

Equity-based Crowdfunding Real Estate Markets

An institutional comparison of crowdfunding real estate markets and their employment as alternative financing tool for real estate between the Netherlands and the US



P2 Report

by

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Terminology

Basel III

Crowdfunding Campaign

CFRE

Abbreviation for Crowdfunding Real Estate, *see Crowdfunding Real Estate*

**Crowdfinance/
Crowdfunding**

Equity-based Crowdfunding

**Institutions/
Institutionalism**

Initial Public Offering (IPO)
Beursgang

New Institutional Economics

Property Development

Real Estate Development

Real Estate Finance

Part I: Introduction

This chapter illustrates the background and origins of this study. First it will elaborate upon my personal motivation for the subject, followed by the study's objective and problem analysis. The chapter will conclude with the problem statement, research questions and the scientific and practical relevance.

1.1 Personal Motivation

Real estate investments have grabbed my interest since various economic courses introduced me to the financial and economic challenges of real estate. This economic knowledge instigated other courses to be experienced in a more realistic manner. It is in the past years of economic crisis that real estate investments were unattractive, leading to low investment volumes. Financing real estate is henceforth pioneering towards alternative financing tools. I find it particularly interesting what the alternatives for traditional bank loans are.

In the past few years crowdfunding situated itself as efficacious and functional phenomenon in the Dutch economy. It enthalls me how the crowd can bundle its strengths and act as investor for small to large scale projects. However, it is the low threshold and ease of access to crowdfunding platforms that enables almost the entire Dutch population to invest in projects, start-up businesses, products and services – eliminating the necessity of a bank as intermediary – that grabs a major part of my interest.

An enormous growth of real estate crowdfunding is seen in the US. This tool is used to develop and invest in real estate. Over seventy crowdfunding platforms facilitate this new and dynamic market of real estate funding. Contrary to the US, Europe is lagging behind in the utilisation of crowdfunding as financial resource. All countries, except for the UK, lack a dynamic real estate crowdfunding market and have barely got any facilitating platforms. I am puzzled by the US taking such a lead in the application of crowdfunding as financial resource for real estate development and investing. This study will compare the US market's context to the Dutch context and search for clarifying differences or similarities.

1.2 Research Objective

The commercial real estate investment industry has seen few major innovations since the introduction of the REIT structure in the 1960s and commercial mortgage securitization structure in the 1990s (Burgett & McDonald, 2013). Crowdfunding real estate (both investments and developments) however might be the next major innovative investment-structure. American initiatives boost the opportunity for the crowd to invest in real estate (development), reflected in a growing crowdfunding real estate industry (Taves 2015; Gose 2015; Mattson-Teig 2015; Grout 2014).

Main objective of this thesis is to define the favourable market conditions and contextual requirements for a flourishing real estate crowdfunding industry. Among others, this thesis aims to clarify the lack of a strong real estate crowdfunding industry in the Netherlands and it will assess the application of real estate crowdfunding as financing tool in the US compared to the Netherlands.



Figure XX: Real Estate Investment Timeline (own illustration)

1.3 Problem Analysis

Over the past few years the Dutch real estate development industry was in state of transformation. Increasing complexity in financing real estate and area development is fuelled by poor market conditions, growing risks and fiercer European banking supervision. Financing real estate is considerably thwarted due to these circumstances (a.o. Mackaaij & Nozeman 2014; van Ham 2012; Huibers 2012; Buitelaar et al. 2013). Acquiring financing for development projects is an overarching issue within the real estate and area development industry. This led to perilous situations for most developers, according to *Vastgoedmarkt* over 50% of the real estate developers are under legal restraint and experience financial issues (2015).

This situation is certainly not unique, France and the UK experience a similar alteration of banks and their growing aversion towards real estate financing (Huibers 2012; Mackaaij & Nozeman 2014; Milton 2010). Adapting to these changes transformed the French and British real estate finance industry towards alternative capital sources. Among these alternative sources are pension funds, co-financing, private-equity funds and sovereign wealth funds (Mackaaij & Nozeman 2014).

Developers respond to the growing scarcity of capital by experimenting with alternative financial sources such as forward funding, crowdfunding and private equity funding (Mackaaij & Nozeman 2014). Comparable results are found by Haak's study on possible innovations for developers (2015). He states that developers can innovate by, for instance, implementing crowdfunding and crowdsourcing in their operational processes. Some examples of crowdfunding in real estate development are analysed by Hol & Daamen (2014). They explain that crowdfunding can lead to successful projects and valuable market information, however just for small scale developments. Further research by Autar clarifies that crowdfunding is not merely a financial tool, it is of marketing, research and social value to the initiator(s) and traditional actors (2015). Hence, this alternative financing tool might be able to offer development firms new financing opportunities to strengthen their position within the market.

A substantial real estate crowdfunding industry is lacking in the Netherlands. This can be seen by the insignificant number of real estate crowdfunding platforms – just four platforms relate to real estate crowdfunding.¹ Of these platforms only two start-ups facilitate direct investment opportunities in real estate, others focus merely on mortgages.

In order to specify the problem statement the following chapter will clarify the current market situation of financing real estate developments in the Netherlands. This is followed by an introduction to the American market and its equity crowdfunding initiatives for real estate. Altogether these chapters will provide ample clarification on the topic in order to construct an evident problem statement.

1.4 Market Context

1.4.1 Financial and Economic Context in the Netherlands

Traditionally, capital for Dutch real estate development was raised by a single financing party, usually a bank, (institutional) investor, government department or pension fund (Mackaaij & Nozeman 2014; Huibers 2012; Hol & Daamen 2014). These large (Dutch or international) entities used to have vast amounts of capital available for loans, mortgages or investments. However, a strong shift in the banks' lending and liquidity policies changed the entire capital markets (Mackaaij & Nozeman 2014; van Ham 2012; Visschedijk 2013; Gründemann 2010; Vastgoedmarkt 2015). This shift caused a funding gap for real estate and urban developments.

As Jacobs explains banks are trying to increase their solvability by limiting credit loans (2013). Making things worse, solving this lack of available capital is hampered by the recent introduction of *Basel III* (which is supposed to decrease bank leverage and increase bank liquidity) (Visschedijk 2013; van Ham

¹ Douw&Koren, retrieved on 19-02-2015 from <http://www.douwenkoren.nl>

2012). In other words, banks are obliged to lower their provision of capital (Vastgoedmarkt, 2015; KPMG, 2011).

Development of new built real estate is highly pressurised by the financial context of the industry. Buitelaar et al. explain that banks charge higher premiums, utilise lower loan-to-value ratios (LTV) and demand strict forward sales and forward leases (2013). As a result, obtaining credit is subject to higher financing costs and additional regulations. There are only three large banks in the Dutch real estate finance industry: FGH Bank, ING Real Estate Finance and ABN Amro Real Estate Finance. Together they add up to 88% of all real estate development finance structures (Kerste et al. 2011). These factors show the oppressive dominance of just three banks forcing investors and developers to rethink their financing strategies.

Together, this illustrates the crooked situation of the Dutch development market. It is a paradox in which less and smaller loans lead to the dominance of bankers, resulting in the bankruptcy of real estate developers and undervalued properties. This leads to the desire for alternative financing tools that provide finance solutions for real estate developments – crowdfunding could be one of these alternative tools.

1.4.2 Global Crowdfunding Context

The earlier mentioned alterations in the Dutch real estate development industry took place in the aftermath of the economic crisis that started in 2007. In the same period the world's largest, oldest and most renowned crowdfunding platform was launched – Kickstarter – on 28th of April 2009 (Kuppuswamy & Bayus, 2013).² After Kickstarter's eminent success plenty of other crowdfunding platforms followed its lead, instigating a global crowdfunding industry that is estimated to have doubled in 2013 to over \$5.1 billion.³

European figures are published in the *Moving Mainstream* report by University of Cambridge and EY (Wardrop et al. 2015). Alternative financing (of which crowdfunding is one) grew by 144% last year to a total transaction volume of almost €3 billion – with over €2.3 billion the UK is the largest market for alternative financing tools. In 2015 the total transaction volume in alternative financing is projected to reach €7 billion, of which €5.7 billion in the UK (Wardrop et al. 2015).⁴ These figures stress the explicit presence of large and growing crowdfunding markets in Anglo-Saxon countries. Especially the UK and the US dominate and lead the global crowdfunding industry by their size and annual growth.

Within this industry there are large differences among countries – both by size and allocation of capital (ranging from the film industry and video games to product development and start-ups). In the fourth quarter of 2014 real estate crowdfunding bypassed start-up/company crowdfunding, in terms of demand for capital, for the first time (Crowdvalley 2015). For the US alone the difference between capital allocation to real estate and (start-up) companies is even larger, respectively 43% versus 35%. This led, globally, to over \$1 billion being invested in crowdfunding real estate, an increase of approximately 156% compared to 2013 (Crowdsourcing.org 2015). For 2015, crowdfunding real estate is projected to grow to over \$2.5 billion. A brief introduction to the differences between the Dutch and US market can be found below.

