



Blockchain and Commercial Real Estate Leasing

By Claudine Cassar

As is often the case in Malta, many commercial real estate (CRE) operators go to great lengths to keep several aspects of their operations confidential, particularly when it comes to their lease rates. The goal is, of course, to retain the upper hand when it comes to negotiations, increasing their chances of maximising revenues and not leaving any money on the table.

However, we are now operating in the digital economy, where information is hard to keep under wraps. Clients are demanding more transparency and the move towards technologies such as the blockchain, which enable “trustless” transactions through the use of digital identities and transparent records, is ramping up at an inexorable rate. It is clear that this will impact many industries, not just the CRE sector.

The use of blockchain in CRE lease transactions is set to transform and facilitate the process, both through the initial stages up to the signing of the lease and the lease payments, and also after, when it comes to property management.

The diagram (Fig.1) shows the various stages of the lease process, starting with the initial property search by the client. Various blockchain-enabled multiple-listings services (MLS) are being launched in a bid to improve on the current fragmented property search process which makes it very difficult for customers to find the property that best matches their needs (refer to this article for more on this topic). Instead of trawling through multiple real estate databases and comparing information, clients are expected to start opting for services such as the one offered by REX MLS¹, which enables CRE operators to upload their property listings on an Ethereum-based blockchain. Owners and brokers would benefit from having their property information freely available across the peer-to-peer network, increasing their reach and maximising the number of potential clients who would be able to find their property. Clients, on the other hand, would benefit from having full and up-to-date information about each property, including property location, comparable rents in the area, age and maintenance history of the property and other information that is useful when making a lease decision. Such property listing services are poised to enable the provision of much more reliable data at a lower cost, resulting in easier access to international listings, enhanced accuracy, lower transaction costs and improved transparency.



Figure 1: Source - Deloitte Center for Financial Services analysis.

Once the client has identified their preferred property and inspected it, initial negotiations would begin. The process then moves on to due diligence from both sides. As things stand, going through due diligence requires several administration-heavy processes that increases the risk of potential errors (or loss of documentation). There is also a dependency on third parties, which can lead to delays and increased costs.

Blockchain makes it possible for CRE operators to create digital identities for their properties, which would then be validated by other parties such as financial institutions and previous tenants. Each property would have a digital identifier that links users to the correct information about the property on the blockchain, giving easy access to data such as architectural plans, planning permission, energy performance certifications, repairs and maintenance records, history of ownership, access rights and other pertinent details. There is currently also a lot of investment going into the creation of validated digital identities for companies and individuals, which are another important element in closing the circle. Using digital identities and blockchain-based records it will be possible for the lessor to conduct a background check on the lessee, while the lessee will be able to check information regarding previous leases on the property and any hypothecs or other problems that could hamper their use of the building in question.

Once all the checks are complete and the terms agreed, the lease agreement would be formalised as a smart contract on the blockchain. This means that all aspects of the agreement would then be managed by the smart contract, with payments of security deposits, rents and eventually utilities and maintenance costs (or other services) happening automatically throughout the lifetime of the lease. When the term is over the smart contract would also initiate the transfer of the security deposit back to the lessor, subject of course to certain checks and confirmations.

The transparent and automatic nature of the transaction and related payments obviously increases peace of mind for both parties. The owner of the CRE can rest assured that lease payments and other costs will be settled on time by the lessee, without the need to chase or go hinder business continuation. The lessor, on the other hand, would be able to have confidence regarding transparency on utility or other costs, and the return of the security deposit.

The process as described so far obviously pertains mainly to the CRE operators and their tenants. However, the use of blockchain and the availability of the information and smart contracts described in the article so far opens up opportunities for other efficiencies and the automation of other transactions. One of the most obvious examples

would be the linking of the CRE's banking facilities to the smart contracts in place with tenants, essentially guaranteeing monthly repayments on financing facilities and reducing risks for the banks (empowering CREs to negotiate better terms).

The opportunities for blockchain to revolutionise the CRE sector are many, and consequently there are many start-ups looking at ways of disrupting the status quo. Examples include REX MLS which, as already mentioned, is aiming at transforming the property listing and search process, and Midasiumⁱⁱ, which is targeting the improvement of property management and cash flows.

As always, such technological advances take their time to impact the local economy, but that does not mean that local CRE operators can afford to ignore the developments in this area. It is fundamental that, as the technology evolves, and customer expectations with it (particularly when it comes to international clients), Maltese CRE companies invest the time and effort required to better understand the implications of these blockchain-based products and how they will impact their existing business model, strategy and processes.

For more information, please visit www.deloittdigital.com.mt and www.deloitte.com/mt/blockchain

About the author

Claudine Cassar is the leader of Deloitte Digital Malta. Deloitte has invested heavily worldwide in the development of blockchain resources and is well established as a thought leader on blockchain, cryptocurrencies and Bitcoin, charting how they will constitute a cultural paradigm shift, allowing us to move from today's sharing economy to a definitive "trust democratisation" for the common good.

¹ <http://rexmls.com/>

² <http://midasium.herokuapp.com/>

References:

<https://www2.deloitte.com/us/en/pages/financial-services/articles/blockchain-in-commercial-real-estate.html>

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ⁱ <http://rexmls.com/>

ⁱⁱ <http://midasium.herokuapp.com/>

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