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AML/CTF Risk Factors Guidance for the Luxembourg Real Estate Sector

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1. INTRODUCTION

Luxembourg's real estate sector — characterised by high-value transactions, complex financing methods, intermediation, and the use of corporate vehicles is exposed to heightened AML/CTF risks. The 2025 National Risk Assessment of Money Laundering rates the sector's inherent risk as high while the Terrorism Financing inherent risk associated with Luxembourg's real estate agents and developers is assessed as being medium as per the 2026 National Risk Assessment of Terrorist Financing.

The 2023 FATF mutual evaluation views the Luxembourg real estate sector as high risk, requiring further supervisory attention and remediation.

This Guidance provides practical insights into risk factors to enhance Customer Due Diligence (CDD) in line with local and international standards. In addition to the following non-exhaustive risk factors, professionals may also consider risk factors set out in the FATF Guidance on a Risk-Based Approach for the real estate sector (2022), in particular Part 3 (Guidance for private sector players).

2. CLIENT RISK ASSESSMENT — THE FOUNDATION OF EFFECTIVE CDD

A thorough client risk assessment is the cornerstone of any CDD process. Risk factors are specific attributes or circumstances indicating the likelihood of AML/CTF risks associated with a client, transaction, or broader market activity. The overarching principle is proportionality : more scrutiny where risk is higher, less where it is demonstrably lower.

The following sets out a list of risk factors prevalent in the real estate sector. Professionals are encouraged to consider whether these risks factors should form part of their client risk assessment.

NB. In addition to these non-exhaustive risk factors, professionals may also draw on the risk factors set out in the FATF Guidance on a Risk-Based Approach for the real estate sector (2022), in particular Part 3 (Guidance for private sector players) available on the following link: https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-rba-real-estate-sector.html

3. HIGHER-RISK FACTORS

3.1 Opaque Ownership Structures

The use of complex corporate setups, trusts, or entities located in jurisdictions that do not comply with international transparency standards, may represent a higher risk, in particular where the ownership structure appears unusual or excessively complex given the nature of the business as such arrangements can obscure beneficial ownership or control. Luxembourg law requires clear identification of Ultimate Beneficial Owner (UBO); failure to do so is considered as a breach of the professional's AML/CTF obligations.

Examples:

- A client acquires a Luxembourg commercial property through a chain of three holding companies incorporated in the British Virgin Islands, Panama, and Luxembourg respectively, with no clear disclosure of who ultimately owns or controls each entity.
- A trust based in a non-EU jurisdiction is named as the purchaser of a residential property, with the trustee being a professional nominee service provider and the settlor/beneficiary left unidentified.
- A société civile immobilière (SCI) is used as the acquisition vehicle, but the natural persons behind it are obscured by further layers of foreign limited partnerships.

Required action: Identify and verify the UBO using reliable, independent sources. Obtain additional information such as a ownership structure chart or similar supporting documentation. Use the Luxembourg Register of Beneficial Owners (RBE) or other central registers if applicable. Where the structure cannot be adequately clarified and doubt remains, consider whether to proceed and file a suspicious transaction report a Suspicious activity report (hereinafter called "SAR") or a Suspicious transaction report (hereinafter called "STR") with the FIU.

3.2 Secretive Behaviour

Clients who are reluctant to provide personal details, source of funds, or identification documents, or who avoid contact without valid reasons, may be attempting to evade scrutiny.

Examples:

- A prospective buyer repeatedly declines to provide identity documents, citing privacy concerns, or avoids face-to-face meetings without valid reasons and/or insists on progressing with the transaction rapidly.
- A corporate client's legal representative claims to be unaware of who the UBO is and declines to seek clarification.
- A client declines to disclose the source of funds for a property purchase and states that it is "private wealth" without further explanation.

Required action: Apply enhanced information-gathering measures. Persistent refusal to provide required documentation is a red flag and may justify considering filling a SAR or STR and, where appropriate, refusing to enter relationship or terminating the relationship.

3.3 Politically Exposed Persons (PEPs), High-Risk Jurisdictions, and High-Risk Sectors

PEPs, clients from high-risk jurisdictions included in the EU list of high risk third countries or designated by the FATF as having insufficient/inadequate AML/CTF framework or under sanctions, are subject to mandatory enhanced due diligence (EDD) under Luxembourg's AML regulations. Professionals should also consider applying EDD to any client connected to or associated with a PEP. Luxembourg's international appeal results in many transactions involving foreign clients, which require EDD measures where high-risk jurisdictions are identified.

Examples:

- A person identified as former or current PEP purchases a luxury apartment in Luxembourg,
- A buyer whose funds originate from a financial institution located in a jurisdiction under increased monitoring (i.e., the FATF grey list), or a corporate client whose ultimate ownership traces back to a jurisdiction mentioned on the EU list of high-risk third countries.
- Clients operating in sectors commonly associated with corruption, such as weapons dealing, extractive industries in conflict-prone regions, or cash-intensive businesses.
- Funds transferred through multiple jurisdictions including FATF grey-listed countries; a buyer resident in or funded from a sanctions-subject country; or a corporate purchaser incorporated in a secrecy jurisdiction (e.g., British Virgin Islands, Cayman Islands, Panama) with no credible business explanation.

