



FuturEstate Alliance – Real Estate Tokenization Guide

Introduction

[In 2022, the estimated value of the global commercial real estate market was approximately 35 trillion U.S. dollars, up from almost 34 trillion U.S. dollars the year before](#), yet real estate remains one of the most illiquid asset classes.

The real estate industry is plagued by slow, expensive, cumbersome, and paper-based processes relating to the financing and management of projects. [Global real estate is around \\$228 trillion and only 7% of this is available to retail investors](#) – A real lack of inclusion in the real estate space. However, a new wave of technology is transforming the real estate investment landscape, and one of the innovative products that is being heralded for the digital era is tokenization. How can cryptocurrencies and tokenization help alleviate issues faced traditionally in the real estate sector?

What is Tokenization?

Tokenization is the process of converting traditional non-digital securities or assets into a digital form using blockchain technology. This process allows for investment in the form of digital tokens backed by real world securities or assets, and these tokenized securities are issued to investors in the form of security tokens. At the core of tokenization is blockchain technology, a type of distributed ledger that secures identical copies of data across a network of authorized stakeholders. Blockchain technology ensures secure and immutable transaction records, facilitating swift settlement processes and digital fractional ownership.

Tokenization is quickly gaining traction in the real estate sector, and traditional real estate institutions are partnering with technology providers to explore the tokenization of debt or equity.

Tokenization of real estate assets could potentially increase investor access to quality property assets, invigorating real estate investment with more liquidity and efficiency. Technology providers could benefit from quality asset origination as well as the financial expertise of an expanding network of traditional real estate stakeholders.

Tokenization of real estate involves several stages: deal structuring and asset verification, issuance, primary distribution (initial token offering), post-tokenization management, and secondary trading. Each stage has its own challenges and opportunities, and key considerations from the perspective of an issuer or asset manager must be carefully



considered. This includes technical elements, regulatory landscape, tax and governance implications, and real estate and business valuation.

| Tokenization | STOs |
|---|---|
| Process of creating a digital asset (token) to represent ownership of an interest in real estate, either directly or indirectly. Real estate tokenization will involve forming a type of digital security and digital security offering (STO). | STO is a new method of financing real estate projects, a key legal component of tokenization. STO is an offering of digital securities implemented on a blockchain in compliance with securities laws and other regulations. |

What are the benefits of tokenization?

Access to capital on a global scale: By creating digital tokens, real estate owners can tap into a global pool of investors who might not have had access to the investment previously. This can help to reduce the costs and time involved in traditional fundraising methods and increase the speed and efficiency of the investment process.

Access to assets with traditionally high barriers to entry: For instance, high-value assets, such as commercial properties or luxury residential properties, are usually only available to institutional investors, wealthy individuals, or private equity firms. However, by tokenizing these assets, it becomes possible to break them into smaller units, making them accessible to a broader range of investors.

Fractionalization of ownership: Tokenization lowers the barriers to entry for investment by enabling interests in assets that traditionally have large upfront capital requirements to be more readily divided across a wider pool of investors. This facilitates fractional ownership and democratizes access to the asset. The fractional ownership is securely managed by a digital register of members on blockchain.

Operational Efficiency: Smart contracts are programmable actions on the blockchain that automate processes such as compliance checks, investor whitelisting, and post-issuance matters, including dividend distribution. Smart contracts also enable the programming of tokens with unique qualities such that characteristics of each share class and customizable fee structures could be created for tokenized assets at a relatively low operational cost.



Retention of control over management decisions: With tokenization each token represents a fraction of the property ownership. This means that owners can raise capital without diluting their control over the assets. Moreover, because the tokens are recorded on a blockchain, owners can make changes to the management of the asset and distribute dividends to token holders without the need for intermediaries, such as banks or brokers.

Reduced Settlement Time: Transactions in tokenized products can be settled almost instantly, unlike the days or weeks that it can sometimes take to settle traditional finance transactions.

