CROWDFUNDING
REAL ESTATE:
INSTITUTIONS
AND MARKETS

An Institutional Comparison on the Growth-patterns and Behaviour of Crowdfunding Real Estate Markets in the Netherlands and United States

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P5 Report

by

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# Table of Contents

## Table of Contents

<table>
<thead>
<tr>
<th>Acknowledgements</th>
<th>VIII</th>
</tr>
</thead>
</table>

### Part I: An Introduction to Crowdfunding Real Estate

1. Research Background
   1.1 Problem Analysis
   1.2 Market Context

2. Research Objective
   2.1 Problem Statement
   2.2 Research Questions
   2.3 Scientific Relevance
   2.4 Practical Relevance

### Intermezzo – Exploratory Interview

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

3. Conceptual Model
4. Research Approach
   4.1 Literature Review and Theoretical Framework
   4.2 Document Analysis
   4.3 Interviews
5. Research Strategy & Design
6. Methodological Caveats

### Part III: An Institutional Theoretic Framework

7. An Institutional Paradigm
   7.1 New Institutional Economics
   7.2 Embeddedness and Institutional Environment
   7.3 Governance Structures, Transaction Cost Economics and Behavioural Assumptions
   7.4 Neo-classical Economics and the Agency Theory
   7.5 Summary: An Institutional Framework of the United States and Netherlands
8. Crowdfunding
   8.1 The Crowd as Investor
   8.2 Actors in the Process
   8.3 Four Crowdfunding Models
   8.4 Incentives and Motives for Initiators
   8.5 Incentives and Motives for Funders
   8.6 Incentives and Motives for Intermediaries
   8.7 Summary
9. Real Estate Finance
   9.1 The investment industry and real estate
   9.2 The phenomenon of crowdfunding real estate
   9.3 Tranches and the capital stack
   9.4 Filling the capital stack
   9.5 Optimisation and leverage
   9.6 Summary
10. Theoretical Findings and Conclusions 46
   10.1 Institutional environments 46
   10.2 The Phenomenon of crowdfunding real estate 46
   10.3 Crowdfunding as a financing tool 47
   10.4 Conclusion 47

Part IV: Empirical Findings 48
11. Crowdfunding Real Estate in the United States and Netherlands 49
   11.1 Anglo-Saxon versus Rhineland 49
   11.2 Discerning the institutional environment of the United States and Netherlands 49
   11.3 Market governance & Transaction Costs 53
   11.4 The Decision Making Process 55
   11.5 Summary of crowdfunding real estate in two differing nations 56
12. Crowdfunding Real Estate Explorations in the United States 59
   12.1 Interviewees 59
   12.2 Categories and questions 59
   12.3 Completeness of the data 59
   12.4 Results 60
   12.5 A financial point of view 64
   12.6 Summary 64
13. Crowdfunding Real Estate Explorations in the Netherlands 66
   13.1 Five interviewees 66
   13.2 Categories and completeness 66
   13.3 Findings 66
   13.4 Summarising Findings from the Netherlands 71

Part V: Synthesising the Results 74
14. Interpreting the Empirical Results on Crowdfunding Real Estate 75
   14.1 Desk research from the United States versus the interpretations of American interviewees 75
   14.2 Interpreting desk research and interviews in the Dutch context 76
   14.3 So alike and yet so different 76
   14.4 Crowdfunding as financing tool 79
   14.5 Summary 80
15. Conclusions 81
   15.1 Institutional Factors 81
   15.2 Stimulate Factors towards a Viable Crowdfunding Real Estate Market 84
   15.3 Theorising 85
16. Discussion, Limitations and Recommendations 87
   16.1 Practical Recommendations 87
   16.2 Recommendations for further research 87
   16.3 Discussion 88
   16.4 Limitations 89
   16.5 Bias 90
   16.6 Processing Results – Triangulation or not? 90
   16.7 Final Remarks 90
### Part IV: Summary, References, Appendices and more

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Summary</td>
<td>95</td>
</tr>
<tr>
<td>Dutch Summary</td>
<td>102</td>
</tr>
<tr>
<td>References</td>
<td>106</td>
</tr>
<tr>
<td>Sources</td>
<td>108</td>
</tr>
<tr>
<td>Terminology / Glossary</td>
<td>110</td>
</tr>
<tr>
<td>Abbreviations</td>
<td>111</td>
</tr>
<tr>
<td>List of Tables and Figures</td>
<td>112</td>
</tr>
<tr>
<td>Figures</td>
<td></td>
</tr>
<tr>
<td>Tables</td>
<td></td>
</tr>
<tr>
<td>Appendix I</td>
<td>114</td>
</tr>
<tr>
<td>Appendix II</td>
<td>116</td>
</tr>
<tr>
<td>Appendix III</td>
<td>123</td>
</tr>
</tbody>
</table>
Acknowledgements

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Enjoy reading!
Part I: An Introduction to Crowdfunding Real Estate
Part I: Introduction

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

Motivation
Real estate investments have grabbed my interest since the university introduced me to the financial and economic challenges of real estate. This economic accent resulted in the programme to be experienced in a more realistic manner. It is in the years during the aftermath of the 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.

Simultaneously, crowdfunding introduced itself as efficacious and functional phenomenon in the Dutch economy. It fascinates 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 initiatives that potentially enables large part of the Dutch population to invest in projects, start-up businesses, products and services – offering a new platform other than a bank as intermediary – that grabs a major part of my interest.

An enormous growth of real estate crowdfunding is seen in the United States. 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 United States, 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 United States taking such a lead in the application of crowdfunding as financial resource for real estate development and investing. This study will compare the American crowdfunding real estate market context to the Dutch context and search for clarifying differences or similarities.

Research Objective
Aim of this study is to provide insight in the institutional differences between crowdfunding real estate in the Netherlands and United States. Providing insight is specified as describing crowdfunding real estate markets in both nations, exposing the nature of their different growth-patterns, theorising the cause of this difference in development and defining the favourable conditions to stimulate a viable market.
1. Research Background

The commercial real estate investment industry has seen few major innovations since the introduction of the Real Estate Investment Trust (REIT) structure in the 1960s and the commercial mortgage-backed securitisation (CMBS) structure in the 1990s (Burgett & McDonald 2013). United States’ President Eisenhower signed the REIT Act giving all investors the opportunity to invest in large-scale diversified portfolios of real estate. Of specific interest is the fact that in 1969 the first European REIT legislation was passed in the Netherlands, marking the progressive nature of both American and Dutch real estate legislation at that time.¹ For decades, REITs have been the prime investment vehicle for investments in diversified real estate portfolios. Still, many stock exchanges across the globe offer investment opportunities in REIT structures. Similar developments have taken place in the CMBS industry, illustrating the importance of both REIT and CMBS structures in the real estate investment industry. Figure 1.1 illustrates notable events in the timeline of real estate investing.

