. As lots became far more valuable than often modest homes atop them, thousands of older homes were knocked down and replaced by mansions. In the city's venerable business districts, block after block was razed for condo towers, whose units sat empty for months. Mom and pop stores gave way to high-end boutiques and luxury car dealerships. Residents' complaints were largely ignored." While Seattle is not facing this level of disruption, the same forces are now at work.

A More Unequal City. Seattle's luxury housing boom will bring tens of thousands of wealthy new residents to the city. As has been established, some will not reside here, using their housing investment as a means to preserve wealth value. But others will add pressure to existing public services, along with increased road and transportation

congestion. Given the demographics of wealth ownership, many residents of the city's luxury housing will be white U.S. nationals and wealthy internationals from mostly European and Asian countries.[73] This will further exacerbate the city's already grotesque inequalities of wealth, income, power and opportunity.

Inequality matters in a community context, not just poverty. Extreme inequalities of wealth undermine public health and social cohesion.[74] And wealthy families that privatize their needs –in the form of private schools, private club and recreational facilities, and other services – do not maintain a stake in the public services that low- and middle-income Seattle residents depend on. Over time, they use their considerable clout to reduce taxes and expenditures on public services such as public transit, which is desperately needed.

As we discussed in the introduction, building thousands of units of housing for people in the wealthiest 1 percent will accelerate economic and racial income and wealth inequalities –and fortify existing settlement patterns.

Vacant Luxury Properties. As wealth storage units, many properties are owned by shell corporations and sit vacant for long periods of time, undermining community and social cohesion. As this report suggests, most of these units will not be owner-occupied. Some are owned by wealthy individuals from the U.S., touching down at one of their many residential landing pads.

These luxury ghost towns have no stoop life, less foot traffic, fewer customers for neighborhood businesses, and weakened neighborly bonds.

Vancouver and London suffer from acute "empty house syndrome," as tens of thousands of homes and luxury condominiums sit vacant. This is a very different vacancy problem from a depressed urban marketplace. These homes are owned by wealthy investors who treat them as another asset class on their balance sheet. But the impact on the neighborhoods is devastating, zapping a community of social and economic vitality. These luxury ghost towns have no stoop life, less foot traffic, fewer customers for neighborhood businesses, and weakened neighborly bonds.[75] This is the opposite of what city watcher Jane Jacobs wrote –how a vibrant and safe community has abundant foot traffic and "many eyes" on public space.

Potential for Money Laundering and Criminal Activity. Anonymously owned luxury properties enable the hiding of wealth and tax dodging at the global level –as well as money laundering and other criminal activities. Properties purchased by shell companies with cash raise red flags about the legality and source of funds. Properties

are held by companies and trusts, obscuring who owns the home and if anyone even lives there. From the point of view of these mysterious buyers, a luxury condo or single family home in Seattle is another "asset class" alongside stocks, bonds, precious metals, and art (See the section on "Red Flags" below.).

Capturing and Corrupting Power. Seattle residents should be concerned about the way that luxury real estate developers capture and corrupt local politics and exercise undue influence on municipalities in terms of zoning, extraction of subsidies, and land use decisions. As a result, the public interest and proper oversight may be pushed aside for private wealth interests.

Shortage of Critical Media. Part of the corrosive power of the luxury real estate industry is the potential capture of the city's print and broadcast media. All forms of media are in transition, struggling with diminished resources for investigative reporting. Because luxury real estate is a huge industry and political issue in Washington, a great deal of news media's shrinking resources are oriented towards its coverage. Washington's reporters should be commended for their critical and investigative reporting on housing. Indeed, we would not have been able to author this report without the work of these dedicated journalists. But for every critical article in Seattle's media ecosystem, there are ten real estate fluff pieces hyping luxury properties.

Journalists cannot be faulted for this state of affairs; rather, it is the result of a political economy of media that supports too few journalists and provides newsrooms with too small of budgets. And, some of this is stenography is inevitable because those in the real estate game are a reliable and wealthy market for news that is advantageous to their work.

What this means is that actors with a stake in addressing the housing crisis -- government, activists and organizers, and the public at large -- cannot rely on the news media to check the power of global capital as it converges on Seattle's housing market. Instead, stakeholders should support the recommendations in this report, and other recommendations, that increase transparency and public knowledge about who is buying what, for how much (along with funding sources and currency type), and what buyers are doing with their new properties.

