Why Tokenized Real Estate and the Gig Economy Will and Should Change the way we buy property.

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Stay with me while I introduce an evolutionary concept and some ideas as to how it could work.

**Current Model**

Our current model of buying a home involves getting a loan based on a valuation which is derived from formulas that will still be used in this new model. I will spell out some of the variables that help derive that value below.

First, let us deal with one of the main ways that individual families buy homes or properties. This is through a mortgage. A mortgage is a type of loan that has allowed millions if not billions of people to own (steward) a home. So, there may be many people who are invested in that entire process who may disagree with this concept.

If you are one that has never imagined a world without mortgages, then read on.

As more people are no longer needed in the employment capacity we have come to know because of automation. Ironically, we could use automation to alleviate the issue of people having Gigs instead of jobs. This model could do that and create a system where most people can invest in real estate to store value.

So once the value of the home is established, the home will be tokenized into fractionalized blocks. The blocks are minted and are entered into the inventory. The block price is fixed as low as $.10 per block. Then the blocks are randomized into the pool. These randomizations lower risk much better than the current system of bundling whole mortgages with other whole mortgages. Because now if a contract is broken or resolved, no 1 investor suffers huge hits to their (stable) investment.

As for value, in the current model investors in those bundled real estate securities are only concerned about the monthly flow from that bundle of 1000’s mortgages. So, the homeowner must make the monthly mortgage payment the top priority. This means more than likely getting a job that offers a steady income that corelates to that steady and significant payment. This works OK for the current owner and employee class. In the gig economy, this doesn’t work as well as it used to. This growing reality of more and more people relying on Gigs will potentially lead to 2007/2008 again.

**The Value Proposition**

To get to the Value Proposition, I must introduce a concept that may be different for some people – Property Stewardship. We currently enjoy certain rights as a “property owner” And those rights can vary from location to location and property to property. And in many countries and a few states have leasehold property, there are only long-term leases that can be up to 100 years. Therefore, the concept of Stewardship already exists, we just don’t call it that.

So, what are the variables that provide “value” to a house or property.

1. Maintenance – is the property well maintained
   1. Periodic painting
   2. Periodic inspections and repairs of roof, gutters, plumbing, electric, HVAC and general structure
   3. Plumbing, electric and HVAC scheduled maintenance and replacement
   4. Periodic Updates of appliances and general decor
2. Maintenance in relation to other properties in the community
3. Location
4. Access – schools, roads, jobs etc.
5. Size of home
6. size in relations to other homes in the community

There are any number of criteria that we could add. But if you notice, the monthly mortgage payment is only of interest to the bank and investors in this scenario. And this monthly outflow is counter to the goal of maintenance and, ideally improvement. So, our current system creates liquid investments for investors but acts as a counter to overall value of the property.

So, if we tokenize our homes and personal properties through Decentralized Autonomous Organizations – DAOs we could start an evolution of property transactions and stewardship. There are current models for tokenized real estate being developed. And, none are being developed to offer the new possibility of no mortgages.

And that is why I am sharing this concept. If we are going to build a new world, let us build it so it works better.

**Stability**

Below are just some of the aspects of the stewardship and the process that the DAO could cover.

* Each DAO forms and spells out the life of the contract between Property Stewards and Token Holders
  + All payments, transfers, titling, and any covenants or what is known as deed restrictions
  + The DAO will establish all property maintenance schedules using external oracles into the contract – this is known as a Hybrid Smart Contract
* Individuals’ opt-in to the DAO model – Large bundles of existing mortgages could be converted as well.
* Investors buy-in based on the goals of the specific DAO fitting their investment goals – just like now
* The property is tokenized by being divided into blocks with a starting value of $.1 per block. The block price is based on traditional property valuation methods – nothing must change.
* The blocks are added to the pool of blocks and distributed to investors in a way that mitigates the risk to a minimum. So, 1 investors’ money would purchase blocks from multiple properties in diverse locations. Actuaries already have methods for distributing risk.
* The tokens would act as stable investments tied to the “actual” value of the property and not the cash flows attached to the mortgage.
* The maintenance fee replaces the mortgage and for most properties that are starting from a good condition, the monthly maintenance fees will be less than a mortgage. And even for larger properties that require more maintenance, there is still no mortgage. So, the Property Steward has more cash flow to do that maintenance.
* Maintenance can be purchased in bulk where it makes sense – this could lower the cost – although quality work is the goal.

In the above (loose) model, the incentives change from investors not having any reason to care about the property or community, to a model where the incentive is for the condition of the property to be a priority for all involved.

And multiply this to millions of homes and now we have a stable investment (the tokens) that is even more solid than Government issued bonds. Except now the value is derived 100% from a real asset. Things such as speculation would be no more significant than in our current model.

So, how can this work with no mortgage payment every month? What incentive will investors have to support this model?

* First, the investment in actual property will become possible and the unnecessary outflow of mortgage is traded for a stable investment tied to the 1 real world asset that everyone can agree on as being a harbinger of value.
* Because of the distribution algorithm for blocks, every investor’s risk is lowered because their exposure to any single home or neighborhood is that high.
* The calculated maintenance fees are determined by the tapping into existing actuarial data for homes of the specific type. This data is brought into the smart contract through Oracles.
* All parties will be incentivized to maintain and improve a property over time
* The distributed risk and the property being collateral should make this a very stable investment. If a threshold percentage of personal real estate is tokenized, this security would only be vulnerable to the most extreme events. Events that could also take down our current system – those big picture worldwide risks would still exist.

There are many rabbit holes to go down with this concept. I mean we are 3 generations into the concept of mortgages. And therefore, this is a foreign concept to most. There are details to be worked out for sure. But I want to make sure that as we build a “new world” with new capabilities that we have never enjoyed before, we should make sure we make decisions based on a better future and not business as usual. And as I stated, the smart people in the room are not necessarily trying to make things better for everybody. Let’s make sure that some of the unnecessary gatekeepers and outdated hierarchies do not transfer into this new world being created now.