Required action: This includes obtaining senior management approval, conducting in-depth Source of Funds (SoF) and Source of Wealth (SoW) verification, applying ongoing enhanced monitoring.

3.4 Inconsistent Client Profiles

Discrepancies between a client's financial background, age, or business activities and the scale or nature of the property transaction raise concerns about the plausibility of the SoF and require verification. Such discrepancies typically arise where client's overall profile is inconsistent with the

transaction, particularly in light of the property value; or the source of funds is unexplained, unusual, or cannot be adequately verified.

Examples:

- A recent graduate with no declared income seeks to acquire a €2.5 million property claiming a gift.
- A self-employed tradesperson with a modest declared personal income proposes to purchase several commercial properties simultaneously, with no coherent explanation for the accumulation of wealth.
- A foreign national with no apparent ties to Luxembourg, no declared employment or business presence in the country, and no explanation for his/her interest in Luxembourg real estate acquires multiple high-value properties with no clear economic rationale.
- A locally employed couple acquires an apartment, but during discussions it emerges that they hold multiple other properties, making their salary an implausible SoF/SoW.

Required action: Request and verify SoF and SoW documentation. Cross-reference available public information. Where inconsistencies remain unexplained, escalate internally and consider filing a SAR or STR.

3.5 Adverse Media

Adverse media refers to negative information about a client found through open-source reporting, press, online searches, or professional screening tools.

Examples:

- A search reveals that a client has been named in court proceedings relating to fraud, corruption, or organised crime in their home country.
- A corporate entity associated with the client has been subject to regulatory investigation or sanctioned by a foreign authority.
- A client is named in a judicial database as a defendant in criminal proceedings relating to tax evasion or bribery.

Required action: Assess the nature, credibility, and relevance of the adverse media. Where credible adverse media is identified, apply EDD, escalate internally, and document the assessment. Where reasonable suspicion arises, consider filing a SAR or STR with the FIU.

3.6 Nominee Arrangements and Use of Intermediaries

The use of nominees — individuals or entities who act in a transaction on behalf of the true beneficial owner— is a recognised money laundering typology in real estate. The use of third-party introducers or intermediaries similarly add further layers between the professional and the underlying client, potentially complicating the identification of the beneficial owner.

Examples:

- A professional nominee director is the sole registered owner of a property-holding entity whilst all instructions flow from an unidentified third party; a client purchases a property for a stated third party with no mandate documentation.
- A client is introduced by a foreign firm not subject to equivalent AML/CTF obligations; an introducer appears to have a financial interest in the transaction being completed; or an intermediary claims to have completed CDD but declines to provide supporting documentation.

- A first-time buyer with no demonstrated financial capacity is acquiring a high-value property and appears to be acting on behalf of another person who has avoided direct involvement.

Required action: Identify the true principal behind the transaction. The use of nominees or intermediaries does not exempt the professional from identifying and verifying the underlying beneficial owner. Reliance on third-party CDD, while generally permitted, carries additional risk and should be approached cautiously. Where a nominee arrangement is suspected and the beneficial owner cannot be confirmed, decline the transaction and consider filing a SAR or STR.

3.7 Unusual Payment Methods and Third-Party Funds

Transactions involving physical cash, cryptocurrency and/or virtual assets from unregulated exchanges, or structured deposits to avoid reporting thresholds are significant risk indicators. Funds originating from unrelated third parties or foreign accounts without logical connections to the client may indicate layering, a common money laundering method.

Examples:

- A client proposes to pay in cash or crypto; funds are transferred in multiple smaller tranches to remain below reporting thresholds; or a client uses cryptocurrency from a self-hosted wallet or unregulated exchange with no audit trail.
- The purchase price is wired from a corporate account with no apparent connection to the buyer; a "business associate" is funding the purchase with no documentation of the relationship; multiple payments originate from several unrelated individuals across different countries; or a large payment arrives from abroad shortly before completion with no credible explanation.

Required action: Obtain clear SoF documentation. Refuse cash payments in excess of regulatory thresholds (10.000€ or equivalent in other currencies). Require full explanation for third-party funders and obtain supporting documentation (loan agreements, gift letters, corporate resolutions). Where structuring is suspected or explanations are not plausible, decline to proceed and consider filing a SAR or STR.

3.8 Price Manipulation

Properties sold for prices significantly above or below their fair market value without clear economic justification are a recognised risk indicator. Artificial price inflation or deflation is often used to launder money.

Examples:

- A property is sold at a price 40% above independent market valuations, with no explanation for the premium (e.g., no exceptional features, no renovation work sor urgent sale scenario).
- A seller accepts an offer substantially below market value from an unrelated buyer within days of listing, without any apparent commercial motivation (e.g., financial distress, family sale or urgent sale scenario).
- A client requests that the notarial deed reflects a price different from the price agreed between the parties - a practice known as "double pricing" or "dessous-de-table."
- An investor acquires a property and immediately sells it for a substantially higher price to a connected party, without any documented improvement works or changed market conditions.

