Real Estate Crowdfunding

Introduction to an alternative way of investing

March 2019
Starting from early 2000, many players have started to think about alternative equity and debt collections to support a wide range of entrepreneurial ideas, and also, something to help people get their dreams come true. Crowdfunding is an interesting method to let demand and supply meet more easily. In the real estate industry, also in Italy, many players have started their journey and in this report we aim to provide the business community with the state of the art about this phenomenon.
What is crowdfunding

Crowdfunding is defined as a collection of equity and debt to be invested in several kind of projects through a web-based platform able to create opportunities by matching lenders and sponsors.

Different stakeholders take part to it, the majority of them is below defined:

- Crowdfunder: backer, donor, investor and, in some cases, private and public institutions;
- Beneficiary-investee: small companies, NGOs, individuals, start-ups, product, project, initiative or ideas;
- Crowdfunding online platform: tool able to connect crowdfunders with the beneficiary or investee, that is remunerated through commissions from both crowdfunder and beneficiaries;
- Third party verifier and other service providers: those parties who support platforms and beneficiaries/investees by providing services as, in example, due diligence, legal support, tax structuring, project monitoring.
- Sponsors: those providing assistance in designing and running crowdfunding campaigns on a pro-bono basis or on a commercial one.

Typically, crowdfunding platforms are differentiated on the basis of the kind of project they support or on the basis of the geographical coverage.

Based on our analysis, the investments are mainly focused in businesses and entrepreneurship (40%), social causes (20%), films and performing arts (12%) and Real Estate (6%).

Following these, there are target subsectors like agriculture, retail, food. A small portion consists of environmental projects mainly related to renewable energies.

To best meet the various type of projects’ needs, there are several categories of crowdfunding, which differ on the way in which the user gains a financial return. In particular, there are mainly two categories of return: the first, called the “financing way”, including equity and lending crowdfunding, offers a financial yield to investors; the latter is identified as a “non-financing way”, as it offers to users the possibility to donate money or to gain a non-monetary return.

Crowdfunding offers a sustainable way to easier invest savings, gaining returns and, in the case of equity crowdfunding, becoming part of projects that would otherwise be out of reach for an individual. Moreover, the use of internet has allowed to cut both communication costs and transaction ones through electronic payments. In addition, crowdfunding websites create transparency and more open communication with investors. These factors are essential for the success of a crowdfunding campaign but also for the growth of the platform.

On the other hand, it is necessary to build trust which is essential for the financing of the projects. With regards to the regulatory framework, it varies substantially across countries and based on the model used, the project sponsor and beneficiary. However, in some countries generic provisions are applied to protect investors when there is a lack of legislation. In other countries, there are specific requirements like registration and other governance and reporting requirements in equity and lending crowdfunding or banking license in case the platforms operates like a banks. Lastly, there could be the possibility for some platforms to be monitored at federal level along with state-level agencies.

Two different fundraising models

1. All or nothing (also ‘fixed model’): the success of the campaign is linked to the achievement of a target. If it is not reached, the funds are returned to contributors. It is perceived as low risky and very attractive.

2. Take it all (also ‘flexible model’). All the picked funds are accepted, independently from the attainment of the target. Even though could be seen as an easier platform (no limitation in fundraising exists), it forces campaigners to stick anyway to the promises made.
How it works

To run crowdfunding campaigns, some operating costs are incurred by beneficiaries/investees:

- Platform fees: usually in the range between 3% and 8% of the capital raised depending on the platform and the type of crowdfunding. Instead of platforms fees, there could be recovery contribution costs in order not to bear the commercial costs but the operational one;
- Equity (additional) fees: can include accounting fees, legal and securities costs, shareholder services and reporting requirements;
- Marketing costs: refers to communications, IT, design and video production due to the fact that successful campaigns are often supported by well-designed marketing strategies and professional service providers;
- Project specific costs as some campaigns may need prototypes as proof of concept.

Equity crowdfunding campaigns can involve other costs:

- Costs of control or due diligence on the feasibility of projects and insurance premiums for investors protection;
- Payment of interests (if any);
- Realization costs related to the project documentation and to the promotion of the initiative.