Data Transparency: Blockchain as a distributed ledger technology is known for its immutability and resistance to cyber-attacks, as data is distributed across a network of participating nodes as opposed to a single centralized database. While transaction information is made trackable and visible on blockchain, data anonymity of individuals and institutions involved in transactions can be maintained to a certain extent.

Simplified Investor Communications & Management: Digital tokens allow owners to communicate with investors more efficiently and in real-time. This means that owners can provide updates on the asset's performance, answer questions, and receive feedback from investors in a transparent and accessible way. This can lead to better investor relations, higher investor satisfaction, and increased investor trust.

Assets attractive to both traditional and crypto investors: For instance, traditional investors might be attracted to real estate as a stable investment with low volatility, while crypto investors might be interested in the liquidity and flexibility offered by digital tokens. By combining these benefits, real estate tokenization offers a new investment opportunity that can appeal to a broader range of investors.

Tokenization has the potential to democratize access to investment opportunities, increase operational efficiency, reduce settlement time, and enhance data transparency.

Different Types of Tokenized Real Estate Interest

Tokenization has opened new avenues for investors to invest in real estate assets, providing them with the opportunity to buy fractional ownership in a property through blockchain technology.



Tokenized real estate investments can be classified into four types, including:

- A. **Ownership of an underlying real asset:** This type of tokenization allows investors to own a fraction of the underlying property asset. Investors hold a direct interest in the real estate property, and their token represents a share of ownership. As a result, the token holder is entitled to a proportional share of the property's value, rental income, and potential capital gains.
- B. **Equity interest in a legal entity that owns a real asset:** This type of tokenization provides investors with indirect ownership of a property by investing in a legal entity that owns the real estate asset. The entity could be a limited liability company (LLC) or a real estate investment trust (REIT). Investors receive tokens that represent equity shares in the legal entity, which is then responsible for owning and managing the real estate asset. This type of tokenization provides investors with an opportunity to invest in a diversified portfolio of real estate assets.
- C. **Interest in a debt secured by a real asset:** This type of tokenization provides investors with an opportunity to invest in a debt instrument that is backed by real estate assets. Investors receive tokens that represent their share in the debt instrument, which is secured by the underlying real estate asset. As a result, token holders receive regular interest payments and principal repayment when the debt instrument matures.
- D. **Right to share in profits arising from use of a real asset:** This type of tokenization provides investors with an opportunity to participate in the profits generated from the use of a real estate asset. Token holders receive tokens that represent their share in the revenue generated from the property, such as rental income or profits generated from a commercial property's operation. The tokens do not represent ownership of the underlying asset, but rather the right to a portion of the property's income.

Lifecycle of a tokenized security

The lifecycle of a tokenized security refers to the process of creating, managing, and trading a digital asset that is backed by a real-world asset, such as a share in a company or a piece of real estate.



Below are the lifecycle stages in summary.

1. **Structuring – Asset Verification**

The initial deal structuring stage involves making crucial decisions about the terms and conditions of the security token. This process is integral to any securities offering, regardless of the technology used. Tokenization is not meant to be a way of avoiding compliance with applicable legal and regulatory requirements; rather, it is intended to fundamentally improve operational processes to enable innovative financial solutions. Before the token can be issued, the underlying asset needs to be verified to ensure that it meets the necessary requirements. This can involve conducting due diligence on the asset and its ownership, as well as complying with any relevant regulations.

2. **Tokenization (issuance/minting)**

The second stage in the lifecycle of a tokenized security involves creating the digital token that represents the underlying asset. This is done using blockchain technology and involves working with a tokenization provider who can ensure the security of the token and its compliance with regulatory requirements. This is a stage where information traditionally stored in paper or document form is uploaded to the blockchain and coded in smart contracts, and security tokens are issued.

3. **Initial Token Offering**

Once the token has been created and the underlying asset has been verified, the tokenized security can be offered and issued to investors in exchange for investment capital.