Contributes to Unfair Immigration Policy. While destitute asylum seekers fleeing persecution and danger are sitting in detention centers or struggling to be reunited with family members, wealthy foreigners are investing in luxury buildings and other enterprises in order to effectively buy their citizenship rights.

Thanks to an immigration visa program known as EB-5, or Employment-Based Immigration, investors can get a temporary two-year citizenship and a path to citizenship, for investing $500,000 in a targeted employment area (or $1 million in other geographical regions). Established in 1990 as a mechanism to attract foreign investment capital, EB-5, has been a continuously renewed pilot program that is up for renewal by Congress. The last several years, the EB-5 visa program has issued the 10,000-maximum number of visas per year and brought in a minimum of $5 billion in investment capital.[76] Some lawmakers are proposing reforms such as raising the amount that investors must bring to the table.[77]

"Almost all" immigrant investors in Seattle put their money into real estate because it's tangible and reliable place to park money.[78] This gives U.S. real estate interests an easy opportunity to juice their profits. Dean Jones, CEO of Realogics Sotheby's International Realty's and the founder of its Asia Services Group says that they serve "those who own multiple homes in several countries and aren't interested in immigrating to the U.S., [and] investors seeking capital returns alongside individuals looking to immigrate from China."[79]

But the EB-5 program is also notorious for being opaque and unaccountable to the public interest. New York City's famous "Hudson Yards" was financed using EB-5 by gerrymandering its development district so that it could take advantage of an EB-5 incentive for investing in high unemployment areas, called a TEA.[80] Similarly, in 2015 *The Seattle Times* found that more than half of EB-5 projects in Washington using TEA incentives were taking in place in King County, though it has the lowest unemployment in the state.[81]

EB-5 Abuse in Seattle

In Seattle, the EB-5 program and Washington Real Estate's focus on China has led to many cases of fraud and abuse. In 2016, a Bellevue immigration attorney was fined $280,000 for recommending specific EB-5 investment projects for her clients and receiving financial kickbacks from the project developers.[82] In another instance, a Seattle developer (which claims that it is one of the leading national recipients of EB-5 money) was fined $1.2 million for similar activity.[83]

But these financial crimes are not harmless. They have real, dire consequences for would-be immigrants. A 2018 lawsuit by three immigrants from China who bought homes in Eastside alleges that their broker at Realogics was secretly collaborating with the homes' builder to overcharge and defraud their buyers.[84]

Perhaps most illustrative how abusive developers take advantage of immigrants is the saga of Lobsang Dargey and Path America. In August 2016, Seattle's $190 million "Potala Tower" development shut down when the Securities and Exchange Commission froze the assets of Dargey and his development LLC, Path America.[85] It turned out, Dargey scammed around 280 would-be immigrants from China, raising $235 million for EB-5 real estate developments while embezzling an additional $24 million ($500,000 from each investor). Many of his victims sold their homes in China and moved to the United States on temporary visas, only to find their green card applications denied because of Dargey's fraud.[86]

And Dargey didn't just target ultra-rich families: one middle-class investor, known as "Li", mortgaged his family's home to raise investment funds, only to learn of the SEC suit a month later. "I don't know how to explain to [my family]," he said to *The Seattle Times*, "that we may potentially have lost our money, the green card, and our only apartment." Today, Dargey is serving a four-year prison sentence, but many of his Chinese clients are still in the lurch.

Energy Consumption and Climate Change Risk.

Seattle has made some progress in greening development. Seattle's "Priority Green", "Living Building Pilot,"[87] Incentive Zoning," and "City LEED Incentive Program" initiatives have incentivized green development by expediting permitting, offering increased building space, and providing funds for projects that meet LEED energy efficiency thresholds, and indeed, many developments have taken advantage of these opportunities.[88] Seattle's "Benchmarking," "Tune Up," "Oil Home Conversion," and other programs have demonstrably reduced emissions.[89] While somewhat successful, Seattle's energy efficiency policies for buildings often give the greatest incentives to the luxury developers who have the capacity to meet energy standards on their own.

With the redevelopment of Alaskan Way Viaduct, more development will be coming to one of Seattle's most luxury-centric districts. The Viaduct redevelopment itself constitutes a transfer to property owners, as public wealth is spent on a public works project that translates into even higher property values for adjacent areas. Indeed, *The Seattle Times* found that property values have increased by 59 percent around the Viaduct since the project began in 2011.[90] It is imperative that Seattle mandates green development without giving any more gifts to luxury developers.

