Welcome to Morgan Creek Digital's weekly digital asset update. It is comprised of a thought piece from our team followed by a summary of what we consider the most compelling digital asset news during the last week. We hope you find this content interesting. Please let us know if you have any comments or questions or if you would like to speak to a member of the Morgan Creek Digital team.

A Not So "Real" Estate: NFTs and Tokenized Real-Estate

Non-fungible tokens (NFTs) are redefining finance and are a new incarnation of asset classes. The frontier between collectibles and financial instruments includes artwork, songs, videos, sports clips, and play-to-earn gaming tokens. Each asset is assigned a unique and non-exchangeable blockchain address, which can be bought, sold, or traded, similar to a pack of trading cards. (See ***The NFT Phenomenon***). Perhaps one of the lesser appreciated or understood trends of the NFT renaissance is its potential to disrupt the legacy and often laggard real-estate market. For example, platforms like Decentraland and Cryptovoxels have already demonstrated actual demand for buying and selling virtual land or real estate based in the online world. Decentraland and Cryptovoxels are user-owned platforms built using the Ethereum blockchain technology stack, in which users own parcels of the digital world by securing plots of virtual NFT land, measured by virtual square meters.[1] The NFTs allow ownership to be easily tracked and users to monetize their virtual estate by hosting events or participating in market activities within three-dimensional worlds.

However, just because NFTs are accessed in the digital realm does not mean they are only digital assets. NFTs can act as hybrids between digital assets and represent physical real-estate ownership, powered by smart contracts that enable the digitization of land registers. For example, blockchain technology may be able to promote fractional retail ownership as well as transparency and verifiability across the real-estate value chain, including ownership and development, financing, property sales and management, construction, and investors' rights. The most practical example could be assigning property value for physical retail assets and distributing said value throughout a fixed number of tokens. Those tokens are then issued to investors that can be listed on a secondary exchange through further trades and sales.[2] Furthermore, investors could hold these tokens and receive rental income or split profits on capital appreciation post-sale.

Why Care about Real-Estate Tokenization?

Real estate tokenization allows a broader class of investors to access a relatively illiquid asset class. In contrast, the exclusivity of certain real estate funds is perpetuated by barriers to entry like high management fees, accredited investor/qualified purchaser requirements, and the required minimum floor of investments. Furthermore, tokenization of real estate and smart ledgers can potentially limit the occurrences of illegal activity like tax evasion or money laundering in traditional real-estate, which lacks a decentralized network to verify transactions.[3] For example, Berlin-based Black Manta Capital Partners, collaborating with real-estate firm Tigiris Immobilien led efforts to build a real estate token offering, or RETO, that exceeded $12 million in value in 2020. The tokenization allowed both institutional and everyday investors to purchase a stake of Berlin apartments with a minimum investment of as low as 500 euros and without the need of middlemen services like a notary.[4]

Many venture capitalists and developers are co-creating a new digital economy operated by "decentralized" applications in which authority is disseminated to a network of users. We believe the opportunities for tokenization of the real estate industry could solve a challenge that has persisted over time - the issue of scalability. When exchanging various interests, an individual's wants may not be equal in scale to what is being offered, and until recently, exchanging land or property has mainly been impractical, as the assets were immovable and indivisible.

What is Next for Land and Property NFTs?

Nevertheless, as the digital economy grows in scale, NFTs could increasingly represent ownership of virtual properties in a simulated world, in addition to real-estate tokenization. As discussed in the previous newsletter, ***The Metaverse: A Successor to The Internet***, the advancement of virtual and augmented technologies will offer cross-interactive experiences within a cyberspace community represented by avatars that can interact with people and objects. This development could serve as the gateway into trading and using entirely digital plots of land and property, accessible in alternative and immersive realities. Real estate, as we know it, could be due for disruption as the prospects of tokenization add increased efficiency and liquidity of the non "fraction-able" property assets. In addition, virtual properties in the digital realm could serve as a unique asset class in a re-imagined economy. Additionally, we believe the advance of blockchain technology may be able to reduce the costs of errors and burdens of compliance associated with the issuance and management of properties.

THE RUNDOWN:

Peter Thiel Tells Crowd Where He'd Look for Elusive Bitcoin Founder Satoshi: Peter Thiel told a crowd of a few hundred people assembled at a Miami conference where he'd look for clues about the real identity of Satoshi Nakamoto, the now almost mythical pseudonymous founder of Bitcoin -- a beach in the Caribbean. “My sort of theory on Satoshi’s identity was that Satoshi was on that beach in Anguilla,” the technology billionaire and self-described libertarian said Wednesday, recounting an early meeting with the founders of E-Gold Ltd., a now-defunct digital currency that was indicted by the U.S. Justice Department in 2007. "I met them on the beach in Anguilla in February of 2000. We were beginning the revolution against the central banks on the beach in Anguilla. We were going to make PayPal interoperable with E-Gold and blow up all the central banks." *Read more.*

Bitcoin’s Inflation Narrative More Compelling Than ETF Fever, JPM Says: This week’s launch of the ProShares Bitcoin Strategy Exchange-Traded Fund may have aided the cryptocurrency’s recent price surge to an all-time high, though the perception of bitcoin as an inflation hedge over gold is probably a bigger factor, a JPMorgan strategist wrote Thursday. In its first two days of trading, BITO amassed assets of over $1 billion, according to ProShares. *Read more.*

Robinhood’s Waitlist for Crypto Wallet Has More Than 1M Customers: The waitlist for Robinhood’s crypto wallet is now more than one million customers long, Robinhood CEO Vlad Tenev said at CNBC’s Disruptor 50 summit on Thursday. Robinhood announced last month it was planning to roll out a crypto wallet in early 2022 that would allow customers to trade, send and receive cryptocurrencies, as well as transfer them to hardware wallets. *Read more.*

Walmart Has Quietly Begun Hosting Bitcoin ATMs: Walmart, the world’s largest company by revenue, is letting customers buy bitcoin at dozens of its U.S. stores. Shoppers can purchase the cryptocurrency at Coinstar machines inside the retailer’s cavernous big box stores. A CoinDesk editor verified that the service works, buying a small amount of BTC at a Pennsylvania Walmart on Oct. 12. *Read more.*

[1] https://www.businesswire.com/news/home/20210929005122/en/Tokens.com-to-Purchase-a-50-Stake-in-Metaverse-Group-One-of-the-World%E2%80%99s-First-Virtual-Real-Estate-Companies
[2] https://www.entrepreneur.com/article/382816
[3] https://www.blockdata.tech/blog/general/tokenized-real-estate-2021-update
[4] https://cointelegraph.com/news/berlin-real-estate-worth-12m-tokenized-for-everyday-investors