

Financing **Real Estate Development** with Digital Asset Token Offering

A Hypothetical Case
Study by  **Cryptosx**

Executive Summary

Traditional funding methods for real estate developments aren't always ideal. Lending is expensive and may be challenging to secure. Bringing Real Estate Funds on board usually implies conceding control of the development, and courting individual investors with an illiquid investment can be problematic.

Digital Asset Token Offerings (DATOs) offer a new way to access capital. DATO are compliant Private Offerings under the rules laid out by the Philippines government made on the blockchain. They enable access to a global pool of investors without sacrificing control. They are compliant with all securities laws and can offer liquidity to investors.

In addition, they greatly reduce operational costs and complexity by paying out distributions and managing cap tables on the blockchain. The following hypothetical case study showcases in detail why and how to access funds for real estate developments or asset acquisitions using DATOs. While the example provided is hypothetical, real funds are being raised through actual DATOs on Cryptosx platform and already been approved by our Regulators - CEZA.

ONE Saigon: Hypothetical Case Study

Our customer - Far East Developments (FED) is a Real Estate Developer based in Shenzhen and would like to raise capital to develop real estates in Ho Chi Minh City - Vietnam.

FED is a leading real estate developer that focuses on developing and operating commercial properties in Asia. The company was incorporated in Shenzhen in 2001 and has steadily grown since then. It has focused primarily on developing midsized malls.

However, this project would require a total investment of \$200 Million, significantly more than the company was accustomed to funding via its regular channels.

After discussions with its usual lenders, FED concluded that their typical 80% debt / 20% equity funding structure would be problematic in this case. The interest rates would be too high due to the high loan amount. FED therefore decided to only fund 40% of the development costs via loan in order to obtain more favourable financing. However, this meant that FED still had to fund \$120 Million.

Typically FED invests around 5% of the development costs and funds the remaining 15- 20% of equity with investments from real estate funds. This has created some issues in the past since the interests of the funds and the developer weren't always aligned, and the funds were not shy about using their ownership stake to get their way. In this case however, funds would theoretically be required to contribute over 50% of the funding. FED was concerned that it would be challenging to obtain this much funding from them, and that giving the funds a controlling stake in the project would further aggravate the potential misalignment between them.

FED was intrigued by the recent success of Initial Coin Offerings (ICOs) and the apparent easy access to funds they provided. However, the regulatory uncertainty and the lack of any discernible "utility" in their offering quickly shut that door.

DATOs:

The Digital Asset Token Offering

Unhappy about the available financing options, FED was approached with a new method of financing real estate developments: The Digital Asset Token Offering (DATO). Like an ICO, the DATO promised to bring together access to funds and liquidity. But unlike an ICO, Digital Asset Tokens would not be required to have any utility in the company's operations. Rather, the Digital Asset Tokens would simply represent an ownership stake in the development and rights to its future revenue streams in the same ways as traditional securities would. The DATO would also minimise the potential conflicts of interest with large funds as the investors would be less concentrated.

	Debt	Private Offerings to Funds	ICO	DATO
Cost	High	Mid	Low	Low
Operational Savings	None	None	High	High
Liquidity	Low-Mid	Low	High	Mid-High*
Operational / Strategic Pressure	Low	High	Low	Low
Geography	Local	Local	Multiple	Multiple
Regulatory Uncertainty	Low	Low	High	Low-Mid

* Dependent on speed of security marketplace rollout

DATOs:

The Digital Asset Token Offering

The main concern the company had with an DATO was that it was limited to only 2,000 accredited investors because this was a private, rather than a public offering.

But this concern quickly dissipated when the company found that the private offering market was 22X bigger than the public offering one.

Interested in the prospects of the DATO, FED started looking into the process and costs involved. They quickly discovered that Digital Securities go far beyond just a digital representation of ownership. Since these tokens are instances of a smart contract running on a decentralised and trust-less blockchain, it is possible to use them to perform certain actions in an automated and seamless manner.

REITC decided not only to access financing through an DATO, but to leverage the full power of blockchain by also using Digital Securities to distribute dividends to investors every month once the development became income producing, and to manage the company's cap table on a real-time basis as well. This would be done globally, automatically, and on-chain, and would greatly reduce the operating and reporting costs for FED.

DATO Process Overview:

How an DATO is done?

Working with Cryptosx, FED followed a 3-step process for setting up, executing and managing its DATO:

Step 1: Pre-DATO

In the set-up phase, FED focused on structuring the offering, creating or changing the required documentation, obtaining legal reviews for the process and setting up marketing activities.

Step 2: Issuance

The DATO itself consists of issuing the tokens, conducting KYC/AML/Accreditation processes for the investors, and managing the flow of capital and tokens between company and investors.

Step 3: Lifecycle Management

Once the tokens are issued, the investor lifecycle needs to be managed, including investor communications and secondary trading compliance.