4. **Post-tokenization management**

This stage involves corporate action management processes including dividend distribution and shareholder voting, many of which can be automated by smart contracts coded on the token. Throughout the lifecycle of a tokenized security, it is important to manage the asset to ensure compliance with regulations, protect against fraud and other risks, and maintain the integrity of the token. This may involve working with third-party service providers who specialize in areas such as custodianship, accounting, and legal compliance. Post-tokenization management will continue throughout the life of the token until maturity or redemption.

5. **Trading and settlement**

Once the tokenized security has been issued, it can be traded on a secondary market where token holders can trade tokens with another investor in an over-the-counter arrangement or on an exchange. This can be done using blockchain technology, which



enables faster settlement times and lower transaction costs compared to traditional securities trading.

Stage 1 - Structuring – Asset Verification

Security tokens refer to digital tokens that represent ownership in an underlying asset or provide certain rights to the token holder, such as repayment of a specific sum of money or entitlement to a share in future profits. These tokens are typically issued by a legal entity and provide the token holder specified rights.

Tokenization technology can complement the purpose and enhance the utility of securities products by streamlining operations and automating post-issuance corporate action management. For instance, a tokenized bond product would benefit more from these features compared to a real estate private equity (PE) fund. Moreover, fractional ownership allows interests in an asset to be shared among a wide pool of investors, and the programmable nature of security tokens technically enables unlimited share classes and widely customizable fee structures at a low operational cost.

The form and structure of a tokenized security is crucial in determining the rights and obligations that the investor has in the underlying asset as well as ultimately what form of return they will receive. Tokenization could also affect the valuation process, which may in turn affect the trading price of the security token. Furthermore, the regulatory framework governing tokenized securities will vary between jurisdictions and could have a significant impact on the price of the tokenized securities and its cost-effectiveness.

Issuers of tokenized securities must seek professional advice to make informed decisions about which jurisdictions to include in the structure of the product. Additionally, they should seek advice regarding the location of target investors, as this will introduce regulatory considerations related to the marketing and offer of tokenized securities. Analysis of the above issues must be undertaken on a case-by-case basis, as tokenization is still a relatively new space. However, this may well change in the future as transaction data of tokenized securities accumulates for institutional analysis.

Governance & Regulatory Considerations

Digital assets, including security tokens, require a regulatory framework to ensure that issuers, service providers, and investors comply with legal and ethical standards. The regulatory framework for security tokens requires compliance with licensing, risk monitoring, and reporting requirements.



Governance and regulatory considerations for security tokens are like those for traditional securities. Some of the key considerations include legal ownership, investor KYC (Know Your Customer) procedures and compliance, accounting, and investment due diligence. It is essential to ensure that the security token issuer, service providers, and investors comply with legal and ethical standards to maintain market integrity and stability. Compliance with regulatory requirements for security tokens is necessary to protect investors and the broader financial system.

Legal ownership refers to the legal right to own or control an asset or property. This concept is important when dealing with digital assets, including security tokens, as it is necessary to ensure that token owners have rights and ownership through appropriate legal documentation.

One way to establish legal ownership is by setting up a trust, which is a fiduciary relationship in which one party gives another party the right to hold title to property or assets for the benefit of a third party. Trusts are commonly used for estate planning and can be arranged in many ways to specify how and when the assets should be distributed to beneficiaries.

In addition to legal ownership, there are other governance and regulatory considerations that should be considered when dealing with security tokens. This includes investor KYC and compliance, accounting, and investment due diligence. Issuers, investors, and technology providers must understand and comply with local regulatory and licensing requirements, including AML/KYC requirements.

Accounting principles also need to be considered when dealing with security tokens, as failing to clarify the nature of the underlying asset may result in the tokens being qualified as "inventory" rather than "financial assets". Finally, it is important to conduct investment due diligence to understand the market participants behind the tokenized security, the assets backing the tokenized security, and the transaction flow of the security through the issuance, distribution, and/or exchange platforms.

