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How blockchain is transforming the Real Estate Industry

The advent of technology pushes organizations to quickly embrace new innovation. In this digital age that demands convenience and security, blockchain appears to be a viable solution.

Blockchain is growing in its prevalence across different sectors and is challenging industries to remain relevant in the competition. In this article, we will discuss how blockchain can be a beneficial tool to the real estate industry. Players in this sector are not absolved from keeping up with the changes in this technology-driven world. Nonetheless, this incipient innovation may effectively alleviate problems and bridge gaps in the real estate industry. We will first address barriers in the real estate industry then delve into how blockchain can help to overcome these barriers.

Barriers in the real estate industry:

1. The real estate market requires large resources

Real estate as an investment demands high capacity, large capital requirements for an asset that is relatively illiquid. Investments in these assets are also time-consuming and will incur large expenses before acquisition of the property. These are major deterrence for investors to consider tapping into this market. It is arguable that properties are securitized through REITs; yet REITs do not provide full flexibility and choice. Investors might have their eye on a single property rather than a basket of buildings, but this form of securitization is not available in traditional marketplace.

2. Lack of transparency in transactions

A lack of transparency in transactions increase the chances of fraudulent activities and details of the property may be manipulated over time. An example of a fraud in the real estate sector is title fraud; whereby the identity of the owner is stolen. This industry faces the challenge of information asymmetry between parties and this inaccessibility to information increases uncertainty among parties.

3. Market volatility with illiquid asset

The real estate industry is more susceptible to systematic risks due to its nature of business. Natural disasters, interest rate risk and geopolitical issues can easily affect the industry. Developers may also run the risk of construction delays or external or environmental factors that may negatively affect the property. These risks may not be easily mitigated when holding on to an illiquid asset with high barriers to exit.

4. Security

Security is understandably highly valued in our modern world. We are easily at risk of fraud and identity theft, more so when the transactions in this industry are large in sums.

Notwithstanding these risks and barriers, real estate is a valuable asset and worthy investment be it for portfolio diversification or revenue. Let us explore how blockchain can overcome the barriers and create a more accessible market in real estate.

Blockchain as a solution:

Blockchain and Contract Automation

Smart Contracts are highly secure automated payment systems based on the terms of agreement between parties. Once terms of a contract are clearly defined between parties, blockchain technology will then release payment when conditions of the contract are fulfilled. The system audits and authenticates agreements, relying on a decentralized system that eliminates the need for intermediaries. Smart Contracts streamlines transaction processes and enables efficiency, transparency and security with its tamper-resistant documentations and the removal of a centralized party. Such method of transaction certainly warrants cost-effectiveness and time-savings for all parties involved.

Blockchain and property verification

Blockchain in property verification can reduce the duration of processes like recording and transferring of property ownership. This system provides available information which can be easily obtained to verify data that cannot be manipulated. Furthermore, blockchain technology can protect against fraudulent activities, that are still prevalent today, when data cannot be altered. Information become more reliable with this secured data storage. This results in improved transparency between parties and mitigates issues regarding titling and ownership claims. However, the technology is limited to securing and storing of data. Example, if there is negligence at the point when data is entered, the onus would be on human error rather than the system. Despite its limitations, it is important to note that this system does not completely eliminate fraud but lowers the possibility of it.

Blockchain and property securitization

Blockchain technology allows for securitization of real estate properties by dividing the asset into tokens for exchange. This will enable property assets to be easily accessible to regular investors that may not have the capacity or capital to own an entire physical property. It also benefits the developer as they are not required to incur large debts but can pool resources through investors who are willing to purchase these securities. For the investor, securitization of these assets improves its liquidity, availability and reduces the weight of risks since securities are more easily transferrable. With property securitization, investors can expand into this market and secure portions of a property according to their personal investment ability.

Since assets are digitalized on blockchain, exchanges will be speedy, low-cost and without the need for an intermediary. Investors are now able to improve their position and with lower risks while expanding their portfolio with a more liquid asset. The wider barrier to entry gives room for greater investment opportunities and time-savings. Fees are also comparably less than traditional financial platforms. Resources can now be more efficiently utilized for other investment opportunities rather than held in incurred expenses or an illiquid asset with high barriers to exit.

Blockchain technology has the potential to cause a shift in the foreseeable future as it opens doors to contract automation, property verification and property securitization as mentioned above. Although this technology has its limitations, it alleviates the issues we have addressed. In our local Real Estate scene, companies like Averspace and Fraxtor are also adopting blockchain through these means. To conclude, blockchain can be an effective tool for the real estate industry and more organizations are picking up on it.

References

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