Crowdfunding real estate however might be the next major innovative investment structure. American initiatives boost the opportunity for the crowd to invest in real estate, reflected in a growing crowdfunding real estate industry (Taves 2015; Gose 2015; Mattson-Teig 2015; Grout 2014). Crowdfunding in the United States is showing rapidly increasing numbers of developments, adding up investments to almost $10 billion in 2014 (of which approximately $1 billion is allocated to real estate).² For comparison, in 1991 the cumulative CMBS volume in the United States passed $10 billion, while in 2006 and 2007 this exploded to over $200 billion annually.³

Crowdfunding has been a generally accepted and often utilised method of funding for a much longer period than usually perceived. One of the best examples of century-old crowdfunding is probably the world’s most famous statue, being recognised as a symbol of freedom and democracy. New York City’s Statue of Liberty was originally a gift by the French and was dedicated to the United States on the 28th of October 1886.⁴ The United States agreed upon funding the pedestal but did not have the capital available to do so. As raising capital was going particularly slow, one man initiated one of the world’s first crowdfunding campaigns. Joseph Pulitzer, known for the prestigious Pulitzer Prize for achievements in journalism, literature and music, initiated a call for capital in his newspaper ‘The New York World’.⁵ By criticizing both the rich for not contributing to finance the construction of the pedestal and the middle-class for relying on the wealthy to provide for the funds, he managed to motivate over 160,000 Americans to donate.⁶

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¹ REIT.com, REIT Industry Timeline, retrieved from https://www.reit.com/investing/reit-basics/reit-industry-timeline#6
⁵ The Statue of Liberty – Ellis Island Foundation, Inc. retrieved from http://www.libertyellisfoundation.org/statue-history
⁶ BBC News, The Statue of Liberty and America’s crowdfunding pioneer, 25th of April 2013
In August 1885, five months after launching his campaign, Joseph Pulitzer managed to fully fund the pedestal by donations from the crowd. His efforts in motivating the crowd through his newspaper and other channels gave the American people the ability to receive a gift from the French that eventually became one of the world’s most recognisable statues. Interestingly, capital was not just raised by donations, newspaper The New York World offered gold coins for the largest donor, similar to contemporary crowdfunding methods. It took over a century to turn crowdfunding into a trillion dollar global industry, but in 1885 Joseph Pulitzer and many other New Yorkers already recognised the potential hiding in this crowdfunding model.3

1.1 Problem Analysis
Over the past few years the Dutch real estate industry was in state of transformation. Increasing complexity in financing real estate is fuelled by poor market conditions, growing risks and fiercer European banking supervision (Gehner 2008). Financing real estate is considerably hampered due to these circumstances (a.o. Mackaaij & Nozeman 2014; van Ham 2012; Huibers 2012; Buitelaar et al. 2013). Acquiring financing for real estate investments and development projects is an overarching issue within the real estate and area development industry. This led to perilous situations for most developers and extraordinary limited amounts of real estate transactions. According to Vastgoedmarkt over 50% of the Dutch real estate developers are under legal restraint and thus experiencing financial difficulties (2015).

Countless reports reflect the economic misery in the real estate industry over the years after the collapse of Lehman Brothers in 2007.7 The amount of transactions and investment volumes in the Netherlands plummeted drastically, clearly illustrated in figure 1.2. It is striking that investment volumes have not recovered until last year. Currently, this slight improvement in the capital markets suggests 2015 to be another well-performing investment year. This might indicate economic recovery, however, this recovery is observed to be heavily dispersed and polarised. Still, there are large amounts of developers and local projects that face economic and financial difficulties. This situation is certainly not unique, similar burdensome times for non-prime real estate markets are noticed in large parts of Europe.

![Figure 1.2: Investment volumes allocated to real estate (CBRE 2015)](http://nieuws.cbre.nl/download/65535/capitalmarketsoutlook2015.pdf)

But what made the alternative investment industry grow in Europe? According to Mackaaij & Nozeman (2014) this was partly due to the alteration of banks and their growing aversion towards real estate financing. Again, this is not unique for the Netherlands, similar consequences occurred in a.o. France and the UK (Huibers 2012; Mackaaij & Nozeman 2014; Milton 2010). Adapting to these changes turned 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 funding8, crowdfunding and private equity funding (Mackaaij & Nozeman 2014). Comparable results are found

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7 Reports by JLL, Savills, CBRE and DTZ Zadelhoff
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 and investment firms new financing opportunities to strengthen their position within the market.

This leads to a striking difference with the situation in the United States. Here, crowdfunding is taking a spectacular lift (as will be described in the next chapter) and offers countless investment opportunities. Contrary to this, 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 six platforms relate to real estate crowdfunding. Of these platforms none is offering direct investments in real estate (through equity placements).

1.2 Market Context

In order to construct and evident problem statement the following paragraphs will clarify the current market situation of financing real estate in the Netherlands. This is followed by an introduction to the American market and its debt and equity crowdfunding initiatives for real estate.

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 market (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 (2013) explains banks are trying to increase their solvability by limiting credit loans. 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 2012). In other words, banks are increasingly 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.

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). After Kickstarter’s eminent

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9 Forward Funding is the concept of funding a project before it has been realised, the risk of completing the project is in this case still with the seller. Not to be confused with a forward sale, in which case the project already has been sold without the risk of completing the project (risk is with the buyer).


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.\footnote{12}{Bloomberg, Higher Stakes for Crowdfunding, Bloomberg Quicktake, retrieved on 13-02-2015 from http://www.bloombergview.com/quicktake/crowdfunding}

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).\footnote{13}{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.} These figures stress the explicit presence of large and growing crowdfunding markets in Anglo-Saxon countries. Especially the UK and United States 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 United States 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 United States market can be found below.

**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 1.3 (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.

![Figure 1.3: Total investment volume (€ mio.) in Crowdfunding campaigns in the Netherlands (own illustration based on Douw&Koren, 2015)](image-url)

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.\textsuperscript{14} The – at that time – less developed legislation concerning equity crowdfunding in the United States was criticized to take a look at regulations in the Netherlands. In late 2013 the United States’ 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).

Yet, crowdfunding real estate is barely happening in the Netherlands. Only a few platforms offer real estate related investment opportunities. Precedents of for-profit crowdfunding projects are hardly available at the time of writing.

\textbf{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 United States’ real estate crowdfunding industry. In 2014 the amount of capital committed to real estate through crowdfunding platforms reached over $ 570 million.\textsuperscript{15} 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).\textsuperscript{16}

The real estate crowdfunding industry is growing fast (Gose 2015). His article in \textit{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.