1.4.3 Crowdfunding in the Netherlands

The Dutch crowdfunding market is a young and dynamic market full of growth and diversification. Its total investment volume in 2014 doubled compared to its 2013 equivalent according to *Douw&Koren Crowdfunding Consultancy* (2015). In 2014 over 63 million euros was raised through crowdfunding platforms, compared to respectively 14 and 32 million euros in 2012 and 2013, as can be seen in figure XX (Douw&Koren, 2015). Largest part of this raised capital funds entrepreneurs, representing over 51 million euros with an average investment volume of €85,000 per (start-up) firm.

² Kickstarter, Press introduction, retrieved on 13-02-2015 from <https://www.kickstarter.com/press?ref=footer>

³ Bloomberg, Higher Stakes for Crowdfunding, Bloomberg Quicktake, retrieved on 13-02-2015 from <http://www.bloombergvie.com/quicktake/crowdfunding>

⁴ Important to note is that other alternative financing tools like micro-financing, community shares and debt-based securities are included in these calculations, the actual numbers on crowdfunding are slightly lower.

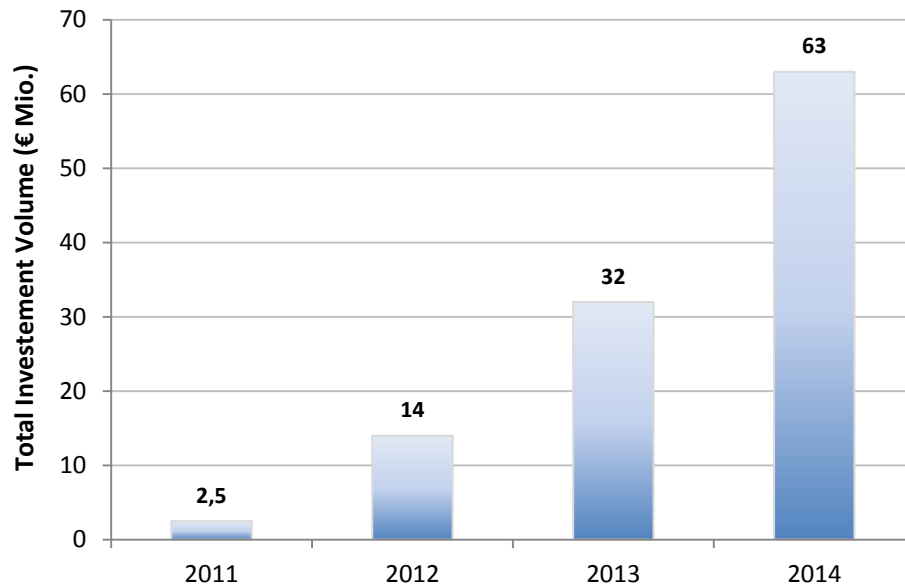


Figure XX: Total investment volume (€ mio.) in Crowdfunding campaigns in the Netherlands over the past four years (own illustration based on Douw&Koren, 2015)

According to Douw&Koren the crowdfunding industry will continue its growth in 2015. They state that specific opportunities for applying crowdfunding in the health and real estate sector exist (2015). Aforementioned sectors can profit from the expectation that financially large projects will turn to crowdfunding as additional financing tool alongside other financial sources – in other words, co-financing projects.

Interesting to note is the launch of one of the first equity crowdfunding platforms in 2011, known as *Symbid* (Clifford, 2013). At the time of writing this platform has funded 81 projects that add up to over €6.5 million raised by almost 30,000 investors.⁵ The – at that time – less developed legislation concerning equity crowdfunding in the US was criticized to take a look at regulations in the Netherlands. In late 2013 the US's Securities and Exchange Commission (SEC) was in fierce negotiations about how to protect regular (unaccredited) investors from fraud, until now only accredited investors (individuals earning at least \$200,000 a year or having over \$1 million in assets) are allowed to invest in equity crowdfunding projects (Clifford, 2013). In terms of legislation it looks like the Dutch regulations on equity crowdfunding are far ahead of their American counterparts.

1.4.4 Crowdfunding in the United States of America

Earlier research has shown the various aspects of crowdfunding and its applicability in real estate development in the Netherlands (Hol & Daamen, 2014; Autar, 2015). Both studies are conducted by means of various case studies – however, none takes an explicit look to foreign practices. It is therefore interesting to explore countries where a large real estate crowdfunding industry has been emerging. One of the best examples is the US real estate crowdfunding industry, **enjoying a stunning amount of average capital committed to real estate funding through crowdfunding platforms of over \$2 million a day.**⁶ This equals a large number of development (and investment) projects annually being realised with the help of crowdfunding.

Since the crowdfunding industry gained attention it has been working to grow into a mature industry within the American (investment) market. This is showcased by the growing number of crowdfunding platforms and total capital raised by these platforms. North America leads the world in crowdfunding volume, growing 145% in 2014 to raising a total of \$9.46 billion (Crowdsourcing.org 2015).⁷

⁵ Symbid website, retrieved on 16-02-2015 from <https://www.symbid.nl/>

⁶ CNBC, The CNBC Crowdfinance Real Estate Average, retrieved on 16-02-2015 from <http://www.cnbc.com/id/102217853>

⁷ Important to note is that North America includes Canada and the USA, these figures therefore do not represent the USA alone.

Among other industries the real estate equity crowdfunding industry is growing up fast (Gose, 2015). His article in *Investor's Business Daily* describes some of the larger real estate crowdfunding platforms, stating that one of the platforms has arranged over \$16 million in funding for 32 projects since 2011. However this is not the only platform, over 70 real estate equity crowdfunding platforms are now active on the American market (Gose 2015). From a handful of platforms a few years ago the industry has experienced a rapid growth. This is also reflected by CNBC's *Crowdfinance real estate average*, which is a daily average of total capital committed to crowdfunding projects in the real estate industry showing increasing amounts of capital.⁶

1.5 Problem Statement

The previous introduction to the current context enumerates the problematic Dutch real estate development market, crowdfunding in the Netherlands and equity crowdfunding real estate in the US. Important is the undeniable difference between the Dutch and American implementation of crowdfunding real estate. Hence, Anglo-Saxon countries are applying crowdfunding real estate on a generic basis while the Dutch market is not. This leads to the following problem statement.

Crowdfunding shows a tremendous growth in popularity and frequency as alternative financing tool for real estate investments and developments in the United States. Other than the United States' market, the Dutch market scarcely ventures into crowdfunding as alternative financing tool for real estate. Diversification of real estate finance and the recovery of the real estate (development) industry are hereby hampered.

It is interesting to find out why crowdfunding real estate is not taking off as powerfully and rapidly as is happening in the US. Possible explanations may be found in real estate financing characteristics, legislation, culture or other market requirements and conditions.

1.6 Research Question

The general question that rises through this problem statement is as follows.

How can the differing growth-patterns of the crowdfunding real estate markets in the United States and the Netherlands be explained?

Within the theoretical context and academic body of knowledge, the following research question has emerged.

What dominant factors are favourable for employing crowdfunding as financing tool and how do these relate to the institutional environment? Additionally, how should these factors be treated to stimulate growth of crowdfunding real estate in the Netherlands?

Sub-questions

To be able to answer the main research question the following sub-questions require answering. From the main research questions the following sub-questions have been derived.

- *What is the United States' institutional environment in which crowdfunding real estate takes place?*
- *What is the Dutch institutional environment in which crowdfunding real estate takes place? And, if so, how does this deviate from the situation in the United States?*

In order to answer the first two sub-questions a comparison-analysis is required. Institutional analysis offers the opportunity to compare and define the institutional environment of both nations.

- *Is there sufficient capital and an adequate crowd available for funding real estate projects in the Dutch environment?*

Studying the availability of capital to invest in real estate through crowdfunding can shed a light on the potential size of such a market and the willingness of the crowd to participate.

- How do the incentives for funders and initiators relate to the transaction that takes place between the initiator, the platform and the funder?

This question aims to find answering in the relation between the initiator's and funders' incentives and the play of the game – in other words, the actual transaction between the initiator and the funders of the crowd.

- *Do the costs of capital of respectively a bank loan and employing crowdfunding differ between the United States and the Netherlands? If so, how is this reflected in the utilisation of crowdfunding as financing tool?*

Interest-rates (costs-of-capital) seem to have a critical role in acquiring financing for a project or investment. According to neo-classical economic theory, the higher the costs-of-capital are, the less attractive the financing structure becomes.

- *What bottlenecks can be defined in the market's functioning for both the initiator and investor? In other words, how do the transaction costs relate to the initiator or investor's incentive to participate in crowdfunding real estate?*

Potential bottlenecks have a counterproductive effect on the market's performance.

1.7 Scientific Relevance

The scientific body of knowledge on crowdfunding is extensive; a vast amount of articles, books and papers have been published on the concept of crowdfunding, its potential and the entire industry. However, specific literature on crowdfunding real estate is barely available and forms just a minor niche within the larger body of knowledge. This is worrying since crowdfunding real estate is starting to become the favourable investment type for crowdfund campaigns. Some explorative literature and theses are available on crowdfunding real estate, but explicit outlining is nowhere near mature.

