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REAL ESTATE BLOCK CHAIN & DIGITAL ASSETS ALERT | NIXON PEABODY LLP

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Real estate block by block

By Garth Bostic

There is more to blockchain than the fantastic rise and fall of cryptocurrency prices. Real estate is now available on the blockchain.

Tokenized single-asset real estate investment trust (REIT) shares are now available to qualified investors through security token offerings (STOs). These offerings could lead to a sea change in commercial real estate investment, and open up opportunities previously reserved for a small group of investors due to market and regulatory constraints.

In August, Indiegogo, the popular crowdfunding website, offered accredited investors (in the U.S. and abroad) tokens representing a share in a REIT that owns the St. Regis Aspen Resort in Aspen, Colorado. More recently, Harbor Platform, Inc. went public with its first STO—a tokenized REIT from Convexity Properties representing interest in a student housing project near the University of South Carolina.

Accredited investors signing on to Harbor's online platform will have the option to purchase tokens for \$21,000 apiece. Nine hundred fifty-five tokens will be sold representing a minority interest in the REIT, with Convexity Properties (a DRW company) retaining a majority share. By October, \$18M in equity was tokenized by the St. Regis REIT.¹

The tokens, according to the issuers, represent tradeable securities that are regulated under securities laws. With the explosion of initial coin offerings in 2017 and attendant scrutiny from the SEC, STOs such as these bring a different path forward. Rather than attempting to skirt or hide from securities laws, asset-backed security tokens may provide a different benefit by utilizing blockchain technology to make compliance easier.

Such benefits could have a profound impact on real estate, a classic example of an illiquid asset. Both the Indiegogo and Harbor offerings are on the Ethereum blockchain, which allows smart contracts on decentralized networks. Harbor touts an Ethereum token standard that “embeds compliance at the token level”²—potentially allowing for decentralized trading of private securities

¹ <https://venturebeat.com/2018/10/09/elevated-returns-gets-18-million-for-st-regis-aspen-resort-tokenized-real-estate/>

² <https://harbor.com/rtokenwhitepaper.pdf>, version 1.0.0 February 6, 2018

across Ethereum platforms. In other words, compliance with know-your-customer laws and accreditation of investors embedded within the security itself can unlock greater interoperability among markets and liquidity for traditionally illiquid assets.

These STOs represent a large step away from current other models of real estate investment crowdfunding, which typically provide platforms for the syndication of residential loans. Investors and commercial real estate owners should take note of these market changes, as well as guidance issued from the SEC regarding initial coin offerings and securities regulations.

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