The history of the crowdfunding market

2008
Crowdfunding started in an organized way in the wake of the 2008 financial crisis largely because of the difficulties faced by entrepreneurs and early-stage enterprises in raising funds. Since traditional banks were less willing to lend, entrepreneurs started to look elsewhere for capital.

2012
Equity crowdfunding was explicitly prohibited in the United States prior to the passage of the JOBS Act in 2012.

2013
Title II of the JOBS Act became effective and it relaxed the rules concerning public investment solicitation from accredited investors.

2015
Title IV Regulation A+ of the JOBS Act became effective and it enables crowdfunders to raise up to $50 m per year through securities offerings, with retail investors permitted to participate.

2016
Title III of the JOBS Act expanded permissible equity crowdfunding to include the general public (accredited and non-accredited investors).

Requirements of the new regulation for Investors:
- Individual non-accredited investors can commit up to $2,000 a year to equity crowdfunding projects if the person’s income is < than $100k a year and up to $10k if it is > $100k.

A typical Crowdfunding structure

Source: EY elaboration on several sources
Up to 2018, the global Crowdfunding collection was approximately $84 bn, of which $33 bn in US, $16 bn in EMEA and $28 bn in APAC
Crowdfunding in numbers

The global crowdfunding market is worth $84 bn as at 2018 and is forecasted to reach $114 bn by 2021, meaning an expected CAGR (2016-2022) of approximately 17%. The region which will fuel the market growth is APAC, which will contribute for almost 50% of the global market growth.

Americas account in 2018 for, approximately, 50% of the global market share, meaning $42 bn, 85% of which is represented by US ($33 bn).

EMEA is worth about 20% of the total market share reaching $16 bn in 2018, expected CAGR is approximately 14.7%.

As at 2018, APAC region contributed to c.a. 30% of the global crowdfunding market (c.a. $28 bn). APAC is showing a faster growth rate and by 2022 this region should achieve a total market share near to 40%.

With regards to leading countries, US, UK and Canada are the top three states with, respectively, 42%, 11% and 5% global market share.

In addition, on a global level, 70% of the crowdfunding industry is represented by lending crowdfunding (2016), while equity investments accounted for 8% of the total market.

Equity crowdfunding is the fastest-growing segment with a CAGR (2016-2021) of 33.9% in contrast with 10.9% performed by lending crowdfunding.

The leading industries in terms of market share by end-users are: Entrepreneurship, Social cause, Entertainment and Real Estate. Moreover, crowdfunding is becoming a primary source of capital for ventures in the Entertainment industries (i.e. movies and theater, music and publishing) which have a restricted access to the traditional source of financing.

Real Estate

It is one of the fastest-growing segments for crowdfunding.
It guarantees to the investors high returns on investments, in the order of 10%-15% on average.

In 2016 this segment amounted for $4 bn By 2021, it will probably reach $9 bn, with a CAGR of 19%.

Global crowdfunding market (2016-2021) - $ bn

Global Real Estate crowdfunding market (2016-2021) - $ bn

Source: EY elaboration on several sources
Key Players

We have paid particular attention to the most tagged players that have boosted the growth of the crowdfunding phenomenon.

Almost all the most renowned players were born between USA and UK in the period between 2008 and 2013. In particular, in the USA, the most brilliant markets in terms of crowdfunding popularity are San Francisco and New York.

These platforms are able to connect investors and investees from different countries, creating international communities. They collect capital from more than 100 countries and provide it to their clients.

The most interesting destinations for the capital collected through crowdfunding are USA & Canada, UK & Ireland, Australia & New Zealand, Europe, Norway, Switzerland, Hong Kong, Singapore, Japan and Mexico.

Crowdfunding investments interest a variety of sectors, among which the most “capital-attractive” ones are: Food & Beverage, Healthcare & Fitness, Design & Fashion, Technology, Advertising & Marketing, Construction & Hospitality services, Automotive, Consumer goods, Data & Analytics and Energy.

