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Crowdfunding Is Emerging as the
Most Viable Way to Finance
Existing-building Upgrades

“Architects have to become designers of ecosystems. Not just designers of beautiful façades or beautiful sculptures, but systems of economy and ecology, where we channel the flow not only of people, but also the flow of resources through our cities and buildings.”

—Bjarke Ingels

WRITTEN BY | ROBERT NIEMINEN

If Ingels' assertion about the nature of buildings as ecosystems is correct, then it stands to reason that investment capital is the wellspring from which the built environment originates. Without it, the economy and flow of resources

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What makes **crowdsourcing** such an attractive option over traditional methods of urban development isn't so much the size of the deal, but a very real sense of involvement and buy-in by the local community that helps ensure its success.

through our cities is choked, and the promise our buildings once held as living systems to support urban life is crushed.

As many local redevelopment projects fail due to lack of funding, our aging infrastructure isn't the only thing that suffers; entire communities absorb the economic fallout, to which many cities in America's Rust Belt bear witness, for example.

However, hope for the restoration of existing buildings and communities is surfacing from a somewhat unlikely place: social media. Just as crowdfunding sites like Kickstarter and GoFundMe have made artistic, entrepreneurial, and fundraising projects hugely successful, a number of similar platforms are emerging in the

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Pittsburgh-based Small Change, which matches developers to investors, currently is developing a building in Rochester, Pa., to become a brewery.



PHOTOS: SMALL CHANGE



RENDERINGS: PFAFFMANN AND ASSOCIATES

Nello Development Group Inc., Canonsburg, Pa., plans to take advantage of the location's riverfront views when creating the brewery and gathering spot for the Rochester community.



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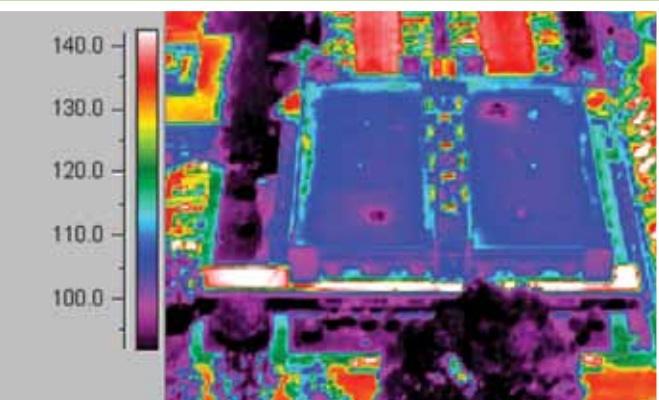
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Massolution found the number of crowdfunding platforms jumped from 308 in 2013 to 1,250 in 2014. ... What was once a niche business model for hopeful entrepreneurs who might not have been able to attract traditional financing is now a **bona fide investment vehicle** for investors of virtually every size.

commercial real-estate arena and opening up new channels for real-estate investors large and small.

Crowdfunding 101

To the uninitiated, crowdfunding—defined as “the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet”—and real estate may seem like strange bedfellows. However, as Brian O’Conner of online financial education platform Investopedia notes, “the two ‘odd couples’ appear to be pairing up quite nicely and giving investors a new way to leverage profits from the burgeoning U.S. real-estate market.”

In fact, the size of the combined real-estate and crowdfunding market is estimated at \$11 trillion, according to crowdfunding site iFunding, and active global crowdfunding platforms generated \$16.2 billion in 2014—a figure that is expected to more than double in 2015 to \$34.4 billion, according to crowdfunding research firm Massolution, Los Angeles. Further, Massolution found the number of crowdfunding platforms jumped from 308 in 2013 to 1,250 in 2014. In other words, what was once a niche business model for hopeful entrepreneurs who might not have been able to attract traditional financing is now a bona fide investment vehicle for investors of virtually every size. And it took an act of Congress (literally) to legitimize the concept.