Instead, the city should simply increase standards. The housing market is so overactive that increasing regulations without incentives would not discourage building, and these resources could be used to assist in building green affordable housing projects and subsidizing the ability of working families to go green.

Without winning concessions from developers in the housing boom, the city of Seattle is undercutting its greenhouse gas reduction commitments. And regardless of the city's green projects, Seattle is vulnerable to sea-level rise and storm surges as the earth warms and weather systems become more volatile. Climate Central, a non-profit sea level rise research group, calculates that nearly $2.2 billion dollars of Seattle real estate are at risk of yearly coastal flooding by 2050.[91] Much of it is in Belltown, right on the Viaduct.

Will Seattle Be Stuck Holding the Bag? There is growing evidence that the global luxury market is experiencing a slowdown. According to Kate Everett-Allen, a partner in International Residential Research at Knight Frank, "The introduction of new, and the strengthening of existing property market regulations, along with the rising cost of finance and a degree of political uncertainty are resulting in more moderate price growth at the luxury end of the world's top residential markets."[92]

In New York City, the luxury market still dwarfs Seattle, with new buildings such as the Central Park Tower, at 220 Central Park South, fetching an average price per square foot of over $7,000. Big Apple luxury market developers are "pushing forward with ultra-luxury towers despite the slide in prices and the risk of oversupply," according to Mansion Global, a global luxury real estate firm. "A slew of super-prime towers are in the pipeline around Central Park –all catering to an ever smaller billionaire buyer pool."[93]

What does all this mean for Seattle? With thousands of luxury housing units in the pipeline, Seattle may experience its own slowdown. And what about a radical readjustment or disruption in the luxury market? In 2008, the construction cranes literally stopped in mid-air. These skyscrapers have tremendous fixed energy and maintenance costs. Who will cover those costs when the sections of Seattle like Belltown become less habitable thanks to sea level rise and the developers walk away?

Neighborhood Apartheid. These luxury buildings are vertical gated communities. Some of these buildings reinforce trends of neighborhood apartheid, as luxury residents opt-out of actual neighborhoods. As an *Architectural Digest* article observed, "Who Needs a Neighborhood when can you have these Wild Amenities?"[94]

We know that what makes a neighborhood are bonds between neighbors, a sense of shared interest in the future of a community, and spontaneous mutual aid and acts of neighborliness. How do these towers of excess shape and distort our neighborhoods?

Red Flags: The Risks of Shell Corporations

Who is buying Seattle? The answer is: We don't know who the real owners are.

Thanks to the growing use of cash transactions and anonymous shell corporations, including limited liability companies (LLCs) organized in Delaware, we don't know who is buying Seattle and whether they are engaged in criminal money laundering or other criminal activities.

Here's why we should be concerned. Sometimes there are multiple layers of trusts, shell-companies and anonymous bank accounts clouding up the picture. Money made in a sex trafficking operation or stolen by a corrupt government official gets deposited into a bank account in a secrecy jurisdiction, such as the British Virgin Islands. This bank account wires funds to enable an LLC organized in Delaware to purchase with cash a $5 million condominium in a luxury building in Seattle. Three years later, that property is sold and the proceeds are now fully "laundered" and available for non-criminal activities.

The Financial Crimes Enforcement Network (FinCEN) is an arm of the US Treasury Department that monitors financial transactions to combat international money laundering, terrorist financing, and other financial shenanigans.

In August 2017, FinCEN issued an advisory to real estate professionals and financial institutions highlighting the risks in luxury real estate:

> Real estate transactions and the real estate market have certain characteristics that make them vulnerable to abuse by illicit actors seeking to launder criminal proceeds. For example, many real estate transactions involve high-value assets, opaque entities, and processes that can limit transparency because of their complexity and diversity. In addition, the real estate market can be an attractive vehicle for laundering illicit gains because of the manner in which it appreciates in value, "cleans" large sums of money in a single transaction, and shields ill-gotten gains from market instability and exchange-rate fluctuations.[95]

Money laundering is a crime orchestrated to conceal the source of illegal proceeds so that the money can be used without detection of its criminal source.

FinCEN warns these real estate actors to watch for cash purchases of units by shell companies. But real estate agents and professions are not well-equipped to be enforcers of disclosure laws. It is in their interest to facilitate deals, especially when buyers are paying cash for multi-million dollar condominiums. A 2.5 percent commission for a real estate buyer's agent on the sale of a $6 million condominium is $150,000. Do you really care who your buyer is and where their money comes from?

