

Token investment

Dividing up assets into digital securities could revolutionise real estate investment. Welcome to tokenisation, says Steven Lang, Director, Commercial Research at Savills

SO HOW DOES TOKENISATION WORK?

Let's take a property worth \$20 million as an example. The quantity of tokens issued could be determined by the value of the property – in this case creating a supply of 20 million tokens worth \$1 each, which are then listed for sale on an online platform. An individual could choose to buy anywhere between one and all 20 million tokens – and sell any number of them at any time. A share of the income is determined by the number of tokens owned.

Four hundred years ago, the Dutch East India Company became the first publicly traded company. By offering bonds and shares to the general public to raise capital, it created a new tradeable marketplace. But, while the concept of fractional ownership is not new, a fresh approach to real estate investment is: tokenisation. As the name suggests, this is the process of 'tokenising' real estate: breaking down ownership of real-world assets into tokens, or digital securities. These tokens run on a blockchain – the technology underpinning cryptocurrencies such as Bitcoin and Ether. Despite the well-documented fluctuations of cryptocurrencies, the blockchain itself is fundamentally sound and incredibly useful: a decentralised, irrefutable and secure platform on which trade of tangible assets is possible.

Blockchain technology has many potential applications for real estate – enabling tokenisation is just one. So, it comes as no surprise that real estate companies are embracing the benefits for owners and investors across all sectors.

Julian Kwan, founder and CEO of InvestaCrowd, a digital securities investment platform and ICTX digital securities exchange for secondary trading, is based in Singapore and believes the technology offers clear benefits. "Property owners can issue blockchain-enabled tokens or digital securities, but many only wish to part-sell their ownership rather than the whole asset," he says. "Importantly, the investor can sell their shares in a secondary market online at any time. Tradability and liquidity are both enhanced – with associated cost and time savings. It's super exciting, with all the benefits that the digital security layer adds. Speed of transaction is also a clear benefit."

However, in these early stages, for the marketplace to succeed, there needs to be an underwriter, a regulated group to assist in the creation of compliant tokens, an exchange (marketplace) in which these tokens can be traded and, of course, willing buyers and sellers to create liquidity. Tokenisation creates fragmented ownership, but within a private market. With more than \$300 billion of cross-border investment in 2018, the enhanced capability of investors to provide private equity is an attractive proposition for owners of all types. Not only are relatively 'private' markets now accessible by smaller investors, but the fees and the time taken to execute deals can also be drastically reduced.

The Asian markets are currently leading the way. One of the benefits of the blockchain is that title searches

and transfers can be verified instantly – particularly important in Asia's developing markets, where security of title can prove difficult for investors. "It will increase the efficiency of real estate transactions," says Troy Griffiths, Deputy Managing Director of Savills Vietnam. "Vietnam has the potential to quickly follow this trend, as the population is young and eager to embrace new technology, while policymakers are forward-thinking."

Tokenisation will impact on every process that we see today, agrees Chris Marriott, CEO of Savills South East Asia. "The digitalisation of real estate ownership is a natural progression and emerging companies are raising venture capital today to help solve the perceived inefficiencies with the ownership of commercial real estate," he says.

So what does the future hold? The adoption of tokenisation will increase over time, but it's difficult to predict the speed at which it will become more mainstream. However, the ecosystem around it is growing, and credible companies are emerging. The prospects for growth are certainly bound by the regulators, but it is encouraging to see new methods of ownership – such as the IPSX commercial real estate exchange – meeting regulatory approval in the UK. This reimaging of real estate investment presents opportunities to change the way property is owned – and bodes well for the future of tokenisation. ■

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