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Crowdfunding for real estate will be the catalyst for liquidity

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When most people hear about crowdfunding for real estate (which should more appropriately be labeled as "crowd-investing" since, unlike Kickstarter, you can actually earn a return on your money), the first benefit that comes to mind is deal access.

Group investing in real estate is not a new concept. In fact it has been one of the most consistent ways the rich have gotten richer for decades (and even centuries). Yet this has always happened in small circles, behind closed doors. Crowdfunding opens these doors and allows many more people to be part of real estate deals with strong returns. But there is another benefit that many overlook that will drastically change the way real estate is invested in; increased liquidity.

Traditionally it is difficult to get out of a long-term real estate deal, especially for passive real estate investing. If the term is 5-7 years then your money is tied up for 5-7 years. Typically, unless you can convince a fellow investor in the deal to buy your share, you are stuck. With crowdfunding, there is a whole new market to sell your current interest in real estate deals. As long as you comply with the guidelines outlined in the operating agreement of the your investment's LLC, you can cash out a portion or all of your interest if you think the time is right or want to invest (or spend) the money elsewhere before the anticipated exit of the deal.

This provides a new level of flexibility and truly creates a higher level of liquidity for real estate investments. Plus with a larger pool of potential investors, there is a higher likelihood you can find interested parties compared to being restricted to the other investors in the deal or your personal network; obstacles that investors face today. Some of the tens of thousands of people on real estate crowdfunding platforms, like Tycoon Real Estate, are looking to invest in deals and can group together and fund yours. Changes the SEC is implementing in the wake of the JOBS Act are making the marketing of deals easier and expanding the number of people who can invest. This creates a system where real estate can be bought and sold much more like stock. Plus, while the SEC is still formulating official rules on the resale of previously crowdfunded deals, it looks as though after a short hold time (proposed to be 1 year), then you can resell your interest in a crowdfunded deal.

General Partners (GPs) now can offer their Limited Partners (LPs, passive investors) a brand new way to exit existing deals. This gives both GPs and LPs flexibility and makes it easier for GPs to raise money for their deals if LPs know there is an exit option out that didn't previously exist.

While REITs offer liquidity, they do so at the expense of providing investors with a direct connection to the investment, since they behave more like a mutual fund that aggregates many investments together, layering on higher fees than direct investing. I imagine that you, just like most other real estate investors, like real estate as an investment vehicle because it is tangible; you can touch it and feel it. REITs don't allow you to connect directly with the investment you choose through a crowdfunding platform, instead just providing you with an aggregated list of assets in a prospectus. You can invest in the property at 123 Main St. and not just own a smallvague share of X thousand residential units that is outlined in a prospectus. Together, real estate crowdfunding provides investors access to deals and limited liability, but most importantly affords you the liquidity of a stock or REIT, while allowing you to have a direct connection to the investment.

Crowdfunding will create a whole new market for buying and selling fractional ownership of real estate and will provide you, the investor, with a whole new level of liquidity that never existed before.

Aaron McDaniel is CEO at Tycoon Real Estate, San Francisco, CA.