



## **The Future of Smart Contracts?**

In recent years, construction industry leaders have been considering ways in which contract administration could be enhanced and streamlined. A potential solution comes in the form of smart contracts. Here in Austin, The University of Texas is actively seeking to develop and enhance capital project processes through its Construction Industry Institute (“CII”). Along with other industry leaders, the CII is considering how smart contracts may allow for more efficient and cost-effective capital projects.

### **What are Smart Contracts?**

Simply put, a smart contract is a software program designed to utilize data inputs and verifications to ensure that the terms and conditions of a contract have been fulfilled. These smart contracts are typically cloud-based programs. In addition, most have implemented blockchain technology to allow for real-time documentation and verification of each transaction. In most cases, the smart contract is not designed to replace the legal rights and responsibilities laid out in traditional contracts. Rather, the smart contract utilizes technology to ease execution and administration of certain portions of the traditional contract.

### **Why Use a Smart Contract?**

While many cryptocurrency enthusiasts (among others) could lecture for days on the benefits of blockchain technology in a variety of fields, for this article, suffice it to say that blockchain allows for secure, contemporaneous, and automated Project documentation. Compared to the traditional method of passing pay applications, lien waivers, and bills-paid affidavits through a variety of parties upstream and then payment back downstream, the sheer speed of those processes in a smart contract setting is astounding. In addition, the blockchain serves as a standard source of the factual record for a given project, as agreed by the parties. Therefore, in the event of a dispute, all parties can look to the blockchain record where (we hope) the truth will set us free.

The CII has estimated that in some instances the administrative burden of passing paperwork amongst parties could be as high as 40% of the total project costs. These costs are borne by all parties in the process. While smart contracts will still involve some administrative burden—the speed, technology, and single-source transaction recording could significantly diminish those administrative costs.

### **Smart Contract Applications**

Smart contracts could be used in a variety of ways on most construction projects, primarily by addressing the most inefficient areas of contract administration. Some potential applications

include tracking progress data for more accurate scheduling and progress payments, automating material supply data and installation, capturing real-time specifications and certifications throughout the project supply chain, and storing O&M manuals, warranties, and related documentation for project equipment. As parties begin implementing smart contracts into future projects, these potential uses could increase dramatically.

### **Summary**

The construction industry has always been and remains fast-changing and adaptive to technological advances. If you aren't already familiar with CII, click [here](#) for additional resources on smart contracts.

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