The renowned crowdfunding platforms invest in single ventures, providing capital to entrepreneurs and to early stage start-ups, as well as growing companies. Moreover, artists, musicians, filmmakers, designers and content creators are also an interesting target of crowdfunding, since they need financial resources to grow.

With regards to the volumes, USA is the biggest market, characterized by platforms that have provided (on a singular basis) since their launch, more than $1 bn to several clients.

Most “tagged” crowdfunding platforms worldwide

**Indiegogo**
- Founded in 2008
- Located in San Francisco (USA)
- Target clients: start-ups and growing companies
- Sector of interest: Food & Beverage, Health, Transport, local businesses etc.
- Capital raised: >$1 bn
- Geography of investors: up to 235 countries

**Kickstarter**
- Founded in 2009
- Located in New York (USA)
- Target clients: artists, musicians, filmmakers, designers and others
- Sector of interest: Fashion, Food, Tech, Design etc.
- Capital raised: approx. $4.1 bn
- Geography of investors: up to 23 countries across USA, Europe and Asia

**Patreon**
- Founded in 2013
- Located in San Francisco (USA)
- Target clients: artists, content creators, start-ups
- Sector of interest: Food, Tech, Healthcare, etc.
- Capital raised: approx. $160 mn
- Geography of investors: USA and Canada

**Crowdfunder**
- Founded in 2011
- Located in Los Angeles (USA)
- Target clients: single ventures, early-stage start-ups
- Sector of interest: Advertising and Marketing, Construction, Hospitality, Healthcare, etc.
- Capital raised: approx. $160 mn
- Geography of investors: USA and Canada

**Crowdcube**
- Founded in 2011
- Located in Exeter (UK)
- Target clients: entrepreneurs
- Sector of interest: Automotive, Consumer goods, Fintech, Infrastructure, Tourism, etc.
- Capital raised: >$160 mn
- Geography of investors: over 100 countries (top countries for # of investors: UK, Italy, Spain, Germany and Australia

**Seedsrs**
- Founded in 2012
- Located in London (UK)
- Target clients: entrepreneurs and investors
- Sector of interest: Advertising and Marketing, Data & Analytics, Food & Beverages, Property & Energy etc.
- Capital raised: >$500 mn
- Geography of investors: Europe

Source: EY elaboration on several sources
Real Estate crowdfunding is a win-win structure for both investors and sponsor.

The global Real Estate crowdfunding industry was valued $8 bn as at March 2018.
Real Estate Crowdfunding

Real Estate crowdfunding is a relatively new concept, which applies fintech logic to capital collection for Real Estate investments. The capital raised is used in order to purchase, develop or refurbish a Real Estate asset with the aim of subsequent use or transaction. Thanks to the nature of the crowdfunding mechanism, users can diversify their portfolios by investing in a variety of properties generally through a low minimum investment amount required.

The typical Real Estate crowdfunding structure is mostly applicable when a development company in the market desires to build or refurbish an asset located in a location with a high growing potential. Crowdfunding takes place among the different sources of capital aimed to finance its investment, including capital expenditure forecasted in its business plan.

The success of the investment and its returns depend on some drivers, such as: the platform’s ability to select projects (independence), the operator’s track record and the amount of initial equity.

In addition, Real Estate crowdfunding platforms act as service providers for developer companies and their projects. The capital structure of a project includes: preferred equity, common equity, mezzanine debt, senior debt and crowdfunding which is used in a complementary way to the other means of financing. Therefore, crowdfunding players must be able to adapt flexibly to meet their sponsors’ requests.

