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Real Estate Crowdfunding

A financial innovation for direct property investment

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Abstract The aim of this work is to provide a simple overview on crowdfunding with a focus on its potential application to the real estate market.

The Global Financial Crisis of 2008 paralyzed the global economy, creating a strong diminishing trust in financial services and in the banking system in general. One of the most revolutionary systems to get funded in the market has been crowdfunding, a way of financing coming directly from the crowd through the Internet.

Crowdfunding in real estate started in 2012 with the Jumpstart Our Business Startup Act (JOBS Act) in USA and has been developing at a fast rate every year.

In Italy, crowdfunding for real estate projects is not allowed yet, but there are various platforms that are already using the concept in different ways.

Real Estate Crowdfunding could represent an interesting opportunity for private individual to have an exposure to direct real estate investments.

After an initial description of crowdfunding in general, we present real estate crowdfunding in the U.S. by presenting the most relevant cases up to date. Finally, we analyze the Italian market by explaining why this innovative way of financing real estate projects is not feasible yet and how some platforms are legally trying to overcome the current limitations.

In the U.S. the RECF has already raised more than $1 billion and there are more than 125 platforms; in Italy there are still limits for startups dealing with crowdfunding and a few platforms are starting to operate with a similar model.

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INTRODUCTION

The Global Financial Crisis of 2008 paralyzed the global economy, creating a strong diminishing trust in financial services and in the banking system in general. While there has been a focus on fiscal policies and on the restructuring of the banking system, few funds had been given to small and medium enterprises.

One of the most revolutionary systems to get funded in the market has been crowdfunding. Crowdfunding is a way of financing coming directly from the crowd through the Internet. In its various forms, crowdfunding enables entrepreneurs and small enterprises to get funds through the platform available on the web and to start their projects.

Crowdfunding in real estate started in 2012 with the Jumpstart Our Business Startup Act (JOBS Act) in USA and has been developing at a fast rate every year.

According to the last available data from Massolution, an established firm in the crowdfunding research space, Real estate crowdfunding (RECF) should be a $2.57 billion industry in 2015, with an expected increase by 250% in the year in the United States commercial and industrial property, making it the fastest growing industry segment of crowd capitalism. They reported that RECF grew 156% in 2014, just breaking the $1 billion mark, with campaigns ranging in size from less than $100,000 to over $25 million. In 2014, North America stood as the largest region by funding volume at 56% market share, compared with Europe at 42%. Moreover, Massolution forecasted that North America will have retained its lead reaching $1.4 billion in funding volume by 2015, but Europe will have just broken the $1 billion threshold.

In Italy, crowdfunding for real estate projects is not allowed yet, but there are various platforms that are already using the concept in different ways.

RECF could represent an interesting opportunity for private individual to have an exposure to direct real estate investments. In fact, direct real estate has several limits such as investment size and the requirement of professional management skills; with RECF it is possible to join experienced real estate managers and developers in club deals with a limited capital exposure. This form of investment is different from direct investments, such as REITs' shares, since there is the initial selection of the specific real estate transaction and a more direct relationship with its performance, while in pure indirect investments there is an exposure to a portfolio of properties.

The main purpose of this article is to provide a simple overview on crowdfunding with a focus on its potential application to the real estate market. It is divided in three sections. In the first section there is a description of crowdfunding in general. In the second section we present a description of crowdfunding in real estate sector in the U.S. by presenting the most relevant cases up to date: this market is already developed and the three biggest platforms currently operating will be presented. Finally, in the third section we analyze the Italian market by explaining why this innovative way of financing real estate projects is not feasible yet and how some platforms are legally trying to overcome the current limitations.

CROWDFUNDING

Crowdfunding by Oxford Dictionary is defined as *"the practice of funding a project or venture by raising monetary contributions from a large number of people, today often performed via internet mediated registries, but the concept can also be executed through mail-order subscriptions, benefit events, and other methods"* or, in different words, crowdfunding is the way of financing coming directly from the crowd (De Buysere, 2012).

The crowdfunding model is based on three types of actors (Ordanini, 2009):

- the project initiator who proposes the idea and/or project to be funded;
- individuals or groups who support the idea, the crowd;
- a moderating organization, the platform, that brings the parties together to launch the idea.

Projects and business ideas are funded by many investors, who, by giving small amounts of capital, allow entrepreneurs and inventors to start their ideas. Projects can be of any kind, from music to business ideas, as well from art to real estate.

The industry of crowdfunding is still in its infancy: it is less than two decades ago that it has been launched the first platform. The first concept of crowdfunding was established in 1997, when fans underwrote an entire U.S. tour for the British rock group Marillion, raising $60,000 in donations by means of a fan-based Internet campaign.[1] The crowdfunding industry as a whole is projected to hit the $3.5 billion mark in 2016.[2]

The crowdfunding platforms normally apply a fee in order to pay the management of the platform and to get their revenues. There are various elements that characterize the models of crowdfunding (Pais, 2014): the collection of money and ideas, the crowd, the web, and the platform.