Valuation: Real Estate & Business

Valuation of a tokenized asset requires considering several components, including the cash flow generating abilities of the underlying asset or business, transaction costs, and market liquidity. The core cash flow generating ability of the underlying asset or business of a tokenized asset remains the same. However, tokenization can create value by enhancing the liquidity of an otherwise illiquid asset and reducing transaction and administrative costs, particularly for fractional ownership and secondary trading.



Value from Core Cash Flow Generating Ability

The valuation of a tokenized asset can be done using different approaches, such as the Free Cash Flow (FCF) valuation approach and the Capital Cash Flow (CCF) method. The CCF method involves discounting the expected future cash flows generated by the asset to their present value, considering the capital invested and the expected rate of return. The liquidity and transaction cost considerations specific to tokenized assets can also impact the token's valuation and the underlying asset or business and should be considered when conducting a valuation.

Value from Savings of Administrative Costs

Tokenization of assets can provide cost savings and efficiency by reducing administrative costs. One benefit of tokenization is the increased liquidity of otherwise illiquid assets, which can lead to faster settlement times and lower transaction costs. Tokenization of real assets can result in significant savings in transaction costs, including those related to raising capital, legal and regulatory compliance, and exchange listing in the case of public securities such as real estate. Additionally, the use of smart contracts in the tokenization process can automate periodic administrative actions such as reporting or income distribution, further reducing administrative and compliance costs. This is particularly beneficial for assets with long-life and frequent administrative activities, such as real estate assets or private equity funds. The standardization of contracts can generate larger savings with less variance than savings from other approaches, which can lead to more consistent and predictable cost savings. Overall, the cost savings and efficiencies provided by tokenization can provide significant value to asset owners and investors.

Value from Increased Liquidity

Liquidity refers to the ability of an asset or security to be quickly bought or sold in the market without affecting the asset's price, or to how quickly and easily a financial asset or security can be converted into cash without losing significant value. This is important because it allows investors to enter and exit positions with minimal price impact, making it easier to manage risk and seize investment opportunities.

For instance, publicly traded stocks such as Alibaba or Apple are typically very liquid, as an investor can buy and sell them easily without much delay or incurring high commission costs. When an asset is not liquid, an investor may face uncertainty in price fluctuation between the time an investor decides to buy and the time the transaction closes, and transaction costs might also be substantial due to the illiquidity of the asset. Therefore, it is important to consider liquidity when making investment decisions.

Liquidity is a crucial element to consider when investing, as it allows for easy buying and selling of assets without impacting the asset's price, minimizing risk, and seizing



investment opportunities. Assets that are liquid, such as publicly traded stocks, provide investors with the ability to buy and sell easily, while illiquid assets might result in transaction delays and high transaction costs.

Large commercial properties are a good example of an illiquid asset due to the lack of standardization, high upfront investment, and prolonged holding period. Transactions for these types of assets may take up to 2 years, and transaction fees can range from 1% to 3% of the asset value.

In contrast, publicly traded Real Estate Investment Trusts (REITs) offer a liquid real estate investment option, but the process of listing a REIT (Real Estate Investment Trust) is time-consuming and costly.

Tokenization is a promising solution for owners of single assets or small portfolios due to the significant reduction in time and cost associated with offering investors fractional ownership and subsequent secondary trading. Tokenization is expected to enhance liquidity by reducing transaction times and costs and facilitating secondary trading. By allowing assets to be broken down into digital tokens, owners can sell partial ownership, and investors can trade tokens on secondary markets, offering a potential solution for owners of illiquid assets who want to sell a portion of their assets quickly.

