



TOKENIZATION

IN REAL ESTATE TRANSACTIONS

Bitcoins have come a long way since July 2013. At the time, bitcoin was only valued at \$114.50. Since then, the value has jumped to an astonishing high of \$19,650 in December 2017 and down to \$3,400 a year later. Fast forward to 2023, it now briefly broke above \$20,000 again!

Bitcoin is obviously one of the most well-known virtual currencies, but there are numerous companies introducing virtual currency. Even Facebook, with Libra, is looking to break into the market. A number of press releases or articles claim that bitcoin has been used to purchase real estate. This is troublesome for the title industry due to the volatility of the bitcoin to dollar conversion ratio. Very much like a foreign currency of an unstable country, the conversion rate for bitcoin fluctuates significantly. In February 2018, the price dropped by 50% in 16 days. If a contract between a buyer and seller stipulated a purchase price in bitcoin instead of U.S. dollars – any fluctuation in the value of bitcoin would impact the equivalent U.S. dollar amount of the purchase price:

- ***An increase in value would mean the buyer is paying more***
- ***A decrease in value would mean the seller is receiving less***

Even with this risk, buyers and sellers continue the push to exchange property via virtual currency, citing their perceived advantages versus U.S. dollars. They are quickly transferred, easily sent to and from foreign countries, and as bitcoin advocates would lead you to believe may be more secure, since transfers are claimed to be irrevocable.

However, virtual currency transfers are still handicapped by their volatility, with little to no regulatory protections and the fact they are not universally accepted. Most, if not all, ancillary payments such as commissions, existing loan payoffs, taxes, insurance and other costs require U.S. dollars. Thus, an exchange from electronic currency to U.S. dollars is required.

Also, given the lack of regulatory oversight and the anonymous nature of the transfers, the most common use for bitcoin as a currency has been for money laundering or the purchase of illicit goods.

Blockchain claims to be a digital ledger that time-stamps records that cannot be altered. It allows for an alternative use in real property ownership besides payment. One possible use is for real estate owners to tokenize real property.

Tokenization is the process of property ownership being converted into a specified number of tokens, much like currency to bitcoins. Then the token holder can sell all — or a portion — of the tokens that is tracked on a blockchain ledger.

This is similar in concept to selling a share of stock. Advocates of real estate tokenization claim this could substantially lower the cost of investment in real estate by only having to purchase a small portion of real property.

They further argue that the ease and speed at which you can purchase a token of real property upsets the traditional idea of real property ownership and investment. Real estate has always been treated as an illiquid asset, since it takes time to access any cash value. Comparatively, a tokenized home could be sold to thousands of virtual buyers within a day, if not hours. Moreover, it could open the door to global funding for real estate developers.

At this time, while some multi-million dollar properties have been tokenized, the overall adoption of this model and of blockchain in any business, has been extremely slow. Also, the legitimacy of tokenized ownership for real property is still largely unproven and untested. The technology behind virtual currency is exciting and may have the potential to change the way we look at real property asset ownership down the road.

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