



A Cluster of Possibilities

Brokers should embrace blockchain as the future of commercial real estate

The world around us keeps getting smarter. Technology has allowed us to connect with our devices and each other in new ways. These efficiencies are slowly making their way into commercial real estate, but the emphasis is on “slowly.”

Not only have commercial mortgage and real estate companies been traditionally slower to embrace trends and technology, they also can be notoriously stingy about keeping operations and strategies close to the vest. This makes sense, given how much competition there is in the space. But these industries need to evolve. They need to embrace demands for more transparency and more efficient technological practices. One of the ways they will likely evolve is through the use of blockchain technology.

Although blockchain is most closely associated with bitcoin and cryptocurrency, it has several potential uses in commercial real estate finance. Some technologists and industry analysts believe that blockchain will one day thoroughly disrupt the market, creating an entirely new way of investing in real estate. A warehouse, a shopping center or an office asset could be routinely tokenized within a new blockchain-enabled digital market, with shares of the property bought and sold like a publicly traded company. ▶

By Edward Nwokedi

CEO

RedSwan CRE

Aside from this futuristic possibility, blockchain has numerous applications in traditional real estate transactions that involve straight debt financing. In the coming years, blockchain could greatly expand access to property information across the country, creating a more open and less fractured commercial real estate market. Blockchain also can be used to help investors make better decisions about their assets, as well as by lowering costs while speeding up due-diligence and closing processes.

The traditional commercial mortgage broker shouldn't fear the coming of blockchain, but they should follow its evolutionary progress carefully as the technology enters the commercial real estate mainstream. In the coming years, lenders will likely integrate blockchain into their underwriting and origination systems. Blockchain also may one day become a standard way for brokers and their investor clients to find and evaluate properties.

Blockchain explained

Blockchain is frequently misunderstood and can be complicated, so it is worth reviewing what this technology is about. Simply put, blockchain is a database with a nontraditional structure. The database organizes information in blocks. Once filled, the block is time stamped and can't be altered. All new information that is entered later will form a new block in the chain.

One advantage of this is security. Traditional databases follow a centralized client-administrator model. In the traditional database, the end user accesses all the information held in a single location. The user can typically alter and delete information that was previously entered in the system. Notably, these users can introduce errors or delete crucial information. Centralized databases have proven difficult to keep secure when many parties have access to the system.

In contrast, blockchain is a decentralized database structured around nodes, or individual computers. Once an information block is completed, it can't be altered and forms a permanent record. The accuracy of the information in each block is verified by records entered into other blocks in the chain. The power and security of the database grow as more users enter information into the chain.

So far, blockchain technology hasn't been used that much in commercial real estate transactions, but it has obvious advantages. In a future real estate market where assets are routinely tokenized and traded, mortgage brokers could serve an entirely different role. The broker may become more like a securities dealer, helping clients to onboard properties while attracting debt and equity financing using blockchain protocols.

This would be a whole new ballgame for the broker. Even with today's limited usage of blockchain, mortgage brokers and real estate agents can participate in blockchain-related activity on equity-based crowdfunding platforms. Adding this service to a broker's repertoire could be lucrative.

Improved transparency

Old habits die hard in commercial real estate and it is likely that blockchain will be adopted slowly. The role of the commercial mortgage broker may not change that much at first. The primary investors will still visit properties and negotiate prices with sellers. And their brokers will still meet with lenders.

Behind the scenes, however, blockchain technology could one day drive the entire process. Bank underwriting, the application process, and deed and title transference could be greatly improved via blockchain.

One natural application would be property searches. One of the weaknesses of the commercial real estate market is that it is fractured. Much of the information about a property is siloed, difficult to access and hidden from the public eye. By its nature, blockchain is a transparent and accessible system. Property data that creates a complete profile of the asset would be more readily available. Blockchain could even form the backbone of a future nationwide commercial real estate multiple listing service.

Likewise, blockchain is a natural fit for underwriting and due diligence in commercial-property transactions. Blockchain would give the investor access to a complete dataset by which they could model rents and other key property fundamentals. A secure, decentralized database also would facilitate many of the preclosing steps, such as obtaining and verifying environmental and regulatory clearances. Additionally, the contract, title search and property transference could be completed digitally within a blockchain.

Speed and convenience

The completion of a sales contract is an obvious use for blockchain. In-person meetings and the cumbersome paper exchange across multiple parties is eliminated. On a blockchain, all parties can view and verify the documentation simultaneously.

In today's market, the entire purchase process can be convoluted. Completing a sale can be so time-consuming that the parties usually hit snags, run into delays and rush to complete the final steps to close. The listing may have incorrect information and any semblance of due diligence might be incomplete or nonexistent. A blockchain can smooth this process and engender trust among all parties.


An additional opportunity that mortgage brokers may find with a blockchain application is to attract equity investments. Traditionally, banks only lend up to 60% to 70% of a property's full market value, so the buyer typically needs to raise the rest of the capital. Blockchain-enabled platforms have already been developed through which investors can purchase a fractional share of a property through tokens. This market has huge growth potential.

Blockchain creates a fully transparent ledger system in which all debt and equity capital is accounted for. Debt payments and equity returns are made in accordance with the outlines of the original investment agreement. The system also allows for a much more streamlined method of liquidity through the transfer of fractional shares, should the investor want or need to exit.

One of the most important next steps for mortgage brokers using blockchain is often overlooked: Act as an educator for your clients and referral partners. In this current age of transparency, the more people that use blockchain for commercial real estate deals, the more effective it becomes. With the continued migration of blockchain services, creating a channel of followers who can move to blockchain products will add value.



Rather than fear blockchain, commercial mortgage brokers of the future should learn to embrace this technology. When they do, they'll find there is no downside in adding this level of competency to their service offerings. Learn the specific solutions and required steps, and add this offering to your business model. ■



Edward Nwokedi is CEO of RedSwan CRE, which is a pioneering platform for tokenized commercial real estate. He has 17 years of experience with brokerage and client-advisory services, working with Colliers International and for 15 years as Cushman & Wakefield's capital markets group executive director. He is one of Houston's repeat top performers with more than \$2 billion in successful transactions. Prior to his commercial real estate finance career, Nwokedi was a Silicon Valley entrepreneur who founded a venture-backed startup and sold it for \$100 million to a Fortune 500 company. Reach Nwokedi at ed@redswan.io.