Tax Considerations

Investing in digital assets may have different tax implications depending on the asset's nature. For example, if the digital asset represents a direct, fractional ownership in real estate, then ordinary tax rules governing direct holding of real estate may apply. On the other hand, if the digital asset held is a security, such as a share or bond in a company or a partnership interest, then the rules governing the taxation of gains or losses on the sale of shares, bonds, and partnership interest should apply, as well as distributions comprising dividends, interest, and partnership distributions.

The tax treatment of digital assets may also depend on the regulatory framework in which they operate. If the regulatory framework permits ownership in digital form, local tax rules may apply in the same way as for direct ownership in traditional script form. However, in some cases, a trust or custodian type arrangement may need to be implemented.

It is important to note that tax rules specific to digital assets are still being developed, and in some cases, they may differ from the analysis used for accounting and broader regulatory purposes.



Stage 2 – Tokenization

Tokenization is a process that leverages blockchain technology and smart contracts to enable fractional ownership, unlock liquidity, and lower barriers to entry for investment in illiquid assets. The benefits of tokenization include increased liquidity, faster settlement, lower costs, bolstered risk management, and universal accessibility of illiquid assets.

Tokenization unlocks liquidity, and the key benefits of tokenization include increased liquidity, faster settlement, lower costs, and bolstered risk management.

Blockchain technology streamlines processes by allowing separate stakeholders to have secure access to the same copy of data that cannot be altered without validation from other stakeholders. The data central to tokenization is a digital registry of token holders for the asset to be tokenized, which is uploaded to a blockchain as a complete record of ownership. This makes the management of fractional ownership more efficient because the digital registry can be updated almost instantly, and it is resistant to unauthorized alterations by unverified actors.

Tokenization enables universal accessibility of illiquid assets and allows more investors to participate in investments that were previously unavailable to them. This is achieved by lowering the barriers to entry, reducing minimum investment amounts, and enabling trading in smaller increments. Tokenization is seen as a meaningful change that will help to ensure greater liquidity, better price discovery, and universal accessibility of illiquid assets.

Moreover, smart contracts play a crucial role in tokenization. Each transaction is encrypted and recorded on the blockchain, making sensitive data traceable but protectable by smart contracts. Smart contracts can be used to automate key aspects of the tokenization process, such as payment processing and asset transfer, which can reduce costs and increase efficiency.

Smart contracts are computer programs that execute when predetermined conditions are met. They are stored on a blockchain and enable the automation of the execution of agreements or workflows. Smart contracts form the building blocks of programmable actions, which is the key to unlocking liquidity by enabling secure management of fractional ownership as a digital record, automating investor due diligence and compliance protocols, and facilitating near-instant settlement of transactions.

Smart contracts can be coded to execute compliance protocols, due diligence, KYC, and AML (Anti Money Laundering) procedures, as defined by regulatory requirements, and further specified by the terms set by individual issuers. They also play a role in facilitating



near-instant settlement of transactions. Immutable transaction records on the blockchain and a high degree of automation enabled by smart contracts bring much-needed process optimization and efficiency to investment. Other actions that are programmable throughout the investment lifecycle include investor and corporate action management, such as distributing dividends and holding shareholder votes.

The cumulative effect of these changes is to significantly reduce the time and economic costs associated with trading previously illiquid assets, which benefits asset owners and investors alike through unlocked liquidity. As regulatory regimes across the globe evolve to meet these technological developments, secondary market trading for tokenized assets will thrive.

Stage 3 – Initial Token Offering

Fractional ownership, which enables investors to acquire a partial interest in a portfolio of real estate properties, has long been utilized through REITs. However, the cost of investing in an individual real estate asset can be high and carry significant upfront capital requirements, which has limited investment opportunities for average investors. Tokenization, which facilitates fractional ownership and simplifies ownership transfer and settlement, is a solution that improves the REIT model in several respects.

Tokenization enables customizable fee structures, inclusive of access premiums for previously inaccessible investment opportunities, and reduced liquidity premiums for previously illiquid assets. Compared to traditional investment in a specific property asset, tokenization allows a building to be distributed among a larger pool of investors at a lower per unit cost.