Recognizing cost-effective access to capital for companies of all sizes plays a crucial role in the health of the nation’s economy, President Obama signed the Jumpstart Our Business Startups (JOBS) Act into law on April 5, 2012, which

basically requires the SEC to simplify the regulations for investors to fund startup businesses. Title III of the JOBS Act specifically addresses equity crowdfunding for real-estate investing but, to date, only accredited investors (those with incomes or net worth that meet SEC requirements) are able to participate. The SEC has yet to write rules for equity crowdfunding by non-accredited investors, which has led many states to write their own that only apply within their boundaries.

In the meantime, several crowdfunding platforms are leading the way toward restoring our buildings, communities and cities, making the most of this emerging tool for financing our futures.

BlocPower: Retrofitting Underserved Communities

When it comes to retrofits, often the buildings most in need of upgrades are the ones in the most underserved communities without access to traditional financing. The result is a sort of Catch 22 in which building owners who want to participate in energy retrofitting for economic reasons are unable to do so ... for economic reasons.

Enter Brooklyn-based BlocPower, a socially responsible business that connects impact investors to institutional networks of energy-efficiency projects in churches, synagogues, non-profits and small businesses in underserved communities.

“We focus on energy-efficiency retrofits in financially underserved communities, mostly urban communities,” explains Donnel Baird, founder and CEO of BlocPower. “We aggregate projects into a portfolio. We analyze them for energy-

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Photo courtesy of The Bryer Company, Auburn, WA





More on Crowdfunding and the JOBS Act

FUNDABLE-CROWDFUNDING GUIDE: www.fundable.com/learn/resources/guides/crowdfunding-guide

JUMPSTART OUR BUSINESS STARTUP ACT (JOBS)-H.R. 3606: www.gpo.gov/fdsys/pkg/BILLS-112hr3606enr/pdf/BILLS-112hr3606enr.pdf

SECURITIES AND EXCHANGE COMMISSION-JOBS ACT Q&A: www.sec.gov/divisions/marketreg/tmjjobsact-crowdfundingintermediariesfaq.htm

SMALL BUSINESS ADMINISTRATION-INTRODUCTION TO CROWDFUNDING FOR ENTREPRENEURS (ONLINE COURSE): www.sba.gov/tools/sba-learning-center/training/introduction-crowdfunding-entrepreneurs

efficiency and financial potential and roll them up into a portfolio and then connect them to investors via our online marketplace. That marketplace has kind of a crowdsourcing function.”

What makes crowdsourcing such an attractive option over traditional methods of urban development isn’t so much the size of the deal, but a very real sense of involvement and buy-in by the local community that helps ensure its success.

“I think crowdfunding lets local people participate in urban development. It helps to provide data on projects that may or may not be financeable by traditional criteria, but the flexibility of crowdsourcing allows you to create special risk tranches,” Baird says.

The downside to what BlocPower is doing is it’s fraught with risk. Baird says without government subsidies, retrofits in low- and moderate-income communities in urban environments are very hard to accomplish. However, he doesn’t consider the core obstacles to be on the financial side; rather, “they’re actually on the engineering side,” he says.

“The high cost of energy-efficiency audits and analysis, certainly externally, by third parties is super expensive. It’s super slow,” Baird observes. BlocPower is working on the problem and has designed a set of internal protocols that allow it to lower the cost of energy-efficiency audits—a proposition that, while admittedly tricky, is really important to Baird.

“We think there’s \$400 billion worth of retrofit opportunity in American inner cities, and we have to provide better engineering and financing that’s really flexible, and crowdsourcing allows us to do that,” he explains. “We very much think it is the future, and we’re fortunate to have venture-capital investors that invest according to that thesis.”