\section*{2. Research Objective}

\textbf{2.1 Problem Definition}

The previous introduction to the current context enumerates the situation on the Dutch real estate development market, crowdfunding in the Netherlands and in the United States. Important is the undeniable difference between the Dutch and American implementation of crowdfunding real estate and the emergence of both markets. Cleary, Anglo-Saxon countries employ crowdfunding real estate on an almost generic basis while the Dutch market is far from this – it just started to venture into this alternative finance tool. Altogether, this leads to the following problem statement.

\textit{The phenomenon of crowdfunding demonstrates tremendous growth in most Anglo-Saxon nations, reflected in the growing popularity and increasing frequency that alternative tools are employed to finance real estate. Contrary to the United States, the Dutch real estate market scarcely ventures into crowdfunding as alternative financing tool for real estate. Diversification of real estate loans is hampered by the lack of a growing crowdfunding real estate industry in the Netherlands.}

It is interesting to discover why crowdfunding real estate is not taking off as powerfully and rapidly as is happening in the United States. Possible explanations may be found in the differences of the institutional environments in both nations.

\footnotesize{\textsuperscript{14} Symbid website, retrieved on 16-02-2015 from https://www.symbid.nl/}
\footnotesize{\textsuperscript{15} DealIndex, Democratising Finance, retrieved on 10-01-2016 from https://dealindex.co/democratising_finance_vol2_digital_real_estate_investment_2015.pdf}
\footnotesize{\textsuperscript{16} Important to note is that North America includes Canada and the USA, these figures therefore do not represent the USA alone.}
2.2 Research Question
The general question that rises through this problem statement is as follows.

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

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

*What institutional factors are dominant and favourable for employing crowdfunding as financing tool for real estate and how should these factors be treated to stimulate growth of a viable crowdfunding real estate market in the Netherlands?*

### Sub-questions

Answering the main research question requires the following sub-questions to be answered. From the main research questions the following sub-questions have been derived. Table 2.1 presents the sub-questions and the relevant chapters that answer these questions.

<table>
<thead>
<tr>
<th>List of Sub-question</th>
<th>Relevant Chapters</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What are institutional economics and how does it relate to crowdfunding real estate?</td>
<td>7: An Institutional Paradigm</td>
</tr>
<tr>
<td>2. What is the concept of crowdfunding and what does it teach us regarding real estate?</td>
<td>8: Crowdfunding</td>
</tr>
<tr>
<td>3. How do traditional real estate finance structures differ from newly constructed crowdfunding structures?</td>
<td>9: Real Estate Finance</td>
</tr>
<tr>
<td>4. How do the costs of capital and opportunity costs differ among financing structures and does this influence crowdfunding real estate?</td>
<td>9: Real Estate Finance and 11: Desk Research</td>
</tr>
<tr>
<td>5. How is crowdfunding real estate socially embedded in the United States and the Netherlands?</td>
<td>Empirical Results in 11, 12 and 13</td>
</tr>
<tr>
<td>7. How do governance structures align with transactions in the crowdfunding real estate markets in the United States and the Netherlands?</td>
<td>Empirical Results in 11, 12 and 13</td>
</tr>
<tr>
<td>8. What impact does behaviour in the decision-making process have on crowdfunding real estate markets in the United States and the Netherlands?</td>
<td>Empirical Results in 11, 12 and 13</td>
</tr>
</tbody>
</table>

*Table 2.1: Introduction of the list of sub-questions and their relevant chapters (own illustration)*

2.3 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 large variety of types. 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 a more commonly used investment tool. Of the little literature that is available (mainly Mackaaij & Nozeman, Brabham, Seltzer & Mahmoudi, and Freitas & Amado) almost all is qualitative research. This is also the case for the (small amount of) university theses (a.o. Autar, Bekers, van der Peet and Hol). However, explicit outlining of the body of literature is nowhere near mature.

The earlier concept of crowdsourcing (that preceded crowdfunding) is, much more than crowdfunding in Europe, 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. These studies show that further research in the field of crowdfunding real estate is not merely wished for but very much needed.
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 and what drivers enabled crowdfunding to venture into this new industry. This research focuses on this knowledge gap and makes an attempt to add to the contemporary body of knowledge and reduce this gap.

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

The Netherlands’ neighbouring countries Germany and the United Kingdom have explored alternative financing sources as well as the United States. 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 support crowdfunding real estate 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.

Intermezzo – Exploratory Interview

This exploratory interview provides an excellent point of departure for this study. It assists in shaping the correct problem, research question and methodology. Therefore, it is essential to conduct the exploratory interview(s) in an early stage of the study. This chapter briefly introduces the main findings of this exploratory interview.

Financing Issue
During this interview it occurred to me that the issue of financing real estate was not merely with developers. Investors have troubles financing real estate as well. Few banks in the Netherlands provide real estate loans and if they do so it is usually up from a few million euros or more. Financing real estate loans of maximum one or two million is no longer facilitated by contemporary parties such as banks. Together with the financially barren situation for developers this causes the problem of financing real estate in the Netherlands to be even more severe than anticipated up front.

Motives for funders
Resulting from the exploratory interview were three motives for funders to participate and commit funds to a specific goal or project. Main pillars are social or communal involvement, reputation (in terms of sustainable or healthcare projects) and financial return.

Crowdfunding Real Estate types
Four possibilities exist for the crowd to invest in real estate. These are direct investments such as investments (equity placements) in real estate and exploitation or indirect investments in mortgages or development loans.

Conclusion
The issue of financing real estate is even larger than anticipated. A financing gap exists both for developers and investors. Also, the motives for funders do not always go together. For-profit investors might seek different conditions than social or communal investors do. Furthermore, the difference of crowdfunding types in real estate requires further elaboration. Chapter 9 Real Estate Finance commences the different equity or debt placements.
Part II: A Mixed-Method Approach to Crowdfunding Real Estate
Part II: Approach, Strategy, Design and Structure

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.

3 Conceptual Model

In this study, the phenomenon of crowdfunding employed in real estate markets is, due to the very nature of crowdfunding, institutionalism and real estate finance, approached from an interdisciplinary perspective. 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 knowledge 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 American counterpart.

This study focuses on the institutional framework around crowdfunding and real estate in the United States and Netherlands. Literary sources like Freitas & Amado (2013), Mackaaij & Nozeman (2014), Burgett & McDonald (2013), Hol & Daamen (2014) and more add to the body of knowledge on crowdfunding and its relationship with real estate. Hence, this will form the foundation on which this study originated and expands on. Figure 3.1 illustrates the conceptual model of this research.

