



# CROWD FUNDING

## GAINS MOMENTUM

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**A**s equity crowdfunding firms continue to establish a track record of successfully funded deals, the sector is gaining greater recognition as a viable fundraising alternative. The questions that many commercial real estate developers and operators are asking include – what’s ahead for this sector and how can they tap into this capital source.

There has been a lot of talk about harnessing the “power of the crowd” to finance real estate projects. In the past, sponsors were legally restricted from openly soliciting or advertising private investment opportunities. However, new legislation passed as part of the Jumpstart Our Business Startups Act or Jobs Act in 2012 began lifting those restrictions. The Jobs Act and specifically Title II allows issuers, sponsors, syndicators, and others who are raising capital from private investors to market those opportunities directly to qualified accredited investors.

Although crowdfunding is a buzz term that we like to use, it’s really not indicative of what’s occurring. Leveraging the power of the internet through both the technology and marketing aspects, commercial real estate sponsors can now

offer investment opportunities directly to the consumer, specifically accredited investors, in a more efficient, scalable and repeatable manner.

Another significant benefit of direct online capital formation is that it gives sponsors access to a much larger national investor pool. Sponsors often rely heavily on an existing investor base in their local city or state. For the first time in history, reputable sponsors who have a solid track record of doing great projects, returning capital and rewarding investors are now able to “tell their story,” build up their brand and reputation and grow a loyal investor base nationwide.

## ADVICE FOR SPONSORS

The rise of equity crowdfunding has created a proliferation of firms touting their real estate crowdfunding expertise. The question for sponsors is how to align with the right platform and the right strategic partner in this online endeavor. Like any real estate deal, the best advice is to do some good due diligence.

First, look at the quality and types of projects that a crowdfunding firm has both completed and currently has listed on its platform to make sure that it is a good fit. CrowdStreet, for example, focuses on institutional quality assets, such as office buildings, assisted living facilities, self-storage and apartment properties, while other companies specialize in smaller scale, entrepreneurial projects or the likes of buy and flip rental housing. The types of offerings posted are not only a good indication of the focus of the crowdfunding firm, but they are also a good indication of the types of investors that are most likely on that platform.

Second, it is important to look at the team behind the platform. Crowdfunding is not just a technology platform, and it is not just commercial real estate. It also involves private equity capital formation. So, sponsors need to see that the team behind the platform has all of those different capabilities and skills.

Third, sponsors should choose a true strategic partner that will help them promote their brand, build up their investor base, and work with them on future projects. We’re hearing from a lot of sponsors that they want a firm that can do more than just provide them with a check for one project. As the market is getting more educated, sponsors are realizing that they want to build up their expertise in this new online capital formation world and gain a partner that provides them the solutions, technology, marketing and services that can help them create long-term, direct-to-investor relationships.

The flip side is that most crowdfunding companies set their own criteria or guidelines on the types of sponsors and/or types of projects they will accept. At CrowdStreet, for example, sponsors need to have a minimum of 10 years of experience in the particular product category. Once we engage, we conduct background checks and other screening before any

sponsor or any specific project gets posted to our marketplace. CrowdStreet takes very seriously the feedback received from its investor members on the types of sponsors and projects that they are interested in seeing.

## MORE GROWTH AHEAD

Over the past two years, the emerging crowdfunding industry has seen both meteoric growth and a seismic shift in perception from both investors and sponsors. By all accounts, there is even more growth and evolution ahead.

There are roughly 9 million accredited investors in the U.S. and 95 percent have never invested directly in real estate. That in itself represents a significant opportunity for fundraising. In addition, there is more legislation going through Congress, including Title III of the Jobs Act, that will open real estate crowdfunding to unaccredited investors.

The growth potential for real estate crowdfunding is exciting. The estimated \$1 billion in online capital formation sourced directly from retail investors for commercial real estate projects in 2014 is expected to jump to \$2.5 billion this year, according to industry data from Massolution. In addition to the capital growth, the crowdfunding platform itself is continuing to mature and evolve. When crowdfunding first emerged, many of the large sponsors put a toe in the water to test how the direct-to-investor crowdfunding channel worked. What they are now recognizing is that, while they love the efficiencies of the crowdfunding marketplace, they also want these capabilities for their own websites. Many sponsors already have established relationships with a core group of 50 to 200 high-net worth investors that they have worked with in the past. They want to be able to offer those investors the same online services directly from their own website.

The growth of e-commerce is a good analogy for what is occurring in online real estate fundraising. When e-commerce first emerged in the 1990s, offline retailers saw it as a huge opportunity to sell their products online and go direct to consumers. The retailers recognized that the best approach was to sell their products through both online marketplaces and their own websites.

E-commerce has by no means put traditional retailers out of business, but rather has forced retailers to evolve their business practices, embrace digital marketing strategies and modernize their technology stack. It is believed that the same will prove to be true for crowdfunding. These changes will enable sponsors to reach a wider audience of potential investors and will democratize access to commercial real estate opportunities while adding efficiency, convenience, and transparency to the investment process for both investors and sponsors. ■