



# Fractional Ownership of Real Estate

## Assets

### Individual Report

### Group 2 | FT5001

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# 1. Introduction

Real estate presents itself as an appealing asset class to investors, but it is accompanied by significant barriers to entry, limited liquidity, and intricate legal and regulatory complexities. To navigate these challenges and tap into the lucrative opportunities that the real estate market offers, investors can explore fractional ownership as a viable option. Fractional ownership allows investors to acquire partial ownership in a property, rather than committing to full ownership. This fractional ownership is typically represented by tokens or shares that can be traded on dedicated platforms or markets.

Over the past few years, fractional ownership of real estate has gained considerable attention, particularly in locations such as Hong Kong, Singapore, Sydney, and Shenzhen, where residential property prices have experienced significant growth. For example, in 2022, the median price of private houses in Singapore witnessed an 8% increase compared to the previous year, with the median private home price being 13.7 times the median household income (CNBC, 2023). Fractional ownership offers numerous advantages for investors, including lower entry costs, enhanced liquidity, portfolio diversification, and increased democratization of real estate investment opportunities.

However, fractional ownership of real estate also presents challenges from legal, tax, and regulatory perspectives, as well as operational and technical considerations. In this report, our objective is to provide a comprehensive analysis of fractional ownership as an emerging investment approach in the real estate sector. We will delve into the market overview, examine the dynamics shaping this industry, and identify key players operating within this space.

## 2. Market Overview

There are two main types of ownership representations in the real estate industry: tokens and shares. Shares are commonly referred to Real Estate Investment Trusts (REITs) and funds, while tokens are managed by companies, with or without the use of blockchain technology. This section will explore the market size and potential of these ownership representations.

### 2.1 Real estates investment trust (REIT)

Real Estate Investment Trusts (REITs) were established in the 1960s and have become popular investment tools for both institutional and retail investors (Nareit, n.d.). REITs are companies that own and operate income-producing properties, including commercial, residential, industrial, or retail real estate. They have the flexibility to be traded openly on stock markets. The target customers for REITs include retail investors, high-net-worth individuals, and institutions. According to Nareit data in 2022, there were a total of 893 REITs listed globally, collectively valued at around \$1.9 trillion in market capitalization. In Asia, there are a total of 220 REIT products, accounting for \$263.8 billion in 2022, according to Cushman & Wakefield (2023). Over the past 20 years, the REIT market has shown steady growth, with Asia experiencing a growth rate of approximately 50% from 2015 to 2021, reaching \$300 billion. However, there was a decline in 2022 due to rising interest rates in the US and geographical risks.

### 2.2 Real Estate Fund

Real estate funds allocate their investments into shares of real estate corporations and REITs. These funds may take the form of open-end or closed-end structures and can be managed actively or passively. The target customers for real estate funds are similar to REITs and include retail investors,

high-net-worth individuals, and institutions. Private real estate investment funds are typically available only to accredited, high-net-worth investors and often require a significant minimum investment. According to a report by McKinsey (2023), the global assets under management of real estate mutual funds reached \$1.1 trillion in 2021, representing a growth rate of 22% compared to \$0.9 trillion in 2020. Real estate mutual funds accounted for 8% of the total private markets AUM in 2021, up from 7% in 2020.

## 2.3 Crowdfunding

Crowdfunding is a relatively new type of real estate investment that has gained popularity in the past decade. It allows investors to own fractions of a property and primarily targets retail investors. While the market size of crowdfunding real estate investment is currently smaller than that of mutual funds and REITs, it is expected to grow rapidly. According to Prophecy Market Insights (2023), the Global Real Estate Crowdfunding Market was valued at approximately USD 44.65 billion in 2022. It is estimated to reach USD 1743.13 billion by 2030, growing at a CAGR of approximately 58.10% between 2023 and 2030. Some companies utilize blockchain technology to ensure the security and reliability of transactions through smart contracts. Prophecy Market Insights (2023) predicts that the Real Estate Tokenization Market accounted for \$2.7 billion in 2022 and is estimated to reach \$ 18.2 billion by 2032, with an anticipated CAGR of 19.8%.