Small Change = Big Impact

Similarly, Eve Picker, president and co-founder of Small Change, Pittsburgh, not only has a passion for serving underserved communities but believes in the opportunities that crowdfunding offers to effect change. As a former real-estate

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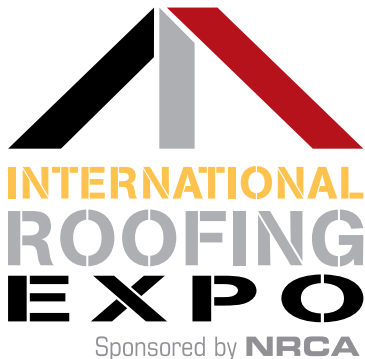


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“To the extent that we are able to directly invest in the companies we believe in, instead of having to go through the bank or go through Wall Street, I think that is going to be a good day in our future.” —Grady Thrasher, CEO and cofounder, CrowdVested

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developer, she always had an interest in projects that would revitalize the community and was often the first (and only) one interested in them, which drew skepticism by investors and compounded the problem of financing.

“All of the projects I have done in my career had appraisal issues,” Picker recalls. “Because I was typically the first developer into a neighborhood, and banks and appraisers are very leery about ‘how do you appraise something when it’s the first [of its kind]?’ But if you don’t have a first, how are you ever going to move forward? So it’s a really circular problem.”

After having been introduced to the JOBS Act, Picker sought to circumvent the dilemma by launching Small Change, a limited liability company dedicated to making a positive difference in the communities in which it operates. The company matches investors with developers, undertaking what Picker refers to as “transformative real estate”—projects that bring about positive change based on a set of criteria the company refers to as the “Change Index.”

The Change Index is a proprietary scoring system that illustrates the impact its projects have on their surroundings. It uses data points, such as an area’s walk- and bike-ability, public-transit access, proximity to green space, availability of commercial and cultural amenities, and other measures of quality of life, to produce a composite score of 1 to 10 (10 being the best) to gauge the possibilities of a project.

Once a project has met the criteria, developers offer partnership positions in real-estate projects in return for investment made. Small Change acts as the intermediary, vetting the projects before offering them on the platform. Investments can be as small as \$1,000 but vary from project-to-project.

Circle No. 35



For Picker, the platform is an ideal way for people who want to invest with a conscience—and she’s not alone. “I think there are a lot of people like me,” Picker says. “Even mutual funds are now clarifying what they invest in for people who don’t want to invest in shale oil or something like that. There are people who care enough about where their dollars go that they don’t want them to be put somewhere that’s not [in line with] the way they see the world.”

CrowdVested: Democratizing the Investment Stream


Unlike many crowdfunding platforms that are targeting SEC-accredited investors, companies like Atlanta-based CrowdVested are reaching out to the smaller fish in the pond, so to speak—the ones right in their backyard to be exact.

“We are trying to do something that is different than what most of the other markets are doing—and whether that’s the right position for us we will find out. We’re trying to open up the investment opportunity beyond the [typical] crowd of investors,” says Grady Thrasher, CEO and cofounder of CrowdVested. “Currently the vast majority of platforms out there are limited to selling to accredited investors only. Here in Georgia, we are a little bit unique in that the rules allow us to sell to unaccredited investors, but only if they’re from Georgia.”

Thrasher says there is a strong motive to invest locally in the same way people desire to support local businesses, local farmers, etc. To that end, CrowdVested’s online crowdfunding platform offers real-estate developers and project sponsors access to a large network of qualified investors in the state of Georgia only, offering an alternate funding source and working in conjunction with traditional financing sources to fill the gap between debt and equity funding.

“This is really a way to democratize that whole investment stream,” Thrasher asserts. He believes we are not far from a time when raising money through crowdfunding is as commonplace as going to a bank.

Thrasher muses: “To the extent that we are able to directly invest in the compa-

nies we believe in, instead of having to go through the bank or go through Wall Street, I think that is going to be a good day in our future—a day when we have truly reconnected with our neighbors and have reconnected with what’s going on around us instead of being isolated by all these middle men.” 



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