As explained in paragraph 1.3 the Dutch development industry is experiencing major difficulties in financing real estate. Anglo-Saxon countries succeeded to shape a suitable environment for crowdfunding to pioneer into real estate financing. There is no scientific knowledge available on how this was done: what drivers enabled crowdfunding to venture into this new industry? This research focuses on this knowledge gap and makes an attempt to fill this gap.

1.8 Practical Relevance

It is clear that the Dutch real estate industry has serious financing issues. Since the 2007 crisis and introduction of Basel III banks have created an aversion towards real estate. Mackaaij & Nozeman explain that the production of new loans and refinancing of existing loans has dropped over 80% between 2008 and 2012 (2014). Large banks like FGH Bank and ING REF dropped their production of new real estate loans respectively 64.6% and 93.4%.

The Netherlands' neighbouring countries Germany and the United Kingdom have explored alternative financing sources as well as the US. They shaped favourable market conditions for real estate crowdfunding to rapidly increase (especially the US). A large amount of real estate projects is now (partly) financed by crowdfunding. It is of practical relevance to learn these conditions and requirements

in order to assist crowdfunding in the Netherlands. In the most convenient situation real estate crowdfunding would take a considerable lift in the Netherlands, offering new capital sources on the Dutch real estate market.

Part II: A Mixed-Method Approach to Crowdfunding Real Estate

In this thesis, the phenomenon of crowdfunding employed in real estate markets is approached from the interdisciplinary field of urban development management. This means that it does not take a specific field of study (like real estate finance) or theoretical perspective (such as new institutional economics) as its point of departure. Rather, it takes a practical question as its point of departure and aims to build an explanatory framework around this question by comparing different theoretical ideas with empirical observations. In doing so, we combine general statistics about these two crowdfunding practices with in-depth explorations into the variables that could explain why the growth-pattern in the Netherlands is so very different from its US counterpart.

Interesting to note is that the earlier concept of crowdsourcing, that preceded crowdfunding, is already embedded in the American literature on (urban) planning and citizen participation. Brabham (2009) studied the role of crowdsourcing in America's (urban) planning and citizen participation environment. He concluded that "it is time for new citizen participation methods in public planning...Crowdsourcing in particular is a method of harnessing collective intellect and creative solutions from networks of citizens in organised ways that serve the needs of planners". The author eventually advocates an embrace of the crowdsourcing model by planning professionals, policymakers and governments. Similar studies have been conducted by Seltzer & Mahmoudi (2012) and Freitas & Amado (2013). The latter did not merely study crowdsourcing but already ventured into crowdfunding, finding examples of crowdfunded projects in the urban environment and their potential.

This thesis focuses on the conditional framework around crowdfunding, real estate development and real estate finance. Literary sources like Freitas & Amado (2013), Mackaaij & Nozeman (2014), Burgett & McDonald (2013) and Hol & Daamen (2014) add to body of knowledge on crowdfunding and its relationship with real estate development and finance. Therefore this will be the foundation on which this study originated.

Following chapter explains the chosen research method and approach. It will clarify how the research question and various sub-questions will be answered. Eventually the research model, design and strategy will provide a clear outline for the study's structure.

2.1 Approach

Figure XX illustrates the research model. It starts with the original context in which desk research and exploratory expert interviews lead to the problem statement. The research question is hereafter distilled from the previously conducted desk research and interviews, as has been read in part I of this document. While reviewing scientific literature the theoretical frameworks gains shape, emphasizing three means of research. The first method pays attention to the division of the Dutch and the American institutional environments. Theory on New Institutional Economics and the Institutional Environment, primarily on the ideas of Oliver Williamson, will be introduced as a scope for comparing both nations. Secondly, expert interviews and part of a survey will lead to the empirical results on the incentives and bottlenecks of crowdfunding real estate. Lastly, the survey will provide empirical data on the costs of capital and (potential) size of the crowd. Together with the literature review this data provides ample information to draw conclusions on. Eventually this is distilled into recommendations for the Dutch crowdfunding real estate market.

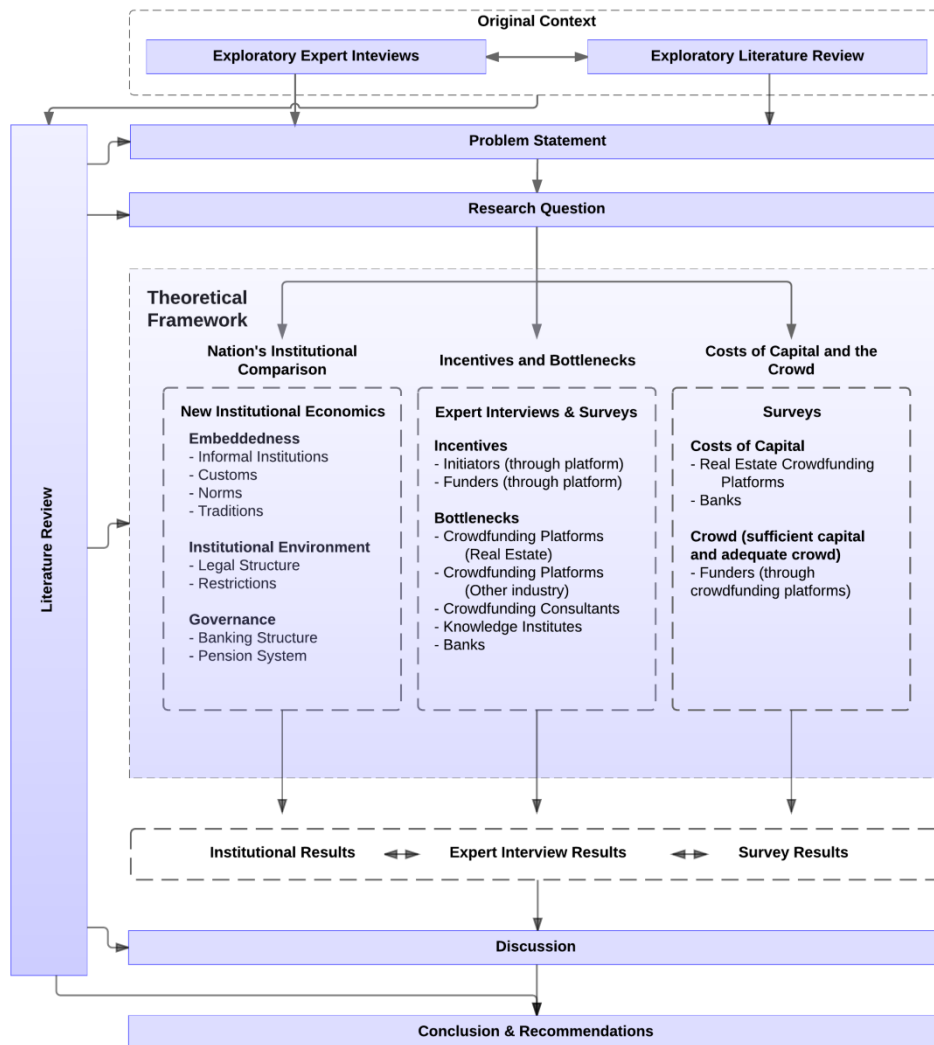


Figure XX: Research model (own illustration)

2.1.1 Desk Research

Reviewing literature is a necessity in learning the theoretical background, concepts and theories that have been applied to the topic (Kumar 2011; Bryman 2012). Both Kumar and Bryman state that the literature review determines multiple guidelines for conducting a study (2011; 2012). Among others, the main determinants are defined as the following topics:

- What is the theoretical background of the study;
- What clashes of evidence (if any) exist;
- Linking the proposed research to the existing body of knowledge, how does it relate;
- What research methods have been applied by other authors?

Kumar explains that a well-executed literature review can bring clarity and focus to the research problem, improves the research methodology and enables contextualisation of the results and findings (2011). A literature review offers guidance in the process of placing results and findings in the existing body of knowledge, hereby increasing the scientific relevance of a study.

However it remains unclear how the literature review can add to the problem analysis and research questions. Kumar advises to broadly conceptualise the research problem before undertaking major desk research (2011). This is why the research model contains an exploratory literature review before and a more extensive literature review after defining the problem statement and research question. Exploring literature adds to the conceptualisation of the problem statement. Contrary to that, the second

literature review is narrowed down to a more specific area, shaping the theoretical framework in which the study will take shape, illustrated by the vertical 'literature review' box in figure XX.

2.1.2 Institutional Theory

Analysis based on the institutional context of both the US and the Netherlands provides a suitable tool for comparison. By distinguishing a regulative, normative and cognitive context it is possible to compare differing nations, areas, cultures or other contexts. It is a widely used method in economic, political and social sciences.

Part III will introduce an extended clarification on the theoretical framework. The scope of the study will be emphasized through reviewing literature on New Institutional Economics, Institutionalism and the broad body of knowledge on Crowdfunding and its application.

