

REAL ESTATE OWNERSHIP REDEFINED

BY MALEEN BALQISH SALLEH

N

on-fungible tokens, or NFTs, have taken the world by storm in recent years, emerging as a new paradigm for the hyper-digitalised generation.

Digitally represented works of art, songs, books and even tweets have been turned into NFTs, some worth millions of dollars, revolutionising the creative industry. These tokens are also a fundamental part of the metaverse, as they provide indisputable proof of ownership of properties and other transactions in the virtual world where blockchain technology reigns.

The use of NFTs, however, is moving into the physical realm. It is slowly expanding to represent ownership of tangible items in the real world, validating matters as complex as real estate transactions.

Anyone who has bought property will know the tedious process of signing numerous documents and meeting various agencies to complete the transaction. An NFT attached smart contract solves this problem by having a single digital contract that verifies the ownership of the property, or a fraction of the property owned.

An NFT is akin to a certificate of authenticity or a digital deed inscribed on a blockchain. The token, or in this case the tokenised contract, remains in the blockchain once it is uploaded, with no means to amend the agreement, hence making it securely yours.

It is this smart contract feature that makes the tokens relevant to physical real estate, says Ray Chung, co-founder of Meta Universe Solutions. The home-grown enterprise solutions provider assists companies in expanding their existing business lines into the virtual realm.

"Instead of using traditional agreements on paper, the agreement is coded and recorded in the blockchain. Nobody can change it, nobody can manipulate it, and everyone in the world [who has access to the blockchain] can check it," says Ray, who is also an advisory member of a decentralised autonomous organisation (DAO) for virtual real estate projects.

Real estate NFTs are becoming popular in the US as real estate blockchain start-ups such as Propy use smart contracts in NFTs to transact properties.

An apartment in Kyiv, Ukraine, belonging to Michael Arrington, founder of online tech portal TechCrunch, became the first apartment to be tokenised on the real estate platform Propy in 2017. It was bought with

For more on investing in NFTs, see the cover story in this week's Wealth pullout

Ethereum and a smart contract was adopted for the transaction. Last year, Arrington sold the apartment in an auction as a real estate-backed NFT, and transferred the ownership for 36 ETH (about US\$93,000 then). According to Propy's website, the move "further showcases the power of blockchain technology to innovate the real estate industry."

Chung Ying Lai, chief strategy officer of TokoCrypto, Indonesia's leading cryptocurrency exchange platform, says real estate NFTs are popular as a crowdfunding initiative for budding entrepreneurs who want to build a holiday property.

"Instead of directly representing [full] ownership, [property owners] build a DAO that hosts all the ownership and returns a rental [model]."

"The NFT holders can use [the DAO] to vote on what should be done on the property and receive profits generated from the property," he adds.

Digitary: Decentralised autonomous organisation (DAO)

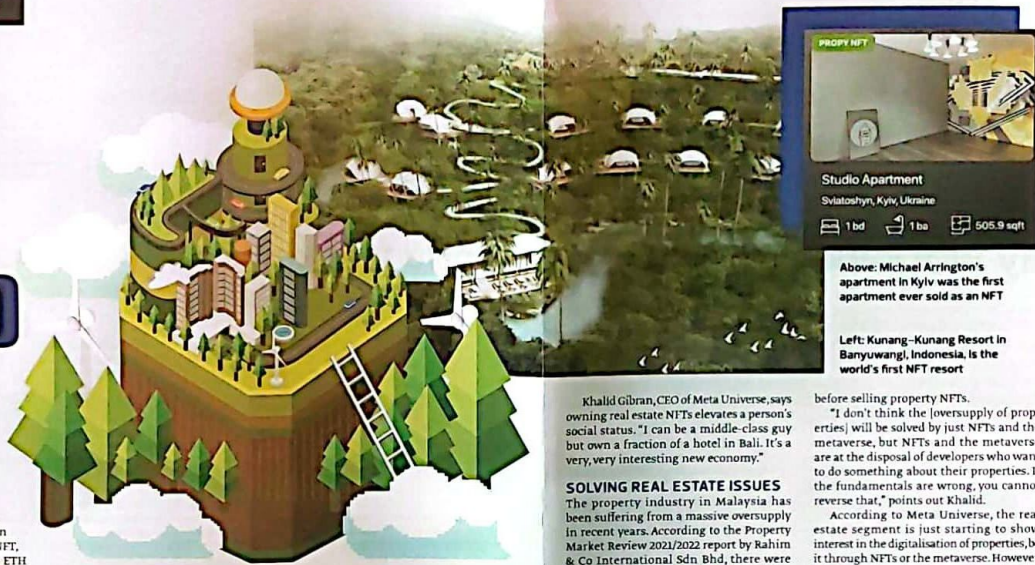
A DAO is an organisation that was inspired by the decentralisation of cryptocurrencies and created by developers to automate decisions and facilitate cryptocurrency transactions.

