

Crowdfunding for Cooperatives

Unique way of raising needed capital

Table of Contents



- Crowdfunding 101
 - Overview of Crowdfunding
 - Crowdfunding is Not New
 - Growth of Internet Crowdfunding
 - The Cooperative Connection
 - The current Regulatory Environment
 - The Real Estate Crowdfunding Market

- Crowdfunding Cooperative Development
 - Crowdfunding Debt
 - Crowdfunding Equity
 - Crowdfunding Share Loans

Crowdfunding 101 – What is Crowdfunding



Crowdfunding is the practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the internet. This is an alternative form of finance that has emerged outside the traditional system.

- This idea is not new, but has taken off with the internet
- This concept should sound “familiar”

Crowdfunding 101 – Crowdfunding is Not New



Crowdfunding 101 – Crowdfunding is Not New

- In 1885, the government ran out of funding to build the base for the Statue of Liberty.



- A Newspaper drive was started to raise funds to build the base.
- Over 120,000 people funded the building of the base, most giving less than \$1

Crowdfunding 101 – Growth of Internet Crowdfunding

- The internet crowdfunding movement began in 2004 with the start of ArtistShare



- ArtistShare allowed musicians to promote their music and raise funds directly from fans online.
- Most of the early crowdfunding website were related to the arts

Crowdfunding 101 – Growth of Internet Crowdfunding

Crowdfunding requires three role players:

- Project Initiator – This is the developer/Seller/Creator. The individual or company with the concept, idea, or product they need capital to develop
- Supporters – These are the individuals and institutions who support and want to see the ideas of the initiators developed and would like to invest in the concept.
- Moderators/Platforms – The websites, in this case, that act as intermediaries between the project initiator and supporters, developing terms of an agreement and bringing the money together with the idea.



Crowdfunding 101 – Growth of Internet Crowdfunding

Types of Crowdfunding Platforms:

- Rewards Crowdfunding – entrepreneurs pre-sell a product or service to launch a business concept without incurring debt or sacrificing equity
- Equity Crowdfunding - Backers of a new company receive a share of the company and receive compensation through the growth of the new company.
- Debt-Based Crowdfunding – Also known as Peer to Peer, P2P or Crowdlending – Borrowers apply online, platform verifies, determines credit risk and interest rate, investors buy into securities, which in turn fund loans to individuals or bundles of individuals. Platforms make money on fees and servicing.



Crowdfunding 101 – Growth of Internet Crowdfunding

Types of Crowdfunding Platforms:

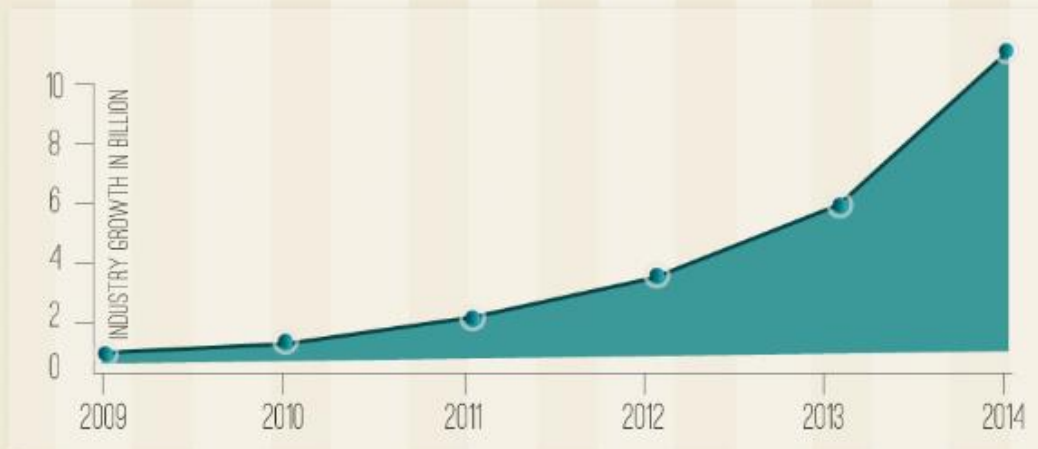
- Litigation Crowdfunding – Investing in legal disputes and benefitting from their outcomes
- Charity Crowdfunding



