

[Guest Post] Crowdfunding real estate investments - yes it exists!

I have recently become pretty obsessed with online real estate crowdfunding, so when Marcel reached out to me to share a post on the topic with the GYFG community, I immediately agreed. This is a very basic overview of this blossoming investment class, and be on the look out for a full run down of my investments with PeerStreet in the next couple of weeks.

Real estate investing doesn't find much favor amongst certain investors because of a few common perceptions.

Perception 1: You need lots of capital to start - Some people think that real estate investing is a rich person's game. You need money to get in. While I'd argue that you can start investing with little capital if you get a little creative with your financing, I understand that this route requires a lot of hard work, and success is not guaranteed.

Perception 2: Too many eggs in one basket - Even if you had the money to buy a property, you might be feeling anxious about having a lot of your money concentrated in one investment. I know that feeling - not knowing if market prices in the area are going to go belly up or if your investment property is discovered to be uninhabitable due to structural defects and the like (yes, I let my imagination get away from me sometimes.)

Perception 3: Too much involvement - Others don't like the idea of tying a lot of their time and effort into a single investment. Imagine - the countless hours that you have to spend scouring for deals, doing due diligence and having negotiations with sellers.

That's where crowdfunding comes in.

How does crowdfunding work in real estate?

With the rise of Kickstarter and Indiegogo, you probably have a fair idea of how crowdfunding works in general. The basic idea of crowdfunding is that finances for a

project is sourced for very many individuals as opposed to just one (or a few.)

In real estate, crowdfunding is pretty much the same and is known as [Real Estate Syndication](#) (which I talk about too on my blog.) How does it work?

Firstly, a syndicator will set up a fund and search for investment deals. This syndicator is a specialist in uncovering deals, negotiating and managing properties.

Once they have a few deals in the pipeline, they'll crowdsource investments from individuals. When the investment matures or income is earned, the profit is split between the syndicator and the investors.

Okay, that's the basic version.

In reality, real estate crowdfunding is a little more diverse. Some real estate crowdfunding companies specialize in different types of:

- **Properties** – e.g. residential, commercial or industrial
- **Investments** – e.g. equity or debt, and
- **Structure** – The structure dictates whether your money goes directly into the property or into a fund that invests and manages multiple properties.

Going into the nuances and differences between each type is beyond the scope of this article, so I'm going to refer only to the basic version of real estate crowdfunding in this article.

Who's doing real estate syndication?

There are lots of companies doing real estate syndication these days. Some of the top few are (again, not differentiating between the various types of investing):

1. [Peer Street](#)
2. [Fundrise](#)
3. [Realty Shares](#)

These are just a few. In fact, there are hundreds of real estate crowdfunding companies today. Because it's a fairly new/obscure concept, some companies are less trustworthy than others. I'll talk about what to look out for at the end of this article.

What are the benefits of real estate syndication?

There are many benefits to real estate syndication that overcome the challenges of real estate that I mentioned at the start of the article. Here, I list some of the benefits of real estate syndication:

1. **Less capital outlay required compared to investing by yourself** - because so many investors are getting in on the same deal, the investment is split amongst all of you. Each investor can afford to put in less individually. [Peer Street](#) for example, lets you get started investing for as little as \$1,000. This is a far cry from what you might have to come up with if you were investing in a property a by yourself.
2. **You don't have to manage the property or be a landlord** - being a landlord is a huge pain in the butt! Having to deal with tenants, repairs and maintenance can take up a lot of your time. I know of a couple who own just a handful of properties. It seems that every iota of spare time they have is used to upkeep and maintain their properties.
3. **Less risk involved and more diversification** - Because you'll be investing with less capital, you can afford to spread your investments over a number of different properties. Especially if you're doing an indirect investment (i.e. investing in a real estate investment fund), you'll benefit from the diversification of your investments. If one single investment goes down, you won't be as far in the hole as you would be if you had just invested in the one property.

Sounds great. But surely there are downsides right?

Of course, the very things that make real estate crowdfunding attractive also contribute to its weaknesses. I list just a few of them below:

1. **Expect small wins** - Just as you invested little, you can expect to get little out of your real estate syndication investment as well (compared to investing by yourself.) In addition, because you have a syndicator managing the property and developing the deal, you have to compensate them for their time. This means that you'll miss out on some profits as well.
2. **You have less control over investment decisions** - being hands off on the

investment can be a draw at times, but can be absolutely frustrating at others. You won't be able to make decisions on how the property should be fixed up, who to rent to, when you would like to exit etc. Even if you could, you'd have to compromise with all the other investors as well.

Conclusion

This was just a primer on real estate syndication. If you're looking for a company where you can get a piece of the action, I'd suggest looking at these key areas:

1. **What's their investment history like?** If they've got a good track record, it's a good testament about their ability to spot deals, do due diligence and nurture the investment to maturity.
2. **How transparent are they about their processes?** You need to know what their investment strategy is, what processes they have in place to make sure they're getting the best deals etc. The more transparent a real estate crowdfunding company is, the easier it is for you to evaluate their strategy.
3. **Are they co-investing?** As yourself if the syndicator is putting their money where their mouth is. Are they investing in the same deals that you're investing in? If they are, this is a good indicator that they believe that the investment is sound.
4. **What are their fees like?** Do a comparison amongst similar companies and see if their fees are on the lower end. Because of the way some companies are run, they may have multiple layers of fees.
5. **Who are the other investors in the fund?** If you see big name investors backing the company or putting money into the fund, then you can feel more assured that the company is legit. These investors would have the resources and teams to research the real estate crowdfunding company. They probably know that they're putting their money in a safe pair of hands. This is not entirely fool proof though, as you may not know how deeply an investor is invested in the fund.

Real estate syndication is an exciting and easy way to get exposure to the real estate market. If you wish to dip your toes into this type of investment, then be sure to do your homework! I share a bit more on real estate syndication and investing at my blog.



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)