The organisation is run based on rules written on open-source code via smart contracts and without a typical management structure or board of directors.

DAOs were conceptualised to tackle the age-old problem of governance, which political scientists and economists refer to as the principal-agent dilemma, states online blog BlockchainHub.

"This occurs when the agent of an organisation has the power to make decisions on behalf of or impacting the principal — another person or entity in the organisation."

"Examples here could be managers who act on behalf of shareholders, or politicians who act on behalf of citizens. In such set-ups, moral hazard occurs when one person takes more risks than they normally would because others bear the cost of those risks. More generally, it occurs when the agent acts in his interest rather than the interest of the principal because the principal cannot fully control the agent's actions. This dilemma usually increases when there is underlying information asymmetry at play," it adds.



UNDERSTANDING PHYSICAL REAL ESTATE NFT OWNERSHIP

Individuals should remember that NFTs are an asset class, says Ray. "You get returns for your NFTs. It's an investment."

NFTs do not affect the value of a property as their function is just to simplify the sale and agreement process. It is up to the owner of the property to put a fixed price on the asset, or auction the property and sell it to the highest bidder in any NFT marketplace.

NFTs of physical properties can be owned as a whole, or in fractions. Ownership of an NFT of physical properties as a whole automatically grants the buyer the right-to-own privileges, similar to purchasing a house using traditional agreements.

Owners of fractionated-property NFTs get right-to-use access to the property. The right-to-use ownership is similar to an owner-tenant relationship whereby the NFT holder is granted full access to the property

and its facilities, subject to the terms and conditions agreed to by both parties in the smart contract.

For example, NFT holders of Kunang-Kunang Glamping Resort in Banyuwangi, Indonesia — the first-ever NFT resort in the world — are entitled to 30 years of stay rights, limousine transfer to the resort, and 50% off in-resort purchases, among various VIP benefits.

NFTs of property in fractions have changed the landscape of fractional ownership as they allow the man in the street to list a property as an NFT minus the hassle of complicated paperwork for both owner and buyer.

Ray says that turning properties into fractionated NFTs makes real estate investments more accessible to the public. "The community [of real estate NFTs] is global. The beauty is that everyone can participate [in the industry]."

Khalid Gibran, CEO of Meta Universe, says owning real estate NFTs elevates a person's social status. "I can be a middle-class guy but own a fraction of a hotel in Bali. It's a very, very interesting new economy."

SOLVING REAL ESTATE ISSUES

The property industry in Malaysia has been suffering from a massive oversupply in recent years. According to the Property Market Review 2021/2022 report by Rahim & Co International Sdn Bhd, there were 205,217 unsold property units in Malaysia in the third quarter of 2021, the highest since 2016. Johor had the most overhang units, followed by Kuala Lumpur and Selangor.

Both Ray and Khalid believe the emergence of real estate NFTs could help alleviate the situation by accelerating the transaction process and providing the public with access to own properties.

However, there are many aspects to consider before this can be done.

Risk mitigation is important when an investor decides to purchase a property, regardless of whether it is in a traditional form, or in the form of an NFT.

As with buying a conventional property, factors such as location and the overall condition of the property are crucial when purchasing a property NFT. Hence, developers have to get the fundamentals right

before selling property NFTs.

"I don't think the [oversupply of properties] will be solved by just NFTs and the metaverse, but NFTs and the metaverse are at the disposal of developers who want to do something about their properties. If the fundamentals are wrong, you cannot reverse that," points out Khalid.

According to Meta Universe, the real estate segment is just starting to show interest in the digitalisation of properties, be it through NFTs or the metaverse. However, it believes there is a better chance for the real estate NFT industry to reach a mass scale if the major real estate players are involved as they have the resources to do so.

At present, NFT investments are highly driven by the fear of missing out, or FOMO, observes TokoCrypto's Ying Lai.

NFT investors should put their money in established projects or projects that they have researched, he says.

"There's a famous phrase in crypto — do your homework. I would also give the same advice for NFTs, especially when it comes to real estate. You need to understand the kind of geographical benefits that this [specific] real estate can have," Ying Lai adds.

Apart from location, he suggests that investors look into other perks such as profit-sharing percentages and usage entitlement before investing in a property NFT.

buildings around the world, or a fraction of them — well, at least in the virtual realm.

According to Nest Earth, a blockchain-based metaverse community where you can buy and sell land parcels on a virtual Earth, Kuala Lumpur centre is booked out, in case you were wondering.

Chung Ying Lai, chief strategy officer at Indonesia's leading cryptocurrency exchange platform TokoCrypto, says there are properties in which the owners are allowed to hold dual ownership. In the real world and the metaverse.