2.1.3 Interviews

In the early stages of the research, several exploratory expert interviews were conducted to support shaping the problem statement, research questions and theoretical framework. These interviews are open-structured interviews in order to provide ample opportunity for the interviewee to clarify its statement. Additionally, an unstructured interview offers the broadest approach, hereby assuring an optimal intake of information – in other words, narrowing an interview inevitably leads to more specific, less explorative answers. The interviewees are professionals within different areas of expertise: a business start-up, a regulatory body, a consultancy firm in crowdfunding and a well-known crowdfunding platform. Respectively known as Bouwaandeel.nl, AFM, Douw&Koren Crowdfunding Consultancy and Symbid.

Secondly, using semi-structured interviewing offers the researcher the possibility to keep the contours of the interview somewhat undefined (Bryman 2012). This allows for theories to emerge out of the data. It is this flexibility that makes semi-structured (or unstructured) interviews so attractive. Bryman and Kumar explain that these interviews allow for in-depth research and prove to be flexible when needed (2012; 2011). Selecting semi-structured interviews as research method aligns with this study's aim to find reasonable answering, possibly by generating theory or concepts, of the deviating growth-patterns found in the Netherlands and the US. The semi-structured interviews are conducted with (academic) experts in the field of real estate: Jesse M. Keenan (Columbia University) – Ed Nozeman (ASRE) – Robert Mackaaij (ASRE) – Klaas Kroot (Financieel Opleidingsinstituut).

Gathered data is supposed to consist of satisfactory information to draw conclusions for (some of) the research questions. Following aspects should clearly be attended to in the interviews: (1) the institutional environment in the Netherlands and the US, (2) limitations of the regulations in the Netherlands and the US, (3) importance of the costs-of-capital from varying sources (primarily banks and crowdfunding) and (4) potential bottlenecks that hamper the growth of equity-based real estate crowdfunding in the Netherlands. Employing semi- and unstructured interviews provides the research with qualitative empirical results. Comparing and concluding these is therefore primarily focused on generating concepts and theory. This is essential in describing the environmental conditions of both nations.

2.1.4 Surveys

The purpose of employing surveys is two-fold: on the one hand it offers information on the costs-of-capital of both bank loans and crowdfunding, while on the other hand it offers more detailed information on the (potential) size of the crowd that is willing to invest in crowdfunding and the available capital of this group. Furthermore, it will study the economic rationale of the varying costs-of-capital from respectively bank sources or crowdfunding sources.

Important information is captured by including questions related to the following topics:

- Average financing costs for equity-based crowdfunding;
- Average costs-of-capital charged by banks;
- Size of the (potential) crowd;
- Amount of capital available for crowdfunding.

Together, this data can shed a light on whether crowdfunding real estate is a significant competitor to banks when financing real estate projects (be it investments or developments). Additionally, an estimate of the potential size of the crowd and their available capital offers insight in the (potential) size of the Dutch crowdfunding real estate market.

Data will be collected through two surveys, one for the banks and crowdfunding platforms regarding their costs of capital and one for the crowd to collect information regarding the (potential) size of the crowd and capital available. Questioning crowdfunding platforms and banks provides information to compare the situation in both nations (the Netherlands and the United States). The latter survey questions participants who funded initiatives through crowdfunding before. These will be addressed through crowdfunding platforms that have successfully funded some campaigns. This survey is only executed in the Netherlands, as it provides answering on the potential market size in the Netherlands. Many sources have stressed the growth and development of a large and vibrant crowdfunding real estate market in the United States⁸.

Collecting this data should be well-organised. It is important to offer crowdfunding platforms and banks anonymity and certainty their information will not be shared. Non-disclosure agreements (NDAs) will assist in finding willing platforms to share their (aggregated) data on financial returns and financing costs. Information retrieved from the (individual) funders should be treated with similar care.

2.2 Research Strategy & Design

The study's research strategy is of qualitative nature. This is in line with the explorative character of qualitative research, as the study does not test a predefined theory but is concerned with finding answers to generate a theoretical explanation of a certain phenomenon. However, distinguishing between quantitative and qualitative research strategies is highly criticised and even neglected by some scientist (Bryman 2012). This study can be largely related to the qualitative strategy, nonetheless it is naturally influenced by quantitative aspects.

By acknowledging 'New Institutional Economics' the study is framed in a versatile environment of institutions. As a result, both qualitative and quantitative measures are required to shape an appropriate answer to the research questions.

Using a comparative research design enables the study to assess two nations at the same point in time. This research design is in accordance with the definition as provided by Bryman, stating that the comparative design "entails studying two contrasting cases using more or less identical methods" (2012). Furthermore, he states that the design is applicable to both quantitative and qualitative research strategies. Kumar explains that the comparative design requires a data set being constructed by pre-tests (2011). This is a necessity as each nation is assumed to have the same baseline. Being tested on the same data set enables the researcher to find differences and similarities. In this study the data set is based on exploratory expert interviews and preliminary desk research, explained in paragraph 2.1.1 and 2.1.3.

In this study a comparison between the institutional environment of crowdfunding real estate in the United States and the Netherlands will be drawn. Paragraph 2.1 *Approach* explains how multiple tests in both environments will provide the foundation for finding differences and similarities. Kumar formulates that "in qualitative research, the method of data collection seems to determine the design" (2011). Especially the earlier mentioned semi- and unstructured interviews align with the qualitative nature of the study – supporting Kumar's statement. Hereafter, findings will be contrasted on the aspects as defined in the institutional environment. Quantitative analysis through surveys on the costs-of-capital and potential market size should provide sufficient empirical data to answer the last two (sub) research questions.

⁸ This is primarily captured in chapter 1.4 *Market Context*

2.3 Thesis Structure

Following structure is adopted in this thesis. Figure XX provides an overview of the various parts in the thesis, each part holding various topics, chapters and paragraphs. Chapter 1.6 *Research Questions* introduced the various sub-questions, as included in the figure. Different parts answer different sub-questions, this however is not binding as other parts can provide information for answering another sub-question as well.

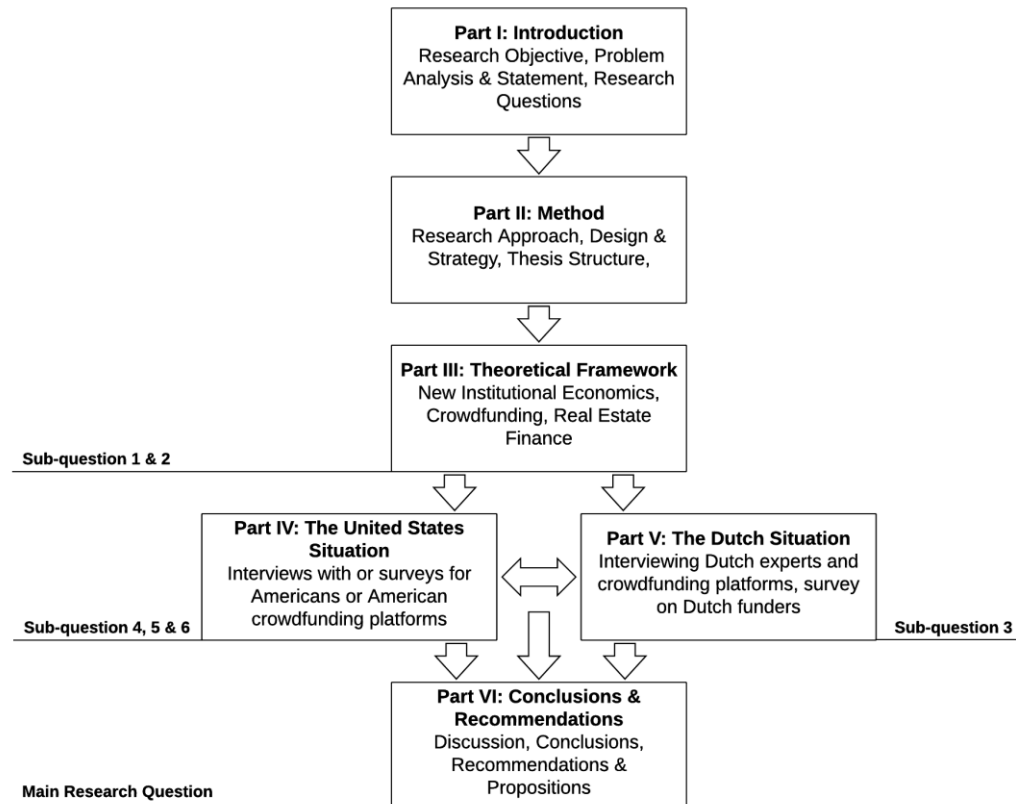


Figure XX: Thesis Structure (own illustration)

2.4 Positioning the Research

Since the research involves large amounts of terminology and concepts it is appropriate to briefly position the research question within its broader context – as different people have varying connotations with specific terms or concepts. The meaning and orientation of these terms and concepts adopted in this research will be elaborated upon in this chapter.

2.4.1 Defining Institutional Conditions

The main research question introduces ‘institutional conditions’ in relation to a nation’s context. In this case the institutional conditions of the Netherlands and the US are of vital importance. A definition by Williamson (1998a) is adopted to reach a unambiguous and uniform meaning of ‘institutional conditions’. In short, Williamson (1998a) introduces the concept of new institutional economics (further elaborated upon in chapter 3.1), conceptualising four levels of which two represent the focus point of new institutional economics: institutional environment and governance. The institutional environment involves the legal structures, law and regulation. Governance is more concerned with contracting and aligning governance structures with transactions. Hence, this research adopts Williamson’s vision that institutional conditions include a nation’s legal structure, laws, governance structures and policies.

