



Retail investors seek real estate investments online - by Janine Yorio

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In 2012, the JOBS Act created an exemption under the federal securities laws that lowered the barriers to invest in private companies, enabling the so-called “crowdfunding” industry to facilitate the sale of securities (including real estate) to the general public more easily.

Now, eight years later, the online direct investing industry has matured and improved. Several of the high-profile early entrants into the field have gone belly-up, while some true winners have emerged and are gaining noteworthy traction.

Platforms like Cadre and Crowdstreet have raised hundreds of millions of dollars for vetted sponsors and demonstrated that meaningful amounts of capital can be raised in a way that is attractive to sponsors who have good access to more traditional forms of capital. To be clear, the sponsors who have embraced direct retail capital raising aren’t struggling for capital—they’re prestigious firms with legitimate track records who are using this as a competitive edge.

Some notable examples of these direct retail raises include:

In 2020, \$12.5 million raised for Urban Investment Partners, a D.C.-based real estate investment, asset and property management company which has invested over \$2 billion since inception.

In 2019, \$25 million raised for Parkway Property Investments, LLC, an Orlando-based CRE investor with over \$4.3 billion in AUM.

In 2019, \$27 million raised for PRP, D.C. real estate investment firm focused on corporate net lease, multifamily, and office properties that has invested over \$3 billion since inception.

And while the benefits to retail investors are obvious, the benefits to real estate sponsors should not be ignored. Astute real estate developers, fund managers, and property investors recognize the immense value that crowdfunding affords them, too:

Ability to solicit investments from the community;
Truly passive capital;
A broader investor base;
Favorable investment terms; and
Marketing benefits for the project and the sponsor.

It is worth noting that nearly all real estate capital raised directly from investors to date has been from accredited investors, which represent an estimated 10% of Americans who have high incomes and a net worth in excess of \$1 million.

Republic Real Estate, an offshoot of the massively successful startup investment platform affiliated with AngelList and Product Hunt, is one of the first direct real estate investment platforms that can raise capital from all investors seamlessly, including accredited, non-accredited, domestic, and international investors.

The ability to raise capital from everybody opens up a universe of possibilities for clever sponsors who understand that a capital raise can be more than just a way to fund a deal, but rather a competitive advantage by allowing other stakeholders to own a piece of a project, ranging from tenants in buildings, neighbors in a community, or fans of a particular hotel or shopping center.

The sponsors who realize early on the advantages of raising directly from retail investors will be the ones who are best positioned to tap this capital source going forward as this industry continues to mature. Millennials are showing their brand loyalty to new brands across all categories from consumer products (Warby Parker, Quip, and Glossier) to financial services (Robinhood, Coinbase), and this shift in how retail investors find investment opportunities will create brands today that will be enormous players in just a few years.

It is worth noting that direct investment websites have experienced their strongest investment volumes in recent months during the coronavirus pandemic—and there's no sign of it slowing down. For example, Republic has added over 76,000 new investors during the pandemic, and Wefunder, a competitor platform, has seen a 35% increase in investor volume from February through April.

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