In their Geographical Targeting Orders, FinCEN has focused on seven major geographical areas for special monitoring: New York City, Miami, Los Angeles, San Francisco, San Diego, San Diego, and Seattle. Hawaii and Boston were recently added to the list. Previously, the amount of cash necessary to trigger suspicion varies from city to city, depending on the level of the real estate market. Institutional real estate professionals in these cities are encouraged to file "Suspicious Activity Reports" (SARs) if they suspect unusual transactions. But in November 2018, FinCEN ordered that in property transfers involving an LLC, or paid for in cash over $300,000, or paid for by cheques or other specified currencies, or without a bank loan, the identity and address of the real owner be reported to FinCEN.[96] This expansion from suggestion to obligation and broadening of geographic scope and targeted activities reflects the crisis of real estate financial crimes.

FINCEN also requires that any LLC opening a bank account must prove the identity of any "beneficial owner" that owns more than a 25 percent ownership stake in the LLC. They are effectively requiring banks to be responsible for tracking ownership. There are several limitations here: A bank account is not a public disclosure. Secondly, a buyer paying with cash, wired from an international bank, would be able to bypass this oversight provision. Finally, a family or business could break ownership into five parts equal to 20 percent each, eliminating the need for disclosure.

Recommendations for Seattle

1. Disclosure of Beneficial Ownership in Real Estate

It is in the public interest to know who is buying Seattle. The city should require municipal disclosure of beneficial ownership as part of the property registration process.

We know that aggressive wealth hiding has undercut the ability of civil society to tax concentrated wealth and regulate its distorting impact on democratic institutions. Trillions in wealth are delinking from the nation-state system, circulating the globe in search of tax havens. A conservative estimate is that $8 trillion is hidden globally by high-net-worth individuals through the interacting use of trusts, shell corporations, and offshore accounts.[97]

The challenges of increasing transparency and disclosure have been undercut by a global "race to the bottom" in disclosure standards in different jurisdictions. As a result, if Ireland or Delaware change their policies to levy taxes or require greater disclosure, global corporations and private wealth will move to other less-demanding jurisdictions such as Bermuda and Wyoming.

With luxury real estate development, however, property is rooted in a finite number of desirable jurisdictions that are enhanced by strong property rights protections, functioning and effective representative governance, and publicly-financed amenities. This explains why money is moving from less stable closed societies – Russia, China, and petro-dictatorships –to the U.S., Canadian and UK metropolitan areas.

Cities like London, Dublin, Toronto, New York, Boston, Seattle and Vancouver are in a unique position to capture a portion of this global wealth and invest it to offset the deleterious impacts. Whether these governing coalitions will challenge the powerful real estate interests in these jurisdictions remains to be seen.

A number of jurisdictions are struggling to institute disclosure of "beneficial ownership," both of corporations and real estate ownership. A company's "beneficial owner" is defined as the natural person (or persons) who reaps the rewards associated with owning said corporation. When companies are not required to disclose the identity of their beneficial owners, the window for money laundering and terrorism financing is left open. Criminals are able to maintain anonymity when conducting fraudulent transactions because they hide behind ambiguous corporations, referred to as "shell

corporations." A shell corporation is a corporation that offers essentially no service or products other than providing its owner with a cloak of invisibility. In order to prevent these crimes, many states worldwide have taken action to legislate a mandated beneficial ownership disclosure.

While efforts in the UK to require disclosure of beneficial ownership of corporations has made progress, the U.S. has lagged behind. Local U.S. jurisdictions, however, may have greater success pressing for disclosure of ownership interests in real estate. As Boston area attorney Robert Nessen writes,

> What if the identities of these beneficial owners had to be recorded on the public record in order allow these beneficiaries to have any legal rights, remedies, or claims with respect to the real estate? For example, if a tenant defaulted on the payment of rent, only the beneficial owner would have the right to assert a claim for the arrearages. If a disputed lien were placed upon the property, only if you were a disclosed beneficiary could you enter or claim a defense against the lien.[98]

One clear advantage to this approach is that deed recording and property registration systems already exist in every jurisdiction. Increased disclosure of beneficial ownership could be implemented on a city, county, or state-by-state basis, even with an unwilling and captured federal government. King County Recorder's Office could require this disclosure with the recording of deeds.

Real estate advocates will argue that they need to limit liability to protect themselves and make investments. But the reality is many states require limited liability companies to disclose their real beneficial owner. Our communities can have both investor protections against liability and greater transparency.

