



Purchase and Sale of Real Estate Property: Case Study



Back-to-back sales from client with low income relative to amounts paid

Current to July 2021

The Facts



An individual in his 20s who worked as a labourer approached you to represent him in the purchase of multiple real estate properties. The client appeared to have negotiated good prices for the properties. You believed the client was getting a very good deal even in the current slow market. The client claimed to be funding the purchases from previous real estate sales.

Shortly after the purchases, the client retained another lawyer to represent him in the sale of the same properties at a higher price. The new purchasers were also in their early 20s with low-paying jobs. The client had in fact taken out mortgages on these properties using false documents, generating proceeds of crime. The multiple re-sales helped to launder those funds.

NOTE: While the legal services described in this case study are outside of the paralegal scope of practice, the red flags and best practice recommendations apply, with appropriate modifications, to the provision of legal services by paralegals.

Red Flags



-  Funds at the client's disposal appear large relative to the client's income
-  Client and other parties appear to be young for high value transactions given their income
-  Properties are paid for without financing
-  Client engaged in back to back property transactions, out of sync with normal market dynamics
-  Reason for the transactions is unclear
-  Purported value of the properties rapidly increases with each subsequent transaction despite the short period of time in between transactions
-  Client changes legal representation in a short time period for no apparent reason

What Should You Have Done?



- **Ascertained the client's objectives and motivations.** Before acting you must be satisfied that the client's explanation provides a reasonable basis for concluding that the transactions are legitimate. A subsequent lawyer hired in a back-to-back purchase and sale should also inquire about the reasons for the client retaining new legal representation.
- **Complied with the source of funds requirement.** Lawyers and paralegals are required to obtain from a client information about the source of funds being received, paid, or transferred in respect of a financial transaction that is not exempt from the client verification requirements set out in [By-Law 7.1](#). If a client with a low to modest income and no other apparent source of wealth proposes to buy property with no financing, lawyers should request additional information and/or documents. In this case, you should have requested further information about and/or documents for the "previous real estate sales" that reportedly generated the initial funding.

Supports and Resources



- **Guidance Documents:** For more information, consider consulting the Law Society's Fraud webpage, Red Flags Quick Reference Guide, and Frequently Asked Questions: Source of Funds Requirement.
- **Practice Management Helpline:** Lawyers or paralegals who have questions about their professional obligations relating to client identification and verification, fraud, money laundering, terrorist financing, or other illegal activity may wish to contact the [Practice Management Helpline](#).



PRACTICE
MANAGEMENT
Helpline

Ligne d'aide
À LA GESTION
DE LA PRATIQUE