BIZCOMMUNITY

Future of real estate: Could we buy property with bitcoins?

By Chantalle Bell

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Although cryptocurrency has been around for quite some time now, it is still a relatively new concept in South Africa and, to a degree, quite foreign for some. The idea of no physical money and no set currency is quite daunting. There are quite a few options as an investment, but bitcoin is perhaps the most well-known.

Bitcoin is a currency created in 2009 by the anonymous pseudonym ‘Satoshi Nakamoto’, which enables you to make financial transactions free of fees and the interference of banks. You can already use bitcoins to buy everything from pizza to a manicure, as well as use it as a payment option on Takealot. But could virtual currencies become a standard trading resource to purchase real estate?

What is bitcoin?

In short, bitcoin has two key traits that define it: it is digital and it is seen as an alternative currency. Designed to be user-friendly, there’s no need to have advanced technical knowledge to get a handle on how Bitcoin works. To get started with using it, you simply install a Bitcoin wallet on your mobile phone or laptop. You’ll be given an address similar to an email, which you can use to send or receive money.

Potential impacts on the property market: Where could it come into play?

Cryptocurrency will have numerous implications on the property market, both positive and negative. “Will we soon be taking advantage of this emerging trend with clients buying property through bitcoin, and will bitcoin be seen as a potential replacement for paper- and coin-based money in the near future? If the answer is yes, then blockchain technology, which is the basis of cryptocurrency, and smart contracts will revolutionise the real estate industry,” said Craig Hutchison, CEO of Engel & Völkers Southern Africa.

Transaction time

One of the most obvious ways that Bitcoin is bound to have an impact on real estate is by providing new platforms for sales. Individual properties could have their own digital identity with a documented and verifiable chain of ownership. As the blockchain is decentralised, this information would be open, accessible and fully transparent. By bypassing the bank, buyers and sellers could potentially connect in real time, speeding up the process for transactions significantly. “The electronic deeds system which is being implemented is the first step in this process,” Hutchison added.

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Transactional costs

With new online platforms, buyers and sellers can store their information securely and it would be instantly verifiable, which cuts out prolonged discussions with banks and lawyers and thereby saves money. Saving on transaction fees, Bitcoin lowers the transaction costs of transferring money from one party to another. Cryptocurrency will also make properties easier to sell to overseas buyers as it enables a legal transfer of property ownership using digital ledger technology.

Agent commission

As the trend increases to buy property with bitcoins, real estate agencies and area agents who work predominantly with foreign buyers, will soon have to start thinking about accepting commission payments in the digital currency.

Security

The blockchain still has a long way to go before it becomes a significant real estate market disruptor. Nonetheless, with encrypted data and a high level of security, it could quickly become useful, particularly for transferring the large sums involved in luxury real estate. Blockchain technology creates a decentralised digital public record of transactions that is secure, anonymous and tamper-proof. This underlying technology is regarded by some major financial institutions as bulletproof. The blockchain can be used to prevent fraud by creating a private, fully certifiable digital ID. This offers a more current and reliable proof of funds than a bank’s letter. Digital IDs secured by the blockchain’s digital ledger can be used for deed transfers, mortgage payments, or other financial scenarios.

Tax

The exponential rise in the price of bitcoin poses a threat to the South African Revenue Services’ (Sars) revenue collection efforts as it is largely dependent on traders’ own truthful declaration of profits. Financial institutions like banks are required to provide Sars with information on the investments of their clients for verification purposes, but in a crypto environment where such information is lacking, Sars may have to trust that a taxpayer made honest declarations with regard to crypto gains. Sars has said that it has plans to provide clarity on the tax implications.

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Investing in property through bitcoin

The pros:

- Sellers can receive direct bank deposits (takes 15 minutes to a day depending on network congestion) directly into his/her bank account from anywhere in the world, from any laptop or mobile device.
- All transactions are private as bitcoins are not linked to any names or addresses or any other private identifying

information; it offers anonymity for both parties throughout the property transaction.
- The ability to “hide” funds into assets.
- There are no fees with bitcoin. There is also no “margin” to convert the currency from one currency to another for international transactions as long as the seller can accept bitcoins.
- No third party is necessary once the self-enforcing smart mortgage contract is cryptographically signed.

The cons:

- Bitcoins are very volatile - value fluctuates every day.
- Any and all activities related to the acquisition, trading or use of virtual currencies are performed at the user’s sole and independent risk and have no recourse to the bank.
- Though each bitcoin transaction is recorded in a public log, names of buyers and sellers are never revealed - only their wallet IDs. While that keeps Bitcoin users’ transactions private, it also lets them buy or sell anything without easily tracing it back to them.
- Bitcoin transactions are not reversible. To reverse a transaction due to any litigation, you need both parties to be compliant.
- You can't buy a house with a mortgage bond with Bitcoin – all payments need to be made in full.

Will the bubble burst?

Some dispute that it is too unstable to be seen as a currency and warn that a crash is inevitable. There have been numerous occasions where Bitcoin has seemed to be in a dilemma, however every time that warning bells have gone off because the bubble is about to burst, the currency has faltered for a few days and then bounced back even higher. As it stands at the moment, the general consensus is: as long as investors are willing to buy, there will be a market.

Despite the uncertainty of the bitcoin market, tech-savvy property investors are willing to take a risk on the cryptocurrency. As with all things, before diving into investment projects and wondering whether to invest, do your homework thoroughly and look at the entire picture.