In Figure 1 the four major kinds of crowdfunding are presented.

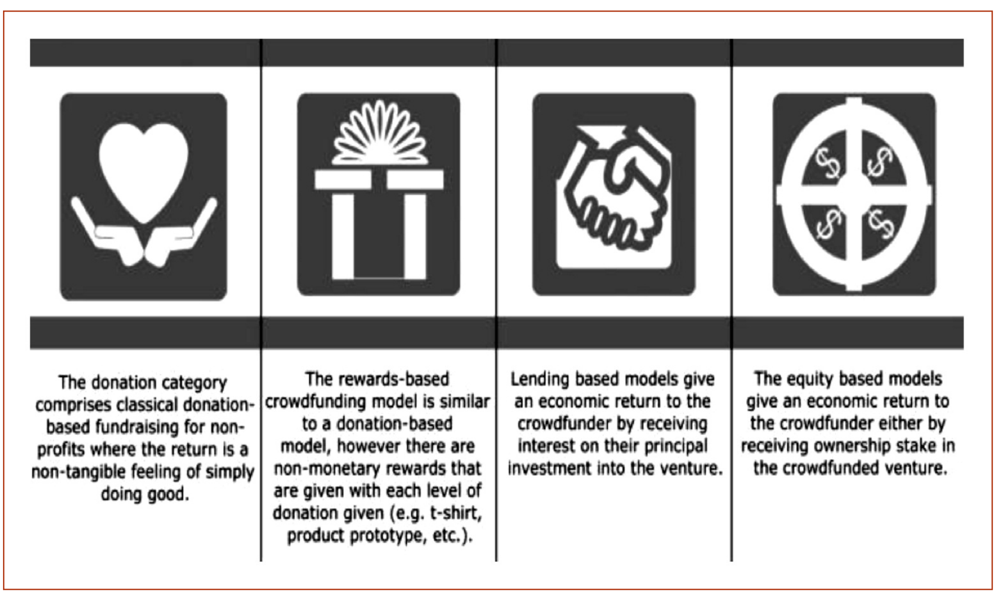

Figure 1: Crowdfunding models
Source: www.crowdfunding.biz

1 Golemis, Dean (September 23, 1997), "*British Band's U.S. Tour Is Computer-generated*", Chicago Tribune.

2 2015CF Crowdfunding Industry Report.

Donation Based Crowdfunding

The donation based model is, as the name states, dependent on donations. Projects are posted online on platforms dedicated to the financing of projects with a social, artistic or cultural aim. The amount received is a “pure” donation since there is no economic objective in investors’ minds. The principal interest for donators is the development and the completion of a project, which has some non-economic value for them.

Rewards Crowdfunding

The reward model is based on the collection of funds through Internet in exchange for a “reward” which can range from a message saying “thank you” to a prototype of the product. According to Pristinice (2014) one third of the platforms worldwide use this model. This kind of crowdfunding enables entrepreneurs to pre-sell a product or a service without incurring in debt or in the need of selling shares. The reward-based model can be subdivided in two ways of funding: “all or nothing” and the “take it all”.

In the “all or nothing” the target amount has to be achieved in a fixed period, normally stated in the platform, before the inventor can start anything. If the target is not reached, the amount pledged will be given back to the donators and the idea will not be funded. One of the main platforms of this kind is Kickstarter. Since the launch of the platform, 11 million people have backed a project, $2.4 billion has been pledged and more than 100,000 projects have been successfully funded.[3] Differently, the “take it all” model allows the inventor to use the funds independently on the achievement of the target amount. Normally at the end of the fixed period the platform will inform the inventor of the result and will charge a higher fee on the amount crowd funded. In this kind of crowdfunding only the best ideas are funded.

Equity Crowdfunding

The equity based crowdfunding enables to distribute the risk of enterprise on a larger number of investors, who in case of failure would face a smaller loss. The backer receives shares of a company, usually in its early stages, in exchange for the money pledged (Clifford, 2014). Thanks to these platforms any kind of company can call on a large number of investors (Castrataro, 2012).

The non-listed company sets a target amount and divides it in a number of shares that will be sold on the platform for a fixed period of time. However, in order to be able to buy those shares there are some requisites and every country has its own.

In Italy, Consob, the public authority responsible for regulating the Italian financial markets, has been the first in Europe allowing it since 2012. The law applied only to innovative startups and established, among other rules, a national registry for equity crowdfunding platforms and disclosure obligations for both issuers and platforms. Moreover, at least 5% of the capital has to be invested from professional investors and every private investor has the right to renounce within seven days from the subscription (Natale, 2014). In 2015 with Decreto Crescita 3.0 some improvements have been made, enlarging the number of people that can invest and introducing the innovative PMIs.

As we will see later, in the U.S. the SEC regulates it since January 2015 when they opened up the registration process to approve online platforms intending to legally solicit offerings through equity crowdfunding.

This kind of crowdfunding is the one used in real estate, where investors buy shares of projects.