To tokenize an individual property, ownership of the property is held by a special purpose vehicle (SPV), and tokenization software is employed to create a digital registry of token holders recording the complete ownership of the SPV (and therefore the property) on blockchain. Smart contracts are coded to reflect the terms of ownership, and tokens are issued to investors representing fractional ownership in the SPV (and therefore the property). Each investor's fractional ownership is recorded on the digital ROM, and smart contracts are coded to automate certain corporate management actions including dividend distribution and shareholder voting.

Furthermore, tokenization enables previously illiquid assets to become more liquid, as secondary market trading for tokenized assets will likely thrive with the evolution of regulatory regimes to meet technological developments. In summary, tokenization offers



a promising solution to the high upfront costs and limitations of traditional real estate investment models.

After the initial token offering, fractionalized ownership interests can be easily and efficiently traded within their designated network or marketplace, as most of the investment procedures including KYC and AML will be automated in the tokenization process.

The time savings resulting from tokenization can be significant, with transactions involving fractional ownership interests in real estate taking anywhere from 6 months to 1 year less compared to traditional finance transactions. Finally, tokenization reduces administrative costs related to the investment and should be taken into consideration when valuing an asset.

Stage 4- Post Tokenization Management

In post-tokenization management, smart contracts can enforce automated corporate action management processes such as dividend distribution and shareholding voting. These smart contracts can also facilitate the swift settlement of token transfers. With the use of smart contracts, the intermediaries can code legal and regulatory requirements to ensure compliance. Issuers retain control over the final approval or rejection of investors who pass automated restrictions before token transfers are finalized. This is possible as smart contracts are used to ensure compliance with all legal and regulatory requirements during the process. Every transaction throughout the life of a security token is recorded immutably on blockchain, ensuring transparency and accountability.

Stage 5 – Trading & Settlement

Tokenization of real estate assets provides several advantages over traditional real estate investments like REITs. One of the most important benefits is the ability to bring liquidity through secondary market trading, which is demonstrated by the proven market appetite for traded REIT products. The illiquidity of real estate is typically a result of high capital requirements, long lock-up periods, and arduous transaction processes. Tokenization first addresses the problem of accessibility through fractional ownership, which allows investors to buy and sell portions of assets such as real estate. Swift settlement and transfer of these fractional interests in single real estate assets facilitate flexibility and customizability in portfolio construction that is unavailable to REIT products. Additionally, tokenization allows for more control over the rebalancing of exposure to individual assets within the portfolio than REIT investments.



Real estate tokenization provides numerous benefits, including facilitating liquidity for a wider range of real estate assets. By tokenizing real estate assets, investors can invest in fractional ownership of real estate, which reduces upfront investment costs and streamlines processes. Furthermore, tokenization can provide liquidity for illiquid assets such as real estate, enabling secondary trading. Tokenization leverages blockchain technology to securitize assets, both traded and non-traded, which benefits investors through increased liquidity, faster settlement, lower costs, and bolstered risk management.

Regarding project financing, tokenization could enable the creation of a tokenized fund for project financing, which would allow investors to exit their investment before the fund's term expires by enabling secondary trading. This feature is especially attractive in cases where capital is locked up for an extended period, and delays in development could lead to heavy losses. Thus, tokenization offers more flexibility in portfolio construction and customizability, which is not available in traditional real estate products such as real estate investment trusts (REITs).

Challenges & Opportunities

Tokenization is a technology that promises to democratize access to real estate investment by reducing upfront investment costs, streamlining processes, and increasing transparency and liquidity. However, as a relatively innovative technology, there are some issues that must be considered.

Legal and regulatory uncertainty.

The novel nature of security tokens means that the law and regulations in this area are not settled, nor have they been tested by courts and regulatory authorities. Although some guidance has been issued by various regulatory authorities around the world in relation to security tokens, it is likely that new developments and changes in the laws and regulations will be introduced as the technology is increasingly embraced and the market continues to develop.

