

News

# Crowdfunding offers real estate developers new finance tool



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GrowthSpotter

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**N**o longer restricted to business start-ups and charitable causes, crowdfunding sites are becoming a valuable new investment tool for real estate developers.

New SEC **rules that went into effect May 16** have opened up the world of online real estate investing to anyone, regardless of income. The rules are modeled after popular crowdfunding websites like Kickstarter and Indigogo.

Speaking to the Florida **CCIM** chapters from Tampa and Orlando at last Friday's I-4 commercial corridor conference, attorney Matthew Armstrong discussed crowdfunding and other types of nontraditional routes that are quickly gaining steam for real estate projects.

"Traditionally everybody used the model of raising money from friends, family, prior investors and business associates," he said. "There was a prohibition on doing something called a general solicitation."

But with the passage in 2012 of the JOBS Act, developers can raise money online, through targeted ad placements and even on crowdfunding websites. Armstrong, an attorney with **Broad and Cassel**, advises clients on nontraditional fundraising platforms.

"A lot of people don't have access to those stables of people that they can go to tap into for large amounts of money, so it really disproportionately favored the 1 percent," Armstrong said.

Now developers can utilize websites, such as **Patch of Land**, that aggregate accredited, high-net worth investors, to present their projects. There is no limit on the amount of funds that can be raised through this method.

"Some of these websites have thousands of accredited investors," Armstrong said.

Other websites, like **Seed Invest**, allow accredited investors to preregister and gain access to companies that are looking to raise money.

The deal flow since the advent of online fundraising and the passage of the JOBS Act has been in the billions. But that figure could be dwarfed by equity crowdfunding sites, like **Next Seed**, that match developers with non-accredited investors who can legally invest a maximum of \$2,000 or \$10,000 a year, depending on their income and/or net worth.

Some experts predict the industry could generate \$45 billion a year in new funds for thousands of real estate projects. Each company, or issuer, can raise a maximum of \$1 million over a 12 month period. Armstrong said the crowdfunding model could be a good option for small projects, like a house flip, or it could be combined with an exclusive offering to accredited investors.

"Nobody knows how it's going to shake out yet," he told **GrowthSpotter**. "A lot of people are scared it could be abused. But it has the potential to raise billions through a ton a small offerings."

*Have a tip about Central Florida development? Contact me at [lkinsler@GrowthSpotter.com](mailto:lkinsler@GrowthSpotter.com) or (407)420-6261, or tweet me at [@LKinslerOGrowth](https://twitter.com/LKinslerOGrowth). Follow GrowthSpotter on [Facebook](#), [Twitter](#) and [LinkedIn](#).*

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