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Tokenisation of Real Estate: Past dreams, present achievements and a measured outlook for the future

OPINION

A long history

The need for tradeable, liquid real estate assets has long been widely recognised. There have been a range of attempted solutions to the problem. Probably the most well-known attempt was the securitisation market. From tentative origins in medieval Europe, securitised real estate – and especially mortgages – rose to become instrumental in the Global Financial Crisis when investors were persuaded into them as safe investments without fully appreciating the extent to which mortgages were being granted without adequate safeguards. Nor did investors understand the fragility of the insurance companies that 'wrapped' transactions and provided credit guarantees.[1]

The securitisation of physical real estate, which has been paralleled by the growth of the sukuk market, has been overshadowed by this unfortunate legacy. As a result, transaction volumes have fallen to the point where securitisation no longer represents an effective mechanism for investors seeking liquid real estate.

A much earlier and more successful attempt was the creation of investment vehicles for the ownership of real estate. Prominent among them have been Real Estate Investment Trusts (REITs), along with real estate development companies and the issuance of shares in them. To what extent did REITs provide a solution? Partially, is the answer. On the one hand, provided there is active trading in the REIT shares, ownership of the REIT represents liquid real estate. On the other hand, few REITs own just one building, which forces the investor to rely on the portfolio allocation choices of the REIT manager.[2] Also, REIT shares do not always reflect the performance of their underlying real estate, often oscillating around net asset values that depend on share market fluctuations.[3]

Two other solutions also deserve honourable mentions. Deeded timeshares allow for direct fractional ownership of the underlying real estate, unlike the case of non-deeded timeshares where investors have been left with nothing when timeshare companies have gone bankrupt.[4] Secondly, crowdfunding has enabled the collective mobilisation of multiple investors in a range of fractionalised assets, including real estate, in a variety of forms, both equity and debt. The UAE currently has several dozen crowdfunding platforms. Although they are now firmly regulated, they have never surmounted problems associated with risk transfer and the lack of a secondary market.

The rise of tokenisation

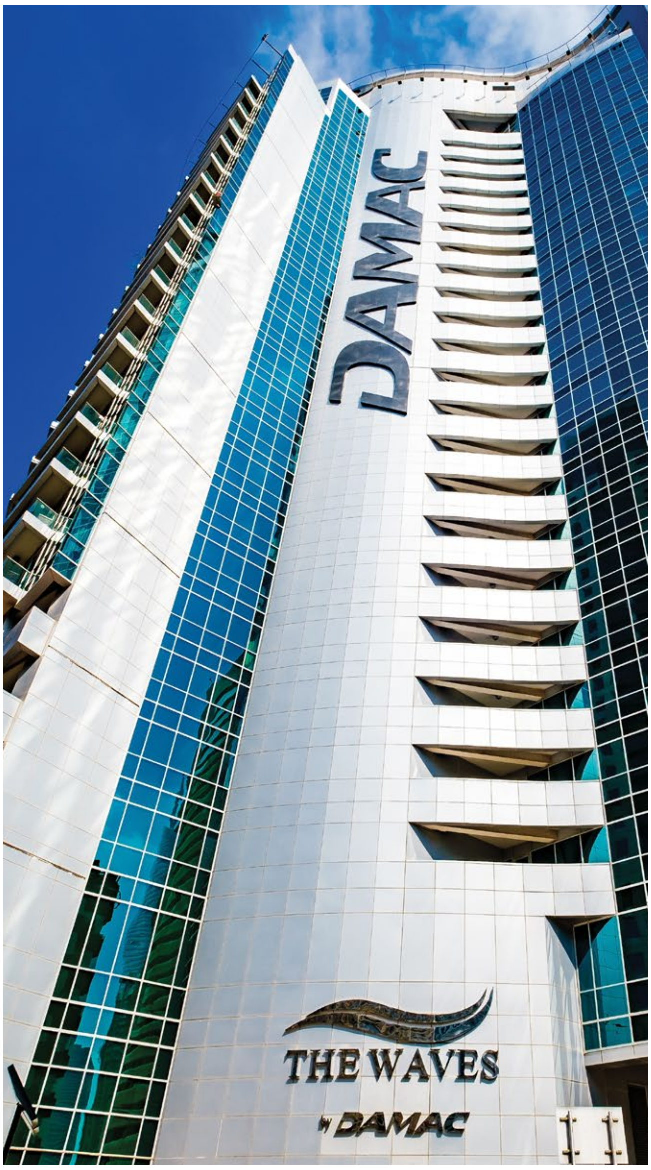
Tokenisation is aimed at enabling investors to own fractional shares of a single real estate asset. The venture capital world started to enthuse over the prospects for tokenisation when St Regis Aspen tokenised in 2018, raising $18m and still traded on the tZERO Exchange, and Blocksquare in Slovenia sold $70m+ of tokenised real estate. In the US in particular, start-ups have proliferated, with some tokens available for as little as $10[5] or even $5.[6] By 2022, Pitchbook was already arguing that tokenisation had 'the potential to solve issues historically associated with real estate investing, such as illiquidity and high barriers to entry'.[7]

While this was exactly what was claimed for securitisation in the past, there are fundamental differences between the current generation of liquid real estate and its predecessor. All of these factors favour tokenisation.

First, tokenisation has so far been confined to specific real assets, not aggregations of mortgages as has been the case in the past with Residential Mortgage-Backed Securities (RMBS) and Commercial Mortgage-Backed Securities (CMBS). So long as this continues to be the case with tokenisation, and it avoids depending on ratings, the risk of erroneous risk assessments and therefore misguided investments is much lower.