3 www.kickstarter.com

Lending-based crowdfunding

This model is based on the lending of capital through platforms, which work as financial intermediaries. The platform promotes a project looking for loans and investors will act as a bank by lending the amount needed. The sponsor will then give back the amount he has received plus an interest over the period of time. This model mainly matches people that have excessive liquidity with people that are looking for loans through the web. In this case the platform has to check the financial status of the sponsor and the ability to pay back the loan and the interest. Smartika is a platform of this kind used by more than 6,000 people in Italy,[4] controlled and authorized by the Bank of Italy.

REAL ESTATE CROWDFUNDING: THE US MARKET

Starting from the previous general classification of Crowdfunding we present the application to real estate, where crowdfunding is both Equity and Lending Based. RECF involves the blend of funds through the "crowd", a large number of investors, in a real estate project.

In Equity RECF investors receive an equity stake when they fund a project in commercial or residential properties. Returns are a share of the rental income generated by the property or of their capital gains. Investors typically receive payouts on a quarterly basis.

In Lending Based RECF investors are investing in the mortgage loan associated with a property. Loans are repaid monthly or quarterly with interest, giving a percentage to each investor participating in the deal. As for any investment, the difference is that equity investments offer the potential for higher returns due to the fact that the profitability of a debt investment is limited by the interest rate associated with the loan. However, equity investments have also a higher level of risk and typically require a longer holding period, which makes them more illiquid.

Due to the strong demand and the possibility for non-accredited investors to participating, a great number of platforms have been created in the last year. For an investor is important to understand the kind of investment needed and the time frame of the deal, moreover it is strictly important the quality of the platform's services. Here we briefly describe the three RECF platforms that are leading the U.S. market.

Even if crowdfunding is born few years ago, it has been already creating new opportunities for individuals and for real estate developers by allowing millions of investors to join a Real Estate investment only with a laptop or even just a smartphone. According to Crowdfund Capital Advisors, the market has more than 125 RECF platforms and the number is increasing (Clark, 2016).

In the pre-crowdfunding era, investing in direct real estate was strictly dependent on the personal network of the individual. The main barrier is the minimum investment, that especially in commercial real estate, is usually measured in millions of Dollars, and this is too large for most of private investors. Moreover, direct investment requires specific skills and experience. On the other hand, access to capital for real estate companies is also restricted and it depends on the previous track record, thus making capital very inefficient.

With the Jumpstart Our Business Startups (JOBS) Act in 2012,[5] some of the barriers for RECF were removed: the Title II of the Act eliminated the restriction on general solicitation. Small businesses and start-ups were able to raise capital and advertise their offerings in a much more public way. The network requirement is not a problem anymore. In fact, through the Internet and crowdfunding platforms, investors, instead of having to rely on a strong network to find real estate deals and having

4 www.smartika.it

5 Title II-Access to capital for job creators Sec. 201. Modification of exemption.

to put $100,000 or more into a single deal, they can now access these deals from their laptop or tablet. There was however one last barrier: only accredited investors were able to join these deals.

An accredited investor is a term used by the U.S. Securities and Exchange Commission (SEC) under Rule 501 of Regulation D.[6]

In order to qualify as accredited, an investor must accomplish at least one of the following:

- earn an individual income of more than $200,000 per year, or a joint spousal income of more than $300,000 per year, in each of the last two years and expect to reasonably maintain the same level of income;
- have a net worth exceeding $1 million, either individually or jointly with his or her spouse;
- be a bank, insurance company, registered investment company, business development company, or small business investment company;
- be a general partner, executive officer, director or a related combination thereof for the issuer of a security being offered;
- be a business in which all the equity owners are accredited investors;
- be an employee benefit plan, a trust, charitable organization, partnership, or company with total assets in excess of $5 million.

Finally in October 2015, the SEC proposed rules for Title III of the JOBS Act[7] allowing non-accredited investors to entry into the RECF arena. Millions of new investors are now able to invest a small amount in real estate projects. Non-accredited investors who earn $100,000 or more are able to allocate 10% of their income into crowd-funded investments each year. The limit is set at 5% of their annual income or $2,000 for non-accredited investors who earn less than $100,000 annually.
It is important to understand that investments in these securities are not traded on public stock exchanges, so if funders want to resell their securities they have to do it in a private transaction, following the restrictions of the Securities act of 1933.
According to Cambridge Judge Business School (2016), U.S. RECF platforms have collected over $1.26 billion in 2015.

Fundrise

Fundrise was launched by brothers Dan and Ben Miller, who are now considered the RECF founders. So far there are more than 80,000 members that have invested in nearly $3 billion worth of real estate assets.[8]
"Fundrise is a crowdfunding platform for real estate, which gives investors the ability to browse investment offerings based on investment preferences including location, asset type, risk and return profile, transact entirely online, including digital legal documentation, funds transfer, and ownership recordation, manage and track investments easily through an online portfolio, receive automated distributions and/or interest payments, and regular financial reporting". All the investments on the platform are located in USA as most of the big crowdfunding platforms. The platform is focused on the quality of the investment and last year it outperformed all the most quoted indices as we can see in Figure 2.

