

# L27: Real-World Asset Tokenization

## Module C: NFTs & Digital Assets

Blockchain & Cryptocurrency Course

December 2025

By the end of this lesson, you will be able to:

- Define real-world asset (RWA) tokenization and its benefits
- Understand real estate tokenization platforms and legal structures
- Explain securities tokenization and regulatory compliance frameworks
- Analyze BlackRock BUIDL fund as institutional RWA case study
- Evaluate market size and growth projections for tokenized assets

# What is Real-World Asset Tokenization?

**RWA Tokenization:** Representing ownership of physical assets as blockchain tokens

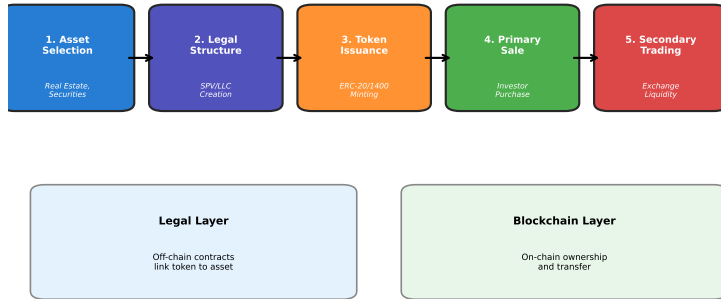
## Asset Classes:

- Real estate (residential, commercial)
- Securities (stocks, bonds, funds)
- Commodities (gold, oil, carbon credits)
- Art and collectibles (paintings, wine, watches)
- Debt instruments (loans, mortgages, invoices)

## Key Benefits:

- **Fractional ownership:** Divide expensive assets into affordable shares
- **Liquidity:** Trade traditionally illiquid assets 24/7
- **Transparency:** Ownership and transaction history on-chain

## Real-World Asset Tokenization Process



*6-step process from asset selection to secondary market trading*

## Traditional Asset Ownership:

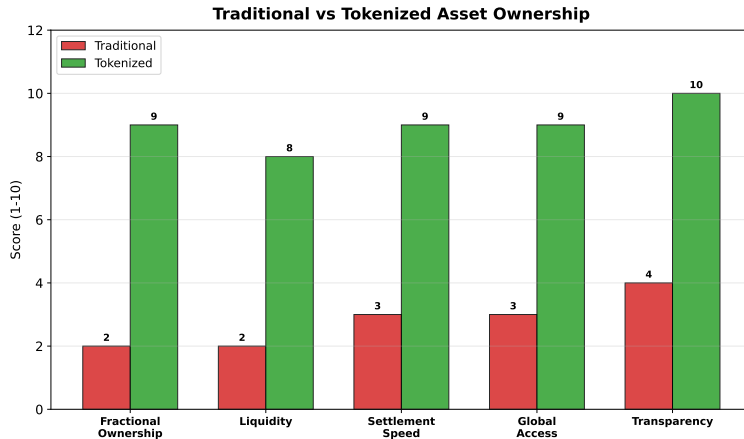
- High minimum investment (e.g., \$100k+ for real estate)
- Illiquid (weeks/months to sell)
- Paperwork-heavy (legal docs, notaries, brokers)
- Limited access (accredited investors only for many assets)

## Tokenized Asset Ownership:

- Fractional shares (invest \$100-\$10k+)
- 24/7 trading on secondary markets
- Smart contract automation (instant settlement)
- Broader access (retail investors if compliant)

**Critical Requirement:** Legal framework linking token to real-world asset rights

# Traditional vs Tokenized Ownership



*Tokenization dramatically improves fractional ownership, liquidity, and settlement speed*

## Typical Process:

- ➊ **Asset Selection:** Identify real-world asset (e.g., building)
- ➋ **Legal Structure:** Create SPV (Special Purpose Vehicle) to hold asset
- ➌ **Valuation:** Independent appraisal determines asset value
- ➍ **Token Issuance:** Mint tokens representing fractional ownership
- ➎ **Distribution:** Sell tokens to investors (primary market)
- ➏ **Trading:** Tokens trade on secondary markets (exchanges)

**Legal Bridge:** Smart contract references off-chain legal agreement

**Value Proposition:** Make real estate investment accessible and liquid

## Tokenization Models:

- 1 **Direct Property Ownership:** Tokens = shares in SPV owning property
- 2 **Debt-Backed:** Tokens represent mortgage or loan on property
- 3 **REIT Tokenization:** Digitize traditional REIT shares

**Example:** \$10M commercial building

- Issue 10,000 tokens at \$1,000 each
- Investors buy tokens (minimum \$1,000)
- Rental income distributed pro-rata to token holders