European Union. On May 20th, 2015, the European Union released a directive whose purpose was the "prevention of the use of the financial system for the purposes of money laundering or terrorist financing".[99] Under the directive, the law states that all member states of the European Union must demand verification of beneficial ownership prior to corporations making any business transactions. Upon receiving this information, states are to create a registry containing a record of the beneficial owners of each corporation. Each member of the EU was given the deadline of late 2019 to submit a report on the status of their register to the European Parliament to ensure an efficient coordination of all European states' registers. One potential loophole in the directive is an exemption that applies to those who are "put at risk through the disclosure of their identity or if the beneficial owner is a minor." Each exemption will be

reviewed on a "case by case" basis. Other jurisdictions are exploring transparency specifically in real property ownership.

United Kingdom. The United Kingdom, in the process of separating from the European Union, is considering legislation requiring transparency of property ownership. This policy change was motivated by the growing number of overseas millionaires who prefer to pay exorbitant taxes on their properties in London rather than disclose individual ownership.[100] This trend hints at evidence of widespread money laundering and has given the UK government motivation to increase financial transparency in the local real estate market. New legislation, introduced by the Conservative Party governing coalition, would require disclosure of beneficial ownership in UK real estate by foreign corporations, taking effect in 2021.

2. Improve Washington State and Seattle's Luxury Real Estate Transfer Tax

Several jurisdictions have implemented or are exploring tiered real estate transfer taxes aimed at accomplishing two goals: 1) to calm surging luxury markets and, 2) to generate revenue for improvement of city services and affordable housing.

Washington has long had a Real Estate Excise Tax, or REET, and prior to April 2019 it was flat 1.28 percent with small local option allowances for specific capital improvements, subject to approval by referendum. In the 2019 legislative session, the legislature established a graduated rate structure and enables cities and counties greater authority to levy local option specifically including capital projects for facilities for those experiencing homelessness and affordable housing projects as legitimate.[101] This is estimated to generate an additional $15-20 million per year in Seattle alone.[102]

Beginning January 1, 2020, Washington State will implement a progressive graduated transfer excise tax. Under this statewide system, the first $500,000 of a sale will be taxed at 1.1 percent, after which higher sale values are taxed at progressively higher rates. The top tier levies a 3 percent transfer tax on sales valued over $3 million.[103]

The revenue from the tax is allocated as follows: "1.3% of the state tax collected by counties is retained to cover administration costs. Of the net proceeds to the state, 2% goes into the public works assistance account, 4.1% to the education legacy account with remaining amounts going the general fund."

Middle class families will face lower taxes when selling property in Washington while speculative investors and luxury owners will be appropriately taxed higher. This is expected to raise an additional $243.5 million over the next two years.[104]

Washington State joins six other states in instituting a progressive real estate excise tax structure.[105] After celebrating this achievement, we suggest several modifications to improve the new REET system, based on experiences across the country.

A. Direct more statewide REET revenues into affordable housing and homeless services. Rather than directing revenues from the real estate excise tax into the general fund, and then funding affordable housing through independent legislative acts, Washington should direct a portion of the revenues raised through the REET to their affordable housing efforts. This is not a new idea. In Vermont, for example, 50 percent of the statewide real estate transfer tax goes to the Vermont Housing & Conservation Fund, which has been funding affordable housing and land conservation since 1987.[106] This should not be construed as a *replacement* for legislative funding (in Vermont, in FY2018, only 23 percent of the Housing and Conservation Board's revenues came from the transfer tax apportionment.[107] Rather, it provides affordable housing initiatives with some level of regular funding linked to high-price property transactions.

B. Add addition graduated rates at high end of transfer tax. Where there was one rate, now there are four. Washington has joined the ranks of states and cities across the country with real estate excise taxes that relieve working families and tax disruptive high-end real estate transfers. But with a top rate starting at $3 million Washington State is failing to give jurisdictions like Seattle the tools to capture the most disruptive luxury housing investments in its overheated luxury market.

For example, Hawaii has a "conveyance tax" (essentially a real estate excise tax) with seven tiers. The three highest tiers are brackets of $4 million to $5.99 million, $6 million to $9.99 million, and $10 million or greater.[108]

In 2016, San Francisco voters passed "Prop W," which created a new tier for sales over $25 million and increased the tax rate on properties $5 million and above.[109] For properties between $5 million and $10 million, the transfer tax is $11.25 for every $500, a drastic difference from properties worth between $1 million and $5 million that are taxed at $3.75 per $500 of value.[110] In total, San Francisco has six tiers.