2.4.2 Defining the Crowdfunding Real Estate Market

Part III: Theoretical Framework

A Venn diagram assists in shaping the correct and unambiguous theoretical environment in which this study takes place (figure XX). It entails three areas: crowdfunding, real estate finance and real estate development. These areas contain the relevant literature. Typically interesting are the overlapping areas and the contributing authors. At the heart of the diagram there is one area that combines the three circles. Literature in this specific area is highly related to and extensively used in this study. Outside the circles is an area called 'context'. Literature that does not relate to one of the three areas is placed here, i.e. the KPMG report on Basel III regulations and literature on New Institutional Economics.

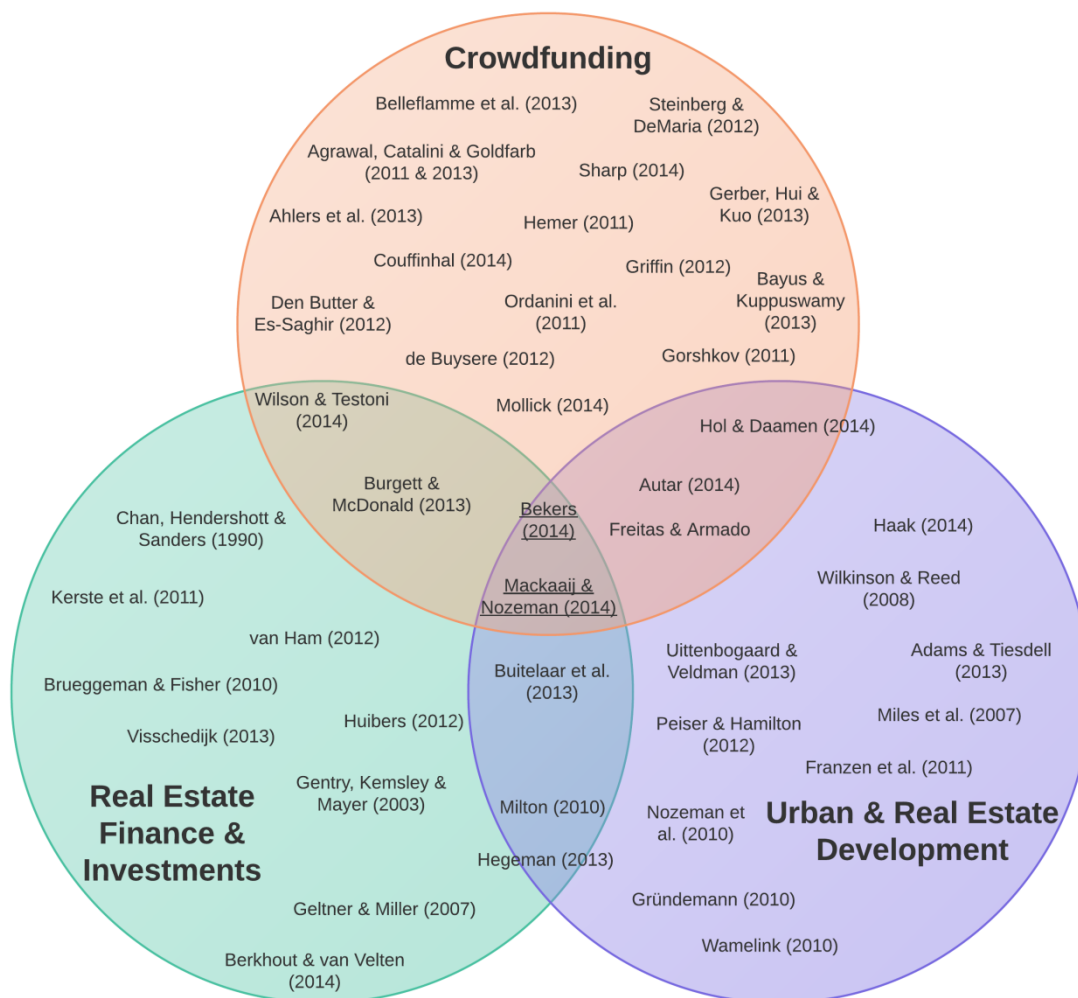


Figure XX: Venn Diagram of the literature study's key contributors and their relation to the three topics of crowdfunding, real estate development and real estate finance (own illustration)

This chapter will venture into the fields of new institutional economics, crowdfunding (both Dutch and foreign), real estate development and real estate finance and investments. Literature will clarify the theories and practices of earlier mentioned subjects. Hereafter merged into a uniform body of knowledge that will shape the study's theoretical framework.

3.1 A Framework of New Institutional Economics

This chapter provides insights into the concept of New Institutional Economics and the institutional background of real estate finance and crowdfunding in the Netherlands. Following paragraph discusses the institutional background, socio-economic characteristics and the legal structures in the Netherlands (paragraph 3.1.x). Then, an overview of the policies and governance structures regarding crowdfunding

and real estate finance is presented and explained (paragraph 3.1.x), followed by the main conclusions on the Dutch environment's institutional context (paragraph 3.1.x). The chapter's objective is that readers are able to understand the Dutch environment in which crowdfunding emerged and how the real estate finance context evolved. Therefore, it is important to provide clarification on the impact of the broader socio-economic situation in the Netherlands and its institutional context on the real estate finance industry and the emergence crowdfunding.

3.1.1 Theoretical Introduction

For interpretation, analysis and clarifying purposes this study is conducted within the perspective of new institutional economics. This theoretical perspective is often used in economic, political and social sciences – often referred to as ‘institutionalism’ (Adams, Watkins & White 2005). The distinguishing of formal and informal institutions is seen as an explanation for the dysfunctioning of free-markets.

It is important to state that new institutional economics is conceptually grounded in the mainstream economic theory of neo-classical tradition (Adams et al. 2005). By many authors new institutional economics is seen as extension of neo-classical economics. The neo-classical theory involves purely rational actors in a market. Variations in price will prompt the market to instantly develop a new balance. Otherwise, new institutional economics introduces new factors like the availability of information, limited rationalism and transaction costs (Adams et al. 2005).

An important author on new institutional economics, transaction cost economics and institutionalism is the Nobel Prize winning Oliver E. Williamson. His work originates with the works of Nobel Prize winners Ronald Coase (Nobel Prize in 1991) and Douglass North (Nobel Prize in 1994) who distinguish two parts in the New Institutional Economics theory. Part one involves the institutional environment or ‘the rules of the game’ whilst part two deals with the institutions of governance or ‘the play of the game’ (Williamson 1998a; North 1990). Williamson introduces four levels of social analysis in the economics of institutions, as illustrated in figure xx.

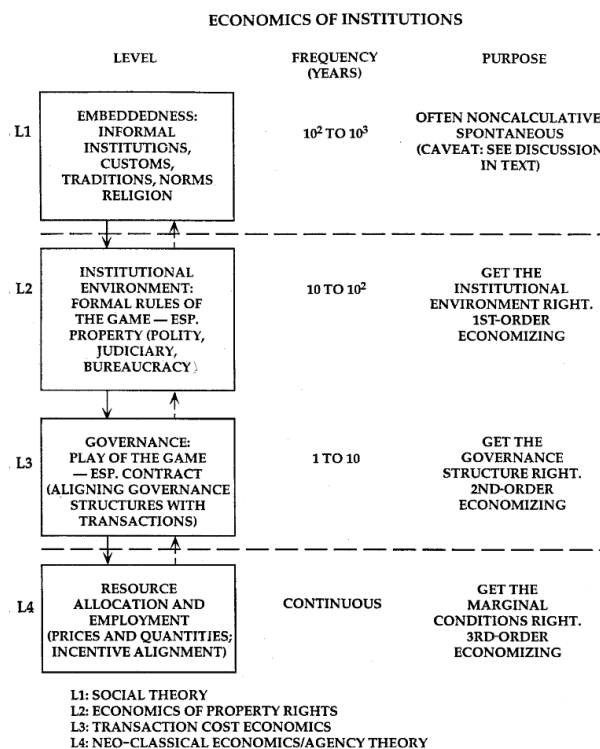


Figure XX: Economics of Institutions, four levels of social analysis. New Institutional Economics concentrates on level 2 and 3 (illustration based on Williamson 1998a)

Williamson (1998a) explains that the top level (L1) is the social embeddedness level where, among others, norms, customs, mores and traditions are formed and take place. He states that most economics take this level as given since the institutions at this level change very slowly, on the order of centuries.

Level two (L2) is referred to as the institutional environment. Structures in this level are of political origins and provide the rules of the environment in which economic practise takes place (Williamson 1998a). North (1991) defines institutions as 'humanly devised constraints that structure political, economic and social interaction'. Among these constraints are informal constraints like customs, traditions, codes of conduct and taboos. Examples of their counterparts (formal rules) are constitutions, laws and property rights (North 1991). In accordance with figure xx the informal constraints are located in level one, while the formal rules (policies, legislation and bureaucracy) are formed in level two (Williamson 1998a). The author refers to setting these formal rules as first-order economizing.

