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## Cryptocurrencies and Real Estate

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While you may have read about Bitcoin and heard how much money people are making (or losing), you may not know what it is. It is a virtual or digital currency that acts as a medium of exchange.

To protect those using it, it uses cryptography to secure and then verify transactions all while controlling how many new units of a particular cryptocurrency.

One of the most popular and well known digital currencies is Bitcoin. It was created in early 2009, under an alias Satoshi Nakamoto. It was launched as a “peer-to-peer electronic cash system.”

Prior to that, most systems for exchanging funds were very centralized, but this was decentralized, so there are no servers and no one entity controlling it.

Blockchain is the technology that powers Bitcoin and other digital currencies, and is also being used in numerous other fields. Blockchain is a record or code of a new transaction. Once each transaction is completed, it is added to the chain, which creates a chain of blocks.

These cryptocurrencies are encrypted with complicated mathematical equations. Every trade on digital currency is transparent, so all other users can see it, how much has been transferred etc., but no one will see the identity of the person selling or buying it.

The goal in digital currency was to cut out the middle man (i.e. traditional banks), while saving on fees and greatly speeding up the process. For instance, transferring funds from one country to another can take a few days, but with Blockchain technology, it can be done in a few minutes or hours.

One analogy is the internet allows everyone to freely distribute data online and Blockchain does something similar, but with currency. Another analogy is before Google Docs, people used Microsoft Word or Excel. When several people needed to work on the same word document or spreadsheet, each time someone made a change, it would have to get emailed to the next person and was very inefficient. Google Docs came around, which allowed multiple people to work on the same file at the same time and everyone could see each

other’s changes.

Digital currencies are extremely volatile, especially recently.

Just one year ago (Feb. 28, 2017), one share of Bitcoin traded at \$1,148. Less than 10 months later, by Dec. 16, 2017, it had increased a mind boggling 1,580 percent to \$19,343 (per share), which was its highest peak. Then 51 days later, on Feb. 5, 2018, it dropped about 64 percent to \$6,914. As of Feb. 28, it is worth \$10,798.

Using digital currency to purchase real estate is in the early stages. As corporate securities attorney Gerald Reihsen with Gerald Reihsen PLLC. stated, “In blockchain we’re in the days of the 1990s internet,” ... “and in ICOs (initial coin offerings), we’re in 1890s equities.”

Also, digital currency is vulnerable to hacking, since it is primarily software code. There have been several public announcements of people hacking into and stealing Bitcoin and digital currency.

It is important to find a real estate agent, escrow company, title company as well as an attorney and tax professional who are familiar working with cryptocurrency. The purchase agreement should include language about the risk involving cryptocurrency, to protect all parties.

Currently owners of digital currency must cash out their shares and buy their real estate purchase with cash.

Another use of the blockchain in real estate is buying tokens or fractional shares. This allows one to buy tokens that are basically a fraction of a property—or a share of a company that owns a property. Though he is a blockchain enthusiast, Reihsen said he expects to see significant fallout before tokens exit the regulatory gray zone.

Justin Miller, a top residential broker with BCB Premier Estates, is a local expert on Bitcoin-funded escrows, having closed several real estate transactions totaling \$7.325 million using Bitcoin.

Miller said he got interested by researching how one of the first properties in the state, which happened to be in Lake Tahoe, was transacted in Bitcoin. Miller, after extensive research, found escrow and title companies that were comfortable working on the Bitcoin transaction and involved a company called BitPay, which converts Bitcoin to dollars and vice versa.

Regarding the contract, he wrote the offer in a dollar amount and stated under

financing terms that “BitPay will be processing buyer’s Bitcoin to cash and then sending wire transfer from BitPay to escrow.”

Being the first adapters of a new technology is by no means an easy feat. It takes a lot of patience and handholding. Miller had one of BitPay’s commercial officers come down to Southern California to meet with all the parties involved including the escrow officer to help get everyone comfortable. The title company treated it as a cash transaction since BitPay did the conversion and the seller transferred cash to escrow.

So, if you own Bitcoin or some other digital currency and are interested in buying real estate with it, hopefully you cashed right before Christmas when it was at its peak. If you need any recommendations for the best escrow, title or attorneys that have experience purchasing real estate in California, call or email me and I can put you in touch with them.

*Marguleas founded Amalfi Estates 24 years ago. He has sold more than \$1 billion in properties and was selected by The Wall Street Journal as one of the top 60 agents in the country out of one million agents. He has been the No. 1 agent in the Palisades over the past three years. He can be reached on his cell at 310-293-9280, amalfiestates.com or stop by Amalfi Estates at 984 Monument Street, Suite 105, Pacific Palisades.*



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Photo courtesy of Amalfi Estates