**Platforms:** RealT, Propy, Lofty AI, Polymath



**Platform:** Ethereum-based real estate tokenization (USA properties)

**Model:**

- RealT buys US rental properties
- Property held in LLC, tokens issued on Ethereum
- Minimum investment: \$50 per property
- Daily rent distribution (stablecoins to wallets)

**Example Property:**

- Address: 123 Main St, Detroit, MI
- Token price: \$52.50 per token
- Total tokens: 5,000 (property value \$262,500)
- Annual yield: 8-12% (rent minus costs)

**Regulatory Compliance:** Reg D (accredited investors only) or Reg A+ (retail)

**Platform:** End-to-end real estate transactions on blockchain

**Services:**

- Property listings and search
- Smart contract-based escrow
- NFT property deeds (ownership certificate)
- Cross-border transaction facilitation

**First Blockchain Property Sale (2017):**

- Property: Apartment in Kiev, Ukraine
- Deed issued as NFT on Ethereum
- Sale price: \$60,000 (ETH payment)

**Limitations:**

- Legal recognition varies by jurisdiction
- Most countries require traditional deed registration

**Security Token:** Digital token representing traditional security (stock, bond, fund share)

## Difference from Utility Token:

- **Security Token:** Investment contract, subject to SEC regulation
- **Utility Token:** Access to product/service, may avoid securities law

## Regulatory Frameworks (USA):

- **Reg D (Rule 506):** Private placement, accredited investors only
- **Reg A+:** Mini-IPO, retail investors, up to \$75M raise
- **Reg S:** Offshore sales to non-US investors
- **Reg CF:** Crowdfunding, retail investors, up to \$5M raise

**Compliance:** KYC/AML, transfer restrictions, accreditation verification

## ERC-20 Limitations for Securities:

- No built-in transfer restrictions (KYC/AML)
- Cannot enforce accredited investor rules
- No compliance checks before transfer

## Enhanced Token Standards:

- **ERC-1400:** Security token standard with partitions
- **ERC-3643 (T-REX):** Transfer restrictions, compliance modules
- **DS Protocol:** Debt securities tokenization

## Key Features:

- Identity verification (KYC whitelist)
- Transfer restrictions (lock-ups, accreditation checks)
- Document references (prospectus, legal agreements)

**Fund:** BlackRock USD Institutional Digital Liquidity Fund

## Details:

- **Launch:** March 2024
- **AUM:** \$500M+ (as of late 2024)
- **Blockchain:** Ethereum (public blockchain)
- **Asset backing:** US Treasury bills, cash, repos
- **Token:** BUIDL (ERC-20 security token)
- **Yield:** 5% APY (Treasury yield minus fees)

## Significance:

- World's largest asset manager enters on-chain finance
- Legitimizes tokenized securities for institutions

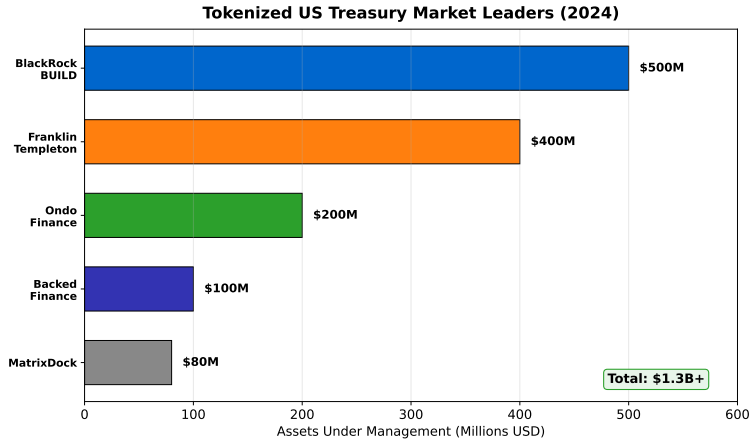
## How It Works:

- 1 Institutional investor completes KYC/AML (accredited only)
- 2 Investor deposits USD (wire transfer)
- 3 BlackRock mints BUIDL tokens 1:1 with USD
- 4 Tokens represent pro-rata share of fund assets
- 5 Fund invests in US Treasuries and cash equivalents
- 6 Interest accrues daily, distributed as new BUIDL tokens
- 7 Investor can redeem BUIDL for USD (T+1 settlement)

## Smart Contract Functions:

- Transfer restrictions (KYC whitelist)
- Dividend distribution automation

# Tokenized Treasury Market Leaders



*BlackRock BUIDL and Franklin Templeton dominate the tokenized Treasury market*

## Before BUIDL:

- Tokenized Treasuries: ~\$1B total market
- Skepticism from traditional finance
- Retail-focused platforms (small scale)

## After BUIDL:

- BUIDL alone adds \$500M+ (largest single fund)
- Competitor launches: Franklin Templeton, Fidelity
- Institutional validation (“if BlackRock does it, it’s real”)
- Total tokenized Treasury market: \$2B+ (2024)

