Blockchain: The Potential for Foundational Change

By, Lisa Stanley, CEO, OSCRE International

While the Internet of Things has become a focus of nearly every aspect of real estate organizations, we are quickly moving towards a world that expands to the Internet of Everything through a variety of Emerging Technologies (ET). Advancing rapidly on this continuum is the Internet of Finance. A major initiative is underway through a blockchain-inspired platform in a collaboration of more than 70 major fintech organizations. This international collaboration called R3 is focused on building the base of the tech stack they hope will become accepted as the industry standard under the Corda Project. R3’s efforts demonstrate financial institutions have firmly planted a stake in the ground, and are focused on identifying ways to both create and monetize this new technology platform.

WHAT’S DRIVING THIS INTEREST?

Financial institutions realize the speed with which financial transactions can be completed on a blockchain platform can decrease from days to mere minutes on a secure network. The technology mandates a standardized approach to reporting data, can improve transparency and diminishes or eliminates the need for third party verification. The financial services industry likes the security and other features of the technology, and some major players have already heavily invested in it. One large financial institution has more than 35 patents either approved or pending based on this emerging technology. While patent applications have already been filed by a significant number of US-based banks seeking to enhance revenue streams, it appears European banks may be lagging behind, with cost perceived as a major point of resistance.

BLOCKCHAIN DEFINED.

It’s an emerging technology in the form of a distributed digital ledger that transforms the way information is collected, stored and shared between parties with no central database to hack. Blockchain lives on a virtual network, not within a single organization and uses encryption with both private and public keys for access. This distributed ledger approach includes a time stamp and stores value exchanges in a permanent record, making it extremely difficult (some say impossible) to alter a record as it would require rewriting the history of the record in plain view with all participants watching.
Bitcoin is a cryptocurrency-based application of blockchain technology and the most widely recognized. Others include Ethereum for smart contracts, and Abra, a smart wallet application. The transformation of manual entry spreadsheet-based flat files to a private smart contract platform using an Ethereum-based application may hold the most value of all the blockchain applications. Early applications could include lease transactions transported directly from lessor to lessee, land transfers including change of title and recording of parcel ids, maintenance records on building systems and capital improvement investments.

**TRUTH VS TRUST MODEL.**

Blockchain is based on a single source of truth, and requires a standardized approach to the collection and distribution of information that populates the ledger and drives decision making. It could be the catalyst that creates the pressure needed to break down the siloed information stacks that are still prevalent in many organizations. Make no mistake – information is the new currency.

**THE REGULATORY ENVIRONMENT.**

The Chamber of Digital Commerce and Technology Incubator 1776 jointly opened an office in Washington DC in September 2016 to focus on fintech applications. Their advocacy-based approach is designed to assist government agencies and regulators in understanding the benefits of the technology and address issues including cybersecurity, intellectual property and digital asset management including accounting functions.

**PREPARING FOR THE FUTURE.**

Standards implementation is a critical step to prepare for this new technology that will no doubt change the way business is conducted globally. Organizations that have multiple platforms collecting information that can’t communicate with each other will have significant work ahead. A more consistent and automated approach to the collection and sharing of information with both internal and external business partners will be a critical part of the evolutionary process. The effort will require improved communication, collaboration and innovation to succeed.

**DISRUPTION V. FOUNDATIONAL CHANGE.**

The impact of this change could be much more than an industry disruptor – it has potential for foundational change as to how transactions in business are conducted. In an article in the January-February 2017 issue of the Harvard Business Review, entitled “The Truth About Blockchain” by Marco Iansiti and Karim R. Lakhani, this foundational change is explored. Their position is that disruptive change occurs more quickly than foundational change (the growth of the Internet, for example). This could be good news for the real estate industry which has not traditionally moved quickly to embrace change or technology. In this new world order built on blockchain, the traditional roles of bankers, lawyers and title companies as intermediaries could also change significantly, becoming marginalized if not eliminated. The prospect of these changing roles are a driver for R3’s Collaboration.
Financial institutions have taken a proactive stance to explore the technology and firmly planted a stake in the ground with a sizable financial investment and commitment of other resources. The pace of their progress is moving much faster than expected by many in the industry, with public release of the base of the tech stack slated for later this year. Given the critical engagement of the fintech sector in real estate transactions, there is an urgent need for the industry to move forward to explore real world applications of this technology that can address data governance, transparency and other critical issues.

We cannot ignore the impact of emerging technologies including blockchain and others. We can learn from other industries including financial services who have moved ahead quickly to organize and fund a quest to explore how these technologies can be implemented in their business. These collaborative efforts have already completed a variety of pilot projects.

Business plans need to include initiatives that address ET and explores their impact and potential application to the real estate industry. It’s time for a collaborative and proactive approach that ensures they can be implemented to best meet the needs of the industry.

Constructive collaboration has not been easy for the real estate industry. In the April 2017 issue of Fast Company magazine, Editor Robert Safian observed how much easier it is to navigate times of change when an enterprise and its leadership authentically stand for something bigger than themselves. His observation rings true for our industry’s ability to collaborate and convene to address both the challenges and opportunities that reside in this new technology. The issues to be addressed surrounding blockchain are much bigger than any one organization. The time is now for the industry to step up and step forward to demonstrate proactive leadership.

ABOUT THE AUTHOR:

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