Investors’ and sponsors’ benefits

<table>
<thead>
<tr>
<th>INVESTORS</th>
<th>SPONSORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower fees and tax deduction</td>
<td>Overcome financial constraint</td>
</tr>
<tr>
<td>Reduced middlemen (mortgage brokers, Real Estate agents or contractors)</td>
<td>Especially at the beginning of company life cycle</td>
</tr>
<tr>
<td>Diversification</td>
<td>Diversified sources of capital</td>
</tr>
<tr>
<td>By risk, strategy and geography</td>
<td>Less depended on a few main capital providers</td>
</tr>
<tr>
<td>Direct Access</td>
<td>Network</td>
</tr>
<tr>
<td>To a selection of RE investment opportunities also by investing low amounts of money</td>
<td>Access to a large network of investors</td>
</tr>
<tr>
<td>Volatility</td>
<td>Better Terms</td>
</tr>
<tr>
<td>Potential higher returns compared to traditional investments</td>
<td>For fees, taxes and administrative costs</td>
</tr>
</tbody>
</table>

Source: EY elaboration of several sources
Real Estate crowdfunding models

Crowdfunding models may refer both to non-financial return formats (donation and reward-based) and financial returns ones (lending and equity), based on the different needs of the campaign’s owner. The most-commonly used model is the one granting financial gains. There could be platforms specialized either in equity crowdfunding or in lending crowdfunding and “hybrid” models which deal with both.

**Lending**
Capital repayment most often with interest.

Examples of platforms:
- Sharestates (US) with $1.56 bn
- Patch of Land (US) with $725 mn collected

This model is based on the lending of capital through platforms, which work as financial intermediaries. It matches people that have excessive liquidity with third parties that are looking for loans through the web.

**Equity**
Investment for an ownership stake in the Business.

Examples of platforms:
- 1031 crowdfunding (US) with $1.3 bn
- Crowd House (Switzerland) with €600 CHF mn
- CrowdStreet (US) with $460 mn collected

This model 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.

- The platform promotes a project looking for loans and investors
- The investors expect to receive the capital invested plus an agreed interest over the period of time
- Thanks to the platform, any kind of company can call on a large number of investors
- 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

Source: EY elaboration on several sources
The total capital pledged to the global Real Estate crowdfunding industry was $8 bn as at June 2018. USA is the largest crowdfunding market but Europe registered the highest growth rate in the last few years.

A $ 8 bn Market of Real Estate crowdfunding!

The yield usually is given by the interest rate, which can be fixed or indexed. The object is the subject loan, not the specific use of the amount lent to the borrower. However, in certain cases, it is possible to obtain an extra return linked to the sale of the property.

Main risks of lending crowdfunding:
Late payments: there is no certainty that borrowers will be able to repay investors on time.
Mortgage: the crowdfunding platforms are not allowed to register a mortgage on the asset. The RE Company which borrows the money acquires the property of the assets and gives it as a mortgage guarantee to a third party (SPV) that holds it as a guarantee for all lenders.

Main risks of equity crowdfunding:
Capital gain/loss: The success of the operation depends on the variable price of shares. So if the project fails, the difference between the exit value and the invested capital will be negative, therefore investors lose money.
Liquidity risks: Shares in smaller or early-stage companies are illiquid and subject to volatility. Investors might find it difficult to access their money after the investment.

As shown in the graph below, in the European market there are good opportunities for growth, as witnessed by the 89.6% CAGR.

Source: EY elaboration on several sources
Real Estate crowdfunding - What & Why

Trends of some successful Real Estate platforms worldwide

All the most known platforms specialized in Real Estate were born between 2010 and 2014 in the USA. The most active hubs are located in California.

The investment targets are:
- Real Estate assets under development
- Real Estate assets already fully built

All of the main players’ portfolios are characterized either by a “focused” or a “diversified” investment strategy according to the level of variety of assets they invest in.

On average, half of the selected platforms invests in residential properties while the other half invests in Real Estate assets with different use (residential, retail, office, industrial).

With regards to the volumes, there are platforms which, on a singular basis, have provided up to $2.5 bn.

A consistent number of platforms requires its investors to provide a minimum amount of capital ranging from $100 up to $10,000.

In terms of active users, the players under study involve between 40,000 users and 500,000 users.

The returns for investors vary on the basis of the crowdfunding model (lending vs equity) adopted, on the type of asset acquired and on the timing of the investment.