6 Regulation D-Rules Governing the Limited Offer and Sale of Securities Without Registration Under the Securities Act of 1933.

7 Title III-Crowdfunding SEC. 301. Short title.

8 www.fundrise.com

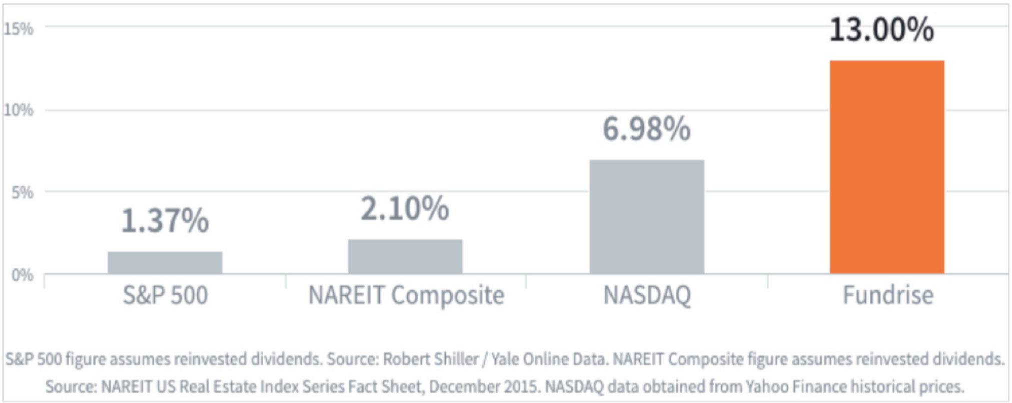

Figure 2 Yearly IRR for Fundrise - *Source: www.fundrise.com*

Due to existing regulations and the recently changed laws, the majority of Fundrise offerings are only available to accredited investors. However, some offerings can be Regulation A filings, allowing everyone, even unaccredited investors, to fund a project. Moreover, investments are now available only to American investors. International investors may currently invest only indirectly through US-based entities.

The minimum size is typically $1,000 per investment, so investors can purchase Notes in $1,000 increments. According to the platform *"a Note is a special, limited obligation of the National Commercial Real Estate Trust, which holds the debt or preferred equity investment in the underlying real estate. After acquiring the corresponding project investment, the National Commercial Real Estate Trust issues and offers Notes dependent upon the specific performance of the corresponding project investment. Each series of notes corresponds to an underlying single investment in a real estate project. Fundrise investment in the corresponding project may be either in the form of debt or equity."*

In other words, when an investor invests in a Project Payment Dependent Note, he is investing in notes issued by the National Commercial Real Estate Trust, which holds the debt or preferred equity investment in the underlying real estate project. Fundrise Servicing, LLC, a Fundrise affiliate entity, serves as trustee.

Real estate companies make payments to Fundrise Servicing, LLC, that services the corresponding real estate assets on behalf of the National Commercial Real Estate Trust, and in turn, the National Commercial Real Estate Trust uses the proceeds of such payments to make payments of principal and/or interest on the Notes.

Payment on the corresponding project investment will remain due even in the event Fundrise goes out of business. However, payments on Notes issued by the National Commercial Real Estate Trust could be delayed or modified in the event of a business disruption.

Regarding tax implications, since investments are in Notes on the platform, it will result as interest income to investors. Investors are scheduled to receive a single 1099, which is a tax form used to report types of income other than wages and salaries, regardless of the number of projects in which they have chosen to invest.

Every project goes through a strict due diligence process, as presented in Figure 3, with on average less than 1% are approved. The process is very strict and in order to reduce the information asymmetry, the platform pre-funds projects it with its own capital before offering them to investors.

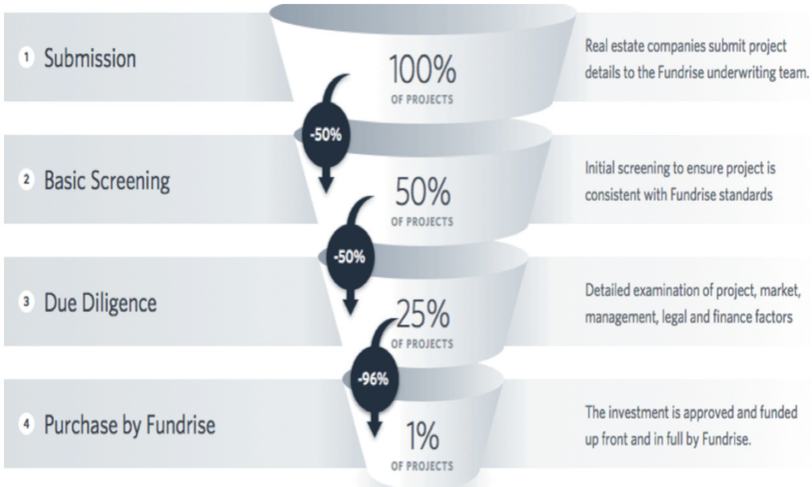

Figure 3 Fundrise due diligence project - *Source: www.fundrise.com*

Fundrise annually charges investors a service and asset management fee between 0.3% to 0.5% of the invested capital amount. In addition, Fundrise charges real estate companies a one-time 1% to 2% origination fee and a $5,000 due diligence and closing cost, regardless of the actual approval of the project.