Required action: Consider an independent market valuation where the agreed price appears to deviate materially from market levels. Refuse to participate in any arrangement involving under or over-declaration of price. Report to the CRF where price manipulation is suspected.

3.9 Rapid Transactions (Property Flipping)

Properties resold quickly — "flipped" — without substantial improvements or clear economic rationale may be used to obscure the source of funds.

Examples:

- A property is acquired and resold within a matter of weeks at a significantly higher price, with no evidence of renovation, market movement, or changed circumstances to justify the price increase.
- The same property passes through a chain of connected buyers in rapid succession, each transaction apparently generating a profit for the seller, without any underlying economic activity or changed market conditions to justify the successive sales .
- A client has a pattern of acquiring and quickly disposing of multiple properties, with each transaction generating apparently unexplained gains.

Required action: Scrutinise the economic rationale for rapid resale. Request evidence of works undertaken or market analysis justifying price movement. Be alert to circular ownership patterns or transactions between related parties. Where doubts or suspicious activities are suspected or explanations not plausible, consider filing a SAR or STR.

3.10 Non-Face-to-Face Relationships

Where a client is not physically present at any point during the onboarding and transaction process, the risk of impersonation and identity fraud is heightened.

Examples:

- A client residing abroad completes the entire transaction remotely, relying solely on emailed copies of identification documents, without any form of certified or notarised verification.
- An online or digital platform is used to present offers and execute documentation, with the client never having visited the property or attended any meeting in person.
- Identity documents are provided digitally but cannot be verified against an original, raising concerns about their authenticity.

Required action: Apply robust remote verification measures, including certified copies, video verification, or electronic identity verification tools. Ensure measures are at least equivalent in rigour to face-to-face contexts.

3.11 Unexplained Urgency and Last-Minute Changes

Clients pressuring parties to rush transactions whilst bypassing standard due diligence checks, use of urgency to limit scrutiny and facilitate illicit activities. Frequent or sudden alterations to buyer names, source of funds, or transaction details near settlement, without credible explanations, are a common red flag.

Examples:

- A client insists on completion within 24–48 hours with no credible commercial explanation; a buyer demands CDD requirements be waived or deferred; or a client becomes aggressive when compliance checks are applied.
- The stated buyer is substituted for a newly incorporated company shortly before signing; the declared SoF changes at a late stage with no documentation; the payment route or receiving account is changed at the last minute to a previously undisclosed jurisdiction; or a co-purchaser is added at the final stage with no identity verification.

Required action: Never compromise CDD standards under time pressure. Treat unexplained last-minute changes as material red flags. Pause the transaction and re-run CDD in light of new information. Document and escalate any pressure or aggression. Consider filing a SAR or STR where urgency or changes appear designed to circumvent compliance or introduce unverified parties.

3.12 Lack of Interest in Property Details

A client who shows minimal concern for the property's condition, location, or price negotiation may be signalling that the transaction's primary purpose is moving money rather than genuine investment.

Examples:

- A buyer accepts the asking price without negotiation, declines to visit the property, and expresses no additional interest.
- A client acquires a property in poor condition at market price with no renovation plans and no rental or resale strategy.
- A buyer is unable to articulate why they have chosen a particular property or location and demonstrates no knowledge of the local market.

Required action: Probe the client's stated purpose and investment rationale. Where the client's stated purpose does not align with the observable facts of the transaction, apply additional scrutiny.

4. LOWER-RISK FACTORS

Recognising lower-risk indicators is equally important in streamlining the CDD process, helping professionals allocate resources efficiently and providing a more nuanced understanding of the overall risk profile. The following circumstances, whilst not eliminating CDD obligations, may support a lower-risk assessment:

- **Transparent ownership:** Clients with straightforward, readily verifiable ownership — such as a Luxembourg-incorporated company with a single natural-person UBO confirmed through the RBE, or a private individual acquiring property in their own name.
- **Regulated financial channels:** Transactions financed through a mortgage from a Luxembourg-regulated bank, or funds transferred directly from a regulated EU-based account held in the client's own name and consistent with documented SoW.
- **Domestic transactions:** A Luxembourg resident with stable employment acquiring a property financed by a Luxembourg bank, or a Luxembourg-registered company with known shareholders acquiring commercial premises financed from operating revenues held locally.
- **Known clients:** Long-standing clients with a proven track record of compliance, full documentation, and no prior AML/CTF concerns — including corporate clients whose ownership structure has remained stable and whose financial activity is consistent with their declared business.

5. CONCLUSION

The risk factors as set out in this Guidance are not exhaustive, nor do they operate in isolation; a single indicator may not, of itself, warrant concern, but a combination of factors should always prompt heightened scrutiny.

The regulatory landscape continues to evolve. Professionals are encouraged to monitor developments at the Luxembourg, EU, and FATF levels — including updates to high-risk jurisdiction lists, new typologies guidance, and forthcoming AML/CTF legislative reforms — and to adapt their internal frameworks accordingly.

This document has been prepared by the LuxReal AML Committee as a guidance tool for LuxReal members on 29 October 2026. It does not constitute legal advice. Members are advised to seek independent legal or compliance advice in relation to their specific circumstances and obligations.