Crowdfunding 101 – Growth of Internet Crowdfunding



THE INDUSTRY HAS GROWN 1000% IN 5 YEARS



PROVIDING

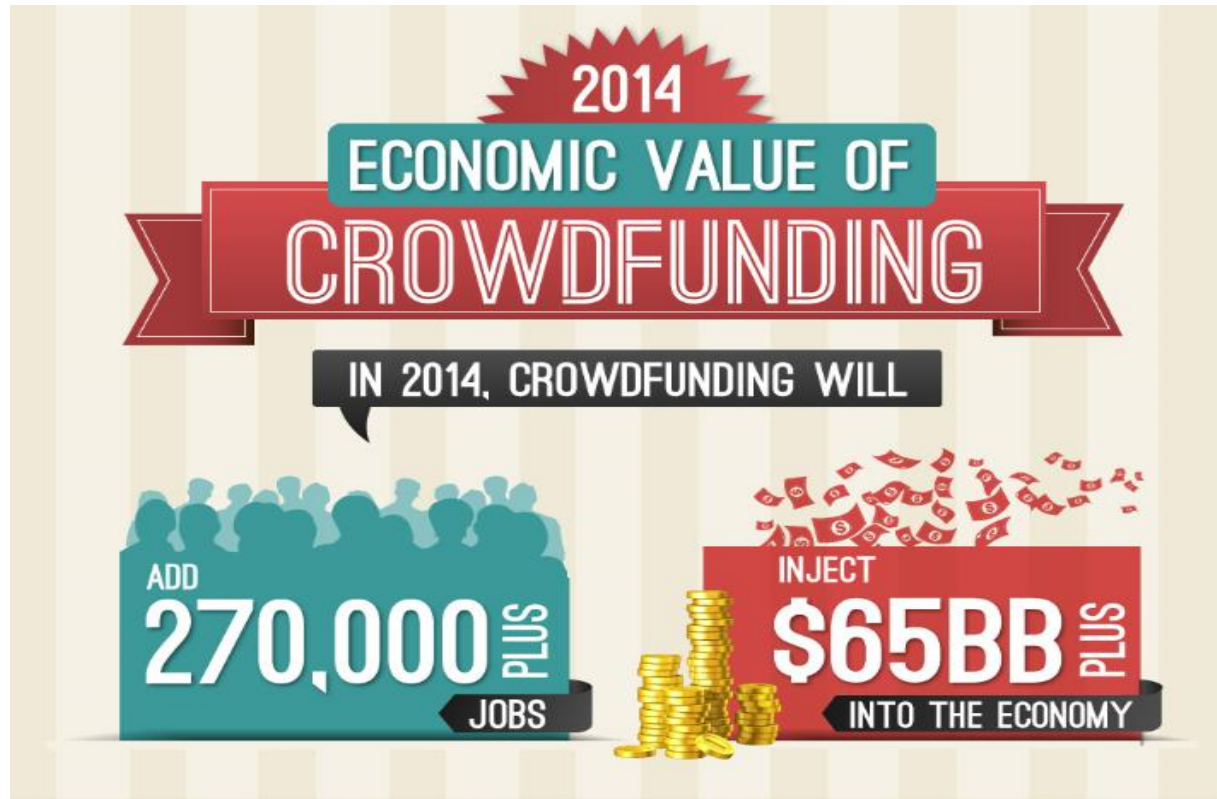


\$10BB PLUS

IN FUNDING TO STARTUP COMPANIES

Sources:
Early models for Engineering Leadership, UC Berkeley College of Engineering, "How Big Will the Debt and Equity Crowdfunding Investment Market Be?" Jan. 15, 2013, Jason Bost co-author
Crowdfunder.org 2013 Industry Report authored by MaxSoldato
Chance Diamond, founder of Crowdfunder, and Dr. Peter Diamond, Khora Foundation
Crowdfunder.org Wikipedia
Crowdfunder.org 2013 Industry Report authored by MaxSoldato
Popular Science magazine 10/4/2013
Harvard Business Review Blog Network, Alan E. Hill, g. Network May 19 2012
Dan Heiman, Center for Digital Entrepreneurship + Economic Performance blog, May 16, 2013
National Venture Capital Association
Penguin research via New Business Journal, Will Dwyer and Andrew Zacharakis, July/August 2013
"The Importance of Startups in Job Creation and Job Destruction," Kaufman Foundation, Tom Kane, Sept. 9 2010
"Venture Impact: Economic Impact of Venture Capital-Backed Companies to the U.S. Economy," produced by H-S Global Insight, for the National Venture Capital Association
Hiscox, 5th Annual DNA of An Entrepreneur Report, Sept. 12 2013

Crowdfunding 101 – Growth of Internet Crowdfunding



Sources:

Fang Institute for Engineering Leadership, UC Berkeley College of Engineering, "How Big Will the Debt and Equity Crowdfunding Investment Market Be?", Jan. 15 2013, Jason Best co-author
Crowdfunding.org 2013 Industry Report authored by Massolution
Chaos Diamond, founder of Crowdfunder, and Dr. Peter Diamandis, Xora Foundation.
Crowdfunding.org, Wikipedia.
Crowdfunding.org 2013 Industry Report authored by Massolution
Popular Science magazine "04/2013"
Harvard Business Review Blog Network, Alan E. Hall, g Network May 10 2012
Dan Herman, Center for Digital Entrepreneurship + Economic Performance blog, May 16, 2013
