How blockchain is currently courting the property sector

By Ciaran MacDevette

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People tend to overestimate what can be done in one year and underestimate what can be done in five or ten years. Predicting exactly what the future will look like is not typically a fruitful exercise; it is more important to simply understand the wider landscape of probable outcomes.

Ciaran MacDevette, cofounder of Bakari

Blockchain technology has proven it is possible to store and transfer value over a trustless network, and the property sector, like most others, will certainly be affected. We can establish the nature of potential impacts by mapping the blockchain levers of change to the areas of the property sector most susceptible to them.

Recording property ownership, transfer

Property can be affected by blockchain in many ways, from the provenance of raw materials and transparent recording of alterations to tokenised title deeds. The nearest, most impactful and relevant aspect unguarded to blockchain is, however, the manner in which ownership of property is recorded and transferred. The property market is, all else being equal, driven by developers who affect supply, and investors who affect demand. The insinuation is that blockchain can sufficiently impact the way in which property is held to make it more accessible, thereby fundamentally altering the makeup of investor demand; perhaps also the dynamics of property development.

Blockchain is currently courting the property sector along these lines. Investment property is usually owned, whether in a public or private fund, by an entity (a special purpose vehicle - SPV) that is created for the purpose of providing shares in a portfolio of properties. Given blockchain's main function of efficiently storing and transferring value over a network, structures are put in place to tokenise the shares of the SPV (creating tokens representing shares), thereby combining existing legal guarantees of ownership with the beneficial efficiency of blockchain. Where headlines claim tokenisation of a building or a resort, they almost certainly relate to the tokenisation of shares in an SPV.

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Nothing like cryptocurrencies

An important note on these tokens is that they are nothing like cryptocurrencies. The legal and regulatory requirements around issuing and owning shares in a fund do not change. Investors must pass Know Your Customer checks, share registries must be maintained, and tokens may not be transferred to new investors without those investors being registered. In short, compliant tokens are permissioned administrative instruments. Legitimate blockchain applications in finance do not sidestep existing compliance processes. If they do, the investor should run.

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High on the list of things blockchains do well are:

1. Cutting out middle-men (disintermediation) and the lowering of costs: A trustless network has no need for masses of people keeping track of who owns what, manually executing processes to affect changes.
2. Offering access: The ability to transfer ownership and integrate with platforms on a network that is borderless and permissionless opens the door to much wider distribution.

Blockchain could potentially open new markets by shifting cost and distribution hurdles enough to offer property funds to an entirely new type of investor, thus changing the market through the addition of a significant number of investors, with possibly very different interests and goals.

The equilibrium state of a market having incorporated the changes described is a more efficient and inclusive one. The real opportunities for excess returns are, however, available to early adopters in the transition. For issuers, access may be gained to new markets months or years before competitors. For investors, new and innovative products may be found well before the entrance of the herd.

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Property-oriented blockchain innovation

There is only one example of property-oriented blockchain innovation taking place in South Africa today, which is the issuance of the Flyt token by the Flyt Hospitality Fund. Flyt is also decreasing cost and improving accessibility by offering directly to the public, with no intermediaries, while simultaneously creating jobs and offering tax benefits for investors via its 12J compliance, which demonstrates the innovative disposition of those investing in blockchain technology.

In 2017, Professor Monica Singer, CEO of South Africa's Central Securities Depository (Strate), left the organisation after 19 years, a time during which she introduced electronic settlement (concluding share transactions paperlessly) for South African financial markets. She joined Consensys, a blockchain technology company, proving that the most competent financial industry professionals can see sweeping changes coming.

Infrastructure takes time to build. The use of blockchain technology in the property or other sectors is by no means mainstream, but out of the public eye development of products that will impact daily life is swiftly moving ahead.

ABOUT THE AUTHOR

Ciaran MacDevette is a cofounder of Bakari, a Swiss company that enables global accessibility for alternative investments. He received his Masters in Mathematical Finance from UCT and worked in investment management for AXA before moving into data science at Mastercard. He is a former naval officer and a Registered Professional Natural Scientist in South Africa.