

Sunday, 22 November 2015 22:57

# ULI panel: Regs open crowdfunding to developers, but funds come with complexity

Written by [Nick Manes](#)

DETROIT — Crowdfunding opens up a new set of opportunities for capital formation to support commercial real estate projects, according to industry experts.

But along with the ability to raise money from a large pool of non-accredited investors comes a host of new complexity.

A panel of development and securities experts speaking at the **Urban Land Institute of Michigan's** Real Estate Forum earlier this month in Detroit said equity crowdfunding remains a fairly new territory. Those seeking capital — whether from accredited or non-accredited investors — must tread carefully to stay within the rules imposed by federal regulatory agencies governing the practice.

For developers, one key challenge remains in convincing investors that not only is real estate a good investment, but also that crowdfunding is a viable mechanism, said Joseph Elias, the cofounder and COO of Grand Rapids-based **Loquidity LLC**, the operator of a commercial real estate crowdfunding portal.

“For us, the biggest challenge being in the Midwest was building a sense of trust with our investors to move money from their existing pools of money, whether it be a checking account or IRA, into commercial real estate,” Elias said.

While challenges and some confusion remain regarding crowdfunding, experts on the panel said they were hopeful that new rules from the **U.S. Securities and Exchange Commission (SEC)** set to take effect in May 2016 will provide a higher degree of certainty.

Known as Title III, the new rules will allow entrepreneurs to raise up to \$1 million through crowdfunding offerings in a 12-month period.

“With Title III, it seems that they’ve relaxed some of the rules and some of the reporting requirements and will make it easier for portals to run a successful business and hopefully make some money,” Elias said.

To date, Loquidity has acquired at least two properties in the greater Grand Rapids area using crowdfunding made possible by the 2013 passage of the Michigan Invests Locally Exemption (MILE) Act that allowed intrastate raises.

But despite Michigan having some of the most liberal rules in the country for crowdfunding, the MILE Act hasn't provided the shot in the arm predicted by many politicians, Elias said. Title III could bring that injection and legitimacy, particularly for those who want to invest in commercial real estate, he said.

“For us, (the challenge is) finding that sweet spot of a seasoned developer and getting investors comfortable with it,” Elias said.

Adding to the challenge, many believe that crowdfunding only consists of portals such as Kickstarter, where people pledge funds to support a project or product development in return for some kind of gift or reward if the project is successful.

Elias said it's been an obstacle for Loquidity, an equity crowdfunding portal, to explain the differences to potential investors.

While Loquidity only works with accredited investors for its capital raises, more crowdfunding initiatives are opening up opportunities for non-accredited investors to invest small amounts of money into projects.

Along with that shift comes the importance of developers to create a compelling message around their project, said Ebrahim Varachia, co-founder of Detroit's **Patronicity**, a community-based crowdfunding platform.

“It’s as much of a marketing campaign as it is a crowdfunding campaign,” Varachia said. “That’s really important. You’re having so many people invest in a project — whether it’s a financial investment or just \$5 for a token of appreciation — that (it) builds sustainability toward a project.”

The panel cited Larson Realty Group’s proposed mixed-use residential and commercial redevelopment of the Tigers Stadium site in Detroit as a good example of community crowdfunding.

According to a February *Wall Street Journal* report, the developer plans to finance the \$32.6 million project with 87 percent debt and 13 percent equity. However, 10 percent of the equity is expected to come from Detroit residents who will have the ability to invest as little as \$100 via an online crowdfunding portal.

By getting residents involved, the developers aim to allow more people to have a stake in the redevelopment of the city of Detroit, according to the report.

“There has to be a compelling reason, particularly as we move to unaccredited investors,” said Joe Voss, senior counsel at **Clark Hill PLC** in Grand Rapids, referring to community-based crowdfunding. “There has to be a compelling reason to invest in it and to welcome in the unaccredited investors. But (considering) it as a marketing campaign is a good way to think of it.”

Despite some of the complexities associated with using crowdfunding for real estate projects, Clark Hill’s Jeff Van Winkle thinks there is still space for unaccredited investors, even at small amounts.

“It fits in a capital stack,” said Van Winkle, an attorney in the firm’s corporate and securities practice group in Grand Rapids. “If you’re looking to the unaccredited (investors) for the bulk of your money to do your project, you’re probably going to have a really small project.”

## Invest in Real Estate

Real Estate Investing as Low as \$5K Both Debt and Equity Opportunities.



Read **885** times

Last modified on Sunday, 22 November 2015 23:13

Tweet

**Like** Be the first of your friends to like this.

**G+1**



**Nick Manes**

**Staff writer**

nmanes@mibiz.com