Most “tagged” Real Estate crowdfunding platforms worldwide

<table>
<thead>
<tr>
<th>Platform</th>
<th>Founded</th>
<th>Located</th>
<th>Crowdfunding model</th>
<th>Type of asset</th>
<th>RE asset class</th>
<th>Capital raised</th>
<th>Minimum investment</th>
<th>Investors</th>
<th>N. projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundrise</td>
<td>2010</td>
<td>Washington DC</td>
<td>Equity</td>
<td>Developments</td>
<td>Residential, Commercial</td>
<td>$2.5 bn</td>
<td>$500</td>
<td>500,000</td>
<td>211</td>
</tr>
<tr>
<td>Patch of Land</td>
<td>2013</td>
<td>Los Angeles</td>
<td>Lending</td>
<td>Developments</td>
<td>Residential, Commercial</td>
<td>$725 mn</td>
<td>$5,000</td>
<td>5,000</td>
<td>1,571</td>
</tr>
<tr>
<td>Realty Mogul</td>
<td>2012</td>
<td>San Los Angeles</td>
<td>Equity and Lending</td>
<td>Mostly finished</td>
<td>Residential, Retail, Commercial</td>
<td>$2 bn</td>
<td>$1,000</td>
<td>175,000</td>
<td>201</td>
</tr>
<tr>
<td>RealtyShares</td>
<td>2013</td>
<td>San Francisco</td>
<td>Equity and Lending</td>
<td>Finished assets</td>
<td>Residential, Industrial, Retail, Hospitality</td>
<td>$870 mn</td>
<td>$5,000 (some offers require only $1,000)</td>
<td>88,000</td>
<td>1,160</td>
</tr>
<tr>
<td>CrowdStreet</td>
<td>2014</td>
<td>Portland</td>
<td>Equity and Lending</td>
<td>Developments and finished assets</td>
<td>Residential, Commercial</td>
<td>$320 mn</td>
<td>$10,000</td>
<td>100,000</td>
<td>200</td>
</tr>
<tr>
<td>Groundfloor</td>
<td>2013</td>
<td>Atlanta</td>
<td>Lending</td>
<td>Developments</td>
<td>Residential, Land</td>
<td>$38 mn</td>
<td>$10</td>
<td>50,000</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: EY elaboration on several sources
Main trends for the future of crowdfunding

Trends for the future of the crowdfunding market are: consolidation and sector focus. These factors will depend on the sustainability of the business and its capability to attract investors (institutional and non-accredited).

Focus on Institutional Capital
Real Estate crowdfunding platforms aim at growing further: as a consequence, we will see an increase of services offered to the supply side.

Opening to Non-Accredited Investors
In 2016, the SEC’s finalization of Title III of the JOBS Act opened the doors of Real Estate crowdfunding to non-accredited investors.

Consolidation of Real Estate crowdfunding Industry
It’s not reasonable to assume that every platform is equipped to go the distance and scale into a sustainable business. Indeed, size is important when it comes to building an ever-growing investor base.

Specialized Platforms
People will start looking for more focused crowdfunding platforms to fit their specific needs (either geographically or by offering more specific financial products).

One of the key drivers for this market will be social media as a source of cost-free promotion

In the world of financial investment, timing is everything. In the past, successful decision-making was based on knowledge gathered from traditional media, trade publications, and personal connections. However, with the rise of social media, there is now a quicker, more efficient way of gathering data to influence investors’ judgements.

Main Global Real Estate crowdfunding Platforms

<table>
<thead>
<tr>
<th>US</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROUNDFLOOR</td>
<td>PROPERTYPARTNER (UK)</td>
</tr>
<tr>
<td>CROWDSTREET</td>
<td>CROWDESTATE (Estonia)</td>
</tr>
<tr>
<td>FUNDRISE</td>
<td>HOUSERS (Spain)</td>
</tr>
<tr>
<td>PATCH OF LAND</td>
<td>PROPERTY PARTNER (UK)</td>
</tr>
<tr>
<td>REALTY SHARES</td>
<td>IFUNDED / BULKESTATE (Germany)</td>
</tr>
<tr>
<td>REAL MOGUL</td>
<td></td>
</tr>
</tbody>
</table>

Source: EY elaboration on several sources
From 2015 to 2018, the Italian crowdfunding market has reached the threshold of € 250 mn of capital collected.
The Italian Crowdfunding market