**Trend:** Major asset managers tokenizing money market funds and Treasuries



## Gold Tokenization:

- **Pax Gold (PAXG):** 1 token = 1 troy oz of gold
- **Tether Gold (XAUT):** Similar model, Tether-issued
- **Backing:** Physical gold in vaults (audited)
- **Redeemability:** Can redeem for physical gold (high minimums)

## Carbon Credit Tokenization:

- **Toucan Protocol:** Tokenizes verified carbon credits (TCO2)
- **KlimaDAO:** Carbon-backed currency
- **Use case:** Corporations offset emissions via token purchases

## Oil and Energy:

- Tokenized oil barrels (experimental)
- Renewable energy certificates as NFTs

## Fine Art Fractionalization:

- **Masterworks:** Tokenizes blue-chip art (Banksy, Basquiat)
- **Rally:** Fractional ownership of collectibles (cars, comics, art)
- **Model:** Platform buys asset, issues shares as tokens

## Example: Banksy Artwork:

- Artwork value: \$2M
- Tokenized into 10,000 shares at \$200 each
- Investors earn returns if artwork appreciates and sells

## Challenges:

- Storage and insurance costs
- Illiquid underlying asset (art market)
- Valuation subjectivity

## Tokenized Loans:

- **Centrifuge:** Real-world asset lending protocol
- **Goldfinch:** Crypto loans to non-crypto businesses
- **Maple Finance:** Institutional undercollateralized lending

## How It Works:

- 1 Company needs loan (e.g., \$1M for inventory)
- 2 Platform originates loan, tokenizes it
- 3 DeFi investors buy loan tokens (earn interest)
- 4 Company repays loan + interest over time

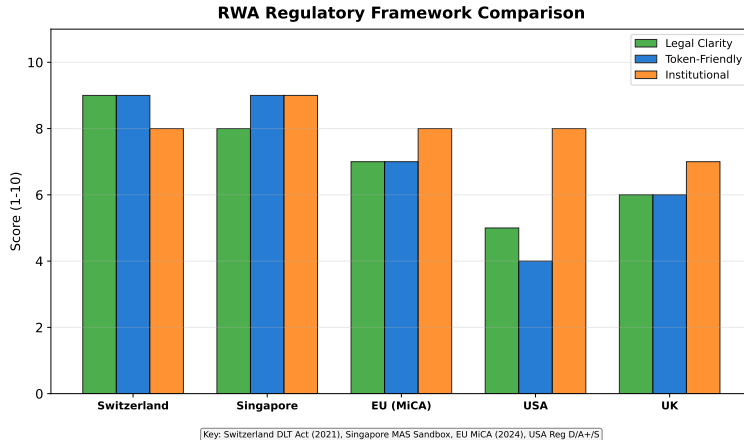
**Risk:** Default risk (borrower fails to repay), requires legal recourse

## Key Issues:

- ❶ **Property Rights:** Does token legally represent asset ownership?
- ❷ **Jurisdiction:** Which country's laws apply (asset vs. token location)?
- ❸ **Enforcement:** How to enforce rights if smart contract disputes?
- ❹ **Bankruptcy:** What happens if SPV or platform goes bankrupt?

## Solutions:

- Robust legal agreements (off-chain documentation)
- Established jurisdictions (Delaware, Switzerland, Singapore)
- Regulatory engagement (work with SEC, FINMA, MAS)
- Insurance and guarantees



*Switzerland and Singapore lead in legal clarity and token-friendliness*

## United States:

- SEC oversight (securities laws apply)
- Reg D, Reg A+, Reg S compliance required
- State-level licensing (money transmitter laws)

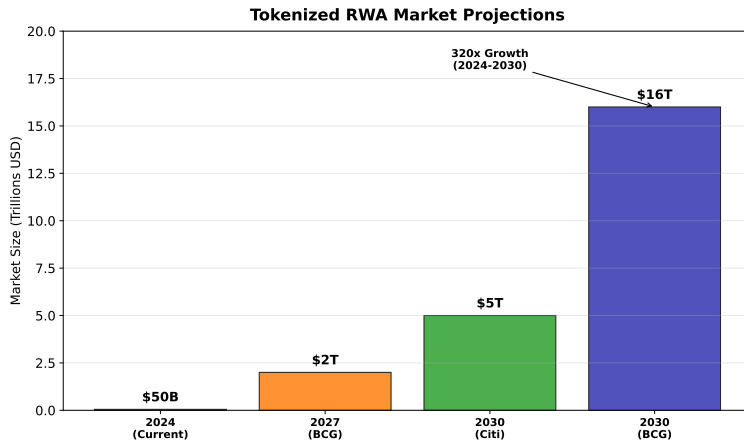
## Switzerland:

