

[Guest Post] Readers Experience Investing in Real Estate on Crowdfunding Platforms

Today a reader takes control of the GYFG keyboard and shares his experience investing in real estate through various platforms, including my favorite [PeerStreet](#) (my \$80,000 portfolio will be revealed in about two weeks). RadCrowd as he goes by online, has some great takeaways, so be sure to read entire post.

By RadCrowd

My journey into real estate crowdfunding began over a year ago when I started to explore opportunities for passive income. I had come off a tough week at my work-a-day job as a physician and came to the realization that continuing at my current pace was resulting in burnout.

Instead of trading my time for dollars, I really needed my dollars to start working harder for me. I began to investigate real estate investing as a source of passive income; I spent hundreds of hours reading and listening to podcasts about single family, multifamily, hard money lending, notes, turnkey rentals, land, house flipping, and wholesaling.

During my research, I came to the realization that all the big boys played in the commercial real estate sandbox. Real estate syndication and hard money lending have been in existence for a long time, but these deals were limited to ultra-high net worth individuals or family and friends of the sponsor.

The JOBS act in 2012 was a game changer and opened commercial real estate to the masses through crowdfunding. Subsequently, a large number of online crowdfunding platforms have proliferated. Currently, most platforms require accredited investor status and the investments come in the form of debt or equity offerings.

PeerStreet

For my first crowdfunding experiment, I chose [PeerStreet](#). They offer debt investments for minimums as low as \$1000. These deals are essentially hard money loans made to fix and flippers and smaller developers. Signup was easy. I set up ACH and funded the platform within one week.

I invested \$20,000 split equally between four properties; two in Sacramento, one in Washington DC, and one in Los Angeles at annualized rates of 9.5% to 10%. Two have fully cycled and paid off as expected; the other two are in progress. One of the properties almost went into foreclosure but paid off in the end. Another had a couple late payments.

[PeerStreet](#) provides the property BPO and/or appraisal, as well as the borrower's credit score for the investor's due diligence. There is an automated investing feature where the investor can set parameters for interest rate, LTV, loan term, and amount to invest. This is almost a necessity because the best deals fill completely in hours.

This feature does allow you to cancel the deal within 24 hours if you choose. Overall, my experience with PeerStreet has been excellent. They claim no investor principal loss to date. However, interest rates have come down in the past year and are hovering around 7-9%. Deal flow has also slowed a bit as presumably more investor demand is keeping the supply side low. Some borrowers may make late payments and the occasional loan may default. However, if a loan has a conservative loan-to-value (LTV) and the property falls into foreclosure, there is a relatively good chance that the investor will have their principal returned.

RealtyShares (RS)

[RealtyShares](#) offers both debt and equity offerings for as low as \$2000. I placed \$10,000 into a commercial debt deal which funded a land purchase and ground up development of a Checker's Restaurant. The sponsors had successfully exited other previous similar deals on the RS platform. The terms were for one year at 9.5% annualized rate. This deal exited uneventfully at the eight months mark and all principal plus interest were returned.

For equity deals, RS serves as a middleman, forming a LLC which then invests in the

sponsor property. The investor owns interest in the RS LLC. This extra layer between the investor and sponsor inherently results in some opaqueness of information and communication. In addition, there is an extra layer of fees.

For this fee, I would expect a higher level of due diligence and investor protection but I don't necessarily see this as the case. Several investors I've spoken to have complained about RS lack of oversight during project development, and when things go wrong, RS is slow to act and there is limited communication with the investor. K-1 errors have also been reported and brought to their attention.

Now some of this may be growing pains for a new company but for me, there are simply better platforms, deals, and sponsors to place my money with. I probably won't be investing through RealtyShares in the future. The consensus among most members of my investment group is to leave RS once they exit their remaining deals. That being said, one of the main pluses going for RealtyShares is the relatively lower minimums.

RealCrowd (RC) and Crowdstreet (CS)

Both RealCrowd and Crowdstreet are my go-to platforms and operate similar business models; they both curate and list institutional quality commercial real estate projects from larger and more experienced sponsors.

Their selected offerings (both funds and individual deals) have passed their in-house rigorous due diligence before being presented to the accredited investor. The investor invests directly with the sponsor but can see all their investment documents and updates on the platform dashboard. For this service, RC and CS collect a fee from the sponsors. One drawback of both of these platforms is the minimums are significantly higher, ranging from 25k to 100k.

Currently I am in two investments with RealCrowd. The first is a 30k investment in a value-add multifamily apartment deal in Los Angeles with a projected IRR of 22% over a 5-year hold. The second is a 100k investment in a large \$100 million fund which invests in multifamily, office, and retail with a projected IRR of 14-17% over a 6-8 year hold.

The fund has a capital call structure where not all of the money is called at once. As the fund acquires properties over a two to three-year period, they call their investors for portions of the funds as needed up to the total committed amount. By

year three, all the committed capital should be called and deployed.

On Crowdstreet, I am in three investments. One is a 50k investment in a fund which invests in distressed tenant-in-common (TIC) deals, rescue capital, bridge loans, recapitalization, and other opportunistic deals. The projected IRR is 30% over a 3-year hold. The second is a 50k investment in a fund which purchases industrial flex warehouses (think Amazon warehouse and distribution center).

The projected IRR is 15% over a 5-year hold. The third is a 50k investment in a fund which invests in multifamily, office, retail, and hospitality. This fund invests at the general partner (GP) level, (as opposed to the limited partner level), which should earn higher returns if the investments do well. The projected IRR is 20-23% over a 5 year hold.

It's too early to tell how these investments will pan out. Most of the funds are currently in the acquisition phase so there is little cash on cash return. In future years as the properties get stabilized and leased up, I expect to see higher annual returns up to the final exit event.

Of the two platforms, I favor Crowdstreet for their better customer service, larger deal selection, and offering webinars.

Here are some takeaways from my experience so far:

- 1) Sponsor quality is far more important than the actual deal itself. Spend the time to speak with the sponsors and get comfortable with their culture and philosophy of investing. Invest with more tenured sponsors who have seen a downturn or two.
- 2) Educate yourself before pulling the trigger. Learn the language for each asset type. The best way to learn the lingo is to listen to the offering webinars. Practice analyzing as many deals as you can, even if you don't plan to invest in them.
- 3) Know your comfort zone. Different asset types have different risk profiles. This can range from relatively conservative (debt and Triple Net Lease) to risky (development).
- 4) Invest with the market cycle in mind. We may be in the late innings of the current real estate cycle as CAP rates are getting compressed in some markets.

Because of this, I'm shifting towards more recession resistant assets like self-storage facilities and mobile home parks.

5) The real estate crowdfunding ecosystem is maturing. The field of hundreds of sites is being whittled down to about a dozen or so major players. Since these platforms live and die by deal volume, they are incentivized to keep pumping out deals at the expense of higher risk and poorer deal quality.

6) Don't do this alone. Join an investor group and talk to like-minded people.

7) Most sponsors and platforms will accept retirement funds. You can use a self-directed IRA or 401k to invest in commercial real estate deals.

Real estate crowdfunding is a novel investment vehicle and may have a place in a well-diversified portfolio. Accredited investors now have unprecedented access to commercial real estate deal flow not available before; however, care must be taken to mitigate risk. These investments are not for everyone; do your due diligence and invest with experienced, high quality sponsors.



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](#)