Example of a real estate project

In this example we describe a project that consist in the acquisition of an existing building to be transformed into a luxury 2-unit condominium in New York. As presented in Figure 4, the investment for the acquisition is $1,990,000, which is roughly 80% of the total project budget. The developer, who is the sponsor of the project, will provide the remaining 20%.

Project Financial Summary

Equity (Sponsor Contributed)	$525,844
Senior Loan (Total eReit Commitment)	+$1,990,000
Total Projected Budget	**$2,515,844**
Projected Sale Price	$4,500,000
Total Projected Budget	-$2,515,844
Projected Profit	**$1,984,156**

The information contained herein is forward looking, and involves financial projections provided by the project's sponsor. Projected profits are included to illustrate the projected margin of safety from the sale of the completed project, and do not imply or indicate any potential profit to be received by the eREIT. Actual results may vary.

Figure 4 Fundrise financial summary di un progetto - *Source: www.fundrise.com*

There is a margin of around 40% between the expected sale price and the estimated total project, giving a comfortable margin for investors.
Fundrise rating system range from A to E and provide investors the possibility to compare different investment opportunities across the platforms. The project is rated B2 from in the Fundrise rating system (Figure 5). *"An investment's Fundrise Rating corresponds to its numerical score in its Project Analysis. The Project Analysis is a quantitative method of measuring eight key risk criteria of a real estate investment. Each of the eight criteria is assessed and scored a corresponding number of points, resulting in a total numerical score ranging from 6 to 20. A Project Analysis score of 6-8 will result in an A1-A3 rating, 9-11 in a B1-B3 rating and so on"*. It is clear that the lower the rating the higher is the expected return requested.
In the eight criteria there are categories such as occupancy, development phase, location sponsor track and investment requirement.

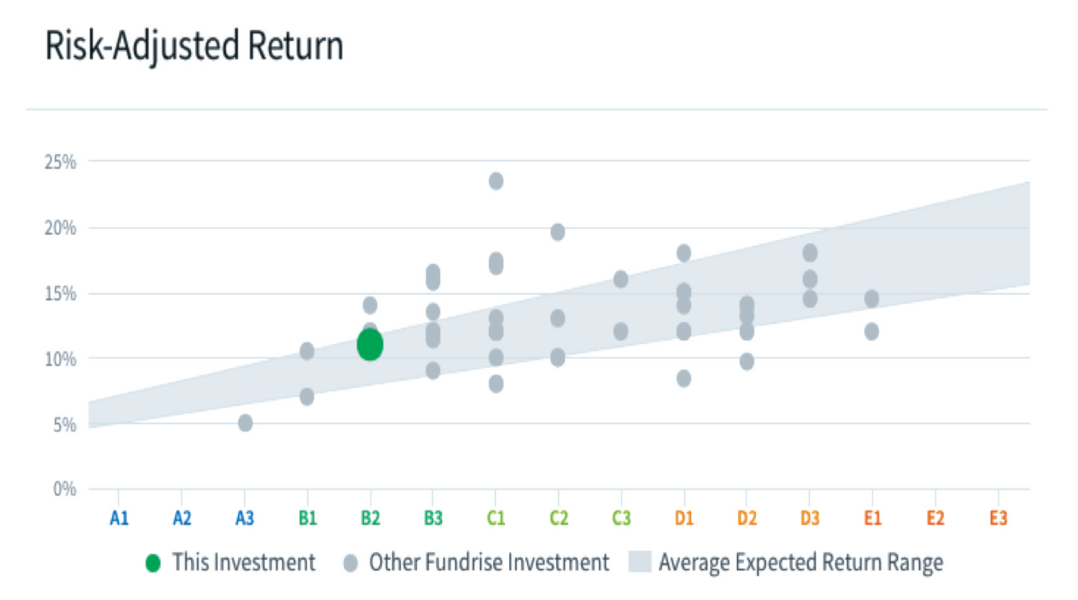

Figure 5 Fundrise risk adjusted return - *Source: www.fundrise.com*

Prodigy Network
Prodigy Network is a RECF platform mainly dealing with real estate assets in Manhattan and Colombia. *"The platform provides the investors a prime level of real estate projects, giving updates, market reports and personalized financial statements"*.
Funded by Rodrigo Niño, originally from Colombia, it has funded the biggest project in the crowdfunding era, The BD Bacata, a skyscraper crowd funded with $170 million. Prodigy Network and its affiliates have led six international and U.S.-based projects, raised more than $300 million from 6,200 investors around the world, and they are currently developing projects globally with a projected value of more than $850 million.[9] The company was so innovative that also the Harvard Business School published a case study on Prodigy (Lakhani, 2015).

