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Real Estate Was Always Skeptical Of Crypto. Blockchain Is Where The 'Real Value Lies'

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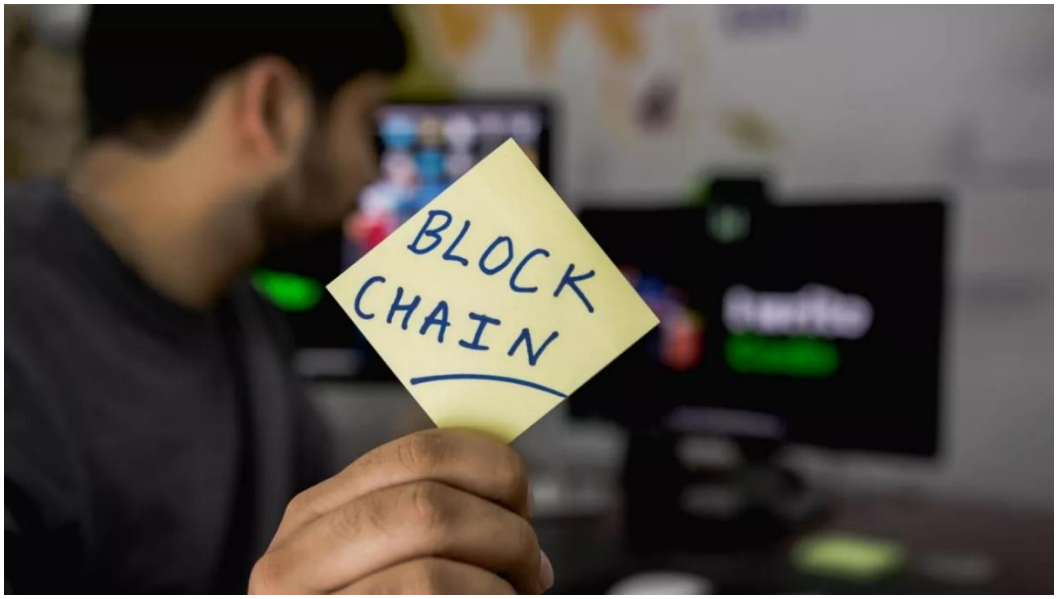
As the fallout from crypto's collapse spreads, investors are distancing themselves from the erratic alternative asset class — a preferred choice of the likes of JP Morgan Chase as recently as May — but haven't yet been scared away from blockchain, the technology that facilitates crypto in the first place.

Observers of crypto and real estate predict that however the crypto market shakes out, it is blockchain that will really make a difference for the commercial real estate industry. The more volatile cryptocurrency became this year, the more popular that line of thinking grew.



"The real value lies in the blockchain," said DGIM Law partner Isaac Marcushamer, who was formerly general counsel for real estate developer Kaplan Residential and chief innovation officer at the firm Berger Singerman. "I don't know that cryptocurrency will ever take off, since as a medium of exchange, crypto is pretty terrible, and it's not super fast. But the technology can exist definitely apart from cryptocurrency."

Blockchain technology — the idea of a public source ledger that can contain information and that it is very difficult to commit fraud with it — has tremendous value and will represent innovation in the real estate space, Marcushamer said.

He's joined in that thinking by some of the biggest names in finance.

Goldman Sachs CEO David Solomon asserted in an opinion piece in The Wall Street Journal on Tuesday that "blockchain is much more than crypto."

Writing in his opinion piece, Solomon described a tokenization platform using blockchain that the investment bank used to arrange a $105M two-year digital bond for the European Investment Bank with two other banks.

"Typically, a bond sale like this takes about five days to settle. Ours settled in 60 seconds," he wrote.

Solomon, it should be noted, is advocating for regulations that would ease the way for organizations such as his to devise new ways to use blockchain, presumably to boost their competitive edges, as well as "freeing up capital that would otherwise be locked in limbo."

That Goldman Sachs deal happened to involve a bond, but when assets of that size trade, the standard has always been delays of days or weeks as the process edges along, leaving a traditional paper trail. Creating a digital "paper trail," say advocates, is a much faster process, and at that level, time is indeed money.