DATO Process Overview: Timelines

Steps	Work	Estimated Time	Responsible	Cryptosx Role
Step 1: Pre DATO	Company Charter	1 Week	Company, Counsel	Advise, Knowledge Sharing
	Offering Document	1 Week	Company, Counsel	Advise, Knowledge Sharing
	Real-Estate Specific Setup	0-4 Weeks	Company, Counsel, Cryptosx Partners	Support
	Marketing	3 Months	Company, Broker-Dealer	None
Step 2: Issuance	KYC/AML/ Accreditation	Ongoing	Cryptosx	Lead
	Token Issuance	1 Day	Cryptosx	Lead
	Funding	1 Day	Cryptosx	Lead
Step 3: Lifecycle Management	Ongoing Communications	Ongoing	Cryptosx, Company	Execution
	Secondary Trading	Ongoing	Cryptosx	Lead

**Total Time From Kick-Off Until Issuance:
2-6 Months**

STO Process Details

Step 1: Pre-DATO

Company Charter

Special Purpose Vehicle (SPV):

Tokens represent an ownership stake in the SPV set-up to finance and manage the property development. FED issued a total of 120,000,000 tokens, together representing 100% of the equity of the SPV. However, only 80% of these tokens would be sold in the raise, at a value of \$1.25 each. Consequently, the investors would jointly contribute \$120 Million of financing in return for a 80% ownership stake in the project. The remaining 20% of the tokens remained in the hands of FED, and the remaining \$80 Million of funding was secured through a bank loan. The underlying shares were assigned a nominal value of \$0.001.

DATO Documents

Next, FED had to define the terms of the offering and reflect those terms, as well as some additional items, in their offering memorandum. The offering memorandum used for DATOs is substantially less comprehensive than the prospectus used for public offerings, and includes:

Company overview, risks and financials:

An overview of the company's business, its business risks and its financial reports.

Offering details:

In this case, FED decided to conduct an DATO under CEZA - DATO Rules and Regulations, since this allowed them to perform solicitation for their offering. The terms were:

Min. investment size:

\$210,000. This was done to ensure that valuable investor slots are not taken up by smaller investors.

Price:

A price of \$1.25 per token was set in order to facilitate the \$120M raise.

Rights:

Tokenholders have no voting, tag-along or drag-along rights. Monthly distributions would be paid out to tokenholders in USD once the property becomes income-producing.

Accepted Currencies:

FED decided to allow investors the flexibility to invest using USD, BTC or ETH.

Cap:

The limits set for the raise

Obligations:

The company established the right to buy back the tokens in certain cases and to block them if investors do not complete their KYC/ AML/ Accreditation process or do not sign the Subscription Agreement.

Closing Date:

The date at which the offering ends

Use of proceeds:

Proceeds were to be used exclusively for the purchase, development and operations of the property

Transfer rights:

Secondary trading is restricted to trades permitted by existing securities regulations.

Legal disclaimers:

FED engaged outside counsel to assist with drafting the standard Private Offering legal disclaimers along with some additional disclaimers relating to the token offering.

Subscription agreement:

During the DATO, investors may be required to sign the Subscription Agreement, which is a separate document that summarizes the terms of the investment and captures the investor consent to those terms.

STO Process Details

Step 1: Pre-DATO

Real Estate Specific Challenges

There are a series of considerations that may come up when setting up real estate investments, such as setting up SPVs, handling complex global taxation issue, ensuring compliance with investor count thresholds, or managing ongoing reporting including tracking project progress . Fortunately, all of these concerns were handled either on-chain using the Cryptosx platform or off-chain, leveraging Cryptosx's partners.

Marketing

Since DATO Rules and Regulations allows for general solicitation, FED created a marketing plan and set aside a budget for accredited investors. However, due to the cap on the number of investors, these marketing activities were more focused and cost-effective than those surrounding an ICO. Overall, FED spent \$100,000 on marketing its offering, not including any fees paid to their broker dealer. FED chose to use the white label Offering Profile Page provided by Cryptosx in order to manage investor on-boarding.

STO Process Details

Step 2: Issuance

KYC/AML/Accreditation

DATOs are limited to accredited investors. Working with Cryptosx, FED seamlessly managed the KYC/AML/Accreditation process and created investor accounts on the platform for each investor that cleared the process.

Token Issuance

FED used Cryptosx's standard smart contract that their counsel had confirmed already included all necessary global compliance requirements, such as limits on investor counts, lock-up periods, and flow-back restrictions. The smart contract was then tweaked to facilitate the buyback powers that FED wanted.

Funding

The process of collecting funds from interested investors and distributing the issued tokens to investor wallets was handled end-to-end by Cryptosx, in compliance with the requirements defined in the set-up phase by FED. In addition, since FED preferred not to hold all the funds collected in BTC & ETH on their balance sheet, they opted to use the 3rd party custodian service - BitGo that was offered on the Cryptosx platform.

STO Process Details

Step 3: Lifecycle Management

DATOs don't require anything resembling the ongoing effort associated with public offerings, but there are certain life cycle implications that must be addressed:

Ongoing Communications

From time to time, FED may need to communicate with investors. The details of these communications are generally defined in the offering memorandum and may include sharing periodic financial reports or certain event-triggered communications such as those involving buy-backs. FED opted to use Cryptosx's community management solution in order to remove this concern.

Secondary Trading

Restricted shares have certain limitations on secondary trading such as lock-up periods and caps on investor counts in different geographies. Managing these complexities can be quite daunting, but fortunately FED's counsel confirmed that the secondary trading restrictions baked into the Cryptosx's trading platform were fully compliant and adhered to current secondary trading regulations.

Conclusion

FED completed its DATO in under 5 months, raising the full \$120 Million hard cap, while maintaining a 20% direct ownership stake (far higher than their typical 5% direct ownership stake) in the development. With this funding in hand, FED proceeded to acquire the land and start development.

FED's tokens were programmed to automatically distribute proceeds, which made cash flow management and daily operations significantly simpler. If and when FED decides to dispose of the property, liquidation proceeds will be paid out in the same way. FED's tokens are scheduled to be listed on compliant securities marketplaces in the coming months, well before the lock-up periods expire. This will ensure investors have full liquidity once they are legally permitted to trade in their holdings.

Questions?

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Important Disclaimer

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