9 www.prodigynetwork.com

Differently from Fundrise, this platform is also open to international investors under an exclusion from the registration requirements of Section 5 of the Securities Act known as Regulation S. These offerings are only made available where the offer or sale of securities is made in an *"offshore transaction"* and where there are no *"directed selling efforts"* in the United States. The platform is only available for accredited investors yet, and the minimum requirement is $10,000. Moreover, certain investors may need a cooling-off period. During this period of 30 days the platform checks if the investor has all the necessary requirements to be able to invest in the platform's projects.
Investment opportunities are offered through an online platform and are structured through a master series investment structure (the *"Master Fund"*).
After investors decide to fund a project, their contributions are held in a third-party bank account until the fund administrator notifies a third-party escrow agent that the sponsor has procured enough funding to close the deal on the property. This ensures that the investment is always secured by the property that investors are funding.
Securities acquired in a transaction through the platform are *"restricted securities"* and cannot be resold without registration under the Securities Act or an applicable exemption therefrom.
Prodigy Network and its affiliates, using their strong relationships with developers, owners and stakeholders provide access to quality real estate assets in New York, since they believe it is the best city for high-end commercial real estate investments.
Prodigy Network's affiliate issuers charge fees for the services they provide on behalf of investors. These fees include, but are not limited to, the following charges.

On development projects:
- development fee: 3% of total project cost;
- asset management fee: 2% of equity per annum (1% paid semi-annually until property is sold);
- financing fee: 1% of debt.

On other projects:
- acquisition fee: 2% of purchase price;
- asset management fee: 2% of equity per annum (1% paid semi-annually until property is sold);
- financing fee: 1% of debt.

Reality Mogul
Realty Mogul was launched in 2013 by Jilliene Helman, a lawyer, and this is now one of the leading companies for the real estate capital marketplace, offering both equity and debt. The platform has crowd funded more than $200 million and has more than 80,000 investors registered on their platform.[10]
The platform accepts only accredited and institutional investors and the minimum investment is $5,000, but this can vary depending on the project. Investments funded on Realty Mogul are only private real estate transactions in physical properties in the U.S.
The money provided by investors is held securely in a bank and when the target amount is reached and the real estate transaction is completed, this money is transferred for the sole purpose of the specific loan or specific property that is being invested in. *"Investors who invest in debt typically receive interest payments on a monthly basis, while investors who invest in equity typically receive quarterly distributions".*
In Realty Mogul there are two possibilities of investments for investors, one investing in equity and the second one investing in debt.

10 www.realtymogul.com

In equity investment investors purchase shares in a Realty Mogul Limited Liability Company ("LLC") that in turn invests into an LLC or Limited Partnership ("LP") that holds title to the real property. The LLC owns (directly or indirectly), along with the sponsor and other investors, a share of a joint venture entity that owns a specific investment property, like a specific apartment building. One of the benefits of investing in real estate equity through LLCs is that they can be treated as partnerships for tax purposes. Partnerships generally are not taxed at the entity level (other than annual franchise taxes and filing fees) and can *"pass through"* applicable items of income, loss and depreciation to their members.

In debt investments, investors will either acquire a borrower payment dependent promissory note (a *"Platform Note"*) from Realty Mogul, Co. or purchase a whole loan. When investors invest in a Platform Note, they are purchasing an unsecured note in Realty Mogul, Co., the performance of which is tied to the underlying real estate loan. This Platform Note allows them to receive periodic payments on the loan if and when the borrower on the underlying real estate loan makes interest payments. If a Platform Note loan defaults, an investor will not need to fund additional amounts once the initial investment has been made.

There are fees associated with each investment whose amount depends on the type of investment (loan or equity) and the nature of the transaction. In addition to administrative and legal expenses, the fees will cover the ongoing reporting and communications for the investments. On the website the amount of fees is not disclosed and it is only available for accredited investors.

REAL ESTATE CROWDFUNDING: INITIAL ATTEMPTS IN ITALY

Even if Italy has been the first country to introduce a legal framework regarding equity crowdfunding, the market is still waiting for some changes in order to be as efficient as in the US. The law decree 18th October 2012 n. 179 ("Decreto Crescita 2.0") defines crowdfunding only as an instrument for financing innovative start-ups, where an innovative start-up is defined as a company with, among the others, the following requirements:

- setup within 48 months;
- headquarters in Italy;
- total value of production lower than €5 million;
- producing innovative services or products;
- not set-up by split or a merge of other companies.

Moreover, the innovative start-up needs two out three of the following requirements:

- investing in research & development at least 15% of the difference between total production and total costs;
- having at least one fifth of the employees with proven research skills (Ph.D., Ph.D. students, MSc. or three years of certificated previous research work) or one third of the employees have a master's degree;
- developing or owning a patent for some specific products.

According to the law, in Italy there are two types of crowdfunding platforms:

- Ordinary Platforms;
- Platforms Managed by Banks or regulated investment companies.