![Figure 3.1: Conceptual model (own illustration)](image)

4 Research Approach

Figure 4.1 illustrates the research model. It starts with the introduction on the research background and problem statement. In line with these chapters, the research question is distilled, as can be seen in part I of this document. Reviewing scientific literature enables the theoretical frameworks to gain shape, emphasizing three primary fields of expertise: an institutional paradigm, crowdfunding and real estate finance. 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, the crowdfunding literature explains the relatively new concept of crowdfunding in general. Third and last field of expertise is real estate finance, explaining contemporary finance systems, capital structures, risk mitigation and the capital stack.

Gathering empirical results is based upon a twofold model of document analysis and semi-structured interviews. By gathering data on this twofold basis, it is possible to employ minor triangulation in order to validate and enrich the data. After processing and comparing the United States to the Netherlands it will be explained how the qualitative data
is interpreted. Lastly, the final chapter distils the conclusion from the empirical results and answers the main research question. Figure 4.1 summarises and illustrates the above mentioned research model of this research, including the chapters that relate to the different parts in the research model.

1. Introduction
Research Background: Adopting crowdfunding as a tool to finance real estate is happening increasingly in the United States. However, the Dutch market is far from implementing crowdfunding into the range of possibilities to fund real estate.
Problem Definition: Crowdfunding real estate markets in the Netherlands are far less developed than those in the United States.
Research Questions: How can the different growth-patterns and behaviour of crowdfunding real estate markets in the United States and the Netherlands be explained?

7. An Institutional Paradigm
What are institutional economics and how does this relate to crowdfunding real estate markets?
Answers SQ 1

8. Crowdfunding
What is the concept of crowdfunding and what does it teach us regarding real estate?
Answers SQ 2

9. Real Estate Finance
How do traditional real estate finance structures differ from new constructed crowdfunding structures?
Answers SQ 3 and SQ 4

10. Theoretical Framework
How the institution environment of crowdfunding real estate markets is shaped. An institutional approach to crowdfunding, real estate finance and a niche market.

What aspects of social embeddedness, the institutional environment, governance structures and neoclassical economics influence crowdfunding real estate markets in the United States and the Netherlands?

11. Document Analysis
What are the institutional differences of crowdfunding real estate economics between the United States and the Netherlands?

12. Interviews United States
What are the institutional characteristics of crowdfunding real estate markets in the United States?

13. Interviews the Netherlands
What are the institutional characteristics of crowdfunding real estate markets in the Netherlands?

14. Lessons Learned and Interpretation of the Empirical Results
How do the institutions of crowdfunding real estate in the United States compare to those in the Netherlands?

What can be learned and distilled from these differences and/or similarities compared to the institutional background of both nations?

Answers SQ 5, SQ 6, SQ 7, SQ 8 and SQ 9

Part V: Synthesis – Conclusion, Discussion, Limitations and Recommendations
What are the main conclusions of the research?

How is this research limited and how does it relate to the existing field of knowledge?

What are the suggestions and recommendations for further research?

Reflection upon the study (process)

Figure 4.1: Research model, SQ means subquestion and regards to the subquestions mentioned in chapter 2.2 (own illustration)
4.1 Literature Review and the Theoretical Framework

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 (2011) and Bryman (2012) state that the literature review determines multiple guidelines for conducting a study.

Kumar (2011) 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. 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.

Above stated knowledge is taken by heart while reviewing literature and is used to describe and understand the contemporary body of knowledge. Analysis based on the institutional context of both the United States and Netherlands provides the most suitable tool for comparison and is therefore adopted to conduct the research. This theory, or tool for analysis, requires extensive knowledge on new institutional economics in order to fully grasp the institutional comparison of the United States and Netherlands. Williamson’s conceptual theory on new institutional economics will form the starting point for comparing both nations. It is a widely used method in economic, political and social sciences (Williamson 1998a) and will be used in coherence with research methods as presented by Kumar and Bryman.

A valid question would be why an institutional framework would be appropriate in this type of study. Michael Ball (2006) explains that real estate markets and its players ‘are often interlinked through networks of markets and other types of formal and informal relationships’. He states that these networks take on institutional forms through their underlying rules and practices. As a result, organisations, industrial structures and market performance are significantly impacted by such institutions (Ball 2006). Since this study concerns the institutional environment of certain specific real estate markets, it is most appropriate to adopt the institutional theory of Williamson (1998a): new institutional economics. This is backed by Ball’s (2006) proposition that ‘real estate…[implies for] a need to circumscribe analysis within an appropriate institutional framework’. Yet, this type of framework does involve some real world complexities, significantly influencing the research. It is therefore not always appropriate to employ an institutional framework, however for studying differences in market performance or behaviour between countries it is advised to use the key institutional framework of both nations (Ball 2006).

Part III will introduce an extensive clarification of this theoretical framework. It emphasizes on the theory of new institutional economics (NIE), hence forming the framework in which this study takes place. The broad body of knowledge on crowdfunding and financing real estate will be further elaborated upon after the introduction of the institutional paradigm.

4.2 Document Analysis

Extensive document analysis assists in comparing the nations through the perspective of the (earlier defined) NIE framework. Among the documents that are analysed are policy documents, law descriptions, memos of semi-governmental entities, news articles and newspapers, governmental websites and more.

Analysing qualitative data refers to all data that is non-numerical or not quantified ranging from qualitative surveys to in-depth interviews or entire policy documents (Saunders 2009). The types of analysis employed in this study are summarising and categorisation of the data distilled from document analysis. Needless to say, summarising is concerned with capturing the essence of large amounts of text and only noting the principal themes (Saunders 2009). Second type of analysis is categorisation of the data, comprising two activities: (1) defining the categories and (2) allocating parts of the data to these categories. Used categories are distilled from the theoretical framework, primarily based upon new institutional economics. Allocating data (after summarising this) to these categories supports in recognising relationships and develop propositions; this will be done in part IV Empirical Results (Saunders 2009).

4.3 Interviews

Point of departure for this study is the exploratory interview touched upon in the intermezzo (in part I). It supports defining the problem statement and research questions and gave way to shaping the theoretical framework. In order to absorb as much information as possible, this interview was very open-structured.

Nevertheless, further empirical data was collected through semi-structured interviews with Dutch and American stakeholders. 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 yet within the predefined boundaries of the research. It is this flexibility that makes semi-structured interviews appropriate for this study (Bryman 2012; Kumar 2011). Selecting semi-structured interviews as research method aligns with the study’s aim to find reasonable answers by generating theory or concepts. The interviews are conducted with (academic) experts in the field of real estate (crowdfunding) and stakeholders (primarily market-players) in both the Netherlands and the United States.

Gathered data is supposed to consist of satisfactory information to draw conclusions for (some of) the research questions. Following aspects should be able to be distilled from the interviews: (1) the institutional environment in the Netherlands and United States, (2) limitations of the regulations in the Netherlands and United States, (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.