Since 2015, web-based collection of capital in Italy recorded an amount of approximately € 250 mn, of which € 112 mn collected only in 2018. In this year, the value of capital collected in equity crowdfunding was € 36 mn. Also the year 2017 has been crucial for the sector, as the value of crowdfunding grew by 45% In particular, 2017 was the year of the equity crowdfunding that has determined the exponential increase in value of the entire market. Equity crowdfunding was able to collect approximately € 60 mn in Italy since its beginning, of which more than € 40 mn in 2018. On the other hand, lending crowdfunding recorded a total collected amount of approximately € 130 mn, of which approximately € 52 mn in 2018. The remaining € 55mn were raised by donations and other type of personalized campaigns. The clearest growth signal is the fact that both equity and lending crowdfunding, during the first half of 2018, exceeded the whole 2017 in terms of capital collection.

This is the result of the opening of the market to all SMEs, (previously limited to startups and innovative SMEs) thanks to the 2017 Budget Act approved in 2018.

In Italy, the main equity Real Estate crowdfunding platform has collected more than € 7 mn and the main lending platform has collected some € 3 mn.

Looking at the nearest future, two main trends are appearing in the market. Firstly, it is clear that not only digital startups but also tangible-innovative projects will be subject of investment by crowdfunding platforms. As an example, Glass to Power, an innovative project related to the application of photovoltaic technology to buildings’ windows, will be financed by some 500 investors through crowdfunding. Secondly, some of the most innovative Platforms like CrowdFundMe are willing to enter in the secondary market, in order to ease the exchange of their stocks, by the end of the year.

Crowdfunding emerged in an organized way in the wake of the 2008 financial crisis largely because of the difficulties faced entrepreneurs and early-stage enterprises to raise funds. With traditional banks less willing to lend, entrepreneurs started to look elsewhere for capital.

Evolution in law has gradually supported the development of the crowdfunding market in Italy

2008

 Originally, only forefront startups could benefit of its use.

2017

 After 2015, crowdfunding opened its doors to most innovative SMEs.

Real Estate was still not allowed to enter.

Budget Act

All SMEs could finally have access to online capital collections.

The limit of innovativeness decays.

Real Estate officially entered in the crowdfunding market.

New Consob regulation

Anyone can be financed through crowdfunding.

Main requirements:

- > N. of employees < 250
- > Revenues < € mn 50
- > Total Assets < € mn 43

2018
Crowdfunding Regulation in Italy

With regards to equity crowdfunding, the Italian legislator is introducing a similar regulation to the one planned for investment service, although more simplified. The goal is to balance the need for protections by investors without hindering the development of the sector.

- The regulation is extended to all small and medium-sized enterprises that intend to carry out an equity crowdfunding campaign (both Ltd and LLC) upon the requirement to include in their by-laws or instrument of incorporation, the right of withdrawal or the right to co-sell their shares in favor of other investors except for professional ones. The regulation also requires the publication of any shareholders’ agreement, as well as other information concerning the identity of the financial advisors of the issuer, its supervisory body and auditors.

- A “capital requirement” was introduced for the purpose of enrolling in the “equity crowdfunding Platforms Register” held by Consob. It consists of an investor’s subscription to a compensation system to protect investors or, alternatively, the signing of a insurance for professional indemnity that guarantees equivalent protection to customers (according to the criteria to be established by Consob with regulation).

- Possibility for an equity crowdfunding platform to have access to “self-quotation” campaigns, or campaigns to raise capital on itself. The main condition requires to take suitable measures for the effective management of the conflict of interest.

- Whistleblowing policy, in particular the changes concern the internal reporting of violations by portal operators, which must be approved by the administrative body and be defined in line with the principle of proportionality.

- Reduction of 5% threshold, relating to the minimum share of the offer to be subscribed by ‘qualified’ investors, to 3% for offers made by small and medium-sized enterprises.

Lending crowdfunding tax regulation

Until fiscal year 2017, the financial gains from lending crowdfunding contributed to the determination of taxable income and were taxed according to the marginal tax rate.

