Investors buy digital stakes in real estate as risks emerge

Backers see future for a blockchain-based ownership model that's getting tested

The owners of the Jade Residences at Waterfall Glen apartment complex near Chicago sold ownership shares using Mosaic AI's digital tokens. (Nikolas Kyriakopoulos/CoStar)

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Frank Brodlo spent years trading options and cryptocurrency, but one corner of investing remained largely out of reach: commercial real estate.

The Chicago retiree said buying a stake in a landmark property such as Willis Tower, once known as the Sears Tower, was unrealistic for an individual investor. When he was offered the chance late last year to purchase a small interest in a suburban apartment complex, he invested $25,000.

The investment came through a blockchain-based digital token issued by Mosaic AI, a Silicon Valley startup founded in 2024. The token represents a fractional ownership stake in the property and entitles holders to a share of income distributions. Now he can own part of "an apartment building, a shopping mall and an office tower," Brodlo said. "That's true diversification."

The move comes as investors turn ownership in real-world assets into digital securities that can be bought, sold and eventually traded online. Supporters say the approach could open commercial property to a wider pool of investment while giving developers and owners access to new sources of capital.

Despite investor losses, potential property value declines and technical challenges, tokenized real estate could become a $4 trillion market by 2035, accounting giant Deloitte estimates, while major financial institutions including JPMorgan Chase, Bank of America and Citigroup have explored ways to use blockchain technology to facilitate trading in private assets.

Major banks including JPMorgan Chase have explored using blockchain technology to facilitate trading. (CoStar)

Mosaic AI is one of several companies pursuing that vision. Firms including tZERO and RedSwan have launched platforms that allow investors to buy fractional interests in real estate through blockchain-based tokens. Investors can already gain exposure to commercial real estate through real estate investment trusts, crowdfunding platforms and private funds, but tokenization aims to make ownership stakes more easily divisible and eventually more liquid.

Yet the industry's growth comes as tokenized real estate faces a credibility test. RealToken, one of the sector's most prominent names, recently said it would liquidate a $140 million portfolio of tokenized properties, raising questions about how quickly blockchain-based ownership models will gain widespread acceptance.

Real-world proof point

Through Mosaic AI, smaller investors including Brodlo collectively took a $2.1 million stake in a suburban Chicago apartment complex, The Jade Residences at Waterfall Glen, in Darien, Illinois.

The deal allowed the property owner, Wheaton, Illinois-based First Capital Advisors, to cash out on part of its equity in the property that it acquired for $18.8 million less than a year earlier. First Capital Advisors freed up cash to pay down debt or pursue other acquisitions while maintaining a majority ownership stake.

The transaction marked Mosaic AI's debut real estate offering and the first of what the startup hopes will be more such deals.

A group of digital investors took a $2.1 million stake in The Jade Residences at Waterfall Glen in Darien, Illinois. (CoStar)

Mosaic AI's CEO, Anurag Juneja, said the firm's "mission is to democratize access to enterprise-class commercial real estate" typically available to only the largest investors.

Token buyers "are able to participate in the same asset class that the ultra-high-net-worth, family offices and institutions can participate in," Juneja said.

There are challenges, he added: "On the flip side, we realized that from the sponsor standpoint, it's one thing to raise capital from two investors and another thing to raise it from 2,000 investors. The systems and workflows have to be highly automated, highly compliant, highly consistent to make sure that there is literally zero headache on the sponsor side."

On the rise

Industry participants expect some of the earliest large-scale tokenized property markets to emerge overseas, where they face fewer regulatory hurdles, before similar platforms gain traction in the United States. The concept provides businesses such as real estate developers a new source of capital, while giving accredited investors access to pieces of deals previously out of their reach.

Despite the enthusiasm, tokenized real estate remains a niche corner of the investment market. Secondary trading remains limited, regulatory rules are still evolving, and it is unclear how quickly investors will embrace blockchain-based ownership of real estate assets.

During the World Liberty Forum in Florida in February, billionaire Barry Sternlicht of Starwood Capital lamented that his firm is ready to tokenize properties but is being held back by U.S. regulatory hurdles. Those obstacles include the lack of clear, long-term guidance from regulatory bodies, strict eligibility requirements for investors and transfer restrictions.

Mosaic AI — and its early investors and real estate partners — expects buying and selling fractional shares of commercial properties to become commonplace through venues such as a network created by major banks or popular stock-trading apps.

If that happens, Mosaic AI says tokens will be sold to bidders in real time like stocks, providing liquidity for buyers looking to build and trade from their own real estate portfolios.

"The vision is that, once you have enough of a critical mass of properties and investors, these tokens could be listed in alternative trading system platforms," Juneja said, referring to private marketplaces for buying and selling securities.

Nasdaq and the New York Stock Exchange are building alternative trading systems, he said. "All these real estate tokens, maybe three years or five years from now, will trade like stocks. Until then, what we are doing right now is a peer-to-peer exchange."