## 3. Market Dynamics

Porter's five forces are applied to provide a comprehensive overview of the real estate investment market. These forces include competitors, new entrants, suppliers, customers, and substitute products.

### 3.1 Potential of new entrants into the industry

The potential for new entrants is low for REITs and fund companies, but high for crowdfunding platforms. REITs and funds require a significant amount of capital and a strong track record to build trust with customers. They are also regulated by government policies and must adhere to comprehensive compliance, tax, and legal practices. These companies need to employ experts in finance and real estate to analyze investment opportunities and maintain a diversified and profitable portfolio. Furthermore, they require M&A and legal expertise for company acquisitions and land development. In contrast, crowdfunding platforms have fewer regulatory requirements and lower startup capital requirements. They primarily serve as channels connecting real estate projects to investors, focusing more on investors' choices rather than creating their own investment portfolios. Crowdfunding platforms have lower demand for high-quality employees and lower operating costs, resulting in a higher potential for new entrants.

### 3.2 Competition in the industry

Competition is less intense for REITs and fund companies but more intense for crowdfunding platforms. REIT companies differentiate themselves by focusing on different markets and types of land use, such as data centers, residential, and commercial properties. On the other hand, crowdfunding platforms face intense competition due to lower barriers to entry, resulting in a large number of competitors. Most crowdfunding platforms concentrate on residential land use and have limited product differentiation, leading to competition based on providing lower service fees. Therefore, crowdfunding platforms experience high competition, while REITs and fund companies face moderate competition.

### 3.3 Power of suppliers

#### - REITs

The power of suppliers for REITs is generally low. REITs have access to a large and diverse pool of properties across different sectors and geographies, granting them leverage in negotiating favorable terms with property owners or developers. Their economies of scale, financial resources, and professional expertise further enhance their ability to secure advantageous agreements. However, the power of suppliers may increase if REITs encounter regulatory constraints or compete for scarce or premium properties in high-demand markets.

#### - Fund

The power of suppliers for fund companies is considered moderate. Fund companies predominantly own REITs and a portion of the property. Since REITs are publicly traded, stock market prices are regulated to mitigate any concerns regarding mispricing. Additionally, fund companies, similar to REITs, leverage economies of scale and professional expertise to acquire properties at fair prices.

#### - Crowdfunding

The power of suppliers for crowdfunding platforms is significant. These platforms depend greatly on the availability and quality of real estate projects provided by property owners or developers. In order to attract and retain suppliers, crowdfunding platforms must offer competitive fees, transparent processes, and value-added services. However, crowdfunding platforms can reduce their reliance on suppliers by diversifying their portfolios, implementing rigorous screening and vetting procedures for projects, and cultivating long-term relationships with trusted partners.

### 3.4 Power of customers

#### - REITs & Funds

The power of customers for REITs is considered moderate. The customer base primarily consists of institutional and retail investors who buy and sell shares of the REITs. Firstly, REITs typically have a large number of investors, limiting the individual power of each investor. However, if a REIT heavily relies on a small group of significant investors, these investors can influence company policies and strategies through voting or lobbying. Secondly, the bargaining power of customers depends on the attractiveness and uniqueness of the projects undertaken by the REITs.

#### - Crowdfunding

Customers of crowdfunding platforms possess significant negotiation power. These platforms have a relatively small customer base, and the market offers various options for customers to choose from, resulting in high competition and customer choice. Moreover, since crowdfunding platforms are relatively new, customer loyalty is generally low, necessitating extra efforts from these platforms to retain their customers.

### 3.5 Threat of substitute products

#### - REITs & Funds:

The threat of substitute products for REITs and fund companies is low. Substitute products in this context include brokerage firms and robo-advisors. Brokerage firms offer trading and investment services, allowing investors to buy and sell a wide range of securities such as stocks, bonds, options,

and futures. While they provide more flexibility and choice compared to real estate fund companies, they often come with higher commissions, fees, and risks, and require a higher level of investment knowledge. On the other hand, robo-advisors are online platforms that use algorithms and technology to provide automated investment advice and portfolio management. They offer lower fees and easier access than real estate fund companies, but may lack human interaction, customization, and transparency, potentially making them less appealing to certain investors.