National Venture Capital Association
PwC research via Inc Business Journal, Will Dwyer and Andrew Zacharakis, July/August 2013
"The Importance of Startups in Job Creation and Job Destruction," Kauffman Foundation, Tim Kane, Sept. 9 2010
"Venture Impact: Economic Impact of Venture Capital-Backed Companies to the U.S. Economy," produced by HIS Global Insight, for the National Venture Capital Association
Hiscox, 5th annual DNA of An Entrepreneur Report, Sept. 12 2013

Crowdfunding 101 – Popular Crowdfunding Sites



- Gofundme
- Kickstarter
- Indiegogo
- Teespring
- Prosper
- Lendingtree
- Patreon
- Crowdrise
- Donorschoose

Crowdfunding 101 – The Cooperative Connection



- It has been said that the beauty of crowdfunding is that it brings like-minded people together to support ideas and causes that they all believe in as a community
- These people pool their resources together and share in the rewards, both financially and emotionally.
- These are exactly the same principals that drive the process behind forming cooperatives.
- According to Wikipedia, the Cooperative movement was a “precursor” to the Crowdfunding movement. Both movements are linked in principal.
- Cooperatives should take advantage of this synergy.

The Real Estate Crowdfunding Market



The Real Estate Crowdfunding Market

- The federal law regulating many real estate investments from 1933 to 2012 was the Securities Act of 1933.
- This legislation barred real estate property owners and developers from generally soliciting the public to invest in their projects.
- Sponsors could only offer investments to people with whom they had a “substantial business relationship”. Deals were only offered to friends, families and business associates of the sponsor.
- Investors had to have the financial ability to invest relatively larger sums since sponsors only had a certain amount of time to raise the money and found it more efficient to get larger investments from fewer people.