Second, provided that – as Pitchbook advocated in 2022 – tokenisation continues to use blockchain solutions such as XRP to generate digital tokens, guarantee their veracity and confirm their ownership to the outside world, store certificates safely, distribute them widely, and facilitate their trading, this will serve to overcome the main obstacle to the success of crowdfunding: lack of trust in market participants and the absence of a liquid secondary market.

But Pitchbook also identified key risks. One was the low marketing budget of the start-ups that were then launching real estate tokenisation. The second was the technological and security risk associated with the level of blockchain technology at the time. A third risk was the absence of actual title deed ownership: security for token owners rested entirely on an equity structure similar to a REIT or a non-deeded timeshare. Finally, every tokenised real estate asset requires an asset manager, on whom the performance of the asset depends to a significant extent.



What has happened in Dubai?

The widespread publicity surrounding the adoption by Dubai of a conscious and comprehensive tokenisation strategy indicates that the Emirate has entered what has already become a global contest for real estate tokenisation market share.

Dubai enters the contest with several advantages. Its own population is accustomed to financial innovation. Valuation is efficient with the methodologies of the Royal Institution of Chartered Surveyors (RICS) widely accepted[8] and real-time pricing models now in the process of adoption.[9] The use of the XRP Ledger blockchain for the market enables actual fractional property ownership rather than an equity structure. XRP is also fast, has low fees, and is relatively energy-efficient by comparison to competitors such as Bitcoin and Ethereum.[10] Finally, the creation of the Dubai Virtual Assets Regulatory Authority (VARA) signals the intention for the market to be well-regulated. As a result, market participants are already coming forward to join the market, such as UK-based Ctrl Alt, which has now received its VARA licence.[11]

What does the future hold?

One report estimated the global tokenisation market at US$3.32bn of transactions in 2024, and forecast it to reach US$12.83bn by 2032, a compound annual growth rate (CAGR) of 18.3%.[12] Another placed it at $3.38bn in 2024 and US$10.65bn in 2029, a CAGR of 26.8%.[13] Both these forecasts seem reasonable. What the tokenisation industry is aiming to replicate is the success of the exchange-traded derivatives market. Open interest on futures and options exchanges worldwide went from US$614bn at the end of 1986 to US$46,621bn by the end of 2004, representing a growth rate of 27% annually.[14]

Dubai itself now aims to reach $16bn in tokenised real estate open interest by 2033.[15] If this is achieved, it would represent value-in-circulation equivalent to 5–10% of its physical property market. While the approximately 168,000 transactions – amounting to over [US$100bn+] in Dubai residential real estate in 2024 – are evidence of significant liquidity,[16] the appeal of tokenisation may be far broader. There are more than a million white-collar employees in Dubai. If even a third of them were to include just 1% of tokenised Dubai real estate in their pensions, that would add US$16m annually to the market.

But if, as planned, the market were to become available to global investors, if Dubai continues to provide an adequate supply of assets that are attractive to international investors, if currency risks remain manageable, and if minimum investment levels are created lower than the AED2,000 (US$540) provided by Prypco Mint,[17] then calculations indicate that Dubai's target would be eminently achievable, with growth likely to accelerate in the longer term. It is worth noting that the equivalent figure for derivatives in 2024 was US$667 trillion.[18]

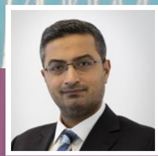
However, risks to the evolution of the market remain, in a similar fashion to the early years of derivatives. The most serious risk is the simplest: many investors may choose to take the concentration risk and buy an apartment, avoiding the intermediary cost, rather than gain all the diversification benefits of tokenisation. Dubai's apartment market is both liquid – it is often possible to buy or sell within a matter of days – and often lucrative – prices rose by 16.52% in 2024, for example.[19] It is also easy to access the market even more quickly by placing a deposit on an off-plan apartment. It is often possible to leave it just as quickly by flipping the apartment. And, if the secondary market in off-plan titles dries up, then it is quite likely that the tokenisation market will do so as well.

REITs and listed real estate developers will also continue to be competition for real estate tokens, although their correlation with physical real estate is not perfect by any means. This competition is likely to constrain the growth of tokenisation, at least for residential real estate. Commercial property is a different matter; this competition does not exist in this sector and it may turn out to be the more successful growth area, as it was for REITs when they launched. However, commercial property sales are an order of magnitude fewer than residential.

Conclusion: Measured Outlook

Liquid property is such an enticing prospect that efforts to create it are bound to continue. Each generation of product brings improvements over its predecessor, although none has yet proved enduring. With the blockchain to support it, tokenisation is the latest and best attempt so far, with plenty of prospects for market growth.

However, there are still obstacles. How these are overcome will be the principal determinants of the future success of the market. Although it's possible, repeating the rate of growth of the early days of the derivative markets seems unlikely, but the adaptability of the model will allow for many variations on the theme. Dubai has been both prudent and far-sighted to ensure that it is in the forefront of real estate tokenisation, regardless of how rapid its growth turns out to be globally in the future.



Dubai is emerging as a global frontrunner in real estate tokenisation by combining regulatory clarity, technological efficiency, and investor confidence. With support from progressive regulators like VARA, widespread adoption of valuation standards such as RICS, and the use of blockchain solutions like XRP Ledger, the city is laying the infrastructure for a transparent, fractional ownership model. By addressing historic barriers like illiquidity and trust through blockchain-enabled verification and secondary market access, Dubai is poised to transform property investment into a more accessible, secure, and scalable ecosystem for the digital age.

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