

# Gravel & Shea Seals First US Blockchain Real Estate Deal

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Law360 (March 15, 2018, 8:01 PM EDT) -- A condo in South Burlington, Vermont, recently traded hands, and documents for the deal were entered into the blockchain in a historic first for a U.S. real estate transaction, with Gravel & Shea PC helping lay the groundwork to make the deal possible.

Global real estate marketplace and title registry Propy, which facilitated the deal, has been working for upward of a year to get a blockchain system up and running in Vermont, and the company early on engaged Gravel & Shea to sort out how to set up a pilot program in the state, Gravel & Shea special counsel David Thelander told Law360 in a recent interview.

Blockchain is best known as the system that facilitates cryptocurrency transactions. The system comprises a global network of computers and is highly secure due to the system of encryption that sends transaction tasks randomly to a single computer on the global network, making it difficult for hackers to get ahead.

And while blockchain has been around for years, it's now just starting to be used for real estate, and the deal in Vermont required months of preparation and help from Gravel & Shea.

"The first one to really bite was the South Burlington city clerk [Donna Kinville]. We had a real estate group in Vermont. One of our friends ... knew the South Burlington city clerk," Thelander said.

The idea, he said, was to reach out to "real estate clerks who are known for more of their innovative spirit."

Thelander started helping Propy in Vermont eight months ago. It started when one of his partners at the firm sponsored a blockchain symposium at Champlain College last year.

Various stakeholders, regulators and innovation leaders attended that conference, which also included a blockchain developer from Silicon Valley. Thelander and Gravel & Shea got introduced to Propy at that conference.

"We [subsequently] brought Propy's executive team back to Vermont and started the development work on the decentralized ledger," Thelander said.

That ledger is the blockchain technology system Propy has set up in Vermont, as part of a pilot program.

Blockchain for years has been billed as a highly secure way to store, access and organize documents and transactions, although real estate has been slow to catch on.

But that's changing.

"You execute deeds, title insurance policies and so on," Thelander said. "Rather than those documents going into a manual, sometimes digital, database ... what Propy is doing through a smart contract blockchain technology platform is, rather than that deed being PDF and paperized, it goes to the decentralized ledger."

As Gravel & Shea and Propy worked to help get the system set up in Vermont, the biggest challenge they faced was educating local officials about the new system, according to Thelander as well as Propy's CEO.

"Blockchain is new to many people in Vermont. It's obviously a new technology. Getting folks comfortable with the pilot" was a challenge, Thelander said. "It's wonderfully innovative. It's very exciting. Vermont is truly continuing to seek to position itself ... as an innovative leader in blockchain."

Natalia Karayaneva, CEO of Propy, echoed those comments in an interview with Law360.

"The first meetings were quite complicated, because they didn't know much about the process of recording on blockchain," Karayaneva said. "Education was one of the main challenges [and obstacles] to build the trust."

Propy was incorporated two years ago.

The company has three platforms: one for real estate listings, one for transactions and one for putting real estate deals into blockchain. The company is helping governments in the U.S. and abroad connect to a blockchain registry for real estate deals.

The idea is the system can cut down on corruption and hacks, and provide more security for public recording, Karayaneva told Law360. Propy is also working with leaders in other states, and with lawyers in various states including New York and California, to look at the possibility of doing deals with blockchain.

When it came time to do the deal in Vermont, Gravel & Shea did the typical real estate work involved in putting a condo deal together, and then turned the documentation over to Propy.

A hashtag on the deed then allowed Propy to enter it into the blockchain system.

"We took the deed, provided that deed to Propy and Propy placed ... literally a hash to that deed. There was a key and hash that was placed on the document that triggered its ability to be placed up there," Thelander said. "It was a typical condominium deed. We transferred that deed from an individual owner to an LLC."

The price of that deal was not immediately known. Vermont resident Katherine Purcell transferred the condo to an LLC.

Although the documents for that deal were sent to blockchain, the deal was done in cash, not cryptocurrency.

"We accepted a deed through the normal channels for recording that contained a hashtag and a QR code that was printed on the deed," South Burlington City Clerk Donna Kinville told Law360. "The next step in this pilot is for our office to enter the information into the blockchain but still receive the document the same as every other document we receive."

Thelander, who divides his time between the San Francisco Bay Area and Vermont, is also a former U.S. Securities and Exchange Commission enforcement lawyer, and as such brings that expertise to the table when representing Propy. In that role, he's helping Propy stay on top of regulatory developments as the company seeks to expand its footprint.

"We work with a number of lawyers to make the pilots legally effective, and then, of course, for the property transactions themselves," Karayaneva said. "A big part of our job is to make the legal side effective because this is a very new space. ... We're engaging with many reputable law firms today in order to create the infrastructure."

And Gravel & Shea continues to also look at the question of whether legislative and regulatory changes could help to benefit its blockchain-focused clients, Propy and others.

"We've been working as an advocate on behalf of Propy and other blockchain companies to consider whether any legislative and regulatory enhancements would support their business objectives," Thelander said. "We're still examining that issue."

--Editing by Philip Shea and Katherine Rautenberg.