The Real Estate Crowdfunding Market

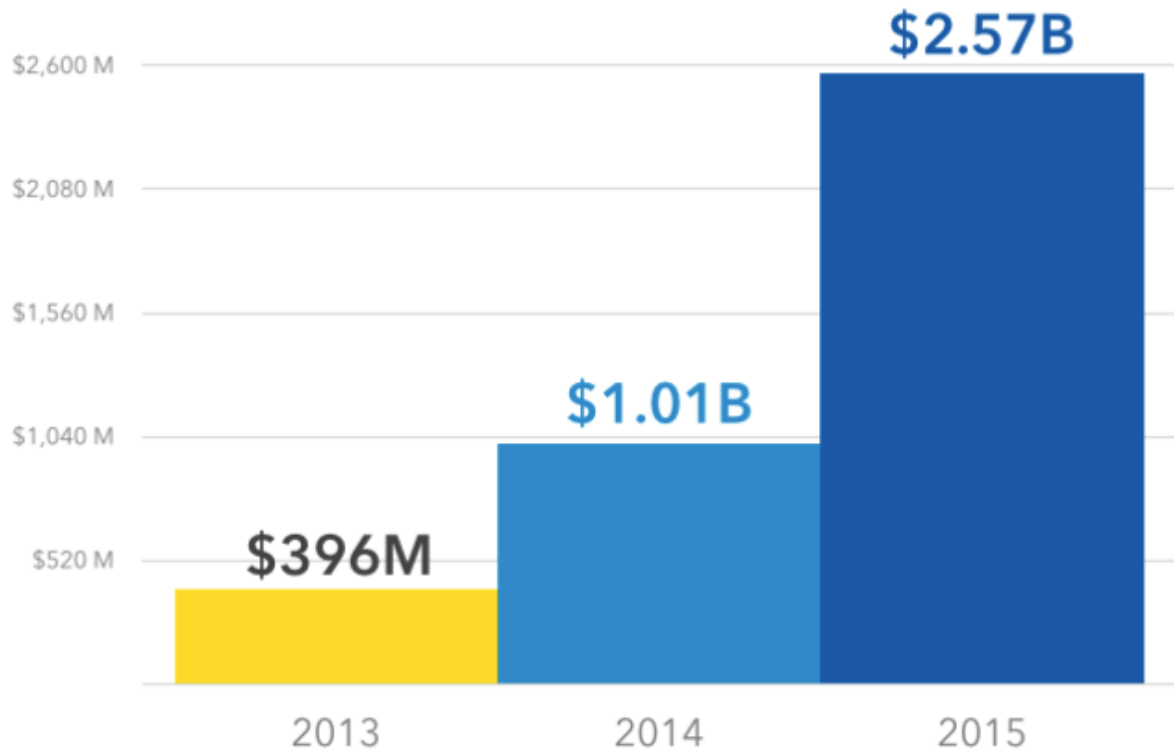
- The purpose of the JOBS Act of 2012 is to increase American Job creation and economic growth by improving access to the public capital markets for emerging growth companies
- The JOBS Act of 2012 allows for general solicitation of real estate projects to a much broader spectrum of investors.
- Accredited Investors, those having an income per year of over \$200,000 for an individual or \$300,000 for a couple, or a net worth beyond their primary residence of over \$1,000,000, can now be part of the solicitation whether or not they knew or had previous business dealings with the sponsor. -



The Real Estate Crowdfunding Market



Real Estate Crowdfunding Volume



The Real Estate Crowdfunding Market

- The SEC has announced that they finally plan to implement the JOBS act Title III rules, pertaining to investment crowdfunding for non-accredited investors, in October 2015.
- Title III will allow anyone to invest in startups online. Currently only accredited investors or qualified institutional buyers are allowed to invest in startups and other private offerings online via crowdfunding.
- Title III will include limitations on how much of their income or net worth an individual can invest, and how much a company can raise through investment crowdfunding.



The Real Estate Crowdfunding Market

Title IV changes will also impact real estate investing through crowdfunding



- **Funding Limit Raised:** the SEC is significantly increasing the maximum amount of money that a company can raise – from \$5 million to \$50 million. That’s enough for such offerings to be considered mini IPOs.
- **Everyday Investors Welcome:** Last, but not least, the SEC is letting companies use Regulation A+ offerings to solicit investments from “the crowd.” In other words, for the first time ever, non-accredited investors can invest up to 10% of their annual income or net worth in each deal.