Similar types of analysis as in the document analysis are used to process the gathered data: summarising and categorisation. Part IV Empirical Results introduces the categories and summarised results of the semi-structured interviews, while summarised transcriptions of the semi-structured interviews can be found in the appendices.

5 Research Strategy & Design

By acknowledging new institutional economics as theoretical framework the study is placed in a versatile environment of institutions. As a result, multiple research models are required to shape an adequate representation of the institutional environment in both the United States and the Netherlands. This is represented in the study’s twofold character of exploratory interviewing, document analysis and semi-structured interviews.

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 (2012), stating that the comparative design “entails studying two contrasting cases using more or less identical methods”. Furthermore, he states that the design is applicable to both quantitative and qualitative research strategies. Kumar (2011) explains that the comparative design requires a data set being constructed by pre-tests. 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 baseline is based on the exploratory interview and the literature review upon institutional economics.

6 Methodological Caveats

To conclude this chapter, most important methodological caveats concerning this study are addressed and discussed. This paragraph discusses the non-diversification among interviewees, institutional generalisation and mixed-method comparisons (comparing apples to oranges). First, non-diversification among the interviewees may offer unilateral data that is only representative for these participants, in this case (largely) the crowdfunding platforms and not the crowd or initiator. However, this study accepts this limitation and justifies such an approach by explaining that the Dutch economy does not offer an adequate amount of succeeded and finished crowdfunding real estate projects. Hence, interviewing funders and initiators is hardly possible.

Secondly, the comparison between both nations requires the study to generalise the institutional aspects and principles prevailing in the nation. Clearly, situations in both nations are very different and can — as a consequence of a comparable study — only partially be generalised. This partial generalisation can, as part of the exploratory research, provide useful proceedings for future research. Gaining more in depth knowledge on this institutional generalisation requires corresponding studies in a different setting and with different nations.

Lastly, the mixed-method approach of document analysis (in both nations) and semi-structured interviews generate the necessity for prudent analysis. A credible document analysis is needed to ensure the comparison between the United States and Netherlands is grounded. This requires unambiguous definitions of important aspects in the study. If there is no mutual understanding on the American and Dutch environmental aspects, apples are compared to oranges and much of the qualitative data is lost.
Part III: Shaping an Institutional Theoretic Framework
Part III: Institutionalism, Crowdfunding and Real Estate Finance

A Venn diagram assists in shaping the correct and unambiguous theoretical environment in which this study takes place (figure III.1). It entails three areas: crowdfunding, real estate finance and institutionalism. These areas contain the studied literature that is relevant to the subject. Typically interesting are the overlapping areas of 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 and of great importance to this study.

![Venn Diagram of the literature study’s key contributors and their relation to the three topics of crowdfunding, institutionalism and real estate finance (own illustration)](image)

This chapter will venture into the fields of new institutional economics, institutionalism, real estate finance and the crowdfunding phenomenon (both Dutch and foreign). Literature will clarify theories and practices of these subjects and should eliminate any ambiguous and precarious definitions. Hereafter merged into a uniform body of knowledge that will shape the study’s theoretical framework.
7 An Institutional Paradigm

As the phenomenon of crowdfunding is being employed more often in varying industries we may be able to discern the institutions that play a role in the behaviour of markets towards this source of financing. Understanding these institutions requires insights into the concept of New Institutional Economics and the institutional environment in the Netherlands and United States. Following paragraph discusses the institutional background, socio-political characteristics and the relevant legal structures. Then, an overview of the policies and governance structures regarding crowdfunding and real estate finance is presented and explained, followed by a comparison of both nations. The chapter’s objective is that readers are able to understand the differing institutional environments of the Netherlands and United States in which crowdfunding emerged and evolved.

7.1 New Institutional Economics

The perspective of new institutional economics 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. 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 (and no information asymmetry) 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 (asymmetry) of information, limited rationalism, opportunism and transaction costs that influence traditional markets (Adams et al. 2005). This is important since rules, norms and regulations are created by society to enable the (land- & property-) market to function properly. In this sense, institutions reflect the prevailing powers and interests in a market (Adams, Dunse & White 2008).

There is no single clear definition of institutions, many authors use varying definitions, as can be seen by North and Ménard below (Van Genugten 2008). North (1994) developed the following definition of an institution:

Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g. rules, laws, constitutions), informal constraints (e.g. norms of behaviour, conventions, selfimposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies.

This is slightly different in the definition adopted by Ménard, as can be seen below (Ménard 1995):

An institution is manifested in a long-standing historically determined set of stable, abstract and impersonal rules, crystallized in traditions, customs, or laws, to implement and enforce patterns of behavior governing the relationships between separate social constituencies.

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 7.1.
## Economics of Institutions

<table>
<thead>
<tr>
<th>Level</th>
<th>Frequency</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>L₁</td>
<td>10⁷ to 10⁸ years</td>
<td>Embeddedness: Informal Institutions, customs, traditions, norms and values, religion</td>
</tr>
<tr>
<td>L₂</td>
<td>10 to 10² years</td>
<td>Institutional environment: Formal rules of the game – especially property (polity, judiciary, bureaucracy)</td>
</tr>
<tr>
<td>L₃</td>
<td>1 to 10 years</td>
<td>Governance: Play of the game – especially contract (aligning governance structures with transactions)</td>
</tr>
<tr>
<td>L₄</td>
<td>Continuous</td>
<td>Resource allocation and employment: Prices and quantities, incentive alignment</td>
</tr>
</tbody>
</table>

L1: Social Theory  
L2: Economics of Property Rights  
L3: Transaction Cost Economics  
L4: Neo-Classical Economics / Agency Theory

**Figure 7.1: Economics of Institutions, four levels of social analysis (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 economists 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 (formal) 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 (L1) like customs, traditions, codes of conduct and taboos. Examples of their counterparts (formal rules, L2) are constitutions, laws and property rights (North 1991). In accordance with figure 7.1 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). This level is associated with the *discriminating alignment hypothesis*¹⁷, linking governance structures to economising on transaction costs (van Genugten 2008). 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). This last level is mostly related to what would be called rational decision making. According to Williamson’s (1998a) research the new institutional economics primarily focuses on activities in level 2 and 3 of his model (figure 7.1).

¹⁷ The central hypothesis underlying transaction costs economics is that contracting partners choose organisational arrangements to minimise transaction costs. This hypothesis is termed *discriminating alignment hypothesis*. It expresses a matching principle that involves transactions, with differing attributes, being aligned with governance structures. These structures differ in costs and competence, hence leading to an economising result on transaction costs (Van Genugten 2008; Williamson 1998a)
In order to provide a coherent resemblance of the Dutch and American economics of institutions the four levels of new institutional economics as defined by Williamson will be explained. Following paragraphs will introduce this more in-depth explanation per level.