San Francisco agreed to spend revenue from the new tax on providing free city college tuition and expenses to San Francisco residents. The revenue was anticipated to exceed $44 million over the first year.[111] In addition, approximately $19 million has been allocated towards street-tree maintenance, an effort that had previously been abandoned due to a lack of allotted funding.[112]

San Francisco Assessor's office reported that in their 2016-2017 fiscal year, they saw the highest level of total transfer tax collections in the city's history at $411 million, including the new progressive tax rates. This includes revenue from both the basic transfer tax on all properties and the revenue from Prop W, the luxury transfer tax, which was responsible for an additional $22 million in revenue. Commercial transactions represented 14 percent of total transfers but 57 percent of transfer tax revenue.[113] One commercial property sold for $335.5 million, generating $10 million in total transfer tax revenue.[114]

Oakland and Berkeley Follow San Francisco. Voters in the cities of Oakland and Berkeley both voted to approve progressive real estate transfer taxes in the November 2018 election. Oakland previously had a flat real estate transfer tax of 1.5 percent. The new rate system lowered the tax rate to 1 percent on home value up to $300,000, 1.5 percent on value between $300,000 and $2 million, 1.75 percent between $2 million and $5 million, and 2.5 percent on real estate value over $5 million.[115] New revenue goes to the city's general fund.[116]

Berkeley has a two-tier tax rate replacing its previous 1.5 percent flat transfer tax. Under the new system, the rate is 1.5 percent for property sales under $1.5 million and 2.5 percent for sales over $1.5 million.[117] Revenue is directed to homeless services such as shelters, rental subsidies, and staffing.[118]

While San Francisco's highest tax rate threshold of $25 million is steep for Washington State, the Seattle real estate market calls out for greater segmentation among super-high priced properties. Many of the condos in this study sold for $5 million to $7 million. As mentioned previously, Seattle's most expensive condo sale that took place in March 2019 was $12 million.[119] For single family homes, sale prices of $10 million or greater are commonplace.

Focus on Absentee Buyers. Washington's real estate excise tax is levied on the seller, which is how most transfer tax laws are structured. Levying the transfer tax on the seller makes sense as they typically are experiencing a windfall at sale while not discouraging buyers. A transfer tax could be levied on buyers, however, when they are purchasing properties not as homes but for speculative investment, wealth storage, or as pied-à-terre second homes. Hawaii's conveyance tax levies a fee on the seller, but is significantly higher if the buyer will not be eligible for a homeowners' tax exemption.

In New Jersey, non-residents selling a house in New Jersey pay a 2 percent tax on the sales price of the home, in addition to the transfer tax that they pay which is also based

on the sales price. For Washington, the real estate excise tax could be expanded to cover those buyers who are using the property other than for a primary residence.

3. Tax Vacant Properties

A number of jurisdictions have tried to address the problem of vacant properties and create incentives to use a city's housing stock to house people, not wealth.

In most jurisdictions, the definition of vacancy is a property that is not occupied for over six months of the calendar year. Currently, Washington D.C. is one of the few cities to have more than five years experience implementing a tax on vacant properties. Political leaders in high-rent cities like New York, San Francisco, and Oakland have indicated an interest in following suit.

Washington, D.C. In 2010, D.C. City Council passed the Budget Support Act that applied an additional tax on properties, commercial and residential, left vacant for over half of the year. Vacant properties are taxed at a rate of $5 per $100 of assessed value. If the property is blighted, it is taxed at a higher rate of $10 per $100 of assessed value.[120] Operating under the Department of Consumer and Regulatory Affairs, the Vacant Building Enforcement Unit determines the category of each parcel: occupied, vacant, or blighted. Exempt properties are limited to those that are currently under construction, have had a change in ownership in the past calendar year, and/or are the subject of a probate proceeding or active litigation.[121]

To learn something about regulating vacancies, one must look outside of the United States at the experience of multiple cities including Vancouver, Paris, and Melbourne. These cities have enacted laws that tax or fine owners of properties left vacant.