The Real Estate Crowdfunding Market

How the changes impact Investors:

- No longer have to personally know sponsor
- Don't have to invest large sums of money, minimum investments can be much smaller
- Allows for diversification of investment portfolio to include real estate directly, which over time has been stable and predictable.
- Opportunity to invest in own community and have more say in what is developed in their community by voting with their pocket book



The Real Estate Crowdfunding Market

How the changes impact Sponsors:

- Have access to a broader pool of investors
- Can raise capital more efficiently by taking advantage of new technology and the internet to access greater number of investors
- Opportunity to do more projects
- Greater flexibility with the capital stack
- Can give investors better options regarding liquidity
- Can market projects to like minded, “mission” oriented investors more effectively.



The Real Estate Crowdfunding Market

The big Crowdfunding sites for real estate:

- Fundrise – raises equity
- Realty Mogul – raises debt and equity
- RealtyShares – raises equity
- CrowdStreet – raises debt and equity
- Ground Breaker – raises equity
- iFunding – raises equity for commercial and single family properties



The Real Estate Crowdfunding Market



What is being funded by the real estate crowdfunding market?

The Real Estate Crowdfunding Market

Salt Lake City Ground-Up Multifamily

252 South 500 East, Salt Lake City, UT • JF Capital



TYPE
Residential
Multifamily



PHASE
Ground Up
Construction



LOCATION
Salt Lake City, UT
Central City Neighborhood

CASH FLOWING TO INVESTORS

ANN. RETURN 14.0% TERM 36 mo.



Underlying Security	Preferred Equity
Investment Size	\$2,500,000
Min. Investment	\$5,000
Current Ann. Return	14.0%
Open To	Accredited Investors

Offering Closed

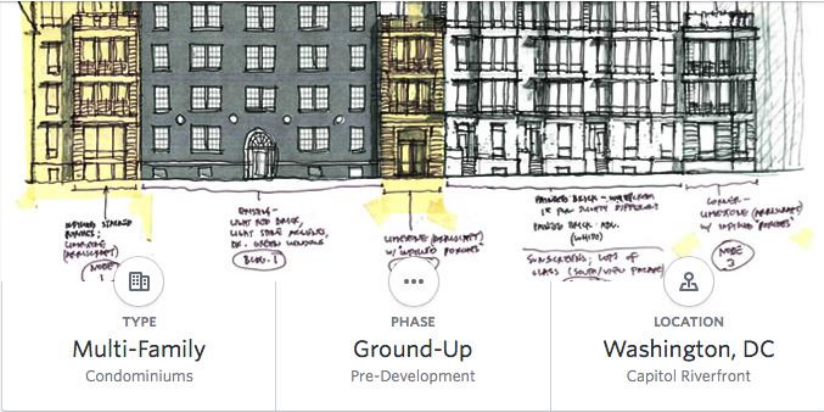
Investment Summary

This is an opportunity to invest in the development of a brand new Class-A 158-unit luxury apartment building, the Bonneville, located in the Central City neighborhood of Salt Lake City, Utah. The sponsor, JF Capital, recently delivered two similar multifamily properties, the 122-unit CityScape and the 61-unit Newhouse, in the same neighborhood and successfully exited both through a sale of each property upon stabilization.



The Real Estate Crowdfunding Market

818 DC Capitol Riverfront Condo Pre-Development
 816-820 Potomac Ave, Washington, DC • 818 Potomac Avenue SE, LLC



CASH FLOWING TO INVESTORS

ANN. RETURN	TERM
15.0%	12 mo.
FUNDRISE RATING	
D	

Underlying Security	Preferred Equity
Investment Size	\$1,370,000
Min. Investment	\$5,000
Current Ann. Return	15.0%
Open To	Accredited Investors

Offering Closed

Overview **Updates 1**



Investment Summary

This is an opportunity to invest in a series of Notes tied to a preferred equity investment in the acquisition and pre-development of a two phase 55-unit condominium development located in DC's Capitol Riverfront District. Sponsor James Anderson, Manager of 818 Potomac Avenue SE, LLC, closed on the acquisition of the property in March 2015 and is currently in the pre-development process.