7.2 Embeddedness and Institutional Environments
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 is not always priority (De Buysere 2012; Autar 2015). Therefore, in order to understand the differing market developments in the Netherlands and United States it is essential that the concept of crowdfunding will be assessed in an institutional environment as explained by Williamson. In order to facilitate this assessment the following chapter will further elaborate upon the Dutch and American social embeddedness and institutional environment. Additionally, the reason why both embeddedness as well as the institutional environment of Williamson’s model are attended to in a single paragraph relies on the fact that formal and informal institutions (or rules) are complementary and very much intertwined (Nye 2008).

How the Western Institutional Environment Originated
Understanding the different institutional environments of the Netherlands and United States requires knowledge on the origins of Western civilization. A short introduction on the history of political and economic institutions in Europe and the United States provides this essential knowledge. Acemoglu and Robinson (2012), authors of ‘Why Nations Fail - On the origins of power, prosperity and poverty’, offer an excellent starting point for understanding the concept of institutions. The authors start their notion in the 16th century, during the discovery and colonisation of North America. During this period it was the English (rather than the Spaniards, Portuguese or French) that drastically opened their political and economic institutional environment. In other words, power shifted from the king towards democratic initiatives such as the parliament’s House of Lords and House of Commons. In terms of economic institutions, serfdom being scaled down, growing right of property (‘Formal Rules of the Game’ according to Williamson’s model) and the elite’s shrinking oligarchy opened markets to free trade and private business.

As a result of this paradigm shift the UK showed expanding assiduity (notable in a.o. the overseas trade and colonisation practices) and increasing prosperity. Essential in the theory of Acemoglu and Robinson (2012) is the clear notion that nations prosper under democratic institutions. They argue that civilians tend to be more productive as their effort is for their personal good rather than for the elite’s. Together, this suggests the process of democratising and partly privatising the present institutions to increase the nation prosperity.

The influence of institutions can be strong, as can be seen in the example of the Dutch Republic during the 16th and 17th century. After becoming independent of the Spanish empire it experienced a period of explosive economic growth. Angus Maddison is quoted by de Vries & van der Woude (1997) on the analysis that only three countries have led the economic development of the world in the past four centuries. The Netherlands was the top performer (defined as the country that operates with the most modern technologies and the highest average labour productivity) until the Napoleonic Wars after which it was taken over by the UK and successively by the United States. In short, when the advanced institutional environment of the Dutch Republic was challenged, it lost its progressive mentality and as a result its role as leading economic nation.

Now that the term ‘institutions’ has been clarified it is possible to move to a differentiation of the Netherlands and United States. Following paragraph will venture into the ideologies of the Rhineland and Anglo-Saxon model, typically used to compare both nations/areas.

The Anglo-Saxon and Rhineland Model
Differences and similarities between institutional political models are extensively studied by many academic authors (a.o. Albert 1993; Giddens 1998; Bakker et al. 2005). Crucial distinctions have come forward and required the authors to refer to two different types of capitalism: the Rhineland model and the Anglo-Saxon model. Usually, the Rhineland model is related to western European (and Japan) thinking, primarily driven by Germany, the Netherlands and partly by the Scandinavian nations (Albert 1993). While on the other hand, the Anglo-Saxon model offers more similarities with the American (and to some extent the Canadian) and British situation (Albert 1993; Heurkens 2012).

Table 7.1 illustrates the varying aspects in social and economic differences between the Anglo-Saxon principles and Rhineland principles, based on Heurkens (2012) and Bakker et al. (2005). The aspects relate to different levels in Williamson’s model, as represented in the last column.
Table 7.1: Differing principles in the Anglo-Saxon and Rhineland models (Heurkens 2012 based on Bakker et al. 2005) and their relation to Williamson’s Economics of Institutions (source author)

Heurkens (2012) offers grip on the relation between the socio-political context and real estate development by analysing and comparing the different social models and institutional backgrounds. Specifically stated by Albert (1993), an excellent example of the differences between the Anglo-Saxon and Rhineland model is the notion that housing in the Rhineland model is often supported by public initiatives (accounting for a significant proportion of the housing stock) and rents are often subsidised. Within the Anglo-Saxon model, housing is almost exclusively a market commodity subject to supply and demand fluctuations. Other than the housing market this is also true for (among others) companies, wages, urban transport and the media (Albert 1993). Together, the Rhineland and Anglo-Saxon model and their relation to the (free) market are captured in figure 7.2 (Albert 1993). The model denotes the clear differences in approach to how a market should function.

Role of the market in the Anglo-Saxon model (neo-American)

<table>
<thead>
<tr>
<th>Role of the State</th>
<th>Anglo-Saxon Principles</th>
<th>Rhineland Principles</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of the Market</td>
<td>Passive &amp; Powerless</td>
<td>Active &amp; Powerful</td>
<td>L1 (informal)</td>
</tr>
<tr>
<td>Role of Civic Society</td>
<td>Economic Driver</td>
<td>Employment &amp; Economic Driver</td>
<td>L1</td>
</tr>
<tr>
<td>Economy</td>
<td>Individual Power</td>
<td>Collective Power</td>
<td>L1</td>
</tr>
<tr>
<td>Market Regulation</td>
<td>Free Market</td>
<td>Market Regulation</td>
<td>L1</td>
</tr>
<tr>
<td>Ownership</td>
<td>Competition</td>
<td>Collaboration</td>
<td>L2 (formal)</td>
</tr>
<tr>
<td>Coordination Principle</td>
<td>Market Sector (Privatisation)</td>
<td>Collective Sector</td>
<td>L2</td>
</tr>
<tr>
<td>Legislation</td>
<td>Rules</td>
<td>Shared Values</td>
<td>L2</td>
</tr>
<tr>
<td>Tax Policy</td>
<td>Low Taxes on high income</td>
<td>High Taxes on high income</td>
<td>L2</td>
</tr>
</tbody>
</table>

