Will tokenisation of fixed assets empower small investors?



Bitcoin and crypto

A new investment concept has arisen out of the crypto currency revolution, one that may empower small retail investors to invest directly in assets normally not available to them, via tokenisation.

This is simply the division of a tangible asset such as a building, house, or painting, into units or tokens.



Bitcoin and crypto

A new investment concept has arisen out of the crypto currency revolution, one that may empower small retail investors to invest directly in assets normally not available to them, via ***tokenisation***.

This is simply the division of a tangible asset such as a building, house, or painting, into units, or tokens, that can be traded on an exchange. In effect these are shares in the asset. The difference is currently the small retail investor cannot participate in owning a share of such assets because the mechanism to do so doesn't exist, but it's coming, and it's an exciting development in my opinion.

In the UK the FCA are already looking into how this can be regulated and client assets protected, in anticipation of the change that is coming.

Currently people lend banks money, and are paid a derisory sum in return for doing so, and then the banks lend the money, say, to a property developer, and charge him base rate plus on his loan, and make their turn on the spread between the two interest rates. That is about to change.

Tokenisation will mean that the bank can be cut out, and developer and investors can meet and effectively crowd fund the development, allowing investors to earn more and the developer to pay less, and looks like a win win. This will enable small investors to make investments in building projects, something they cannot do now, directly.

In addition to funding new building projects, ***tokenisation*** will allow owners of unencumbered property to release equity via selling part of their asset, whilst remaining living in the property. In effect this is another form of equity release. What happens if the owner wants to sell a partly

tokenised property needs to be clarified.

These transactions will be made through an exchange, and will allow small investors who cannot afford to purchase a property outright, due to high prices, to participate in the property market via their tokens or shares, which will be available to buy in small units.

There are clearly some legal protections to be put in place, and there are some obvious questions, such as whom is responsible for the maintenance of a house that is partly tokenised? What happens if it needs a new roof, do investors pay pro rata?

There are definitely some legal areas to clarify before this becomes more mainstream, but for me the win win is that retail investors that otherwise would not be able to participate in the housing market will be able to share in the gains when prices increase.

Sadly I fear this is coming in just as UK property prices are reversing, so may struggle to get off the ground, because the exchanges will require liquidity to convince people this is a suitable investment vehicle.

It may take some time, but I predict tokenisation of assets will be huge in the future.