

<http://online.wsj.com/articles/real-estate-sector-moves-crowdfunding-beyond-the-trinkets-1402526777>

THE WALL STREET JOURNAL.

June 12, 2014

Markets

Real-Estate Sector Moves Crowdfunding Beyond the Trinkets

Sites Have Raised More Than \$135 Million in Debt and Equity

By Ruth Simon and Eliot Brown



Lance Miller since February has invested about \$1.2 million in real estate through seven different platforms *Michal Czerwonka for The Wall Street Journal*

When it comes to raising money on the Internet, the biggest buzz is generated by fan-financed projects such as "Veronica Mars," whose producers raised more than \$5 million to make a movie based on the canceled cult television series.

But for investors looking for a return on their capital—"Veronica Mars" backers got T-shirts and movie posters—it is the prosaic property market that has been grabbing the spotlight.

Dozens of [crowdfunding](#) sites now offer individuals the chance to invest in everything from single-family fixer-uppers to ground-up real-estate developments and even distressed mortgages, sometimes for as little as \$100. Many of the new platforms were launched in response to the Jumpstart Our Business Startups Act of 2012, which eased restrictions on fundraising by small companies, and have been operating for less than a year.

But already they have raised more than \$135 million in debt and equity for real-estate deals, according to Wall Street Journal calculations.

Real estate is proving particularly popular largely because it is a tangible asset that people can look at and even visit. It is easier to understand and value than many technology startups, which were expected to be a primary beneficiary of the JOBS Act.

Related

- [A Guide to Crowdfunding in Real Estate](#)

With real estate, "there is collateral, cash flow, a return and a projected exit time for the investment," says Joanna Schwartz, founder of EarlyShares.com, Inc., an online equity [crowdfunding](#) site that launched its first offering last year.

EarlyShares operates an equity crowdfunding site for a wide range of businesses, but recently signed a partnership with Property.com to tap growth in the real-estate sector.

Comprehensive statistics on crowdfunding are scant because the field is new, definitions of crowdfunding vary and not all sites disclose how much they are raising. But Crowdnetic, a firm that tracks available crowdfunding data, says real estate is by far the leading category that it tracks.

Real estate is "the hottest sector," says Richard Swart, who runs the crowdfunding research program at the University of California at Berkeley and has interviewed hundreds of people in the industry. "It's getting the most interest and the most activity."

Many of the sites are seeking to take advantage of new marketing freedoms provided by the JOBS Act, which loosened an 80-year-old federal law prohibiting companies from advertising investment opportunities to the general public.

While many restrictions still apply, businesses are now freer to promote investments on the Internet to individuals who are known as accredited investors—generally those with an annual income exceeding \$200,000 or a net worth, excluding their primary residence, above \$1 million. The Securities and Exchange Commission is working on rules that would allow ordinary investors to funnel modest sums into private companies.

The returns are appealing to individual investors like Lance Miller, a 56-year-old retiree in Newport Coast, Calif., who sold his recruiting business to a private-equity firm in 2007. Since February, he has invested about \$1.2 million in real estate through seven different platforms including Innovational Funding LLC's iFunding, RealCrowd Inc., Realty Mogul Co., Patch of Land Inc. and Fundrise LLC, placing bets that range from \$10,000 to \$105,000.

The projects include an Elizabeth, N.J., fixer-upper home and the Hard Rock Hotel Palm Springs. Most of his investments carry terms of less than one year and projected averaged annualized returns of 10% to 12%.

"If you have some money in deals that are in 20 different cities around the country, you are much better diversified," says Mr. Miller, who uses Google Maps to check out residential projects before investing in them.

At this point, the money raised through these sites is tiny compared with other real-estate investments. The total market value of publicly traded real-estate investment trusts is over \$700 billion.

Also, there is skepticism that crowdfunding can become anything more than a niche. Among the concerns: It is a loosely regulated market in which many investors aren't sophisticated real-estate professionals and the scrutiny of potential investments and other practices vary widely. In addition, many landlords and developers are turning to crowdfunding because banks or other traditional financing sources turned them down.

Already, at least three websites have folded or temporarily suspended operations as founders rethink their business strategies.

But some established fundraisers in real estate see potential in crowdfunding, and are taking advantage of the looser rules. For instance, property-investment advisory firm Carlton Group, which used to solicit funds out of public view, has started a crowdfunding website aimed at those investing large sums, typically more than \$1 million.

Some participants in the property business believe the numbers soon could grow into the tens of millions of dollars for projects. "We're spending a lot of time on the topic," says Zeke Turner, chief executive of Mainstreet Property Group LLC, a Midwestern senior-housing developer that recently used crowdfunding to raise \$1.8 million in junior debt for an upscale rehab facility development in Bloomington, Ind.

The early interest among investors in buying property through crowdfunding sites has enabled some sites to attract wealthy backers. In May, Fundrise, a Washington-based site, raised \$31 million from a group of investors led by Chinese social-networking company Renren Inc., and two executives at World Trade Center developer Silverstein Properties Inc.

Realty Mogul, a Los Angeles startup founded by a former bank executive, in March raised \$9 million in a deal led by Canaan Partners, a venture firm that also holds a stake in peer-to-peer lender Lending Club. RealCrowd, a startup based in Palo Alto, Calif., this spring secured \$1.6 million from early-stage investors.



Lance Miller, 56 years old, has invested in projects including an Elizabeth, N.J., fixer-upper home and the Hard Rock Hotel Palm Springs. *Michal Czerwonka for The Wall Street Journal*

Write to Ruth Simon at ruth.simon@wsj.com and Eliot Brown at eliot.brown@wsj.com