The third level holds the institutions of governance and deals with 'the play of the game'. This is where the markets, firms and bureaus act and where their contracts require a functioning legal system. It is this level at which transaction cost economics operates, defined as second-order economizing (Williamson 1998a; Williamson 1998b).

Finally, level four is concerned with marginal analysis, based on neo-classical economics and the agency theory. It ventures into price and output variables (which is neo-classical) and third-order economizing prevails. This is concerned with optimising to the marginal conditions by adjusting price and output in a continuously changing market environment (Williamson 1998a).

According to Williamson's (1998a) research the new institutional economics primarily focuses on activities in level 2 and 3 of his model (figure XX).

To provide a coherent resemblance of the Dutch and American economics of institutions, the following paragraphs will introduce the differences and similarities on the levels of informal institutions, the institutional environment and the governance level between both nations.

3.1.2 Institutional Environment in the Netherlands

Informal Institutions:

- 'Rhineland Model', 'Anglo-Saxon Winds', neoliberal ideologies
- Socio-political situation

Legal structure (on Crowdfunding & on Real Estate Financing)

- AFM Regulations (CF & REF) (- viewpoint of the initiator/platform)
- AFM exemption for crowdfunding (- viewpoint of the initiator/platform)
- Restrictions (- viewpoint of the investor/funder)

Policies (on Crowdfunding & on Real Estate Financing)

- Government policies on CF & REF
-

Governance Structures

- Pension system – and thus the (missing) need and (dis)ability to invest for your pension
- Banking structures – financial structures adopted by banks to finance real estate (equity, mezzanine and mortgage; 20%-20%-60%) including interest-rates

Crowdfunding in the Institutional Environment

As the phenomenon of crowdfunding is being employed more often in varying industries it can no longer bypass the four social levels as defined by Williamson in figure XX.

Previous research learned that the motivation for employing crowdfunding to fund a project is not merely based on rational, economic decision making, in other words acquiring funding with the lowest costs of capital (De Buysere 2012; Autar 2015). It is therefore that the concept of crowdfunding should be assessed in an institutional environment as explained by Williamson. The following chapter will further elaborate upon the motivation for initiators to fund their projects through crowdfunding.

3.2 Crowdfunding

Following chapter explains the emergence and development of crowdfunding and its increasingly comprehensive body of literature. The first paragraph discusses the origin of crowdfunding and its principle theories, followed by describing the actors (paragraph 3.2.x) and different crowdfunding models (paragraph 3.2.x). Further paragraphs provide insight into the motivations and incentives for initiators (paragraph 3.2.x), funders (paragraph 3.2.x) and intermediaries (paragraph 3.2.x). Finally, a comparison between crowdfunding in the US and the Netherlands is projected (paragraph 3.2.x). This chapter's objective is to clarify the theoretical and pragmatic characteristics of crowdfunding and its relation to real estate.

3.2.1 The Crowd as Investor

Crowdfunding is not an entirely new phenomenon, it has emerged from the theory of crowdsourcing and micro-finance (or micro-credit) in the late 2000s and early 2010s (Mollick 2014; Burgett & McDonald 2013). During this period several definitions of crowdfunding were construed in its current body of knowledge. Hardly any of these definitions significantly differ, most include the crowd as financing pool and the aim of collecting monetary funds for an (individual's) initiative. Belleflamme et al. (2013) offer the following definition: "Crowdfunding involves an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes." Hemer (2011) and Griffin (2012) started with an almost identical definition. Steinberg & DeMaria (2012) however use a definition focused far more on start-ups and businesses. They state it is a process of asking the general public for donations that provide startup capital for new ventures, hereby bypassing venture capitalists and angel investors.

Among others, Ahlers et al. (2013), de Buysere et al. (2012), Vliet (2011), Den Butter & Es-Saghir (2012), Mollick (2014) and Hol & Daamen (2014) define crowdfunding as a collective effort of many individuals to pool financial resources and support a particular initiative. Important is the fact that the initiative to raise monetary funds is executed through an undefined (social-)network of (potential) investors.

Ordanini et al. state that crowdfunding is an initiative undertaken to raise money for a new project proposed by someone, by collecting small to medium-size investments from several other people, in other words a crowd (2011). Interesting to note is Ordanini et al. their statement that crowdfunding goes beyond conventional social-network participation. They argue that crowdfunding "incorporates more proactive roles for consumers, such as selecting new initiatives to support and provide financial backing for them". Adopting Ordanini et al. their definition is based on Autar (2015) and Gorshkov (2011) their findings concerning initiators' and investors' motivations on launching or participating in a certain crowdfunding campaign. Both studies describe social motives to be increasingly important for investors to fund an initiative. Autar (2015) provides an even more detailed statement that in the context of area and real estate development a strong emphasis on social and emotional motives drives the investors to fund crowdfunding initiatives. This is in line with incorporating more proactive roles for consumers, as stated by Ordanini et al. (2011).

According to the literature crowdfunding has benefits and disadvantages in relation to traditional investment vehicles (Steinberg & DeMaria 2012). They describe a large number of benefits and disadvantages, a summarised version can be found in table XX.

Benefits and Disadvantages of Crowdfunding	
Benefits	Disadvantages
You are in control of everything (costs, timing, delivery, creative vision, marketing and execution)	Additional knowledge on consumer marketing, social networks and social marketing techniques might be required to successfully launch your campaign
Tests and proves the popularity of your model	It can be a stressful process
Backers will market your product to their friends and contacts	Your idea or product is directly in front of the open public, in a potential line of fire
Possibility to raise a larger amount of capital than the intended funding goal	It requires tireless effort in social marketing campaigns and self-promotion
Chance to receive valuable advice from your backers, who after all want you to succeed	Crowdfunding only works if it can offer (to be) something that is in interest of a sufficient number of people
Tests elements of your product' marketing approach	

Table XX (own illustration based on Steinberg & DeMaria 2012)

3.2.2 Actors in the Process

According to De Buysere (2012) there are three different actors in the crowdfunding arena: project owners [initiators], funders and platforms [intermediaries]. However the fact that Gerber, Hui & Kuo (2013) share the distinguishing of creators [initiators], funders and mediators [intermediaries], they explain that mediators are not always present in a crowdfunding process. Musicians can publicly ask their fans to fund a new album or tour without the interference of a mediator.

Agrawal, Goldfarb & Catelini (2013) and Ahlers et al. (2013) describe similar actors in the crowdfunding process: initiator, (potential) funders and the platform [intermediary]. Regardless of the different names of the actors among various literature sources, it is believed that the crowdfunding process holds three main actors being initiators, funders and intermediaries. The roles of the different actors are described below in table XX.

Roles of the Actors	
Actor	Role
Initiator	- Initiates a request for funding - How much capital is needed and for what cause - What, if so, is offered in return
Funders	Browse offers and, if interested, invest a (small) amount towards the funding goal⁹
Intermediaries	- Technical platform - Exchange of Funds between the above actors - Manages the voting rights

Table XX (own illustration based on Ahlers et al. 2013)

3.2.3 Four Crowdfunding Models

In general, four different types of crowdfunding are found in the literature: donation-based (patronage model), reward-based, lending-based and equity-based (Hemer 2011; Griffin 2012; Ahlers et al. 2013; Mollick 2014; De Buysere 2012; Sharp 2014; Hol & Daamen 2014; Autar 2015). Nearly all literature sources acknowledge this division of four crowdfunding models, although early literature by Hemer and others include a fifth model of 'sponsoring' as well. In this research sponsoring is regarded to as a reward-based crowdfunding model since it (usually) offers a material return.

Donation-based (philanthropic)

Schwiebacher & Larralde (2012), Griffin (2012) and Belleflamme et al. (2010) explain that there are several crowdfunding initiatives seeking to attract donations rather than offering something in return. In the donation-based model funders do not receive any financial or material returns – in other words: "without existential reward". This is a philanthropic approach to crowdfunding and attracts funders that do not expect direct returns for their donations (Mollick 2014; Sharp 2014). De Buysere et al. (2012) explain that because funders know the initiative's purpose they are willing to donate higher amounts per person. Additionally, the funders are thought to be more loyal to the initiative when they are updated with its progress, this ensures future donations as well (De Buysere et al. 2012). The authors

⁹ Funders can have an additional role when they offer their expertise or advice to the initiator in order to maximise the chances of success, as explained by Steinberg & DeMaria (2012)

conclude with the fact that the funders' motivations are of social nature. This intrinsic motivation usually is a good base for a long-term relationship between the initiator and the donor.

Donation-based crowdfunding is often used by and most applicable to not-for-profit organisations (Schwienbacher & Larralde 2012). De Buysere et al. (2012) back the proposition that NGO's use this model to attract donations for specific projects. Besides NGO's and not-for-profit organisations, De Buysere et al. (2012) argue that it can help to fund creative activities or common purpose activities as well. Griffin (2012) agrees that the majority of donations are for charities and not-for-profit organisations but argues that there also are, however just a few, business that seek donations through crowdfunding.

