

Buying—and Selling—Property with Bitcoin

By **Beckie Strum** Jan. 4, 2018 11:04 am ET

When luxury brokerage Sotheby's International Realty announced in September it had facilitated one of the first U.S. home sales for bitcoin, the dollar value of a single bitcoin equaled \$3,429.

Since the sale of the home in Austin, Texas, for which the sales price was never disclosed, the value of a single bitcoin—a cryptocurrency backed by an online ledger called the blockchain—has quadrupled to over \$14,600 and turned a swath of early adopters into millionaires in a matter of months. At one point in December a single bitcoin was worth as much as \$19,200.

One of the first purchases people make with their bitcoin windfall: A home, experts say.

"Real estate is the first impact I see for this nouveau riche," said Joe Kelly, who co-founded Unchained Capital, a startup that allows bitcoin owners to borrow against their cryptocurrency.

The process is fairly straightforward for the homeowner involved in a blockchain currency transaction. It's the buyer who faces more nuance as he or she weighs the tax implications and other considerations before trading their coins in for square footage, experts say.

Selling for bitcoin

In Miami, for example, a financier is seller a 950-square-foot Miami condo with a price of about 60 bitcoins, said Douglas Elliman broker Dean Bloch.

"My seller has been in finance for the past 25 years and he's decided to sell this place just for bitcoin," Mr. Bloch said.

The seller owns three other homes and is using the sale of the Miami condo as a way to acquire cryptocurrency, the agent said.

Once they get a suitable offer, the transaction works like an all-cash purchase, but instead of using bank accounts, the buyer transfers bitcoins to the seller's digital "wallet," which takes about 15 minutes.

The seller would also need a lawyer at the closing—who might accept fees only in dollars rather than bitcoin—and/or find a title insurance company to underwrite the sale, Mr. Bloch said.

A two-bedroom condo traded hands in December for 17.741 Bitcoin, or the equivalent of \$275,000 in what Brown Harris Stevens agents Stephan Burke and Carol Cassis said on social media was the first "bitcoin to bitcoin" real estate transaction in the U.S. In past sales that involved bitcoin, the buyer converted the cryptocurrency to fiat through websites like Coinify or Bitpay before closing the sale.



A home in the Ponce Davis area of Miami is selling for \$6.499 or the equivalent in bitcoin.
Brown Harris Stevens

Sellers accepting bitcoin, however, should keep a sharp eye on the daily fluctuations in the currency's value due to its volatility. They can hedge against potential devaluation by adding a bitcoin premium to the asking price.

Buying with bitcoin

By contrast, the nouveau riche looking to get something tangible out of their cryptocurrency investment have a bit more to consider.

If a seller won't accept bitcoin outright, then a buyer needs first to sell to a third party for U.S. dollars, euros or another fiat currency.

Property site Redfin reports that its brokers have facilitated a number of deals where buyers sold bitcoins to make the down payment. For instance, one buyer sold two

coins, each for over \$7,400, to make the down payment on a home in Carlsbad, California.

Not every exchange has gone so smoothly, however. Redfin agent Carina Isentaeva, based in San Francisco, saw a deal for a luxury home in Silicon Valley fall through when the client couldn't sell bitcoins in time to make good on his offer.

Even a direct exchange of property for bitcoins holds tax implications a buyer should consider, said Robert W. **Wood**, a San Francisco-based tax lawyer.

The U.S. government recognizes bitcoin as property and officially under the new tax law starting Jan. 1, 2018, anyone trading cryptocurrency would trigger a capital gains tax.

Mr. **Wood** compared buying property with cryptocurrency to trading IBM stock for a new home. The home buyer would pay roughly 20% in capital gains tax and another 3.8% net investment tax on the amount their bitcoins had appreciated since they first bought or mined for them. That could be one doozy of a tax bill if the trader got into the crypto game when infant bitcoins were worth less than a dollar.

Loans for bitcoin

A better option that would avoid triggering a pricey tax event would be to pay for the home using a loan collateralized by bitcoin, Mr. **Wood** said.

"A loan is also better in the sense that you are unlocking some of the value of the bitcoin but you're not disposing of the asset," he said.

These days, Austin-based Unchained Capital is one of the few startups offering bitcoin owners loans backed by the cryptocurrency. Unchained allows bitcoin owners to borrow up to \$1 million with interest rates between 10% and 14%. The company has gone all the way up to \$5 million in rare instances, said Mr. Kelly, the co-founder and CEO.

Loan lengths range from three months to three years, with the principal due at the end, Mr. Kelly said.

"We can do longer term, but it's pretty rare," he said.

The lending startup has seen many clients use their loans for home purchases, though it makes the most sense when it comes to buying second homes, where traditional mortgage rates start to average around 10%, Mr. Kelly said.

"We do see a lot of people getting cash for a downpayment," he said.

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