Vancouver, Canada. In July 2017, Vancouver legislated a new property tax on vacant properties called the Empty Homes Tax. This new tax targets residential property in order to combat the recent housing crisis caused by landlords' lack of willingness to enter into rental agreements. Under the Empty Homes Tax, also referred to as the Vacancy Tax, vacant residential properties are taxed at a rate of 1 percent of their assessed values. Similar to D.C., homeowners can apply for exemption if their properties are under construction, have been recently sold, or are located in an area with rental strata restrictions.[122]

Melbourne, Australia. In 2017, the Victorian state government introduced a Vacant Residential Property Tax under the State Taxation Acts Amendment Bill, a law that will levy a tax on homes that remain unoccupied for over half of the calendar year. Almost

identical to Vancouver's legislation, the imposed tax will be 1 percent of the properties' assessed value and will apply only to residential properties, leaving commercial properties exempt. Exemptions can also be obtained if the property in question is a vacation home for an Australian resident or a unit used for work. The tax will be applied based on self-reporting of homeowners.[123]

Paris, France. In Paris, a trend of extreme vacancy led to the 2015 introduction of a tax on vacant homes equal to 20 percent of the properties' market rent values. In 2017, the city decided to triple this tax to 60 percent in order to increase the legislation's efficacy. As of late 2017, approximately 7.5 percent of homes remain unoccupied. Due to the city's compact nature, new housing development is difficult, making lowering vacancy rates imperative.[124]

New York, NY. New York's vacancy struggle is mainly rooted in empty commercial properties. Mayor Bill de Blasio has proposed a vacancy tax that would levy a fee on property owners who refuse to lease their spaces. Landlords are skeptical of entering into leases that are often long term and price fixed, opting instead to wait until market rent increases to a more profitable level. This strategy has led to empty storefronts and barren neighborhoods.[125]

San Francisco, CA. San Francisco currently has an annual flat fee of $711 that homeowners pay for properties that remain unoccupied for six months or more in a calendar year. However, this fee is imposed based on self-reporting. A meager 38 residential and 47 commercial properties registered this year, leaving much to be desired.[126] Unfortunately, introducing a vacancy tax could be constrained due to California's Prop 13 property tax cap.

London, UK. In the United Kingdom, the government granted local governments the ability to impose a vacancy tax of 100 percent on properties left unoccupied within their municipalities. Prior to this legislation, local authorities had the ability to tax vacant properties at a rate of 50 percent. However, many find it dubious that local authorities will do so. Imposing a large vacancy tax could potentially deter prospective homeowners from buying secondary residences.[127]

4. Require Luxury Buildings to Be Net-Zero-Carbon Emissions

Seattle should continue to be a champion in the construction of net-zero-carbon buildings, with a strong focus on the luxury-housing boom. All new luxury

construction in Seattle should meet Net-Zero-Carbon or passive house standards and the city should explore a range of incentives and planning tools to meet this goal.

For many years, Seattle and Washington have offered positive incentives in the form of expedited permitting, zoning boons, and cash to encourage developers to go green. But today, "green building" is a selling point for luxury properties, as millionaires pay premium for environmental absolution. On its own, it constitutes an advertising "value added" when developers build green. Rather than offering extra rewards to the richest developers in the most profitable projects, Seattle should increase minimum standards by requiring luxury buildings to have net-zero-carbon emissions. Positive incentives for additional greening could be maintained, but ideally should be redirected to programs to encourage green affordable housing efforts and subsidize working families' transition to zero carbon emissions.

5. Reform of State Incorporation Laws

One of the factors that makes Seattle real estate vulnerable to criminal activity are the number of shell companies organized in Delaware. There are over one million LLCs registered in Delaware, providing the state with an estimated $776 million in annual revenue, the state's second largest source of revenue after its personal income tax.[128]

A coalition of civic groups in Delaware, the Delaware Coalition for Open Government, have urged Delaware's Attorney General Matt Denn to investigate the state's system of incorporating limited liability corporations. They urged him to appoint a special counsel to investigate the abuses of the state laws. The state's weak transparency provisions enable Delaware LLCs to be used as "fronts to commit crimes," said a petition advanced by the coalition.[129] Our cities and state could join the chorus of calls pressing for Delaware to reform its corporation laws.

6. Federal Initiatives

Elected officials in Washington State should take the lead in co-sponsoring and advancing legislation to bring greater transparency at the national level. At the federal level, lawmakers are advancing legislation to expand the monitoring of dirty money in real estate from a targeted number of cities to a national oversight. As discussed earlier, FinCEN closely monitors only a handful of jurisdictions for the potential criminal use of illicit funds and anonymous shell corporations to purchase real estate.