#### - REIT, Fund & Crowdfunding:

REITs, fund companies, and crowdfunding platforms can be considered substitutes for each other. In terms of feasibility, crowdfunding platforms allow investors to invest in specific projects and have control over their buying and selling decisions. In contrast, REITs and fund companies offer diversified portfolios managed by professionals, where investors have limited influence over the portfolio components and strategies. In terms of investment risk, crowdfunding platforms do not provide the same level of diversification as REITs and funds, placing a higher reliance on investors' personal experience and knowledge. In terms of security, traditional firms are typically subject to more regulatory oversight compared to online platforms.



## 4. Key Players

### 4.1 REITs

REIT companies are characterized by their large size and management of substantial assets.

Company name	Token	Description	Assets Under Management	Countries invested	Buildings owned
Prologis Inc	PLD	Prologis is a global leader in logistics real estate, providing warehousing and distribution solutions for e-commerce, retail, and industrial customers	\$116.4 B	19	5,495
American Tower Corp	AMT	American Tower is a leading provider of wireless and broadcast communications infrastructure, leasing space on its towers and other structures to various carriers and operators	\$109.8 B	23	199,330
Crown Castle International Corp	CCI	Crown Castle is a real estate investment trust that owns, operates, and leases shared wireless infrastructure, including towers, small cells, and fiber	\$76.8 B	2	40,000
Public Storage	PSA	Public Storage is the largest self-storage company in the world, offering storage units for personal and business use in various sizes and locations	\$65.9 B	1	2,700
Equinix Inc	EQIX	Equinix is a global interconnection and data center company, offering colocation, interconnection, cloud, and managed services to enterprises and service providers	\$64.4 B	24	N/A

Table 1: Assets under management, countries invested and buildings owned and description of largest 10 REITs. Data by Companies Market Cap. (n.d.).

## 4.2 Funds

These companies are renowned fund management firms with a diverse range of investments, extending beyond the real estate sector to include industries such as healthcare, technology, and more.

They offer institutional-grade funds, catering to the investment needs of institutional investors.

Company name	Fund name	Description	Assets Under Management
Vanguard	- Vanguard Real Estate Index Fund Admiral Shares (VGSLX)	- An open-end fund that tracks the performance of the MSCI US Investable Market Real Estate 25/50 Index, which covers a broad range of real estate sectors and subsectors in the US	\$97.5 B
	- Vanguard Global ex-U.S. Real Estate Index Fund Admiral Shares (VGRLX)	- An open-end fund that tracks the performance of the S&P Global ex-U.S. Property Index, which covers a broad range of real estate sectors and subsectors in developed and emerging markets outside the US	\$7.6 B
Fidelity	- Fidelity Real Estate Index Fund (FSRNX)	- An open-end fund that tracks the performance of the Dow Jones U.S. Select Real Estate Securities Index, which covers a broad range of real estate sectors and subsectors in the US	\$12.6 B
	- Fidelity International Real Estate Fund (FIREX)	- An open-end fund that invests in foreign real estate companies and REITs, with a focus on growth and value opportunities	\$2.1 B
Cohen & Steers	- Cohen & Steers Realty Shares Fund Class Z (CSZIX)	- An open-end fund that invests in high-quality REITs and other real estate companies, with a focus on income and capital appreciation	\$9.9 B
	- Cohen & Steers Quality Income Realty Fund Inc (RQI)	- A closed-end fund that seeks high current income and capital appreciation from REITs and other real estate securities, with a focus on quality and value	\$2.4 B
	- Invesco Real Estate Fund Class R6 (IARIX)	- An open-end fund that invests in equity securities of companies principally engaged in the real estate industry, with a focus on growth and value	\$7.2 B

	- Invesco Mortgage Capital Inc (IVR)	- A closed-end fund that invests in residential and commercial mortgage-backed securities and other mortgage-related assets, with a focus on income and capital preservation	\$1.8 B
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Table 2: Assets under management and description of high reputation real estates funds. Data from Nasdaq (n.d.).

### 4.3 Crowdfunding platform

#### - Without blockchain technology

Despite being smaller in size compared to traditional REITs and fund companies, crowdfunding platforms still handle significant transaction amounts.