Reward-based

One of the most popular models of crowdfunding is reward-based crowdfunding (Sharp 2014; Mollick 2014). Various authors often combine reward- and pre-purchase-based models when explaining reward-based crowdfunding, among them are Griffin (2012), Hol & Daamen (2014) and Sharp (2014). Griffin defines reward-based crowdfunding as a model in which contributors receive a reward that is not interest or a percentage of the profit (2012). It can range from a "thank-you" phone call to a "personal assistant for two weeks" according to Griffin (2012). Pre-purchase crowdfunding, however, is different from reward-based crowdfunding as pre-purchase funders receive the product that the initiator is making (or receive the right to buy that specific product at a reduced price upon completion) (Griffin 2012). Mollick (2014) shares this view that reward-based crowdfunding can include rewarding funders for backing a project (i.e. a meet-and-greet with the actors of a movie) or that it involves "pre-selling" the product, hereby treating the funders as early customers.

Both methods (reward-based and pre-purchase-based crowdfunding) are often merged. Griffin (2012) explains that reward and pre-purchase benefits are used to attract potential contributors. Important to note is that rewards (or pre-purchases) tend to be non-financial material objects (De Buysere et al. 2012). The authors explain that the rewards often are of symbolic value to the funders, enabling the funder to raise capital for the project as the costs of the rewards are often much lower than the donation amount of the funders.

Lending-based

This fairly popular model of crowdfunding relies on loans as method of acquiring funds (Griffin 2012). Investors issue these loans for a predefined period and are repaid with a rate of return on their capital (Hol & Daamen 2014; Sharp 2014; Wilson & Testoni 2014; Hemer 2011; Griffin 2012; Mollick 2014). The existing literature is very concordant regarding lending-based crowdfunding. Frequent characteristics are the pre-defined period of the loan and the repayment of the original loan plus an interest-rate.

Hemer (2011) offers one alternative to the above, namely a long-term loan based on a revenue sharing principle. In this case the creditor provides a risk-bearing loan without receiving interest. Alternatively, the creditor receives an agreed share of the venture's earnings at the end of the lending period. In the most favourable case this could be a multiple of the original loan, it however could also be nothing.

A second alternative comprises micro-financed loans according to Mollick (2014). In this case, the lender may be more interested in social returns than any financial return generated by the loan. This alternative to some degree presents philanthropic elements and motivation.

Equity-based

Finally, the equity-based model treats funders as investors (Mollick 2014; Collins & Pierrakis 2012). This means that investors committing capital to an initiative are compensated with shares of the venture, dividends and/or voting rights (Hemer 2011; Hol & Daamen 2014). Collins & Pierrakis (2012) define this as that the initiative 'offers securities to the general public, usually through the medium of an online platform.' Of crucial importance to the model is the presence of a timespan in which the initiative aims to raise a certain amount of capital (Sharp 2014). Special interest in initiatives that share a funder's values, are locally engaging or that create jobs in a funder's community are examples of drivers for funders to invest in an initiative (De Buysere et al. 2012).

However, the equity-based model is obstructed by legal concerns and can be seen as the most complicated model (Hemer 2011; Wilson & Testoni 2014). Additionally, the level of uncertainty is evidently higher than in other crowdfunding models (Wilson & Testoni 2014). The authors explain it relies on the initiator's ability to create equity value in the company. On top of that, equity value in a company is very difficult to assess, further increasing the level of uncertainty. Collins & Pierrakis (2012) argue that the notion that equity-based crowdfunding is similar to an initial public offering (IPO) is a misconception. Their reasoning is based on three arguments: a stock market requires companies to adhere to strict rules and regulations, companies approaching a stock market are far more developed and larger than companies seeking funds through crowdfunding and, lastly, crowdfunding offers the opportunity for direct interaction between an investor, the initiator and other (likeminded) investors. It is therefore essentially deviant from an IPO.

According to Ahlers et al. (2012), equity-based crowdfunding might be one of the most promising financing alternatives to boost small business growth. However, it is not yet fully implemented in the crowdfunding industry and therefore little used. Fortunately, the media suggests that equity-based crowdfunding is rapidly maturing¹⁰.

Complexity

Hemer (2011) studied the relationship between the four different crowdfunding models and their complexity. Wilson & Testoni (2014) explain that equity-based crowdfunding is highly complex due to legal obstructions. Additionally, information asymmetry amplifies this effect, making the process increasingly complex (Hemer 2011). It is clear that donation-based crowdfunding is less complex (legally at least) since funders donate to causes they want to support, they do not expect monetary compensation – it can be regarded to as philanthropic (Ahlers et al. 2012). Ahlers et al. (2012) however continue that equity-based crowdfunding involves potential monetary returns. This makes, in addition to the information asymmetry between the initiator and the investor, equity-based crowdfunding the most complex model (Ahlers et al. 2012). Hemer (2011) illustrates this through plotting complexity versus capital provision, suggesting that equity-based crowdfunding is the most complex model but also enables the largest amount of capital provision (figure XX).

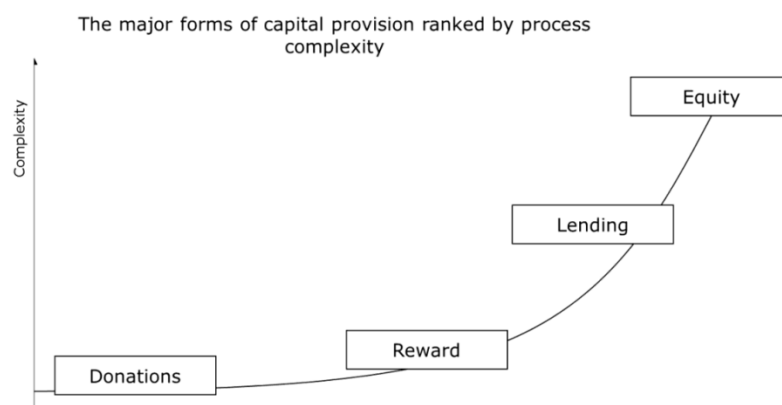


Figure XX: Relation between the varying crowdfunding models and the complexity of the process (Hemer et al. 2011 in Couffinhal 2014)

3.2.4 Incentives and Motives for Initiators

Launching a crowdfunding is not charity fundraising, the majority of the crowd expects something in return for their investment. Incentivizing potential backers by offering goods or services in return for their contributions is therefore a necessity (Steinberg & DeMaria 2012). Agrawal, Goldfarb & Catelini (2013) distinguish three types of incentives, those for the creator, those for the funder and those for the platform (or intermediary). They argue that the creator could, under certain circumstances, access capital at lower costs than traditional fund raising and gain valuable marketing information on customer demand. Lower costs of capital are achieved for three reasons: (1) a stronger match with a willing

¹⁰ Forbes, More over, Kickstarter: Real Estate Equity Crowdfunding Is Catching On With Investors, 9-10-2014 from <http://onforb.es/1BsyHJK>

investor, (2) bundling special rewards (like special editions and early access to the product) with equity-based (return on investment) incentives and (3) information on how the product is received by the crowd, influencing the willingness to pay of potential funders (Agrawal, Goldfarb & Catelini 2013). De Buysere et al. (2012) explains that organisations use crowdfunding for market research, financing and marketing purposes. Investors are the ambassadors of the project or business they support, hereby helping to market and promote it through their own networks.

Gerber, Hui & Kuo (2013) studied creators (initiators) and funders and their motivation to participate in crowdfunding platforms. They conclude that “creators [initiators] are motivated to participate to raise funds, receive validation, connect with others, replicate successful experiences of others, and expand awareness of work through social media”. Table XX offers an overview of the literature’s perception of the incentives and motives for the initiator to participate in crowdfunding.

Incentives and Motivation for the Initiator					
Incentives and Motivation	Agrawal, Goldfarb & Catelini (2013)	De Buysere et al. (2012)	Gerber, Hui & Kuo (2013)	Mollick (2014)	Belleflamme et al. (2013)
Financial	- Attracting additional sources of capital - Lower Costs of Capital	- Attracting capital in a second round of funding - Raising capital	- Raise capital - Long Term relationships	Attract traditional sources of capital after crowd-funding	- Higher willingness to pay by the crowd-funders - Price Discrimination
Marketing		- Word-of-mouth - Social Marketing	Expand awareness through social media	- Marketing Purposes - Publicity - Generating Enthusiasm	
Research	Information on the demand for a certain product	- Demand for the product - Pricing Information - Potential Buyer	Receive validation	Demonstrate demand for a proposed product	
Social or Emotional			- Establish relationships with the consumers - Replicate success of other people		Presence of communal beliefs

Table XX (own illustration)

Interesting to note: Agrawal et al. (2013) mention lower costs of capital, in line with Bouwaandeel.nl’s interview concluding that financing costs of bank loans in the US outweigh the financing costs of crowdfunding. This is different in the Netherlands as banks offer loans with lower financing costs than crowdfunding does, possible hypothesis why the US is turning to crowdfunding much more than the Netherlands.