Then again, crypto itself received a resounding endorsement from JP Morgan earlier this year that aged poorly as the digital currency fell off a cliff.

The investment giant embraced cryptocurrencies as its preferred alternative investment class, replacing real estate, at the time of the announcement had only just begun suffering disruptions caused by rising interest rates.

“The past month's crypto market correction looks more like capitulation relative to last January/February and going forward we see upside for Bitcoin and crypto markets more generally," JPMorgan analysts wrote in May.

Since May, bitcoin has lost roughly half of its value, as measured in dollars, and other cryptocurrencies have likewise tumbled. Real estate values, meanwhile, have dropped 13% from their peak this year.

JPMorgan Managing Director Nikolaos Panigirtzoglou, lead writer of the note last spring, declined to comment to *Bisnow* about digital assets, but the company did share more recent research notes, along with data detailing capital inflows into alternative assets, including private equity and debt funds, hedge funds, real estate and digital assets.

Overall investment in cryptocurrencies has grown significantly but remains a niche play among investors worldwide, according to data compiled by the bank.

In 2017, inflow of capital into digital investments globally broke $1B for the first time, and in 2021 reached $45B. Impressive growth, but it works out to only about 3.1% of total alternative investment inflows last year, which reached $1.4T. Real estate, by contrast, attracted $213B in 2021, or about 15% of the total. Both asset classes were dwarfed by inflows into private equity funds, which totaled $925B last year.

So far in 2022, as overall inflows slowed amid economic tumult, both real estate and digital assets lost ground, but real estate is still preferable to digital in investors' eyes.

Year-to-date as of the end of November, capital inflows into real estate have dropped to $156B, while inflows into digital assets have dropped to $39B. Real estate has thus captured about 14.5% of total inflows so far this year ($1T), while digital assets edged up slightly to 3.6% of the total — percentages essentially unchanged from 2021.

But while cryptocurrencies have limited functionality, real estate is still working out the ways it can use and benefit from blockchain.

Specific to real estate uses, decentralized ledgers provide better quality than traditional ones for a wider audience with its distributed servers, 0Chain CEO Saswata Basu said. His company specializes in a blockchain-secure data protection platform.

"Also, some platforms allow the listing, image and videos to be private and allow easy exclusive sharing of encrypted files to early buyers," Basu said.

In terms of transactions, properties can be encapsulated as NFTs, with all relevant documents associated with the property uploaded to the decentralized platform, Basu said. When the property is bought on the smart contract, the NFT assets are then transferred from the buyer to the seller.

"This would be a fast and seamless process," Basu said.

On a more granular level, blockchain could be used to cut transaction times or otherwise simplify garden-variety real estate deals, residential or commercial, according to Marcushamer.

"That is something that blockchain technology could eventually tackle, transfer of title of a home, reducing the transaction cost and effort and potential fraud."

Most of blockchain's potential for real estate is still just that — potential. Data consultancy IDC predicts investment in blockchain applications will hit $17.9B by 2024, which would represent growth of 46.9% per year for five years, though real estate won't be the earliest adopter.

The financial services industry will be the largest investor in the tech by far, with nearly 30% of the total. Manufacturers will invest about 11%. Real estate isn't listed separately, but is within "business services," which will invest only about 6% of the total.

> "The adoption of change in the construction world and the real estate world is pretty slow," Marcushamer said.

Still, a number of real estate investors have expressed their interest in blockchain technology.

“Our underlying investment thesis — that the innovation around blockchain technology is a high-growth area going forward — has not changed,” Fairfax County Police Officers Retirement System Chief Investment Officer Katherine Molnar said in a panel discussion in November, as reported by MarketWatch.

The $1.8B fund reportedly has about 7% of assets invested in crypto-related holdings, including venture capital and hedge fund holdings.

As for the current tumult in the digital asset sector, Molnar said that "the washing out of weak players or potentially inappropriate actors — while causing volatility and is admittedly stressful — is ultimately a healthy thing."

https://www.bisnow.com/national/news/capital-markets/investors-not-leaving-real-estate-for-crypto-116712