Introduction

There is a growing ecosystem of online platforms offering private-market alternative assets to individuals. It’s an exciting time for individual investors who direct some or all of their portfolio management, as assets like private commercial real estate are significantly more accessible than in decades prior. With the so-called “real estate crowdfunding” industry rapidly evolving, there’s a great need to understand and address the preferences and needs of individual investors, many of whom are new to commercial real estate and are doing their own diligence to get comfortable with the asset class and the many platforms now available.

This paper presents the results of an objective, voluntary survey conducted by CrowdDD - an online forum for the discussion and evaluation of real estate crowdfunding - and EquityMultiple, a leading commercial real estate investing platform. We set out to better understand the preferences and experience of investors who are in the market for, or actively participating on, real estate crowdfunding platforms.

Of respondents, 78% had a total portfolio of $1M or more, and 91% had made at least one investment through an online real estate investing platform (real estate crowdfunding), with 62% having invested over $100,000 through these platforms.

We began with a couple general queries regarding investor attitudes toward real estate crowdfunding...

How satisfied have you been with online passive real estate platforms, i.e. “real estate crowdfunding”?

The results are encouraging, with 12 times as many respondents saying they are satisfied with the new asset class vs. those who have been disappointed. However, a sizable portion of respondents (44%) are still in the evaluation phase, which is only fair given the newness of the industry and many of the platforms operating therein.

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What share of your overall portfolio do you plan on allocating to online passive real estate platforms (“real estate crowdfunding”)?

Responses to this question must be considered in light of the prior question: it’s safe to assume that 44% of these respondents don’t know for certain how much of their portfolio they will ultimately devote to the asset class, and that this is their best guess. However, these results indicate an aspiration toward significant allocation to the asset class. Currently individual investors are allocated at around 5% to both real estate and alternative assets (such as real estate crowdfunding), whereas many institutional investors like endowments routinely hold 20% or more in real estate and/or alternative assets. These results indicate that investors are seeking to close the gap.
What About Returns?

Actual observed returns are the elephant in the room. While other aspects of online real estate investing platforms matter tremendously to investors (as we’ll learn shortly), ex poste returns will continue to drive investment decisions by individual investors as they consider allocating toward real estate crowdfunding platforms. However, the industry (and its constituent platforms) are still too young to precisely assess performance, particularly with longer-dated equity deals. We’ll see this reflected in the results...

What is the typical IRR you’ve realized on these investments?

- 40% - It varies too widely, or too early to say
- 27% - Between 15 and 20%
- 24% - Between 10 and 15%
- 8% - Between 0 and 10%
- 2% - 20-25%

The most telling result is the plurality of respondents who say it is too early to tell. Indeed, many equity investments posted by leading platforms in the space carry a term of 4+ years, in an industry that is barely 4 years old.

What is the typical annual return you’ve realized on these investments?

- 43% - Between 8 and 12%
- 21% - It varies too widely to generalize
- 15% - Between 12 and 15%
- 14% - Between 5 and 8%
- 5% - 15%+
- 2% - 0-5%

We would expect this result to be more robust, considering the shorter durations of most cash-flowing investments offered through online real estate investing platforms. A plurality stated an observed 8 and 12%, which tends to align with projections of most fixed-rate investments offered through platforms. These results indicate that platforms are at least meeting projected returns the majority of the time.
What Matters to Investors?

...with respect to platforms

We asked investors to rank their preference regarding online real estate investing platforms and the critical attributes of these platforms. Here’s what investors had to say:

You’ll notice a clear divide between what we might call “meta-components” of the platform that are related to communication and information, versus the material specifics of the investments and the platform’s software. Investors clearly prioritize the former. This is not surprising – platforms must earn the trust of investors at all times, but particularly in a new industry and with transactions occurring online. Transparency, demonstrable in-house diligence, and frequency of communication are all critical to earning the trust of individual investors, most of whom are investing in assets from hundreds or thousands of miles away. The clear winner here is Transparency, which confirms our theory: in the long run, winning high marks from investors will be less about hitting home runs 100 percent of the time and more about reasonable expectations, sound diligence measures, great customer service, and above all consistent transparency in presentation of investments and their performance.

...with respect to the Sponsor or Lender; the originator of an individual investment

While high-level attributes of a platform matter immensely to investors, details of individual investments - and the real estate firms who originated them – are critical to investment decisions as well. Here’s how investors ranked key attributes of originating companies (Sponsors and Lenders).
These factors scored fairly close to one another, so insights may not be as robust. However, it’s worth noting a couple things

- Once again, transparency reigns supreme
- While these attributes of originating companies rank close to one another, all of them had a lower aggregate preference score than did Transparency and Diligence in the prior question regarding platform-level attributes. One possible explanation: investors prefer that platforms contribute authority, rather than investors basing their decisions on Sponsor or Lender track record or communications alone.

...with respect to distinct, individual investments

In the 5 years or so that the real estate crowdfunding industry has existed, platforms have moved toward specialization of offerings – with respect to deal structure (debt, preferred equity, equity, or funds), experience and focus of Sponsors and Lenders (institutional vs. sub-institutional vs. single-family), risk/return profiles (value-add or opportunistic vs. shorter-term and/or stabilized), or some combination thereof.

We asked investors to rate the importance of attributes of individual distinct investments along these lines. Here’s what they had to say...

A few likely conclusions can be arrived at, which corroborate our experience and the opinions expressed on online forums like CrowdDD:

- The experience of the originating company ranks as most important, suggesting that investments originated by institutional Sponsors and Lenders with large portfolios and extensive asset management practices may be more appealing to investors.
- Cash flow and security trump upside potential. This has generally dovetails with our experience at EQUITYMULTIPLE - our investor network is most enthused with senior debt, preferred equity investments, or equity investments that afford investor protections and/or immediate cash flow, as opposed to ground-up development or opportunistic investments that offer attractive upside but more risk.
However, twice as many respondents (16%) rated strong, consistent cash flow as relatively unimportant, as compared with high upside. One possible explanation: younger investors with high incomes may be ambivalent at best regarding current cash flow, as they are less sensitive to liquidity risk and can use depreciation to shelter other passive income while avoiding incremental increases to income that is already highly-taxed.

- Geographic focus ranked significantly below other factors. It would be folly to conclude that investors don't care where their real estate investments are - I won't repeat the three most important criteria in real estate investing, but anyone with the slightest familiarity with the asset class knows what they are. Rather, investors likely prefer to defer to platforms and experienced Sponsors/Lenders to find attractive opportunities, wherever they may be. After all, this is one of the main value adds of the real estate crowdfunding paradigm: investors can invest in a market they may be wholly unfamiliar with, but where an experienced Sponsor or Lender has boots-on-the-ground competitive advantage, and where a platform has done extensive due diligence.

About EquityMultiple:

EquityMultiple is a secure, full-cycle platform that connects accredited individuals with exclusive, pre-vetted commercial real estate investments alongside experienced real estate firms. EquityMultiple is focused on the institutional CRE sector, and offers debt, preferred equity, and equity investments with minimums as low as $10k.

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