TRENDS

Want to Buy or Sell a Home for Less? Look to Blockchain Technology

By Charles Wallace | May 29, 2018

The digital technology that made bitcoin and other cryptocurrencies possible is starting to be used in real estate—and it could soon disrupt how homes are bought, sold, and insured.

Blockchain technology, which is basically a shared, online ledger, has the potential to lessen inspection and title insurance fees, cut down on sales commissions, and reduce mortgage fraud as it's rolled out over the next few years, say industry professionals.

The advantage of the technology: Anyone within the network has access to blockchain, but no one can go back in and edit it. Every bit of recorded information in it is permanent. Let that roll around in your mind for a moment. See the potential?

Blockchain is still in its early-adoption years, and large companies from just about every industry are exploring how to use it. It hasn't caught fire—yet. But among other things, it's expected to eliminate some of the more mundane, and costly, mountains of paperwork involved in real estate transactions. This could save buyers and sellers some much-needed dough.

"There's a lot of applications for blockchain technology within residential real estate," says Jack Tatar, co-author of the book "Cryptoassets: The Innovative Investor's Guide to Bitcoin and Beyond." "The [increased] accessibility of information would have a big impact on quicker closings and reduced costs."

And it's already being tested in the field. One of its earliest real estate pioneers is the city of South Burlington, VT, which teamed up with Silicon Valley blockchain firm Propy. The city of 19,000 people 200 miles northwest of Boston is experimenting posting a small number of deeds on blockchain with the goal to eventually turbocharge the sales process, transfer deeds electronically, and easily register them online with municipalities.

The reason all of this matters is because buying or selling a house involves a long series of time-consuming chores, most of them involving paper forms, attorney visits ... and *waiting*. Once a paper deed is transferred from the seller to the buyer, it goes to the local town clerk, where it is recorded in a ledger and stored in a drawer.

But what if it could all be done electronically instead?

“Blockchain can be used to authenticate who owns a property and the history of that deed,” says Michael Pieciak, commissioner of the Vermont Department of Financial Regulation. “You could see at some future point not needing lawyers and those that protect against fraud like title insurance.”

How could blockchain save consumers cash?

Blockchain is part of the technology that was developed by a computer coder or coders known by the alias Satoshi Nakamoto in 2009 to create the cryptocurrency bitcoin. Cryptocurrencies, as most people know by now, are essentially digital money, used by everyone from hackers to more legit, mainstream businesses such as travel website Expedia.com. Because cryptocurrencies exist only digitally, Nakamoto came up with a distributed ledger that sits on hundreds of computers, keeping track of every transaction connected to the currency.

Since the ledger resides not on one computer but many, advocates believe blockchain is impossible to hack.

That magical combo of transparency and security is key to lessening the amount of due diligence required surrounding real estate transactions. Paperwork such as deeds could be readily available to whoever wants to see them in one central, digitized location. That means real estate agents, attorneys, and insurers would no longer have to physically trudge to the town clerk's office to check the title to a home that their clients want to put an offer in on.

“Blockchain could be like a Carfax for a house—making a buying decision all that much easier," says Jason Shepherd, a Realtor® based in Denver. "You would know in real time everything that has been done on that property: liens, encumbrances, building permits, and property improvements."

Every time a transaction is updated, it would appear on the blockchain that everyone accesses. There would be no need to reconcile it, or verify it, like what's needed in databases or when merging information from different streams or ledgers. And no one could go back in and erase information, the way they could easily do in, say, a shared Google document.

The goal is to protect the buyer and mortgage lender from any liens (debts against the property), unpaid loans, or even illegal work that has been done on the property.

For example, in many localities, a mortgage is not recorded on a deed for two weeks. And homeowners are never informed when a lien has been placed on a property until they attempt to sell the home.

The typical homeowner paid about $1,374 in title insurance in 2018, but that amount varies based on the owner's credit score, loan amount, and the location of the abode, according to ValuePenguin. Folks purchase the insurance to protect themselves from unknown liens such as outstanding mortgages on the property, or someone else swooping in and claiming they own their property.

“Removing these blind spots would make title insurance cheaper because they don’t have to price in the costs associated with bad record keeping,” Shepherd says.

Homeowners: Get ready for smart contracts

Another key advantage of blockchain technology is so-called smart contracts, which have the potential to eliminate escrow companies that hold money until a sale goes through.These are essentially software versions of a written contract. When a seller turns over a deed to a buyer, that step could be recorded on blockchain, triggering an automatic payment from the buyer to the seller.

Some real estate pros worry that this could be problematic when factoring in all the contingencies that happen during real estate sales—such as adding roof repairs or changing the price of the property during the negotiations, says Miami real estate attorney **Harold Lewis**.

But blockchain advocates say that as long as both parties agree to changes, they can be incorporated into smart contracts as easily as they can in old-school written contracts.

Saving real estate agents time chasing and filing documents could reduce their fees *significantly*, says Piper Moretti, a real estate agent in the Manhattan Beach suburb of Los Angeles.

"At the moment, selling a house is still a very antiquated process with a mound of paperwork," she says. "But if everything like title and a buyer’s financials are available on the blockchain, the due diligence process will be dramatically shortened.”

How blockchain could help protect buyers from fraud

It isn't just about eliminating paperwork. Blockchain technology may also help eliminate mortgage fraud, which has been described by the Federal Bureau of Investigations as one of the fastest-growing white-collar crimes.

Today, if fraudsters want to steal a home, they can copy an existing deed and use a software graphics program to insert their own names as the owners. They can then file the new deed with the county and potentially even sell the property. And this crime occurs more often than most would like to concede.

If a property sale was registered on blockchain, a criminal would not be able to change the history of the online deed because copies of that history exist on hundreds of different computer systems.

"Mortgage fraud and title fraud are currently a huge problem," says Ragnar Lifthrasir, who set up a blockchain real estate firm called velox.re and is the president of the International Blockchain Real Estate Association. "One of the advantages of blockchain is that it has an uncounterfeitable deed."

How likely is blockchain to upend the world of residential real estate?

Most experts agree that widespread adoption of blockchain for real estate transactions is still some years off.

South Burlington's experiment with the technology (and the private company providing it) is still far from the lofty goals described by blockchain supporters.

The pilot, announced in January, is in its infancy. A lone commercial building was transferred from private ownership to a corporate entity using a combination of conventional *and* blockchain methods.

A lawyer transferred the paper deed from the seller to the buyer. It was submitted to the municipality and recorded. Then a photograph was taken of the deed, and a hashtag and a QR code were included before it was added to a blockchain owned by Propy Inc. (Propy is a blockchain-based, real estate startup in Silicon Valley's Palo Alto, CA, designed to facilitate international sales using cryptocurrencies.) The extra steps to record the deed traditionally *and* on blockchain are because the new technology is still just a pilot program.

Make no mistake: Implementing a blockchain ledger throughout the state, let alone the nation, is a daunting task.

In Vermont, there is no central property register, with each of the state’s 250 towns having its own separate paper recording system. Most deed recording is still done by a paper document passing from hand to hand, requiring lawyers, title insurance companies, and notary publics.

But that's exactly why more and more industry professionals are so eager to see blockchain become as integral to the real estate process as open houses and mortgage shopping.

"With blockchain, there are lots of cost savings by improving the real estate transaction process and transparency and having less and less hands in the pot," says Denver's Shepherd.

"All the frictional costs of real estate go down," he adds.