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with RIC EDELMAN

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SECURITY TOKENS: NOT WHAT YOU MIGHT THINK

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Has someone suggested that you invest in a security token? Make sure you understand them before you invest.

In the crypto world, tokens are a means of exchange, and we can generally think of them as similar to shares and coins, just a different (third) name. There are many kinds of tokens, and we'll focus here on *security tokens*.

The name is a misnomer, because this type of token has nothing to do with cybersecurity. Instead, the name refers to federal securities law.

Security tokens are a digital representation of a real, physical asset. You know that a deed represents ownership of a house and a stock certificate represents ownership of a company. Likewise for a security token: it represents ownership of an asset, and they can be used to raise capital and provide liquidity for *anything* — including assets that have, historically, been highly illiquid.

Can you think of an asset that is worth a lot of money but notoriously difficult to sell? You got it: *real estate*.

Tokenization enters the world of real estate. It would be cool to own, say, the Empire State Building. But the building is worth \$2.3 billion. That's not only a problem for you (since you don't have that much cash in your checking account) but for the building's owner. When it wants to sell, it must find buyers with very deep pockets.

Using security tokens, the owner of the building could tokenize the property — issuing security tokens just like Apple issues shares. Each token would represent part ownership of the building, and if the tokens are priced affordably, millions of investors could buy them — and then easily trade them among themselves, just as they do with stocks.

This isn't science fiction. The first tokenized real estate deal was completed in 2018 — a \$30 million luxury condo building in lower Manhattan. More recently, in 2021, Dubai real estate company Arms & McGregor International Realty launched the Mideast's first real estate tokenization platform, using tokenization infrastructure provider Blocksquare.

Real estate is the most valuable asset class in the world — \$280 trillion, according to Savills World Research, or roughly three times more than the global stock market — and all of it can be tokenized, creating a massive new asset class for investors. And by doing so, one of the world's largest but illiquid assets can become as easily tradable as stocks.

Now arriving at a neighborhood near you. Imagine being able to tokenize your home. Why would you want to? Well, if you're like most homeowners, your house is your largest asset. Say it's worth \$1 million. You're in retirement and you need additional income to support yourself. You could sell your home, but you don't want to move. You could get a mortgage, but it's difficult to qualify for one during retirement. Besides, you don't want to be saddled with the monthly payments.

So, tokenize the house instead. Slice the deed into one hundred thousand pieces, or tokens, each priced at \$10. Then, sell as many of the tokens as you want. Sell some now, sell some later — whatever you wish. Buyers will be investing in real estate — your real estate. And they'll be able to sell their tokens to other investors on the blockchain. You can even buy the tokens back if you want; their value will be based on the then-current value of the house and supply/demand.

Real estate is considered an illiquid asset; it can take a long time to sell, and you incur lots of expenses to execute a transaction. And that transaction is all-or-nothing — you must sell the entire property (you can't merely sell the dining room). But thanks to blockchain technology, you *can* sell just the dining room. Your house becomes a liquid asset, just like stocks and bonds.

Any physical asset could be tokenized, including artwork, collectibles (such as baseball cards, rare coins, and stamps), antiques, exotic cars, fine wine, royalties and performance contracts (the money that actors, artists, athletes, and authors earn over time). Sellers get liquidity and buyers get access to new investment opportunities — and unprecedented ways to create astonishing new levels of portfolio diversification, more than ever before.

Exciting! Just make sure, before buying any token, that you evaluate it just as you would any other investment.

This blog was excerpted from Ric's new book [The Truth About Crypto](#), available in May. Order your copy [here](#).