3.2.5 Incentives and Motives for Funders

Funders are driven by a wider range of incentives. According to Agrawal, Goldfarb & Catelini (2013) among the incentives for funders of different crowdfunding models are access to investment opportunities (lending- and equity-based), early access to new products (reward-based), community participation, philanthropy (donation-based) and formalisation of finance/loan contracts (what otherwise would be informal loans from friends and family is now regulated through the crowdfunding platform).

De Buysere et al. (2012) summarise this to social return, financial return and material return. These incentives are unevenly distributed among the various (hybrid) crowdfunding models: social return is far more prevailing in donation based crowdfunding while financial return is essential for equity based crowdfunding. Financial, material, or social motives, or a combination of those, trigger the crowd to fund a specific project (De Buysere et al. 2012). According to them, crowdfunding is based on the assumption that people want to help other people or projects that are emotionally or geographically close to them. Earlier mentioned crowdfunding models relate differently to the motives of the funders. Figure XX clarifies the relation between the separate motives and various crowdfunding models (or hybrid models).



Figure XX: Relationship between the funders' motives and the various (hybrid) crowdfunding models (own illustration based on De Buysere et al. 2012)

From a funder's point of view there are several motives to participate in crowdfunding, as Gerber, Hui & Kuo (2013) studied. They state that "funders are motivated to participate in order to seek rewards, support creators and causes, and strengthen connections with people in their social networks". These motives generally align with De Buysere et al. their categorisation of financial return (seek rewards), material return (seek rewards) and social return (support of creators or causes and the strengthening of their social network).

Incentives and Motivation for the Funder						
Incentives and Motivation	Agrawal, Goldfarb & Catelini (2013)	De Buysere et al. (2012)	Gerber, Hui & Kuo (2013)	Mollick (2014)	Belleflamme et al. (2013)	Hemer (2011)
Financial	Access to investment opportunity	Financial Return (equity or loans)	Seek (financial) rewards	Financial return		- Interest (loan) - Revenue-sharing (risk-bearing loan without interest)
Material or Functional Return	- Early access to new products - Formalisation of financial (loan) contracts	- Material Return (pre-sales, reward product or service) - Reward-based (perceived value can be higher than the economic value)	Seek (material) rewards			
Social or Emotional	Community participation	Social Return (intrinsic value of the project to succeed)	- Philanthropic behaviour - Support Creator - Support Causes - Engage in a community	- Philanthropic Goals - Humanitarian Goals - Personally support the project founder(s) - Political Statement	Presence of communal beliefs	- Immaterial acknowledgements - Credit the funder's name - Small gift(s)

Table XX (own illustration)

3.2.5 Incentives and Motives for Intermediaries

Intermediaries, or crowdfunding platforms, are predominantly for-profit businesses that employ a business model based on transaction fees for successful projects (Agrawal, Goldfarb & Catelini 2013). They explain that these intermediaries are financially driven and aim to maximise the number and size of projects. Another incentive is to attract people that are able to generate large amounts of media attention (this is beneficial for the intermediary party).

3.2.6 Conclusion

It is now clear that crowdfunding comprises several actors, models and many varying incentives to indulge into crowdfunding.

3.3 Real Estate Markets in the Netherlands

Definition 'Market/Industry'

3.3.1 Development

3.3.2 Finance and Investments

3.4 Real Estate Development

3.4.1 Theory

"Development is a multifaceted business that encompasses activities ranging from the acquisition, renovation, and re-lease of existing buildings to the purchase of raw land and the sale of improved

parcels to others” is Peiser & Hamilton’s definition on real estate development (Peiser & Hamilton 2012). Wilkinson & Reed (2008) adopt a more abstract definition that property (real estate) development is ‘a process that involves changing or intensifying the use of land to produce buildings for occupation’. They argue that developers change land and/or produce a new or altered building in a process that combines land, labour, materials and finance. Due to the relatively indivisible and illiquid character of property development it is regarded to as a high-risk activity involving large sums of money (Wilkinson & Reed 2008).

For the purpose of this study the following definition of real estate development is adopted: real estate development is a multifaceted process of producing new built or redeveloped buildings.

3.4.2 Lifecycle and Stages in the Development Process

The real estate industry is marked by its cyclical character. Accommodation is subject to a process defined as the accommodation-lifecycle (Geraedts & Wamelink in Wamelink 2010). Consisting of four phases, the lifecycle encompasses both managerial (real estate management) and mutational (development) characteristics. The four phases have been defined as the initiation-phase, development-phase, development-phase and exploitation-phase (Nozeman et al. 2010; Geraedts & Wamelink in Wamelink 2010).

Miles et al. (2007) introduce an eight-stage model of real estate development in which the developer’s series of steps towards a finished product are explained. Although various developers may apply (part of) the steps differently, in essence it rarely varies. The authors argue that the development process requires the following steps at minimum: coming up with an idea, refining the idea, testing its feasibility, negotiating necessary contracts, making formal commitments, constructing the project, completion and opening and finally, managing the built project. Figure XX captures the principle of the eight-stage model and the developer’s activities. Important to note is that the development process is not entirely sequential, stages can overlap or repeat (Miles et al. 2007; Wilkinson & Reed 2008).

Eight-stage Model of Real Estate Development

Miles, Berens, Eppli & Weiss (2007)

1. Inception of an Idea
2. Refinement of the Idea
3. Feasibility
4. Contract Negotiations
5. Formal Commitment
6. Construction
7. Completion and Formal Opening
8. Property, Asset and Portfolio Management

<https://www.scribd.com/read/168081029/Real-Estate-Development-Principles-and-Process>

<https://www.scribd.com/read/160918535/Professional-Real-Estate-Development-The-ULI-Guide-to-the-Business>

3.4.3 Complexity and Uncertainty in Real Estate Development

Gehner (2008) states that real estate development is characterised by complexity and uncertainty. Four aspects of real estate account for this complexity and uncertainty: (1) the multi-disciplinary character, (2) uniqueness of its location, (3) their long duration and (4) the long-term implications of real estate (Gehner 2008).

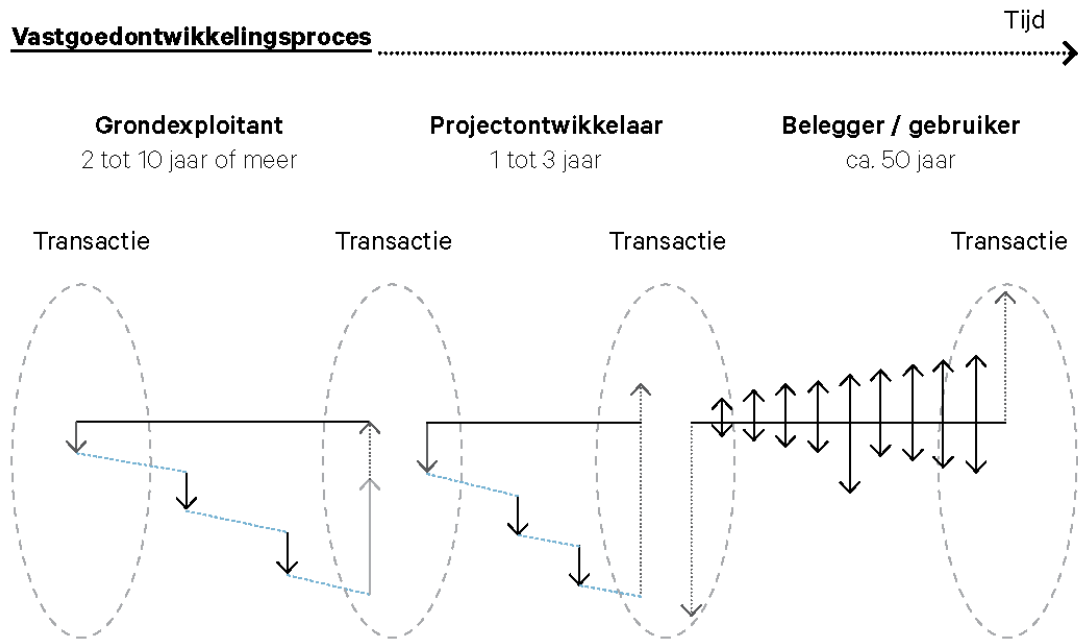
Part of the increasing complexity and uncertainty is caused by three trends in Dutch real estate developments (Gehner 2008). The three trends Gehner (2008) identified are explained below. First, development locations are no longer mostly greenfield locations, brownfield and inner-city locations become more popular. Redevelopments account for a large part of the inner-city projects. This requires more participating parties and more financial resources. Together with the increasing technical and logistic constraints complexity and uncertainty grows. Second trend involves the lengthening of real estate projects due to public parties looking for private parties that can cooperate on long-term projects. Large financial commitments and new ways of sharing risks adds to the complexity and uncertainty of many development projects (think of contractual forms of cooperation such as DBFMO,

PPP and integral contracting). The third trend is the increasing amount of national and international (European) regulations. These regulative developments are often hardly predictable and barely influential. Together, these trends shape the complex and uncertain environment in which real estate developments take place.

3.5 Financing Project Development

Wilkinson & Reed (2008) (chapter 4, Development finance)

Eldonk (2012) in Schiltmans (2013) Master Thesis MDC:



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