Role of the State
- Passive & Powerless
- Active & Powerful

Role of the Market
- Economic Driver
- Employment & Economic Driver

Role of Civic Society
- Individual Power
- Collective Power

Economy
- Free Market
- Market Regulation

Market Regulation
- Competition
- Collaboration

Ownership
- Market Sector (Privatisation)
- Collective Sector

Coordination Principle
- Rules
- Shared Values

Legislation
- Case/Common Law
- Civil Law

Tax Policy
- Low Taxes on high income
- High Taxes on high income

Role of the Market in the Rhineland model

<table>
<thead>
<tr>
<th>Role of the State</th>
<th>Anglo-Saxon Principles</th>
<th>Rhineland Principles</th>
<th>Level</th>
</tr>
</thead>
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<tr>
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<td>Employment &amp; Economic Driver</td>
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</tr>
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<td>Collective Power</td>
<td>L1</td>
</tr>
<tr>
<td>Market Regulation</td>
<td>Free Market</td>
<td>Market Regulation</td>
<td>L1</td>
</tr>
<tr>
<td>Ownership</td>
<td>Competition</td>
<td>Collaboration</td>
<td>L2 (formal)</td>
</tr>
<tr>
<td>Coordination Principle</td>
<td>Market Sector (Privatisation)</td>
<td>Collective Sector</td>
<td>L2</td>
</tr>
<tr>
<td>Legislation</td>
<td>Rules</td>
<td>Shared Values</td>
<td>L2</td>
</tr>
<tr>
<td>Tax Policy</td>
<td>Low Taxes on high income</td>
<td>High Taxes on high income</td>
<td>L2</td>
</tr>
</tbody>
</table>

Role of the State
- Passive & Powerless
- Active & Powerful

Role of the Market
- Economic Driver
- Employment & Economic Driver

Role of Civic Society
- Individual Power
- Collective Power

Economy
- Free Market
- Market Regulation

Market Regulation
- Competition
- Collaboration

Ownership
- Market Sector (Privatisation)
- Collective Sector

Coordination Principle
- Rules
- Shared Values

Legislation
- Case/Common Law
- Civil Law

Tax Policy
- Low Taxes on high income
- High Taxes on high income

Role of the market in the Rhineland model

Figure 7.2: Approach to the role of the market in the Anglo-Saxon and Rhineland models (Albert 1993)
For example, housing being a market commodity is clearly illustrated by several examples in *Other People’s Money*, by Charles V. Bagli. The momentum of his argumentation is the sale of social housing complex Stuyvesant Town in New York City to a commercial real estate investor, Tishman Speyer. It is an immense project of 89 residential buildings holding 8,757 apartments once built for the large insurance firm MetLife (Metropolitan Life Insurance Company). After decades of carefully managing the properties and tied to agreements with the municipality to keep apartments at social rent levels, MetLife decided to sell the properties to the commercial party of Tishman Speyer. This resulted in enormous amounts of public debate, municipal interference, huge amounts of media attention and citizen demonstrations. But eventually the municipality gave in to the sale and permitted Tishman Speyer to acquire the properties under some strict regulations. However, this was not enough to stop the strong free market ideology of the United States. Social apartments were converted into liberalised condeminiums that were let at market rent levels, hence making social housing a negotiable good. Eventually, the owner defaulted on the heavy burden of an immense loan used to acquire the property. The revenues did not outweigh the interest costs on the loan (Bagli 2013).

A second example is illustrates by Albert (1993), explaining that in the Rhineland model (particularly Germany) it is compulsory for large firms to implement a system of shared decision-making. As a result, there are two key bodies in the firm, the board of directors (responsible for management of the firm) and the supervisory board that is elected by the shareholders (overseeing the activities of the board of directors). The Anglo-Saxon model does not share such systems, as is reflected in many companies and criticising press articles (further details on this subject are presented in Chapter 4 Empirical Results).

These sample systems illustrate the almost pure free market conditions in the United States. In the Rhineland model, State regulated products like social housing, healthcare and such are usually kept accessible to the entire population rather than those who can afford it. In the United States this is clearly not always the case, rendering almost all Anglo-Saxon principles; passive municipality, free market, strong competition, all privately owned and the economic driver: the market. In the next paragraph this is reflected upon the situation in the Netherlands.

**Anglo-Saxon Wind**

Heurkens (2009; 2012) and Bakker et al. (2005) indicate the presence of western Anglo-Saxon wind influencing the social and economic norms in (among others) the Netherlands. Bakker et al. (2005) offer examples from the privatisation of state-companies such as NS (train-services) and energy firms. Though the Rhineland model is strongly embedded in the Dutch institutional environment, Heurkens (2009) indicates that urban planning in the Netherlands has historically always been a field in which private initiatives went along with public spatial guidelines. This implies that private initiatives (as in the Anglo-Saxon model) do occur in the Dutch institutional environment. This is also reflected by the increase of public-private partnerships in spatial development (Heurkens 2009).

The impact of Anglo-Saxon ideologies on Dutch policies is clearly visible when comparing current developments with the notion of Heurkens (2012): ‘Despite the Dutch nationalization of a private bank (ABN Amro) and the national government providing loans to other financial institutions (ING, SNS) at the outset of the financial crisis in 2008/2009, recent developments show a continuation of neoliberal policies.’ At the time of writing, the government is planning an IPO for the ABN Amro bank, a very neoliberal decision, strengthening the proposition of Heurkens that the Dutch institutional environment is influenced by an Anglo-Saxon wind. This is also reflected in the current sales procedure of the ‘bad bank’\(^\text{18}\) that has been established by the Dutch government several years ago to house SNS’s distressed loans.

### 7.3 Governance Structures, Transaction Cost Economics and Behavioural Assumptions

Williamson (1998a) specifically stated that the governance level, or ‘play of the game’, especially focuses on aligning governance structures with transactions. To fully understand the meaning of this proposition it is useful to learn the underlying definition and perception of governance structures and a transaction.

**Transaction Cost Economics**

Key dimensions for describing a transaction, from the transaction cost economics perspective, are asset specificity, uncertainty and frequency (Williamson 1999). *Asset specificity* is by far the most important feature of a transaction, it

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\(^{18}\) A bad bank is an organization set up to buy the bad loans of a bank with significant nonperforming (or distressed) assets at market price. ‘By transferring the bad assets of a bank to the bad bank, the banks clear their balance sheet of toxic assets but would be forced to take write downs. Shareholders and bondholders stand to lose money from this solution (but not depositors). Banks that become insolvent as a result of the process can be recapitalized, nationalized or liquidated.’ Source: http://www.investopedia.com/terms/badbank.asp
encompasses the following consequences. Investments in durable and specialised assets that have trouble altering their existing use or users except at a significant loss of value are defined as transaction specific (a high level of asset specificity) (Williamson 1999). This asset specificity ranges from site specificity (location, proximity) to physical aspects or temporal specificity (timing of the delivery and its effect on its value). Unpredictable changes in the circumstances surrounding the transaction or changes in the behaviour of one the parties involved reflect possible uncertainty of a transaction. Adams et al. (2008) add to uncertainty in the built environment that uncertainty refers to the lack of knowledge of all possible future outcomes and the impossibility of specifying their likelihood. Risk specifies the specific calculations that refer to the likelihood of each possible outcome to occur, most commonly applied in property investment through the modern portfolio theory. In the case of nonspecific transactions (i.e. commodity transactions) the level of uncertainty has little consequences for the transaction (Van Genugten 2008). Costs are lastly influenced by the frequency of the transaction. In the case of a single transaction it is not expected to have high transaction costs, therefore instrumental safeguards are not required. However, when transactions are often recurring, a long-term contract is negotiated to act as instrument to avoid frequently returning transaction negotiations. This instrument thus lowers the transaction costs of frequently recurring transactions (Van Genugten 2008).