- DLT Act (2021): Legal framework for tokenized securities
- FINMA guidance on token classifications
- Crypto Valley (Zug): Hub for RWA projects

## Singapore:

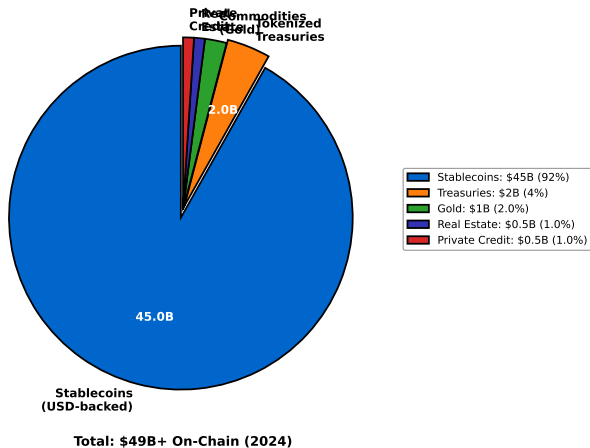
- MAS (Monetary Authority) sandbox for tokenization
- Payment Services Act covers digital tokens
- Project Guardian: Institutional DeFi pilot

## EU: MiCA (Markets in Crypto-Assets) regulation (2024)



*BCG and Citi project \$5-16T in tokenized assets by 2030 (320x growth)*

## Tokenized Real-World Assets by Category



*Stablecoins dominate (92%), with Treasuries emerging as fastest-growing category*



## Current Market (2024):

- Total tokenized RWA: \$50B+ on-chain
- Breakdown:
  - Stablecoins: \$45B (USD-backed, Treasury reserves)
  - Tokenized Treasuries: \$2B
  - Real estate: \$500M
  - Commodities (gold): \$1B

## Growth Projections:

- BCG (2022): \$16T tokenized assets by 2030
- Citi (2023): \$4-5T by 2030
- BlackRock (2024): “Next evolution of markets”

**Drivers:** Institutional adoption, regulatory clarity, infrastructure maturity

## For Investors:

- Fractional access to expensive assets
- 24/7 liquidity and global market access
- Transparent pricing and ownership records
- Lower fees (fewer intermediaries)

## For Asset Owners:

- Unlock liquidity from illiquid assets
- Lower cost of capital (broader investor base)
- Faster fundraising (automated compliance)
- Programmable rights (dividends, voting)

## For Markets:

- Increased efficiency (instant settlement)
- Financial inclusion (global access)

## Risks:

- ❶ **Legal uncertainty:** Token rights may not hold in court
- ❷ **Smart contract bugs:** Exploits can drain funds
- ❸ **Custody risk:** Asset held by third party (trust required)
- ❹ **Regulatory changes:** Laws may invalidate token structures
- ❺ **Liquidity illusion:** Tokens may trade, but underlying asset still illiquid

## Mitigation:

- Use established legal jurisdictions
- Audit smart contracts thoroughly
- Insure custody and assets
- Maintain legal recourse mechanisms

## RWA as DeFi Collateral:

### Use Cases:

- Deposit tokenized Treasuries, borrow stablecoins
- Earn DeFi yield while holding real-world assets
- Leverage real estate tokens for liquidity

### Platforms:

- **MakerDAO:** Accepts RWA as collateral for DAI minting
- **Aave Arc:** Permissioned pool for institutional RWA
- **Compound:** Exploring RWA collateral integration

**Advantage:** Bridges traditional finance yield with DeFi composability

- ➊ RWA tokenization represents ownership of physical assets as blockchain tokens
- ➋ Real estate tokenization enables fractional ownership and liquidity (RealT, Propy)
- ➌ Securities tokenization requires regulatory compliance (Reg D, Reg A+, ERC-1400)
- ➍ BlackRock BUIDL fund (\$500M+) legitimizes institutional RWA adoption
- ➎ RWA market: \$50B current, projected \$4-16T by 2030 (institutional growth)
- ➏ Legal frameworks and custody remain critical challenges for mainstream adoption

- ❶ What are the primary barriers to widespread RWA tokenization adoption?
- ❷ How can legal systems ensure token holders have enforceable rights to underlying assets?
- ❸ Should all security tokens be regulated like traditional securities, or is lighter regulation appropriate?
- ❹ What risks does DeFi integration of RWA collateral introduce to financial stability?
- ❺ Will RWA tokenization democratize investing, or create new forms of inequality?

### L28: Lab – NFT Valuation

Hands-on activities:

- Develop comprehensive due diligence checklist
- Identify red flags and scam indicators
- Conduct rarity analysis and trait valuation
- Prepare investment recommendation report
- Practice evaluating NFT projects systematically

**Preparation:** Review all previous lessons on NFT technology, marketplaces, and categories