



Commercial real estate crowdfunding is here to stay, say the industry's pioneers

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AJ Chivetta doesn't hesitate: Crowdfunding is changing the way people can invest in commercial real estate. And because of this, the number of people investing in commercial real estate through crowdfunding will only grow in the coming years, he said.

Chivetta should know. He's a founder and chief executive officer of Selequity, a St. Louis-based company that helps investors place their dollars in commercial real estate properties across the country. He's seen up-close just how eager consumers are to invest in commercial real estate properties that were formerly out of their reach.

"Crowdfunding solves problems for both sides of the commercial real estate transaction," Chivetta said. "Investors are looking for opportunities to invest in real estate. They are looking for the kind of yields that real estate has long afforded people, especially in low-interest-rate environments. Real estate owners and operators are always looking for new investors and capital.

"With crowdfunding, more investors can gain access to commercial real estate, and owners can attract capital from a greater number of people," Chivetta said.

Here's how Selequity works: It's an online platform connecting accredited investors to professionally operated, private real estate investment deals. Several investors can pool their money together to own portions of these commercial real estate properties.

The owners of these buildings can provide documents and building information to accredited investors through the online platform, giving these investors the tools they need to make educated investment decisions. Once they have invested their dollars, investors can then use Selequity's online tools to manage the performance of their commercial real estate investments.

That's the basic formula for the many companies now offering crowdfunding options. This new way of investing allows consumers to own a piece of commercial real estate who until now haven't been able to participate because of costs that are simply too high.

"It's long been very difficult for the average investor to invest directly in real estate," Chivetta said. "REITs are a way. But if you want to own a particular property, it is very difficult to find those opportunities. You are limited to your own network or you have to take on the role of being a landlord, which not everyone wants to do. Crowdfunding opens the opportunity for people to see, investigate and invest in a project that they otherwise wouldn't have access to."

Marshall Saunders, a resident of St. Paul, Minnesota, believes in the power of crowdfunding, too. That's why he founded SaundersDailey, a real estate crowdfunding platform that also lets smaller investors own pieces of commercial real estate.

"There is something about crowdfunding that has always appealed to me," Saunders said. "There is a basic fairness to it. A lot of people are left out of income-producing properties. They are not asked to participate. They need to bring large amounts to be able to invest. With crowdfunding, people can be involved with a much smaller investment."

Analysts agree that crowdfunding in general is in the early stages of a boom period. The 2015 Crowdfunding Industry Report from Massolution says that global crowdfunding expanded by 167 percent in 2014, with \$16.2 billion raised in the industry. That compares to \$6.1 billion in 2013. Massolution predicted that in 2015 the crowdfunding industry would raise \$34.4 billion.

The big questions

Crowdfunding does pose risks to investors, but they're largely the same ones that consumers would face when investing in commercial real estate through any platform.

Chivetta said that investors need to do their homework, making sure that the property in which they are sinking their dollars is one that has the potential to increase in value over time.

"You need to do your research not only about the project, but about the operator and the sponsor, too," he said. "You want to have an understanding about the different types of real estate investment. You need to understand the difference in expectations with an apartment versus an office building versus a shopping center. Like in anything, you want to be an educated investor. If you were looking at buying

stock, you'd want to understand the industry and management team behind that stock. It's the same when you're looking at a real estate project."

Then there's the question of an exit strategy. If you want to get out of a crowdfunding apartment building, when can you do it?

Chivetta said that investors need to understand that commercial buildings are largely illiquid investments. Because of this, investors need to understand how long the hold will be on any property in which they want to invest.

"You need to understand what the sponsor is saying about the business plan for the property and how long the investors plan on holding it," he said. "Before you invest in the property, you have to be prepared to hold it for the length of that holding period."

Chivetta said that he is not surprised at the growing popularity of commercial real estate crowdfunding. This type of investing, in which consumers don't need nearly as much capital to own a piece of real estate, represents the future, he said.

"I am pleased with how popular it has become, but not surprised," he said. "There has been a huge need out there for a really long time for people to have better access to income-producing property. I'm happy with the progress that the industry has made in the short time in which it has been around. I expect it to grow exponentially over the next several years."

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