Company name	Description	Transaction amount
CrowdStreet	A platform that offers direct access to a vetted range of institutional-quality real estate investments, such as funds, individual deals, and tailored portfolios	\$2 B
EquityMultiple	A platform that focuses on institutional commercial real estate and offers equity, preferred equity, and senior debt investments	\$4.4 B
PeerStreet	A platform that allows investors to invest in loans backed by real estate properties, such as residential and commercial debt, bridge loans, and residential for rent loans	\$3 B

Table 3: Transaction amount and description of high reputation real estates crowdfunding platforms. Data from Forbes (2023).

#### - With blockchain technology

Blockchain real estate investing companies are relatively new in the industry. As a result, their statistics, such as transaction amounts and number of clients, are not always transparent and may not

be readily available on their official websites. It is worth noting that the funding amounts of these blockchain companies are typically smaller compared to traditional REITs, fund companies, and even crowdfunding platforms without blockchain technology. This suggests that blockchain real estate investing companies still have a long way to go in terms of development and market penetration.

Company name	Description	Total funding amount
BitofProperty	A Singapore-based platform that enables users to invest in rental properties across the world using blockchain technology and smart contracts .	\$0.7 M
RealT	A US-based platform that tokenizes real estate properties and allows users to invest in them using cryptocurrencies .	NA
Brickblock	A Germany-based platform that connects real estate developers and investors using blockchain technology and smart contracts .	\$8.7 M

Table 3: Transaction amount and description of high reputation real estates crowdfunding platforms.

Data from Crunchbase (n.d.).

## 5. Evaluation

The fractional real estate investment market comprises major players such as REITs, real estate funds, and crowdfunding platforms, each targeting distinct customer segments. REITs and real estate funds cater to experienced investors, while crowdfunding platforms primarily appeal to the younger generation seeking alternative ownership methods. REITs and funds offer lower-priced fractional ownership and diversified portfolios encompassing various property types and markets. In contrast, crowdfunding platforms typically facilitate the sale of individual flats rather than portfolios.

Crowdfunding platforms face challenges in terms of competition, supplier relationships, customer power, and substitute products, largely due to their relative newness and potential resource limitations compared to established fund companies. However, as time progresses, crowdfunding platforms are likely to attract more customers from the younger generation seeking investment alternatives. In 2023, the Bank of America study revealed that a significant percentage of Americans aged 21 to 42 do not believe that above-average returns can be achieved solely through traditional stocks and bonds, indicating a potential market for crowdfunding platforms. With an expanding customer base, these platforms may gain increased bargaining power with customers and suppliers. In terms of rivalry, crowdfunding platforms are currently in the emergence and growth stage, and as the industry matures, only dominant players are expected to survive.

Looking ahead, fractional real estate investment is projected to continue its growth trajectory. Traditional REITs and fund companies, with their established capital and size, are likely to experience stable growth contingent on real estate market conditions and macroeconomics. Conversely, crowdfunding platforms, primarily startups, have a larger untapped market and the potential for accelerated growth compared to the real estate market at large. These platforms can leverage blockchain technology to reduce operational costs and enhance trust and transparency. However, they also face the potential threat of government regulations seeking to safeguard investor interests as the industry expands. According to The Economic Times (2023), the India government requires these companies to register under regulation, and they are required to follow the standard. While these regulations may initially appear as a threat, they can ultimately foster a safer environment for the industry.

In conclusion, the fractional real estate investment market is poised for continued growth. Traditional REITs and funds are expected to enjoy stable growth, while crowdfunding platforms, with their innovative approach, have the potential for rapid expansion.

## 6. Conclusion

This report provides an analysis of the fractional real estate investment market, including its market overview, dynamics, key players and evaluation. While fractional real estate has a long history through REITs and funds, crowdfunding platforms have emerged as a novel investment method in recent years. Although crowdfunding platforms may currently appear less mature in comparison to traditional financial firms, they hold significant growth potential due to the increasing demand for feasible real estate investment options. These online platforms cater to the evolving needs of investors and have the capacity to expand further in the market.

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