

Blockchain and Real Estate

Blockchain technologies have piloted for Land Title Registries, launched in the Short-Term Rental and Trading Markets, and several more are in the pipeline.

Is your organization prepared for the advent of Blockchain in Real Estate?

Two pillars of the global economic system, real estate and finance, face tremendous challenges with the emergence of blockchain technologies. This executive summary provides an overview of the opportunities and considerations for blockchain in real estate.

Blockchain technologies are not merely disruptive but rather offer the potential to completely replace existing financial systems.

Banks, equity markets, accountants, lawyers and regulators are engaged in significant efforts to define the potential impact of blockchain on their respective sectors.

Tokenization of assets is one of the most important outcomes of blockchain innovation. The opportunity to disintermediate entire markets via asset

tokenization, combined with smart contracts, has created significant interest on the part of real estate investors, analysts, and lenders.

The following describes which aspects of the real estate industry are most impacted by blockchain technologies.

Real Estate Transactions and Land Title

Total costs for transacting real estate range between 1.5% – 2.5% of value. Blockchain based systems offer an opportunity to mitigate a significant proportion of these costs through transparency (disclosure and due diligence), simplified marketing, and transaction automation.

In the case of disclosure, any documentation pertaining to a property could be permanently associated with the crypto-token representing the ownership of land and buildings. Title data (including

easements, caveats and financial charges), construction permits, insurance claims, appraisals and even past transaction data could be immutably connected to the building and land. Rather than a time consuming and costly pursuit of disclosure documents and details, sellers and buyers will benefit from permission based, instant access to all required data.

A further benefit of executing real estate transactions in blockchain systems is the opportunity to develop new forms of fractional ownership. Rent to own contracts, timeshares, bespoke strata arrangements and other forms of partial ownership are all possible through smart contract enabled blockchain systems.

***A Trestle Group Briefing
Note on the impact of
Blockchain Technology on
Global Business***

by Byron McDonald

Blockchain enabled closing and registration of transactions is dependent on a system of blockchain enabled land title registration and conveyancing. Implementation of blockchain based land title systems has been piloted in many jurisdictions including Cook County USA, Brazil, The Republic of Georgia, Honduras, and others.

Digitization and formalization of Land Title Registry is a significant opportunity in developing economies and holds great promise for elevating property rights standards globally.

Liquidity

Tokenization of real property provides an unprecedented opportunity to develop new liquidity markets. Property owners and creditors will each benefit from blockchain enabled mortgage granting and other technologies. Whether accomplished through a private or public blockchain, all parties will experience increased liquidity, process efficiency, and transparency.

Lenders are positioned to benefit significantly via blockchain technologies in real estate. The novel approaches to securitization of tokenized debt instruments and their derivatives made available via blockchain systems will extend their reach into wholesale markets.

With the inclusion of title and disclosure data on the blockchain, underwriters will have unprecedented tools and data at their disposal to manage and price risk. The combination of Artificial Intelligence with these systems will further enhance the ability of creditors and regulators to manage markets and embed controls to curb systemic risks and root out fraudulent activities.

Real Estate Investment Trusts (REITs), borrowing by real estate portfolio holders, and property developers are targets for

near term blockchain projects with several efforts underway or recently deployed.

Short Term Rentals

Platforms such as AirBnB and VRBO have significantly disrupted the short-term rental market. Several new blockchain offerings target the next level of disintermediation for this segment.

In general, the intent is for owners to interact directly with short term renters who have verified identities and assets on the blockchain. The blockchain becomes the platform, and the requirement for any form of intermediary (payment and/or booking) is eliminated.

Long Term Rentals – Commercial Leasing

Commercial leasing is a complex and costly process. Marketing, contract negotiation, documentation of tenant improvements, asset management, lease authoring, renewals, and terminations represent significant costs. Smart contract based blockchain technologies hold great promise for automating many, if not all, steps of the process.

Regulatory Considerations

Properly executed, blockchain solutions for real estate offer the opportunity to enhance regulatory compliance and transparency. However, regulators tend to be reactive rather than proactive. This is clearly illustrated in the wide range of regulatory responses to the advent of blockchain technology, particularly where such offerings are regarded as securities.

As demonstrated by several pilots of blockchain based land registries throughout the world, regulators are nevertheless willing to explore the efficiencies available to their stakeholders.

The highest and best use of blockchain in real estate, particularly for REIT's and lenders, strays well into the securities domain in most jurisdictions. As such, it is critical for industry to engage and perhaps partner with regulators early in the process.

Large industry players may well prove to be the drivers of further blockchain based innovation through partnerships with their regulators. Such public private partnerships may prove to be the most efficient path for the wider adoption of blockchain friendly regulatory infrastructure in real estate.

Conclusion

Real estate investors and consumers are poised to reap significant benefits from the coming transformation of the industry via blockchain enabled systems. At this nascent stage, significant players in the industry are challenged to develop strategic and operational initiatives which will reinforce and enhance their market position and secure their place in a blockchain enabled future.

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