As a result, the legal and regulatory requirements and restrictions for the offer, distribution, holding, trading, and management of security tokens may change in the future. This may result in uncertainty for both issuers of and investors in security tokens alike, which may impair adoption and secondary market liquidity.

However, certain jurisdictions distinguish between security tokens and cryptocurrencies. A fundamental difference between a cryptocurrency and a security token is the way that value is derived. The value-drivers of a real estate security token come from the



underlying real asset itself, making the value of a real estate security token less volatile, and more easily determinable, than the value of cryptocurrency. Further, security tokens typically fall within the scope of existing securities regulations, even in jurisdictions where cryptocurrencies are unregulated or banned, such that investors in security tokens may be afforded better protections and rights than investors in cryptocurrencies.

Confidentiality

Real estate funds and transactions are generally confidential in nature and the managers and participants involved in such projects are usually hesitant to disclose commercial terms or other sensitive information, except to a limited number of interested prospective investors who are subject to non-disclosure obligations. Sometimes such confidentiality may even be a regulatory requirement if the underlying project relates to a listed or regulated entity.

However, in the context of security tokens, which may be listed on an exchange for secondary trading, the disclosure of commercially sensitive information to a wider range of potential investors will be necessary to facilitate investments and transactions. This balance between data transparency enabled by blockchain technology and information privacy required in financial transactions will be a major area of development.

It is worth noting that confidentiality agreements usually allow the recipient to disclose confidential information if required to do so by court order or other legal process. The recipient usually must notify the disclosing party of any such order (if legally permitted to do so) and cooperate with the disclosing party to obtain a protective order.

In terms of data privacy on public blockchains, protocols such as Zero-Knowledge Proof can be used to protect data. Zero-Knowledge Proof allows one party to verify their knowledge of certain data to a counterparty without revealing what the data is. With further development and diligent structuring, blockchain protocols will enable data transparency that protects stakeholders against unlawful or inappropriate concealment of information without revealing confidential business data.

Current Illiquidity

Tokenization is a promising technology that leverages blockchain to securitize assets, both traded and non-traded. One of its biggest promises is to bring liquidity to previously illiquid assets, particularly by facilitating secondary market trading on exchanges globally. However, the liquidity of security tokens on existing international exchanges is currently relatively low, meaning that the full potential of tokenization has yet to be realized. One probable reason for the low levels of liquidity is the lack of secondary market demand for fractionalized real estate investment products. However, the performance of



publicly traded REITs suggests that this is unlikely to be the case. For example, publicly traded US REITs have an average daily dollar trading volume of US \$9.7 billion.

Other factors contributing to the current low levels of liquidity include the lack of regulatory clarity and the absence of regulatory frameworks to facilitate the development of infrastructure needed to facilitate secondary market trading of security tokens. However, regulators globally have recently advanced quite considerably. These and other recent developments mean that the operation of regulated exchanges for secondary market trading of security tokens can be expected in the future, which is widely expected to boost secondary market liquidity of tokenized securities.

CONCLUSION

Traditional real estate investment can indeed be cumbersome, with high upfront capital requirements, lengthy processes, and excessive paperwork. However, tokenization can address these problems by bringing operational efficiencies and information transparency to real estate transactions and bringing the additional benefits of fractionalized ownership and liquidity to real estate investment. Tokenization essentially enables the division of real estate assets into tradable digital tokens that can be bought, sold, and traded on a blockchain-based platform.

Tokenization can benefit all stakeholders in the real estate ecosystem. From an issuer's perspective, fractionalization allows them to reach a wider investor base with a larger pool of investment capital, while streamlined processes and automation reduce operational costs in the lifecycle of the tokenized security. Settlement facilitated by blockchain technology makes the transfers of ownership rights in the asset faster and more secure, with an immutable record of ownership always tracked on blockchain.

