

Digital Assets are Set to Disrupt Financial Markets

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2021: Digital Assets are Set to Disrupt Financial Markets

All the data discussed in this report comes from Atlas One's Digital Securities Research Terminal. Stay tuned for our terminal launch on January 18th 2021.

As we head into the new year, the blockchain ecosystem is beginning to experience mainstream adoption. Digital securities market capitalization is up over 69% since January 2020 (*source: Atlas One Research Terminal*), Bitcoin is up over 320%, and institutional interest in digital assets is at an all-time-high. Numerous established fintech firms (like Paypal, Robinhood and Wealthsimple) are now offering users the ability to purchase and hold digital assets.

One does not need to be a cryptocurrency investor to benefit from this technological revolution. Thanks to the rise of digital securities, investors seeking more stable and safer assets (such as dividend-paying real estate) will benefit from increased access to investment opportunities, with higher degrees of flexibility and transparency throughout their investment life-cycle.

Furthermore, the OCC published [Interpretive Letter 1174](#), which opens the doors for banks to leverage independent node verification networks (INVNs) and stablecoins to perform bank-permissible functions, such as payment activities. This will help blockchain-based digital assets thrive in more than just public markets by providing digital-to-digital settlement mechanisms to replace the currently slow cash and paper-based systems.

The Foundations for Implementing Digital Securities are Built

With the rise of platforms like RealT and digital securities like Aspencoin, 2020 brought the tokenized real estate market to new highs. Over \$209 million worth of real estate was tokenized and sold to investors over the past year, an increase of over 800% compared to the previous year (*source: Atlas One Research Terminal*).

Here are some exciting developments in the market going into 2021:

- INX, a digital assets-oriented trading platform that made headlines by spearheading the world's first tokenized IPO, acquired digital securities exchange OpenFinance in a move to offer secondary trading for private

investments. On December 31st, they announced plans to list SolidBlock's real-estate based security tokens on the INX platform. The investment properties are located in London (\$26m), Phuket (\$12m) and New Haven (\$5m). The partnership will provide SolidBlock with the ability to reach a wider investor base, offering real-time cap table management, higher regulatory transparency and automated dividend distribution mechanisms. SolidBlock's previous experience with Aspencoin (up 27% in the past year) is a key determinant in its potential for a successful capital raise over the coming months.

- HashCash, a firm offering blockchain-based real estate solutions, is partnering with a leading enterprise in Abu Dhabi in order to revolutionize the real estate investment ecosystem in the region. "My team is working for the acceleration of real estate tokenization through blockchain integration in Abu Dhabi", said the CEO of HashCash.
- The world's first net-lease digital security - run by Liberty Real Estate Fund - will be offered in partnership with Securitize and Stonegate Global Fund Services. Liberty describes the properties in its portfolio as low-risk, essentially "corporate bonds wrapped in real estate", because its well-established corporate tenants are required to cover all expenses related to the property on top of their rent.

While adoption of blockchain technology in private real estate markets is only beginning, this new trend is likely to show exponential growth in the near-term.

Although close to 80% of real estate digital security offerings are in the form of equity (*source: Atlas One Research Terminal*), other security types are emerging. Notably, private real estate investment trusts are the next frontier in real estate tokenization, offering investors the potential to diversify their positions from the start, instead of having to manually select through hundreds of individual properties. Investors can benefit from the same capital appreciation and dividend payments while being stakeholders in a more diversified set of properties. 14% of currently tokenized real estate offerings are either investment funds or revenue sharing securities (*source: Atlas One Research Terminal*).

Before the era of digital securities, private real estate investments were largely reserved for either wealthy investors or large institutions. Although the definition of accredited investor was updated in the United States to include a larger segment of the population (those who may not have large assets but have a certain degree of financial sophistication), private markets are still largely inaccessible due to

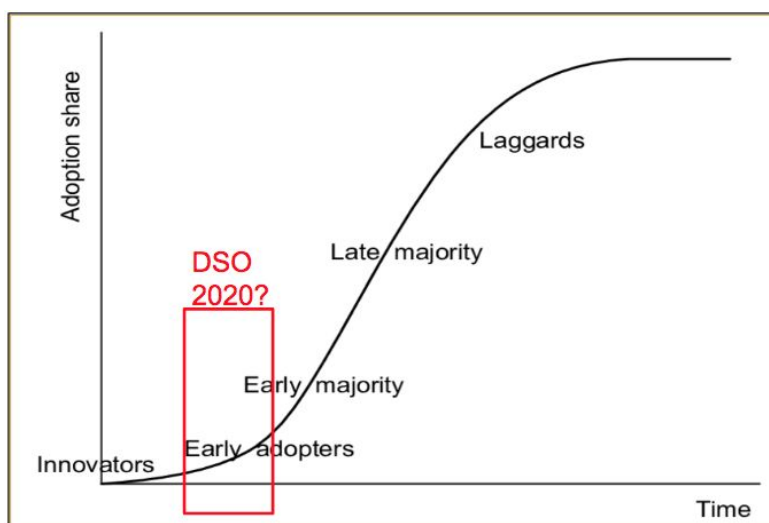
paper-based solutions and lack of liquidity costing investors a significant premium when they want to exit their positions.

Digital securities are expanding market access and offering innovative, convenient liquidity solutions for both issuers and investors. Over the past year, RealT securities began trading on UniSwap (decentralized exchange), and Aspencoin began trading on TZero's Dinosaur exchange (with over \$489,000 in trading volume since late August), marking an important milestone for real estate tokenization.

Short-term Adoption Outlook and Long-term Real Estate Market Impact

We are likely to see a substantial increase in activity in the real estate DSO market, as a result of mainstream adoption of blockchain technology in general. Regulatory frameworks are now clearer than ever, and awareness around the disruptive nature of distributed ledger technology is at an all-time-high. Soon enough, traditional private issuers will be facing high competition from their tokenized counterparts, sparking even more interest in the new technology.

The curve below illustrates how the adoption of digital securities is likely to progress over time. This shift is gradual, meaning that while one stage is taking place, the next is already underway. When a new technology is developed (i.e. in its experimental phase), the first major step towards launching it into the market is to promote awareness around its disruptive potential. Once this stage is reached, regulatory bodies will follow suit by laying the groundwork for innovation to thrive, legitimizing the ecosystem. This has been the case over the past few years, and we are now reaching a stage where investors and issuers are more familiar and comfortable with incorporating distributed ledger technology. The next step will be widespread adoption.



Real estate DSO's are likely to experience the biggest growth in terms of market capitalization compared to the rest of the DSO market. Currently about 40% of all DSO's are in real estate, representing over 21% (\$210 million) of the entire DSO market capitalization. But at the current rate of adoption, this figure is likely to increase dramatically over the coming year. We expect the market capitalization of real estate DSO's alone to surpass \$1.5 billion by the end of 2021. In [this article](#), we outline the key steps to a successful tokenized real estate investment.

While distributed ledger technology is only in its infancy, some large players are betting on the digitization of assets at large. We are now reaching the exponential growth stage of the technology's adoption life-cycle, and the coming years will mark an important shift in how real estate private markets operate.