In Miami, where a disclosure requirement has existed on cash property transactions priced at over $1 million, the rule change has had a chilling effect on all-cash transactions in Miami-Dade County. As soon as the order took hold in March 2016, the number of corporate cash sales plummeted 95 percent.[130]

A group of two-dozen state attorney generals have joined together to press Congress to act to force great transparency of shell companies. This group of top state law-enforcers asked Congress for the tools to investigate money laundering, human trafficking, drug networks, and other illegal activities. In their letter to Congress, they observed, "Our investigations can stall when these companies are used to hide the identify of individual or individuals who control or profit from the company."[131]

Passage of the Corporate Transparency Act of 2017, introduced by Rep. Carolyn Maloney (D-NY) would go further in requiring disclosure of beneficial ownership.[132]

Conclusion

We hope this report will sound the alarm for all Seattle residents. Without greater scrutiny, the city of Seattle will, in a very short time, be transformed by this luxury housing boom into a drastically different community.

We know that this boom will create short-term benefits for the city, particularly for workers in the building trades. But it will also worsen income and wealth inequality in the city of Seattle, fueling greater polarization. It may also worsen the existing affordable housing crisis. And it may unnecessarily expose the city to illicit activities connected to global money laundering and tax avoidance.

We need city and state elected officials to ask critical questions about the pros and cons of Seattle's real estate boom. We need our public officials to protect the city's current residents, both today and over the long term. We need our news media and academic research community to critically evaluate the questions raised by this report and continue to ask more.

With a very limited amount of resources, the authors of this report examined the multiple potential perils of Seattle's luxury housing boom. With further examination, we could uncover more information about who is buying Seattle. We could analyze the growing number of cash transactions to understand the risks of illicit money flows. We could explore the environmental implications of the thousands of luxury units being

built in energy inefficient buildings. We could understand the risks along side the benefits, and work to create a Seattle that works for everyone and that we can be proud of.

Appendix A: Seattle's Affordable Housing Crisis

- U.S. HUD defines being rent burdened as paying 30 percent or more of your income on rent, and severely rent burdened as paying 50 percent or more of your income on rent.[133]
- In 2017 – the most recent year for which we have records – 23 percent of Seattle city households spend between 30 and 50 percent of their income on rent. Another 20 percent of households are severely cost burdened, spending over 50 percent or more of their income on rent.[134]
- A common measure of housing affordability is the ratio between yearly income and price of home. Conventional wisdom says that if the house is 2.6 times your annual household income or less, it is affordable, though this measure doesn't consider homeowners insurance or mortgage interest, which drives the real price even higher.[135]
- The median price among all homes in Seattle is $723,300, according to Zillow's Home Value Index. Seattle's median income household would take 8.3 years of income to buy a home; because of the racial wealth divide, the median income black family would need to devote 17.3 years of income to buy a home in Seattle.
- From a low point in November of 2011, housing prices in Seattle rose consistently until a peak in March 2018. Put another way, housing prices increased in Seattle for 65 months straight (except for January 2012, where housing prices decreased by $300). The median monthly increase across this whole period was $5,200, but the degree of increase increased over time. The median increase from 2015-2018 was $7,375 a month, and in one month increased by $11,400.
- Even though housing prices are stabilizing in Seattle city, prices are rising ever higher in the metro area. Prices increased by 10 percent since last year in Tacoma; in South Hill they increased by 67 percent; and in Everett, 4.6 percent, to name a few cases.
- A University of Washington estimated that Washington State lost more than 90,000 units of affordably priced apartments since 2000 due to increased rents and demolition.[136]
- A 2016 survey of Puget Sound residents found that 45 percent of residents think that they will have to move elsewhere, a number that rises to 52 percent among those with incomes under $50,000 per year.[137]
- One study found that 12,112 people were experiencing homelessness in January 2018, a 4 percent increase compared to that time last year.[138]

It is becoming harder for working and middle-class families to become homeowners. One study found that the percentage of homebuyers in Seattle with incomes of at least $100,000 increased by 19 percent from 2012-2017; over half (56 percent) of Seattle homebuyers now have incomes of $100,000 or more.[139] Moreover, this study found that the median Seattle home buying household has a median income $58,877 greater than the median household income of Seattle's renters.[140] Over the past decade, working Seattleites have found themselves increasingly excluded from the real estate market, forced to rent or move somewhere with more affordable homes.

Trulia places the median rent for a 2-bedroom apartment in Seattle at $2,350.[141] This means that your family would have to make $94,000 to not spend more than 30 percent of your income on rent, $39,000 greater than the median household income of renters. Moreover, we found that many luxury condos are own-to-rent, that is, bought in order to rent at even more exorbitant rates.

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