In an Ordinary Platforms an individual investor can invest up to €500 in a single deal with a maximum of €1,000 per year; a company can invest up to €5,000 in a single deal and €10,000 per year.

In Platforms Managed by Banks, investors, after being controlled by Consob, are allowed to invest more than €500 only after having satisfied the MIFID test on the knowledge of financial instruments. In addition, at least 5% of the capital of project has to be financed by professional investors.

With the law decree 24th January 2015 n. 3 (*"Decreto Crescita 3.0"*) there was the introduction of Innovative SME (*"Piccola Media Impresa Innovativa"*) and some important innovations on the equity crowdfunding.
An Innovative SME is a company with, among the others requirements, less than 250 employees and yearly revenues lower than €50 million. Moreover, it must satisfy two out of three of the following requirements:

- the company has to invest in research & development an amount greater or equal to 3% of the difference between total production and total costs;
- at least one fifth of the employees with proven research skills (Ph.D., Ph.D. students, MSc. or three years of certificated previous research work) or one third of the employees have a master's degree;
- own a patent over a private technology.

With "*Decreto Crescita 3.0*" Innovative SMEs and Innovative Start-ups can have the headquarters in a European country as long as they have an office in Italy. Another important change is the introduction of *"professional investors on request"*,[11] who are investors allowed to directly invest in the 5% required as social capital.
Now crowdfunding platforms can decide on the risk profile of the project and the investor can do everything online without need to going through the bank; before the new law, they had to be checked by Consob, making this less efficient compared to other countries. Even if the "Decreto Legge 3.0" introduced other important changes, by increasing the number of "professional investors on demand" and of companies that can get funded, there are still some important limits in RECF. The main limits are that only innovative start-ups or PMIs can get funded through equity crowdfunding, that there is a maximum limit in the investment amount and that the funded project should satisfy a public or civic purpose or being an innovative service/product. This means that RECF cannot fund all the real estate projects, but only those with some public interest for example as social housing, co-housing and nursing homes.
Here we describe three platforms that, in different ways, are trying to introduce RECF in Italy.

Italy-crowd
Italy-crowd is a platform dedicated to the crowdfunding of real estate in touristic areas, they do not collect money, but options of interest. Italy- crowd is described as a hybrid platform where investors, with a maximum of 20, can demonstrate their interest in the proposed project. Once the time to present interest is over, even if it doesn't meet the target amount, the interested investors will meet with a lawyer and a team of specialists in order to decide how to split the investment amount. For this reason, the platform is considered as a hybrid since the platform does not receive money directly. The idea comes from Swiss-crowd,[12] the original platform which has been created in Lugano, Switzerland. The two platforms are owned and operated by Abacus International, a company owned by Augusto Vecchi. Due to this, the same projects are on both platforms. The Swiss platform has already funded two luxury apartment refurbishment projects in Lugano where each of the 20 investors had the opportunity to invest CHF 90,000; they were returned CHF 117,000 in 20 months. However, as Augusto Vecchi stated, the platform is still for a limited target of investors due to the profile and quality of the investments and due to the Italian laws which do not allow directly CFRE.

11 In order to be qualified as professional investor on request, it is requested to trade at least 10 deals on the listed market every quarter of the previous four quarters, to own a portfolio of investments of more than €500,000 and to have at least one year of experience in the financial sector.

12 www.italy-crowd.com

The Italian platform, together with the Swiss platform, has already concluded the funding of three projects in different locations.
The first one is the Miramonti Residence, a development project funded in November 2015. The project consists in a luxury 30 apartment building, located in the main street of Courmayeur, an exclusive village close to Monte Bianco and one of the best location in the Alps. The initial investment amount was €13 million and it is expected to get revenues for a total amount of €30 million.[13]
The second project is an old farmhouse funded in May 2015 and located in Chianti (Tuscany). This property is equipped with winemaking facilities and a big vineyard area around. The investment was €2.7 million. Finally, the third project is a tourist port and holyday park in Sarzana, located in between Tuscany and Liguria. The port can host up to 135 boats and it is a strategic place for visiting famous areas as Cinque Terre. In the project there is also a holiday park on a 90,000 sqm. area with 450 camping sites, all provided with electricity and water connections, and 40 stone built bungalows. This investment opportunity was funded in April 2015. The platform was looking investors intended to fund up to 45% of the entire project, whose amount is around 18 million.

Slowfunding

Slowfunding, still not operating, has the aim to refurbish abandoned historic buildings located in small villages with the support of a large number of investors. It gives owners the possibility to find co-investors interested in participating into a new real estate project. The idea is aimed at safeguarding and regenerating the real estate of the Italian countryside, often made by high quality and historical buildings, but in bad conditions. Their recovery could bring to an economic development for the whole area. Owners often do not want to sell them, but at the same time they do not have the resources to invest in order to regenerate them. Slowfunding is trying to cope with this financial gap in order to give these historic buildings a new life.
The company has won many awards, on top of them the TIM “Working capital accelerator” in 2014, and has been selected by Intesa SanPaolo during the Start-up initiative in 2014.