Some investors look forward to the day when digital real estate tokens trade on the New York Stock Exchange. (Getty Images)

As with any real estate investment, participants in Mosaic AI's offerings face the risk of losses if property values decline. But buyers are betting on more than the real estate itself. Success depends on both the property's performance and the system that facilitates ownership, trading and compliance.

If tokenized property trades fail to gain widespread adoption, fractional owners may need to wait for a liquidity event, such as the sponsor selling the property outright, to cash in, Juneja said.

One cautionary tale for the fledgling industry recently emerged when RealToken, or RealT, said it would liquidate its $140 million portfolio of tokenized residential properties, mostly in Detroit. The move at that company, founded by

Canadian brothers Remy and Jean-Marc Jacobson, is expected to result in financial losses to thousands of foreign investors, including hundreds in France, according to media reports.

That company's model — buying residential properties, with a heavy concentration on a single market and an exclusive focus on foreign investors — differs significantly from that of commercial-focused companies such as Mosaic AI.

New way to invest

Mosaic AI said its AI-backed system will offer efficiencies for both buyers and sellers of properties, as well as advantages over other forms of real estate investing.

One selling point is that smaller investors can handpick which properties to invest in based on presentations on its website, as well as realize tax advantages regarding depreciation to offset other gains.

"When you're investing in a REIT, you're investing in the fund manager," Juneja said. "The fund manager gets to select the properties, but you cannot really choose that asset on that street corner that you like. The difference with tokenization is, you actually get to select the specific asset and you get the indirect benefit of real estate ownership in the sense that any depreciation you can offset against other passive income that you may have. If you invest in a REIT, the depreciation cannot be used for other passive income outside the REIT."

He said Mosaic AI also offers advantages over crowdfunding companies, including AI responses to questions from investors and automated generation of tax forms for token owners.

"The sponsors are not inundated with questions from hundreds or thousands of investors," said Mosaic AI co-founder Somnath Banerjee.

An investors can submit proof that they're an accredited investor — meaning they have an annual income of $200,000 per person or $300,000 per couple, or a net worth of at least $1 million — via an automated application.

After setting up a digital wallet, the software used to hold and transfer blockchain-based tokens, an investor can watch slideshows on available investments and purchase tokens as properties are posted. Tokens provide financials on a property such as rental revenue and rate of return, updating as details change.

A Chicago-based boutique real estate brokerage, CRE Advising, is working with Mosaic AI to line up investments.

"The runway is loaded with opportunities," said the leader of that firm, Steve Horvath.

Hotel Vin at Pinnacle Hills, pictured in a rendering, is a 125-room hotel under construction in Rogers, Arkansas, that is part of Marriott's Autograph Collection. (Great Lakes Capital)

Initial deals

The first seller to use Mosaic AI plans to return for more deals, First Capital Advisors CEO Nick McGinn said in an email.

"We worked with Mosaic for capital raising on The Jade Residences in an effort to diversify our capital sources and embrace a new technology, which we believe will grow tremendously in the future," he wrote.

The second opportunity is the ongoing sale of tokens for Hotel Vin at Pinnacle Hills, a 125-room hotel going up in Rogers, Arkansas, that is part of Marriott's Autograph Collection. The hotel, which is near the University of Arkansas and the corporate headquarters of Walmart, is expected to have a September opening.

The developer, Granger, Indiana-based Great Lakes Capital, is looking to sell a $1 million stake in the nearly $73 million project to Mosaic AI investors. Great Lakes' joint venture partner on the project is Coury Hospitality of Grapevine, Texas.

Tokenized investing "provides a greater opportunity toward the democratization of real estate, and I think the world is going that way," said Brad Toothaker, a Great Lakes managing partner.

Hotel Vin at Pinnacle Hills is a tokenized property under construction near Walmart's corporate headquarters in Arkansas. (CoStar)

Toothaker, who also is an adviser to Mosaic AI, said he expects to be involved in larger offerings as tokenization grows.

Investors in the first offering also said there are advantages in being an early adopter.

Chicago businessman Joe Gloria has been involved in several industries during his career, ranging from owning a car wash to holding a real estate license through CRE Investing. He also owns a commercial building, home to Fulton Market restaurant Au Cheval.

Already experienced in cryptocurrency trading, Gloria said he decided to invest in the apartment complex in part for the experience.

“Getting into it early, you become more seasoned as this new process evolves,” Gloria said. “When things move more quickly in that direction, I’ll be ready. It won’t be confusing. I’m getting my feet wet now because I believe this is ultimately where we’re going.”

Brodlo said his initial investment also was a move to get ahead of an emerging trend.

“With the tokenization of real-world assets, there is some underlying utility to the token,” Brodlo said. “It can be a car dealership, bowling alley, farm machinery or whatever it is. The idea is going to be very prominent in the next five to 10 years in the finance world.”

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