



Commercial real estate prepares for the era of blockchain

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Imagine a world where property transactions were fast, efficient and free of cumbersome contracts.

Five years ago, this may have seemed like a pipedream that was light years away. However, as new technology begins to seep into the business and commercial real estate landscape, this dream could soon become a reality. Blockchain, the technology that allows information to be stored and distributed through a digital ledger, will begin to impact commercial real estate. Blockchain functions on a decentralized system, meaning transactions can be completed without intermediaries. Instead, digital contracts allow users to exchange anything of value, from property to shares, through an encrypted ledger that can be stored and shared.

The problem is, many professionals don't know how to prepare for this new technology or how it will impact them.

"There are a lot of people who say that Blockchain will not have an impact on commercial real estate anytime soon," **RSM US LLP Principal Jay Schulman**, who leads the company's blockchain and cryptocurrency practice, said. "Blockchain's impact on the commercial real estate industry will not happen right away, and there won't be any sort of big bang, but these changes will begin to happen bit by bit over time. The industry needs to be paying attention to it. The ones who aren't paying attention are the groups who will be impacted the most."

Since the commercial real estate industry is composed of various asset classes and company types, the industry will be impacted in several different ways. One way this technology could impact the industry is through property transfers. Blockchains store information by containing it within an encrypted distributed ledger of transactions and contracts, allowing people to complete property transfers via a smart contract. The consensus validation required to create blockchains enables credible transactions to occur via these smart contracts without the interference of a third party.

Some local governments and municipalities are already testing this concept. Last year, the [Cook County](#), Illinois recorder of deeds [participated in a study](#) that looked at how blockchain could streamline the county's records process.

"Our main takeaway is that it could reform the entire way that government develops and procures technology," Cook County deputy recorder for information technology and communications, John Mirkovic [said to](#) The Chicago Tribune. "For real estate, it has the opportunity to remove people from the transaction who don't add value outside the system. They provide value within a broken system. If you fix the system, they become unnecessary."

A similar pilot program was conducted in [Vermont](#) earlier this year, [Inman](#) reported. Property startup Propy worked with the South Burlington City Clerk's office to move real estate conveyance documents onto a blockchain. As a result of the program, homeowner Katherine Purcell successfully transferred the title for a condominium to her LLC, all from a blockchain. With the help of Propy, Purcell was able to close the deal quickly and entirely online.

While title transfers on a blockchain have proven successful in many places, they will be more difficult to adopt on a larger scale since they require a specific level of compliance with government regulations, which often vary by region.

Blockchain has also become an attractive alternative to traditional real estate investment.

By employing a tokenized system, investment in real estate becomes more liquid and provides a lower barrier-to-entry for many of these foreign investors. Blockchain stores information in a decentralized database, providing potential investors insight into the intricacies of an asset. This system also alleviates foreign buyers of the costs typically associated with traditional investment.

"Blockchain allows international players to come in more easily, and there is a heavy interest from a macro-real estate level," **RSM Partner Troy Merkel** said. "The Chinese real estate investment gets a lot of press, and we care a lot about whether they are investing or divesting, but when you look at other players, such as Canada, the U.K., Germany and South Korea, there is still a healthy appetite for commercial real estate, and blockchain helps those players get involved."

When it comes to real estate investment, the people who will find blockchain most useful are the small-to-medium sized companies that tend to take a longer time raising capital, Blockchain democratizes investment, allowing these companies to invest in a seamless and more efficient way.

"It won't be the truly large players who can snap their fingers and pull together \$500M or \$1B to invest in real estate, but when you look at that mid-level local player that might have total \$1B or \$2B assets under management, those players spend a ton of time raising capital," Merkel said. "If they are able to raise capital faster and more efficiently through blockchain, that is where the immediate disruption will be."

Like any new technology, there is a level of concern when it comes to the security of these platforms, but the developers of this technology are working alongside the public sector to address these issues. The U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority have both issued statements and reports confronting these problems. For instance, the SEC has warned against fraudulent activity on the blockchain and encouraged people to ask questions before investing or completing a transaction. One potential solution to these risks is the shift from initial coin offerings, which has been prone to a number of scams, to tokenized asset offerings, which would provide a more secure mechanism for transferring information through a blockchain.

"You can't just start a blockchain overnight," Merkel said. "Anyone moving into a platform needs to be well versed in anti-money laundering regulations and know your customer laws. They need to have lawyers helping them process those regulations, making sure investors are accredited. The real estate industry is in a good place to start with tokenized asset offerings because many people are used to this type of regulation and public oversight, so they are likely to be more accepting than other industries trying to use blockchain."

Still, it is important for users to pay attention to how they are using the blockchain.

"When we talk about the disruption of blockchain, we're not just talking about the technology, we're also talking about the change in process," Schulman said. "And so, while we get excited about the tech, we have to go back and think about the different building blocks this could have an impact on. Overall, there is a strong belief that the tech is secure, but every implementation is built differently. Just because blockchain is a secure way of transacting, doesn't mean the particular instance is going to be secure. So we will still need to do something along the equivalent of IT general control, making sure the technology is being used in a sound and secure way."

To prepare for the specific impacts that blockchain will have, companies need to understand the processes they currently have in place. Commercial real estate professionals can begin by examining their business model thinking about how their firm or company makes money. Then, operating under the assumption that blockchain could make these processes more efficient, businesses can begin to develop a plan for how to apply the new technology to their operations.

Those who wait to have these conversations until it is too late might be left behind.

"The most important thing that the commercial real estate industry needs to know about blockchain is that it's happening," Schulman said. "Will it affect everyone? No, but there are players who will be experimenting and moving forward with it. It is here to stay and will continue to evolve with the industry."

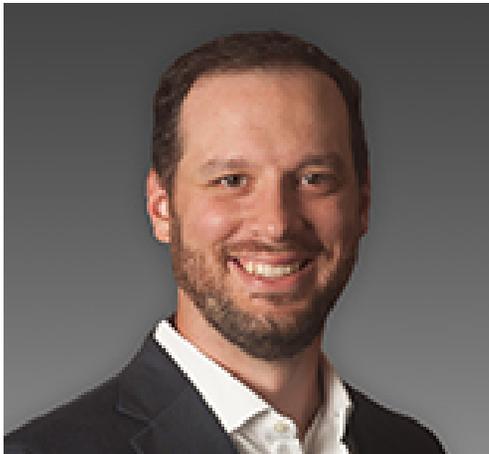
END NOTES

This article, authored by Tara Lerman, was originally published August 20, 2018 in [Bisnow](#).

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