

## **Know thy Neighbour: Real Estate Due Diligence and Sanctions Risks**

### **In brief**

- Sanctions due diligence when purchasing or developing property is now essential.
- Neighbouring properties must also be subject to the same level of checks.
- Any licences required from the Office of Financial Sanctions Implementation ("OFSI") can take years to obtain if required.

### **How sanctions are reshaping UK property due diligence**

The UK property market has long attracted international investment. However, with the expansion of sanctions regimes targeting individuals, entities, and certain states, in recent years the due diligence process for property buyers, developers, and investors has transformed from a routine procedural step into a critical risk management necessity.

### **Due diligence**

The consequences of failing to conduct thorough sanctions checks can be severe – transactions may be rendered void, funds frozen, and parties potentially exposed to both civil and criminal liability under the UK's sanctions legislation. Due diligence will typically consider whether a property's current owner or buyer are subject to sanctions. However, given the UK rules on ownership and control, investigating the ownership of neighbouring properties can be equally important to ensure any agreements required between neighbours in future would not risk breaching sanctions.

Unfortunately, determining whether a neighbour is owned or controlled by a sanctioned entity requires additional due diligence and can be difficult to establish with confidence.

### **Licences to obtain for works**

Sanctions can come into play whenever properties require renovation, development, or ongoing maintenance. If due diligence reveals that a neighbour is sanctioned or controlled by a sanctioned entity, this can significantly complicate building works.

Any works which would involve making payments to a sanctioned neighbour – for instance under scaffold licences, party wall agreements (which can be a statutory requirement), or other agreements indemnifying a neighbour for any damage caused – will need a licence from OFSI. As OFSI can take many months to review a licence application, this should be submitted as soon as practicable upon detecting any sanctions issues.

### **Who is subject to the sanctions regime?**

The Russia (Sanctions) (EU Exit) Regulations 2019 (as amended, the "Regulations") set out two broad conditions for establishing ownership and control by a designated person ("DP"): (a) a DP or entity holds, directly or indirectly, more than 50% of the shares or voting rights, or the right to remove a majority of the board, or (b) it is reasonable to expect that a DP or entity would be able to achieve the result that the affairs of the company are conducted "in accordance with the DP's wishes".

The UK courts have been asked to consider this on multiple occasions. The current position, established in *Hellard v OJSC Rossiysky Kredit Bank [2024]*, sets out four types of control in this context:

Actual de jure control: exists where there is an absolute right for the person ("P") to exercise control, typically established in the company's ("C") constitutional documents;

Actual present de facto control: exists where P is manifestly "calling the shots" with no legal right to do so;

Potential future de jure control: exists where P has the legal means to obtain control over C, even though P currently enjoys no legal rights over C; and

Potential future de facto control: exists when there is no evidence that P is currently exercising de facto control, but there is some reason to believe that P could, if they wanted to, exercise control in some manner.

Given the breadth of these tests and the limited information that may be publicly available on ownership structures, it can be difficult to establish if the owner of a neighbouring property would fall within the scope of the Regulations without making specific enquiries into this issue. Even then, uncertainty may remain which might need to be priced into the transaction as a risk.

Even in circumstances where a property has no direct or indirect connections to a designated person, it is also important to bear in mind parties' links to jurisdictions where the UK sanctions position on them could change – such as Iran, Russia, Belarus or Venezuela. The pace at which sanctions designations are updated could mean that a neighbour becomes designated in the future – with knock-on effects for the use and development of the property.

### **Issues with properties close to embassies**

Diplomatic premises belonging to sanctioned states add another layer of complication to property transactions, shared infrastructure, and building works. The intersection of diplomatic immunity, international law, and domestic sanctions creates a unique set of challenges for property professionals operating in areas with high concentrations of embassy buildings.

Under the Diplomatic and Consular Premises Act 1987, the Secretary of State has the power to withdraw the UK's consent for a foreign embassy to occupy land, provided it is permissible under international law and having regard to public safety and national security. This power has only ever been used once, in 1988, when squatters would otherwise have gained rights to the [Cambodian Embassy](#). More recently, in 2012, the UK Government threatened to withdraw consent for the Ecuadorian Embassy after it gave [refuge to Julian Assange](#) while he sought to avoid extradition to Sweden – but ultimately the power was never exercised.

The UK still hosts multiple embassies whose states are subject to international sanctions, including Russia, Iran, North Korea, Syria, and Myanmar. Under the Vienna Convention on Diplomatic Relations 1961, diplomatic personnel are protected regardless of the circumstances of any political relationship between states. However, the presence of these embassies in desirable London neighbourhoods, such as Kensington, Knightsbridge and Bayswater, has created unique challenges and tensions.

Residents and local businesses surrounding embassies of heavily sanctioned states therefore face potentially significant disruption. As well as the risks regarding payments or indemnities being provided to sanctioned neighbours identified above, embassies can be targets for protest and other security concerns.

Additionally, values of properties in close proximity to the embassies of sanctioned states can be affected, as buyers may be concerned about (actual or perceived) risks to safety and privacy. UK planning decision-makers face the challenge of balancing residents' quality of life with the UK's diplomatic obligations under international law.

### **What this means for property investors and developers**

As the UK's sanctions landscape continues to evolve, property professionals must adopt a proactive and comprehensive approach to due diligence that extends beyond the immediate transaction to encompass neighbouring properties and their ownership structures. The intersection of sanctions law, diplomatic immunity, and property rights creates a complex web of legal considerations that can significantly impact transaction timelines, development plans, and property values. Early identification of potential sanctions issues is essential, as obtaining the necessary licences from OFSI can be a lengthy process that may delay or even derail property transactions and development projects. Ultimately, thorough sanctions due diligence is no longer optional but rather an indispensable component of property investment in the UK market.