

A token of appreciation - the latest disruptor in the Irish property market

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Two of the biggest frustrations for investors in the Real Estate Industry are (a) the significant **delays** in the completion of a transaction and (b) the relatively **high thresholds for initial investment**. Solicitors often get the blame for the former (we aren't all bad!) and the illiquidity of property as an asset has been the root cause of the latter. Is tokenization about to re-invent the wheel?

Tokenization of real estate

Put simply, property tokenization enables property owners to issue tokens via blockchain. The tokens essentially **represent shares** in the real estate asset. Investors can then purchase these tokens and become partial owners of the property. That's it. We don't need to be professional coders to come to understand the process.

How can tokenization improve real estate?

Keeping this discussion relatively high-level (to be read only as an introductory piece), we are shifting quickly to a digital economy. It is predicted that by 2025, blockchains will store more than 10% of all GDP. In fact, in the aftermath of COVID-19, this percentage will most likely increase. It is through the blockchain where tokenization will operate and therefore reap all of the rewards that the blockchain platform has to offer:

1. **Automation**. Tokenization will benefit from the concept of smart contracts which will establish automated events in a transaction when certain conditions are met. The transparency of the transaction coupled with the integration of smart contracts will **reduce costs** in a property transaction. It will also simplify and **speed-up** the transaction for investors as "built-in" conditions will limit the amount of intermediaries involved; and
1. **Demolition of Barriers to Entry**. Tokenization brings with it an ease of access to property as it simplifies fractional ownership of an asset. Like shares, tokens represent a stake in an

asset, with multiple owners who can **gain profits with lower overall exposure** to risk. This is a big attraction to newer investors looking for a more risk-averse entry to real estate investment, and who were previously unable to invest in the sector due to high investment thresholds.

The net effect is that tokenization can liquidize one of the world's biggest yet dysfunctional markets. Easily transferable and tradable shares in property can transform and evolve the real estate sector like no other concept has to date. Tokenization promotes fractional ownership in property which in turn opens up a far greater pool of investors who were previously locked out of the market. Token holders could invest in a property for as little as 1 cent (or less to be completely accurate!) rather than €100,000. A token holder could even own shares overnight in a rental property and collect a portion of rent as passive income on a regular basis.

The next steps for tokenization in property

The Real Estate market is one of the most complex in the world. Tokenization is not going to have all the answers overnight. In fact, some of the answers will bring more questions, particularly on a practical and legal level.

For example, if Stillorgan Shopping Centre were to have 100,000 new token holders overnight, how would the KYC and Anti-Money laundering protocols ensure full compliance? Similarly, if these 100,000 token holders were granted ownership rights of the property, how quickly and effectively would a day-to-day decision be made in the Centre? Will the vehicle created to own the property fall within the definition of a regulated entity within the Central Bank's rules?

This will not be my last discussion around tokenization. We at Ogier Lemman believe that the implementation of blockchain technology in real estate is fundamentally how the industry will evolve and improve. Tokenization has its own role to play within these parameters and we are excited to see how it will be incorporated in our jurisdiction.

Ogier Lemman has extensive experience dealing with a wide range of Real Estate matters. Please do not hesitate to contact Gavin by email for more at gavin.fitzgerald@ogier.com

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