With the new regulation, the withholding tax applied to the financial gains for lending crowdfunding is that of 26% as provided for other financial income such as dividends and bonds.

Sources of financing

In Italy, the minimum capital required to access a project of Real Estate crowdfunding is within a range between € 500 and € 10,000. For this type of initiatives the main sources of financing are: debt, pre-sales, shareholders’ equity and equity crowdfunding, which weights on average 10% to 15% of the financial structure. Projects are often over-financed, in other words, the amount collected exceeds the minimum target expected. In this way, the weight of the equity crowdfunding increases up to a registered maximum of 22%.
### Italian Crowdfunding platforms accredited to Consob as at 2019

<table>
<thead>
<tr>
<th>Platform</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action crowd</td>
<td>various</td>
</tr>
<tr>
<td>Back to work 24</td>
<td>various</td>
</tr>
<tr>
<td>Investi-Re.it</td>
<td>various</td>
</tr>
<tr>
<td>Club deal Online</td>
<td>various</td>
</tr>
<tr>
<td>Cofyp</td>
<td>various</td>
</tr>
<tr>
<td>Crowd Fund Me</td>
<td>various</td>
</tr>
<tr>
<td>Crowdinvest Italia</td>
<td>various</td>
</tr>
<tr>
<td>Doorway</td>
<td>various</td>
</tr>
<tr>
<td>Ecomill</td>
<td>various</td>
</tr>
<tr>
<td>Europacrowd</td>
<td>various</td>
</tr>
<tr>
<td>Extra Funding</td>
<td>various</td>
</tr>
<tr>
<td>Fundera</td>
<td>various</td>
</tr>
<tr>
<td>Thebestequity</td>
<td>various</td>
</tr>
<tr>
<td>Ideas Crowdfunding</td>
<td>various</td>
</tr>
<tr>
<td>Italy Funding</td>
<td>various</td>
</tr>
<tr>
<td>Lifeseeder</td>
<td>various</td>
</tr>
<tr>
<td>Leonardo Equity</td>
<td>various</td>
</tr>
<tr>
<td>Muum Lab</td>
<td>various</td>
</tr>
<tr>
<td>Next Equity</td>
<td>various</td>
</tr>
<tr>
<td>Opstart</td>
<td>various</td>
</tr>
<tr>
<td>Crowd 4 capital</td>
<td>various</td>
</tr>
<tr>
<td>Mama Crowd</td>
<td>various</td>
</tr>
<tr>
<td>StartUp</td>
<td>various</td>
</tr>
<tr>
<td>200 crowd</td>
<td>various</td>
</tr>
<tr>
<td>We Are Starting</td>
<td>various</td>
</tr>
<tr>
<td>Lita</td>
<td>various</td>
</tr>
<tr>
<td>Build Around</td>
<td>various</td>
</tr>
<tr>
<td>Walliance</td>
<td>Real Estate</td>
</tr>
<tr>
<td>Concrete Investing</td>
<td>Real Estate</td>
</tr>
<tr>
<td>House4Crowd</td>
<td>Real Estate</td>
</tr>
</tbody>
</table>
Real Estate Crowdfunding is a fast-growing industry which has still some unexploited potential. It can work effectively as a source of financing upon certain conditions and type of projects. Among many we have identified three different opportunities for which Crowdfunding may represent a solution.

**Developments and Value Added projects**

- Real Estate Crowdfunding is suitable to all those investments made with the mindset of reaching high returns (i.e. revamping and improving an asset);
- This entails the investment of considerable amounts in CAPEX, the so-called “Developments” and “Value Added” projects;
- Developers usually finance these projects through banks’ debt and shareholders’ equity. In addition, the use of crowdfunding among equity sources of capital is becoming popular;
- The returns are based on the high premium the investor gains at the exit, when the renewed asset is placed on the market for sale.
Unlikely To Pay and Non Performing Loans

- Real Estate Crowdfunding can work effectively in case of distressed developers which have no more financial resources to terminate the project and, at the same time, to repay the bank debt;
- In these situations, crowdfunders can step in by financing the gap missed by the developer to carry on and finish the project. As a consequence, the bank can accept to subordinate the loan upon the premise that the new source of capital will sustain the developer’s work until the exit.

