





# THE FUTURE OF CROWDFUNDING

By Sibley Fleming

Less than a decade after the passage of the JOBS Act of 2012, which created a way for developers and real estate and tech entrepreneurs to raise money, real estate crowdfunding continues to pick up steam. It has reached a remarkable level of maturity as real estate professionals stake out specialties and use their expertise to ride out and—in many cases—capitalize on unprecedented market conditions.

Investment opportunities confined to insiders doing business on the golf course is a process that has been “democratized, where now almost anyone can find out about these deals,” says entrepreneur Ian Ippolito, founder of financial investment site, *The Real Estate Crowdfunding Review*.

Among the top players in commercial real estate is CrowdStreet, which delivers a marketplace-style platform allowing accredited investors with a \$25,000 account minimum to review and invest directly with the operator or developer who is raising limited partner capital. The developers—or project sponsors—report directly to the investors through CrowdStreet technology.

When CrowdStreet launched in 2014, crowdfunding was an industry in which developers would accept money from

a crowdfunding platform but were not interested in dealing directly with many small investors, says Ian Formigle, CrowdStreet chief investment officer. Formigle notes, “It took a couple of years to really get out there and start educating the operators and developers around the United States to say that ‘This is the future. Capital is going to go online and if it gets ubiquitous, then you will have this stream of investors that will be looking to get into your deals.’”

To date, CrowdStreet has funded \$1.2 billion in real estate assets and Formigle anticipates that number will continue to grow even as his company was forced to conduct “a pretty hard pivot” on March 11, reducing its pipeline of 45 deals by 70%. For context, the platform launched a new deal every week in January and February, then went for three weeks in April without launching a single deal.

Eventually, CrowdStreet saw a significant increase in investor demand and deals that made sense. To illustrate, a 10-building portfolio in Dallas with a \$10 million allocation received \$15 million in investor demand within minutes. Multifamily development offerings—which take 18 months or so to develop and could miss the worst part of the pandemic—have dominated the platform.

# YOUR RELIABLE SIOR PARTNER FOR GERMANY

Support for your client needs



## HELP NEEDED?

andreas.krone@nai-apollo.de  
Phone: +49 (0) 69 970 505-104

**apollo real estate GmbH & Co. KG**  
Schillerstraße 20  
60313 Frankfurt am Main  
www.nai-apollo.de

Andreas Krone SIOR

# NAI apollo group

## Crowdfunding Niches

Meantime, companies like ArborCrowd—one among a family of companies, including Arbor Realty Trust—share resources and ownership, and take advantage of proven track records to offer accredited investors access to institutional-quality multifamily and workforce housing deals.

Adam Kaufman, co-founder and chief operating officer, says if his company likes a deal, it writes a check through an affiliate to the sponsor before syndicating it out to the crowd.

Because they're privately backed, ArborCrowd doesn't have the pressure from a larger company funding it and looking for growth and can, therefore, take time and "[hold] deals" until it's ready to launch them live on their platform. As the pandemic hit, for example, the company paused on a multifamily deal eminently set to launch. "We have taken an active position in saying that we feel it's irresponsible to move on to deals with the amount of uncertainty that exists," Kaufman says.

The industry has been suffering from an "identity crisis," not knowing if it's technology or real estate. That conundrum foreshadows a future of consolidation weeding out many players without real estate expertise, he predicts.

Ed Fernandez, founder and CEO of 1031 Crowdfunding based in California, saw investor demand skyrocket by two-thirds from \$9 million to \$10 million to \$28.5 million of equity raised in one month.

The Delaware Statutory Trust 1031 exchange crowdfunding platform works with sponsors who have secured 100%

first-round financing who then recycle their equity on the platform, through minimum \$100,000 investments by accredited investors in the 60 to 80 age range.

A key observation, Hernandez says, is that nearly all of the real estate investors on his platform are selling or have sold their investments on the coasts—California, Oregon, Washington, New York, New Jersey, and Boston—and redeploying their capital to the Bible Belt—Georgia, Tennessee, South Carolina, North Carolina, Ohio, Kentucky, Kansas—as well as Idaho, Montana.

“They are liquidating their assets in areas of unrest and moving with areas that are not so crazy,” Fernandez says. Despite unprecedented times, he predicts business as usual through the end of the year for his highly specialized investment shop.

## Crowdfunding 3.0

Jamestown CEO, Michael Phillips, says this company’s direct-to-consumer platform Jamestown Invest, which launched in December 2019 with a \$50 million fund, has seen investment slow down as a result of the pandemic and nationwide civil unrest. However, its thesis that low-rise industrial adaptive reuse office space was a good one.

“In some regards, it is probably more powerful [due to] people’s fear about elevators and about density, [as well as] rounding up more outdoor space and more opening windows,” he says. The pandemic has also prompted the investment and management company to review and update best practices in terms of how it deals with communal spaces.

Jamestown Invest’s first acquisition is a partial interest in Southern Dairies, a

historic five-building, 79,000 square foot creative office campus located near its 2.1 million square foot Ponce City Market redevelopment of a former Sears catalog facility in Atlanta. Its second target, also in Atlanta, is the Upper Westside Portfolio, a 223,000 square feet of loft office, showroom, and warehouse space across four flex-industrial buildings.

“I think the idea that investors can access institutional managers and institutional-grade real estate at a level that allows for diversity for someone in a middle-class investment range is compelling and will continue to grow,” Phillips says. Jamestown Invest requires a \$2,500 minimum investment and is the “3.0” funding mechanism for the company.

Phillips calls the current platform “3.0” because Jamestown was founded 37 years ago with the syndication of funds structures with individual investors in Germany, including doctors, dentists, and teachers.

Meantime, in Germany, Tobias Schultheiß, managing partner of Blackbird Real Estate GmbH, a boutique brokerage, reports that he recently sold a newly built police station to a crowdfunding company, which then sold it to small private investors using their app. The mezzanine tranche, which was €5 million, was funded in just three days. “You don’t find this money only in a city of 50,000 people. You have to go nationwide.”

The majority of crowdfunding investment in Germany is into development, which is risky given the average 5% to 7% rate of return. That said, the investment vehicle continues to gain market share and grew 50% between 2018 and 2019. German investors are attracted to the platform given the zero or sub-zero ROI of placing their euros in a bank. “[Crowdfunding]

is something more and more people understand and do in Germany because we as a country are not very much used to investing our money into stocks,” Schultheiß says.

## Uncertainty Abounds

Adam Hooper, founder and CEO of RealCrowd, says the industry is still trying to get a “barometer of what the new flavor of deal flow looks like.” Even so, RealCrowd launched a variety of deals in July, from a single-tenant medical office building to value-add multifamily. Hospitality, senior housing, and retail are on hold as the company seeks to get a clear picture of the rest of 2020.

While the industry waits for the full impact of the pandemic to shake out, Hooper says other macro trends point to crowdfunding becoming more mainstream. For one, the use of the internet as a communication channel and the ability to leverage technology to amplify communication through a crowdfunding platform in what was historically a very one-on-one proposition is a gamechanger.

“I think this current crisis only accelerates that method or that way of doing business,” says Hooper. “Fundamentally, our platform in our industry really is about access; it’s about creating access to these investment opportunities that people just wouldn’t have been able to discover before.” ♥

---

### MEET THE AUTHOR

**Sibley Fleming** is an Atlanta-based freelance writer, author, and editor. Contact her at [csibleyfleming@gmail.com](mailto:csibleyfleming@gmail.com)