For investors who previously have been unable to afford the high upfront capital requirements of property investment, tokenized real estate enables accessible investment opportunities in this asset class for the first time. For larger investors seeking portfolio diversification, tokenization facilitates customized portfolio rebalancing with near-instant settlement, so investors can sell or buy tokens to adjust their exposure to a particular asset, and flexibly manage a wider range of assets in their portfolio, including traditional assets such as real estate and exotic assets such as sports teams.

Traditional intermediaries such as valuers, auditors, and brokers will also benefit from increased accuracy and availability of data, with sensitive information protected by encryption against unauthorized parties. The automation of processes eliminates repetitive work and minimizes manual error, freeing time, and economic resources to focus on value-add aspects of deal structuring for tokenized real estate assets.



Although the adoption of tokenization in financial instruments remains relatively nascent, regulators and regulatory frameworks around the world are rapidly adapting to embrace and foster the continued development of this new wave of financial innovation. The next step that will be critical to the broader adoption and rapid advancement of tokenization in real estate investment is institutional involvement and the development of business frameworks. Technology is an indispensable facilitator, but technology alone cannot dictate the outcome. For the promised benefits of tokenization to be fully realized, stakeholders with the knowledge, experience, and influence must work together to build an ecosystem that is greater than the sum of its parts.

The FuturEstate Alliance

Grant Thornton Cyprus's Role in Tokenization

Grant Thornton is a global network of professional services firms that provide Audit, Tax, and Advisory services to their clients. We operate in 135 countries and territories, with more than 53,000 people working in member firms around the world. Grant Thornton's focus is on quality and consistency across their global network, bringing a passion for client success and a purpose to serve and improve the communities in which member firms operate. They inspire confidence and empower change in all they do, especially in a world where rapid change and unprecedented disruption are the new normal.

Grant Thornton Cyprus is one of the member firms of the global network. They collaborate with innovators and corporates to understand the impacts and opportunities in the Token Economy space. Their own internal blockchain alliance team helps them to develop and grow their hands-on knowledge in this emerging technology field of virtual assets. They can support clients across the financial services and asset management sector to develop their own digital token strategies, helping them to make the transition from traditional securities to tokenization.

Grant Thornton Cyprus's Advisory professionals provide a range of services to address their clients' needs, including strategy, new market entry, business restructuring, and corporate finance. They can help clients to understand the challenges and uncover the opportunities. In the virtual asset space, they can support their clients to manage risk by assisting with license applications, evaluations, risk assessments, and by navigating the appropriate regulatory compliance requirements. In addition, they can advise on the tax and accounting implications of virtual assets to clients' businesses and company financials.



Depending on jurisdiction and associated regulatory framework, through its network, Grant Thornton may also provide audit services to investors and service providers of virtual assets. Their approach to audit is focused on integrity, quality, and independence. Their goal is to help companies respond to changing financial standards, address accounting challenges arising from business changes, improve companies' corporate performance, and increase their value.

Christiana Aristidou LLC's Role in Tokenization

Christiana Aristidou is the Founder and CEO of "The hybrid LawTech Firm", providing services in the intersection of law and technology, and ensuring compliance with applicable laws and regulations. Tokenization can implicate several legal issues, including those related to licensing, securities, anti-money laundering, sanctions, contract law, and tax law.

The Future Cats's Role in Tokenization

Zoltar.agency is a pioneering web 3.0 & blockchain consultancy dedicated to leading the way into the future of the web with its expertise in innovative web 3.0 marketing, blockchain, AI (Artificial Intelligence), and data science.

Digishares's Role in Tokenization

DigiShares is a global provider of infrastructure for the tokenization of real-world assets, including but not limited to real estate, infrastructure, solar, and wind projects. The company offers a white-label platform for tokenization, which includes the issuance, corporate management, and trading of securities in the form of tokens on the blockchain.