TECHNICAL DISRUPTION

Blockchain Technology Could Turn Real Estate On Its Head

New Tech Would Make Transactions Smoother, Cheaper

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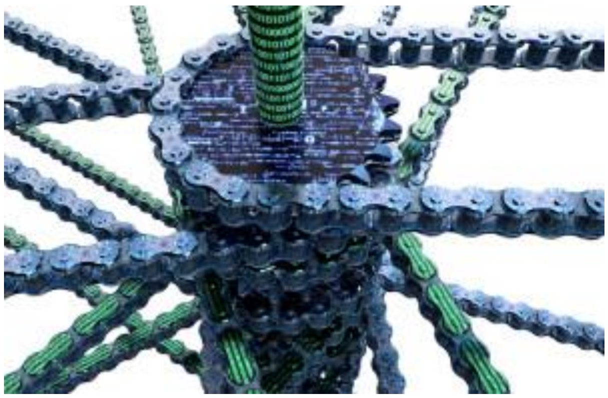
By Jim Morrison | Banker & Tradesman Staff | Oct 16, 2016



Experts agree that new technology will eventually revolutionize the conventional models for real estate transactions and ownership, but there are varying opinions about which technologies will triumph and the industry on its head. At a recent forum sponsored by the Massachusetts Institute of Technology (MIT), the message was clear: Blockchain is coming. The only question is when.

Blockchain, the technology that supports bitcoin, has been around since 2009, but its applications are still relatively few. It is essentially an open, secure record-keeping system consisting of "blocks" that contain valid transactions, linked together by "chains." That sounds simple, but the applications of this technology are complex, and many companies – including many financial institutions – are investing in small companies looking to apply blockchain to disrupt other industries, including real estate.

At an Oct. 6 forum titled "MIT Real Disruption: Real Estate Blockchain" sponsored by the MIT Center for Real Estate, the tone of the speakers was plainly revolutionary. It felt like listening to a business pitch from Uber in 2008: A fantastic idea that might be too radical to actually pull off.

MIT grad Avi Spielman, president of Joon Properties and a panelist at the forum, wrote his graduate thesis on how blockchain could replace the current Registry of Deeds systems used in nearly every county in America. Blockchain will make recording real estate data faster and cheaper, enable lending and improve liquidity for homeowners, he said.

“What can happen is, over time the system builds itself out accurately,” Spielman said. “It would eliminate the need for third-party organizations to oversee the process. Registers are essentially just curators of information.”

While errors could still find their way into a blockchain system, there would be far fewer of them since the data is only entered once. So with better, safer data, what happens to the demand for title insurance?

“Time will tell. In my research, title companies are excited about blockchain and even more so about digital currencies,” Spielman said. “What a company pays out in claims is nothing compared to what they lose in fraud. When you have a blockchain system, it’s interoperable with other blockchain systems. Recording and payment can work together seamlessly from actual transaction. Blockchain eliminates the need for escrow companies. It effects every step of a real estate transaction.”

Smart Contracts

Blockchain could eliminate escrow companies by using smart contracts. Smart contracts would be electronic contracts located in the blockchain that would only release funds when the terms of the contract are met, essentially what escrow companies do today, though in Massachusetts escrow funds are typically deposited into a bank account by real estate agents.

New York-based Securrency, a financial technology platform that “monetizes excess capacity, creating liquidity for the sharing economy,” according to CEO Dan Doney, is already moving into that space. Using smart contracts, Doney plans – among many other things – to help property owners derive income streams from properties when they’re not using them.

“It’s a lot like an REIT (real estate investment trust) but much more liquid,” he said. “The shares behave like a digital currency that pays a dividend.”

He gave the example of a client who owned several properties in Europe that had great sentimental value to him. The country they were located in fell into debt and increased taxes on presumably wealthy landowners. The problem was the client didn’t have the cash or the income to pay the taxes. Many property owners began to sell, driving prices down, so he didn’t want to sell, either.

“We created a financial tool to monetize the property,” Doney said. “We used things like AirBnb, VRBO, and local real estate agencies to rent the property out. Then we created a financial instrument to borrow against that earning potential. We created a model of securitizing that income stream. We’ve applied this to agriculture, and it’s coming to real estate in 2017.”

Doney’s model takes advantage of what the burgeoning trend of what he calls “usership,” which is somewhere between renting and owning. It is, for example, well-suited to snowbirds who leave their homes empty all winter. Instead of the empty house simply costing the owners money, they could be generating cash flow.

“The use of a property should be much more fluid in the sharing economy than the rental/owner model affords,” Doney said. “We have the tools, but they need to become more common.”

The biggest obstacle is comfort with the status quo, Spielman said; people are content with the current system because they don’t yet understand how much better, faster and cheaper it can be.

“The current systems work,” he said. “People can efficiently access title information for the most part. Even in smaller counties people can still transact. It’s not as if the country is crippled by an inefficient system. Do we need to implement elements of blockchain now? Or continue along the path we know works while we wait for the tech to get better or the digital currency gets more mainstream? This coming year will be very telling. A lot of people will be pushing really hard.”