In February, media company Tatler Asia reported on Meta Residence One, a joint venture between NFT firm Meta Residence and One Sotheby's Realty in Miami that allows owners to own both the brick-and-mortar and virtual versions of the mansions.

"It depends on the creator [property owner] how to monetise the [property]," says Ying Lai. Ethan McMahon, economist at blockchain data platform Chainalysis, says digital real estate is a "fascinating area of crypto" as it is hard to say if the economics will mirror those of their non-digital, physical counterparts despite attracting an impressive amount of investment.

"As more and more development is being done on different metaverses, it is unclear which metaverse will ultimately gain traction and what will drive the price of a plot of land. We can likely use the amount of investor speculation in digital real estate as an indicator for the overall sentiment [on] the crypto

REGULATORY FRAMEWORK

Ying Lai, who has experience in Indonesia's NFT scene, says local NFT industry players are actively engaging with the authorities to discuss the authenticity of NFTs as a representation of real ownership and expects regulations to be announced soon.

Despite the progress, it will be some time before NFT ownership is officially recognised and the overall concept of fractional NFT ownership is widely accepted in the country.

In Indonesia, Bali's local government is supportive of the use of cryptocurrency and NFTs to empower creative and tourism initiatives on the island, says Ying Lai.

According to Ray, real estate NFTs may take off with the launch of initial exchange offerings. An IEO allows companies to crowdfund through the issuance of digital tokens, or NFTs. On March 23, the Securities Commission Malaysia (SC) registered two IEO operators, Kapital DX Sdn Bhd and Pitch Platforms Sdn Bhd, to promote responsible innovation in the digital assets space.

The IEO operators will provide an alternative avenue for eligible companies to raise

funds via the issuance of digital tokens in the country. An issuer may raise funds of up to RM100 million from retail, sophisticated, as well as angel investors, subject to the investment limits provided in the SC's Guidelines on Digital Assets.

Each digital token that is issued has to be backed by an asset, including physical properties.

Although it may take time for real estate NFTs to be recognised by the authorities, property developers are still able to leverage on real estate NFTs by giving them to property owners as a form of membership to build a community within the property area.

"NFTs absolutely will be a thing in 2022. NFTs should have already been a thing in real estate, we just didn't realise it. So, the next time you see a great real estate project you'd like to be a part of, don't be afraid to buy an NFT that gives you an ownership stake, if everything else looks solid. It's really just a digital version of the deeds we already use every day," states Nasdaq in a December 2021 article titled "Will NFTs in Real Estate Be A Thing In 2022?".



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McMahon

In my opinion, everything will be NFT-ised.

Ying Lai

authenticity and all that, before pushing the button to buy," explains Khalid. Both Khalid and Ying Lai anticipate that people will also upload cherished items such as pictures and notes as NFTs on the blockchain to preserve the memories.

"The security system of the blockchain ensures a low rate of hacking, which makes it more secure for the storage of important, private and confidential information than USBs and hard drives."

Ying Lai believes that NFTs can support governance in terms of proving the authenticity of certificates. Verification of Covid-19 vaccination certificates across countries is an example.

"If we travel overseas, there [could be] doubt from that country's authorities about the authentication of the vaccination certificate from the original country," he says.

"Although countries have to register with the World Health Organization (WHO) for their certificate to be recognised, how do you prevent fake certifications? [To prevent this,] you can put your official vaccination certification on the blockchain as an NFT [in the future]."

Ying Lai adds that NFTs can also be used to authenticate cryptocurrency dealers.

McMahon, meanwhile, says the use of NFTs in the music industry will continue to grow as soon as the issue of digital concerts. "This space saw experimentation but hasn't fully been perfected. As this type of experience can, in theory, be more immersive, we should expect more artists and brands to get involved in this space."

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Ray

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Khalid

Virtual property explained

The real estate non-fungible token (NFT) started as a way to assert ownership of virtual properties in the metaverse. Virtual land in popular metaverses such as the Sandbox and Decentraland are highly sought after.

According to tech-focused gaming website Statista, Optional, 100,721 parcels of the Sandbox land were available for purchase at OpenSea as at last December. Meanwhile, Andrew Kiguel, executive chairman of virtual real estate company Metaverse Group, says "15% to 20% of Decentraland is developed" in a statement to tech website Rest of World in April.

Khalid Gibran, CEO of Meta Universe Solutions, an enterprise solutions provider that assists companies in expanding into the virtual world, says virtual land and properties can be fractionated as well. Meta Universe hopes to adapt that concept in one of its future projects, the "Holly-Bollywood" in Decentraland, which will allow fans of A-list celebrities to own fractions of their idols' virtual mansions and the furniture inside them. The company has also bought land in Decentraland to rent to its clients for exhibitions or galleries in the metaverse.

This will enable anyone to own famous