The Real Estate Crowdfunding Market



My Account ▾ Invest Companies Community Learn ▾  Hugh

Atlanta Condo Pre-Development Loan

238 14th Street, Atlanta, GA • Kim King Associates LLC



TYPE	PHASE	LOCATION
Residential Multifamily	Acquisition Pre-Development	Atlanta, GA Midtown

Investment Summary

We are pleased to provide the opportunity to invest in Kim King Associates LLC's acquisition of a 14,000 SF lot located in Midtown Atlanta next to Piedmont Park. The site is currently vacant and was purchased off market from a long-term holder. The sponsor had originally spoken to their traditional senior lender, but because of a tight acquisition timeline, approached us for certainty of close. This investment provides the opportunity to invest in a tight supply constrained and growing market at 72% of the purchase price (61% of total acquisition costs) with a personal guarantee from a strong sponsor. The sponsor will complete construction drawings and then seek to take Fundrise out within

ANN. RETURN	TERM
14.0%	12 mo.
FUNDRISE RATING	
Underlying Security	Senior Debt
Investment Size	\$400,000
Min. Investment	\$5,000
Current Ann. Return	14.0%
Open To	Accredited Investors

Offering Closed

The Real Estate Crowdfunding Market

CrowdStreet

Offerings Learn News About



[Learn More](#)

TARGETED IRR

22.1%

TARGETED ANNUAL CASH YIELD

19.2% (upon stabilization)

TARGETED HOLD PERIOD

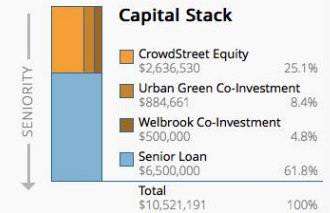
5 Years

INVESTMENT TYPE

Equity

PROPERTY TYPE

Senior Housing



Funding Open

\$2,165,000 of \$2,636,530 committed

URBAN GREEN
INVESTMENTS

SPONSOR **REPEAT**

Urban Green

Urban Green Investments is a fully integrated real estate investment and development company that has been an active sponsor in the Bay Area since 2008. The company is headquartered in San Francisco and invests in three major platforms: multi-family, land development and boutique office buildings. Urban Green invests primarily in California, New York and Texas though selectively considers opportunities in other urban markets. Urban Green invests directly in projects and also works in conjunction with a variety of partners including local sponsors, institutional funds and accredited investors.

Share: [in](#) [t](#) [f](#) [v](#)

Cooperative Funding through Crowdfunding

- Cooperative and Crowdfunding are made for each other.
- Cooperative Developers should be able to access all types of needed funds through existing crowdfunding sites:
 - Pursuit capital is already being funded through crowdfunding sites. This is the single largest need for new cooperative development.
 - Equity to close on existing deals. Crowdfunding can provide a bridge to selling out share sales in a new cooperative, allowing deals to move forward more quickly
 - Although traditional sources of debt are more preferable at this point, as the market become more efficient, developers should be able to access debt funding more quickly and at a lower cost.



Cooperative Funding through Crowdfunding

- Once rules have changed, it may be advantageous to create a specific crowdfunding site for cooperatives, this may allow:
 - Non accredited investors to invest directly in projects that are meaningful to them. The cooperative industry can support itself and bring new people/investors to the movement.
 - Allow for future members to invest directly in a new cooperative by purchasing a share in the cooperative, increasing marketing exposure for new cooperative projects and providing an easier avenue to investment for future members
 - Allow developers to access debt funding that is easier and more efficient than existing methods through FHA, Fannie Mae and other lenders. This will provide direct access to funders, lowering underwriting costs and closing costs.



Cooperative Funding through Crowdfunding

- Last but not least, crowdfunding may provide an opportunity for share loans through a dedicated share loan crowdfunding site:
 - Peer to Peer sites already are providing direct personal loans to individuals. As rules change to allow for greater flexibility and non-accredited investors, there should be ample opportunity to create a new, dynamic funding source for share loans.
 - Again, the cooperative industry may be able to support itself in some ways, coop members, cooperatives and industry supporters will be able to invest directly in new share loans.
 - Also, a dedicated sight can allow traditional investors to fund share loans at a lower cost and more efficiently, with less overall risk since is shared with many.