CrowdRe

CrowdRe is not really a crowdfunding platform, but it mainly works as a consulting firm. It improves business plans and enriches them with the best opportunities offered by crowdfunding.
It is fundamental that the project has a civic purpose. It operates on six typologies of properties: cohousing, multifunctional centers, public entities, urban areas, senior residences and tourism.
CrowdRe has created agreements with equity-based crowdfunding platforms authorized by Consob, such as wearestarting.it, which provides the needed information in equity crowdfunding. It also collaborates with the best international platforms operating in real estate in Europe and in the U.S.

CONCLUSION

In this paper we have presented the crowdfunding with special interest in the real estate, with a focus on the United States, the most developed market, and Italy, a country with still a lot of room for its development. The transparency and the low capital requirements are the true innovations and point of strengths of this funding instruments.
RECF has been creating a new phase for the real estate market. Even if it is still in its infancy, in the U.S. it already provides the possibility to invest directly in real estate to a wider range of people.

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By investing either in debt and equity and in both commercial and residential properties, investors have the opportunity to gain exposure to a new asset class, direct real estate, with fewer barriers to entry. The possibility to use limited funds and diversification play an important role not only for the real estate market, but also for the economy as a whole.
The most important advantage that RECF platforms offer is transparency. In terms of monitoring the investment's progress and features the online platforms enable the investor to be able to be updated from everywhere.
The lower investment requirement has reduced investment size, one of the main barriers to real estate investments. In fact, RECF sets the minimum requirement with a $5,000 minimum. This possibility to invest relatively little money, compared to normal direct real estate investments, has increased the number of investors available to fund a project. Moreover, the low investment requirement has given the possibility to investors to diversify their direct real estate investment risk exposure.
RECF also offers certain rewards to borrowers who need funding to complete a development project. It has created a completely new pool of investors who do not need a network or a large amount of capital. In addition, it is often better to get loans or to get funded through platforms since there is no need to be approved by a bank. Moreover, online platforms could have lower fees and interest rates for borrowers.
Even if RECF could bring positive elements, it has still various aspects that needs to be improved. Compared to indirect investments, as shares of Reits or real estate funds, an investor still needs to invest in a large number of properties to diversify the portfolio for geographic, regional, tenant and property type risk. However, in the RECF world, even if there is now a large number of platforms, most of them still can offer only few projects. Due to the high degree of quality requirements and time needed by the platforms to scrutinize a new project, every month only few of them come up to investors. Geographical diversification is even harder because the biggest platforms are American and their projects are located in USA.
In addition, join a project is not easy and straightforward since the investor firstly has to choose between one of the more than 100 websites already operating in the U.S. Many of them have a thirty-day acceptance period, in which they go through the investors' documents, so that the investor has to wait even to view the investment opportunities.
Compared to indirect investments, education and business knowledge are further limitations since the investor should deeply analyze the platforms and the investment proposals, with different risk and return profiles.
Until 2015 the main limitation was the fact that RECF was limited to accredited investors only. However, with the proposal Title III of the JOBS Act by SEC, non-accredited investors have now been allowed to entry into the RECF arena.
It is important to note that while RECF platforms will be able to accept investments from non-accredited investors, not all of them may choose to implement this policy. Now on the market there are no non-accredited investor investment opportunities, which means that the situation is not changed from the past.
Compared to indirect investment, the last limit is the minimum amount: even if this are much lower than those for direct real estate, the minimums are still too high compared with the average crowdfunding investment opportunities in other sectors.
In Italy, due to the local laws, there is still a lot of room for this new way of investment. RECF is not feasible yet, but as we have seen in the previous chapters there are ways to attract investors through equity crowdfunding style platforms such as Italy-crowd, that uses Innovative Start-ups and CrowdRe,

that uses Innovative SMEs. The fact that in order to invest more than €500 an investor has to pass the MIFID test slows down the investment process. The maximum value of a deal of €5 million keeps the market away from the true real estate projects: in fact, Italy-crowd uses it only as a window for options of interest in order to be able to fund larger projects as the Miramare residence in Courmayeur on a club deal basis. It is important to consider that even if the maximum size of a deal is €5 million, the funding is mixable, which means that the rest can be funded in conventional ways. Every investment needs a civic purpose, so that we believe social housing, co-housing and nursing homes can be the next target for RECF.
There is still a lot of room in the market for RECF. The “Decreto Legge 3.0” has introduced important changes, by increasing the number of “professional investors on demand” and the number of companies that can get funded; moreover, it simplified the whole investment process allowing investors to do everything online.
In the U.S. RECF has already raised more than $1 billion and there are already more than 125 platforms, while in Italy the main limits remain the fact that only innovative start-ups or PMIs can get funded through equity crowdfunding, the fact that there is a maximum limit in the investment, that this need a 5% capital amount invested from professional investors and that the funded project should satisfy a public or civic purpose or being an innovative service/product.

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