Real Estate Assets belonging to Public Administration

- Real Estate Crowdfunding can be a good opportunity with regards to the revamping of the real estate assets belonging to the Public Administration;
- For instance, the Minister of Economics and Finance (MEF) owns a portfolio of 900,000 assets, the 77% of which is directly used by the Public Administration and 4% is vacant;
- Consequently, approximately 81% of the total assets owned by MEF is, with a high probability, in poor state of repair and in need of improvements;
- Crowdfunding could be an interesting source of finance to finance such refurbishments, with regards to Public Administration real estates.
Conclusions

Although Real Estate crowdfunding started in response to a gap in the provision of capital, now it is becoming a stand-alone industry.

Before the development of crowdfunding, the features of the Real Estate market were high (expensive) investments with the requirement of a high minimum capital, operational costs and restrictive regulations. These made it difficult for ordinary investors to have a direct access to Real Estate investment opportunities.

Nowadays, Crowdfunding has opened the Real Estate market to a large and various number of investors. Investors can access this market for a low-threshold entry level, a lower fee structure due to the disintermediation of financial consultants and agents, while enjoying the same portfolio benefits as a direct investment. Moreover, Real Estate crowdfunding gives more options to investors in terms of model, location, timing and sectors (residential, commercial, student housing, etc). Real Estate crowdfunding offers a way to generate returns without the burden of direct ownership and without the impact of stock volatility. In addition, in some countries there are substantial tax advantages.

Crowdfunding grants developers a cheaper and faster access to capital. The developer chooses crowdfunding financing as it allows to get in touch with a large number of investors and potential new members. As a result, developers increased their visibility at a media level. In addition, the access to capital is very rapid. compared to traditional capital raising, the time is reduced by more than 50%.

Considering that there is no standard regulation for crowdfunding in the world, a regulated environment has been necessary for the development of local markets.

Since 2012, some countries have adopted restrictive regulations such as the USA, Germany or France, other countries such as the United Kingdom have adopted more progressive regulations. On the other side, in most countries equity crowdfunding is permitted by the existing regulations.

In USA, Real Estate crowdfunding regulation has continued to evolve since 2010. The Title III of Jobs Act, effective in 2016, allows non-accredited investors to participate in Real Estate crowdfunding, subject to several limitations.

With regards to the European market, Real Estate crowdfunding is relatively young and characterized by: the attraction of new players to enter in the booming Real Estate investment market and by the demand for the alternative finance due to the market gap.

Looking at Italy, Real Estate crowdfunding is one of the most promising sectors. After the financial crisis, while for Italian SMEs the access to credit has generally become more viable, for the infrastructure sector there are still difficulties. Therefore, crowdfunding can be an additional instrument available in the financing mix for Real Estate projects. Moreover, Italy was the first country in Europe to implement a complete regulation on equity-crowdfunding.

Looking at the future, a positive and dynamic growth is expected in real-estate crowdfunding, supported by an industrial consolidation. What allows platforms not to fall apart is the presence of technology and its various applications and/or the incorporation and usage of data for underwriting. The remaining platforms will improve the services offered both in terms of quantity and quality giving the kind of credibility and efficiency that is attractive for investors and sponsors.

In conclusion, crowdfunding Real Estate is growing rapidly all over the world, mainly due to the evolution of the market. As a consequence, investors’ appetite for this type of financial product is gradually strengthen, attracting new players towards fintech market, including millennials.
Marco Daviddi  
Partner  
Mediterranean Leader For Transaction Advisory Services  
Italy  
Marco.Daviddi@it.ey.com

Riccardo Bianchi  
Senior Manager  
Transaction Real Estate Advisory Services  
Italy  
Riccardo.Bianchi@it.ey.com

Francesco Arlacchi  
Manager  
Transaction Real Estate Advisory Services  
Italy  
Francesco.Arlacchi@it.ey.com