**Governance Structures**

Governance structures are the institutional arrangements that define and govern how different economic entities cooperate and/or compete (Williamson 1999). Williamson diversifies governance into three main structures: spot market, hybrid forms and the firm (or hierarchy) (Williamson 1998a; Williamson & Tadelis 2013). Ménard (1995) describes the spot market as the (extreme) situation in which the institutional arrangements enable for a large amount of regular transactions, regulated by a mechanism of competitive pricing. The market has many players, incentives are prevalent and there is little administrative control. This autonomous governance structure enables all players to go their own way and disputes are almost solely resolved through extensive contract law (Van Genugten 2008). The other extreme is hierarchy, a highly coordinated form. It involves players to commit themselves to collective actions with the purpose of allocating resources and capabilities through command and cooperation (Ménard 1995; Williamson & Tadelis 2013). There is much administrative control, leading to disputes being resolved internally (without interference of contract law) (Van Genugten 2008). Illustrating both extreme structures results in the model as presented in figure 7.3 (Williamson & Tadelis 2013). It clearly shows the same flows of goods and services, yet differences in payment, resolving disputes and negotiations (or coordinated adaption). Lastly, the hybrid form holds characteristics of both other structures. Essential is the fact that neo-classical thinking governs contract law. Yet, parties engage in long-term relationships that preserve autonomy but provide additional safety since the parties are bilaterally dependent (Van Genugten 2008). An overview of the differences is presented in table 7.2.

<table>
<thead>
<tr>
<th>Governance Structures</th>
<th>Market</th>
<th>Hybrid</th>
<th>Hierarchy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Instruments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Incentives</td>
<td>++</td>
<td>+</td>
<td>0</td>
</tr>
<tr>
<td>• Administrative controls</td>
<td>0</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td><strong>Performance attributes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Autonomous adaption</td>
<td>++</td>
<td>+</td>
<td>0</td>
</tr>
<tr>
<td>• Coordinative adaption</td>
<td>0</td>
<td>+</td>
<td>++</td>
</tr>
<tr>
<td><strong>Contract Law</strong></td>
<td>++</td>
<td>+</td>
<td>0</td>
</tr>
</tbody>
</table>

*Table 7.2: Three models of governance structures (Van Genugten 2008)*

**Figure 7.3: Spot Market Governance Structure (left) vs Hierarchy Governance Structure (Williamson & Tadelis 2013)**

19 Williamson & Tadelis (2013) add contractual (in)completeness to this list, yet this is very much related to uncertainty and will only briefly be explained here. In principle, contractual hazards will only arise if (long-term) contracts are incomplete or are subject to disturbances during the period, defection or the situation in which courts do not settle the dispute.
Discriminating Alignment Hypothesis and Cooperation

Earlier paragraphs lead to the *discriminating alignment hypothesis*, implicating that contracting parties choose organisational (or institutional) arrangements to minimise transaction costs (Van Genugten 2008). Defined by Williamson (1998a) and Williamson & Tadelis (2013) as follows: transactions, which differ in their attributes, are aligned with governance structures, which differ in their adaptive capacities (or costs and competence), so as to realize an efficient result (or, in the case of Williamson 1998a: ‘...as to effect a (mainly) transactional cost economising result’).

Yet, how is this reflected in the markets behaviour? As governance structures are primarily concerned with analysing relationships between transaction partners (or market-players) this aspect is included in the theoretical framework. Above mentioned typologies of spot market, hybrid and hierarchical provide the theoretical background for analysing these relationships and market behaviour.

7.4 Neo-classical Economics and the Agency Theory

Agency theory, rooted in the economic and financial thinking arena, assumes that contracts are complete and completely specified (Kim & Mahoney 2005). They explain that in essence, this theory takes the *principal-agent contractual relationship* as point of departure. Under the agency theory, all parties would act rationally if the common goal is to reduce costs, without any interference of the situation. The theory is concerned with aligning the economic incentives of the agent with those of the principle in order to maximise aggregate economic payoff, hence optimising the economic result. To put it differently, the agency theory assumes that costs of the economic actors arrive at an efficient (equilibrium) outcome (Kim & Mahoney 2005).

In general contractual perspective, agency theory focuses on *ex ante* (before / intended) alignment of economic incentives (Kim & Mahoney 2005). The agency theory explains, under the assumption of fully complete contracts, market frictions through information asymmetry, non-observations and risk-aversion (Lawson 1997). This is very much in the line with neoclassical agents only caring about wealth, not their opinion. In other words, rational expectations are the main way of thinking (Caplan 2000).

Neo-classical economics and the agency theory, as described above, are introduced by Williamson. Yet, for the purpose of this crowdfunding research it is the behavioural character of the crowd that will be included in the research. This study will adopt the neo-classical economics level as proposed by Williamson under the assumption that it represents the behaviour exhibited by the crowd. It is concerned with the decision-making process.

7.5 Summary: An Institutional Framework of the United States and the Netherlands

In conclusion, the previous section conceptualised the informal institutional context of both the United States and the Netherlands. This conceptualisation from the literature forms the basis for the theoretical framework enabling further comparison in relation to crowdfunding real estate markets. Table 7.3 reflects the institutional framework derived from existing literature on the United States and the Netherlands.

Table 7.3 provides information on the social embeddedness of both nations that has been derived from literature. This is however not directly related to crowdfunding real estate markets. This is important since it forms the nation’s environment in which the crowdfunding real estate market operates. The empty cells in the table represent the lack of knowledge on the institutional environment and governance of crowdfunding real estate markets in both the United States and the Netherlands. This study aims to significantly fill the empty cells. Aspects and principles of the markets’ drivers are described in second column. Together, this framework enables the study to describe the behaviour and growth of both crowdfunding real estate markets.
### Institutional Framework

<table>
<thead>
<tr>
<th>Aspect for Comparison</th>
<th>United States (General Perception)</th>
<th>The Netherlands (General Perception)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Embeddedness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socio-Political / Ideology:</td>
<td>Anglo-Saxon Ideology</td>
<td>Rhineland Ideology with an Anglo-Saxon wind</td>
</tr>
<tr>
<td>Role of the State:</td>
<td>Passive &amp; Powerless</td>
<td>Active &amp; Powerful</td>
</tr>
<tr>
<td>Role of the Market:</td>
<td>Economic Driver</td>
<td>Employment &amp; Economic Driver</td>
</tr>
<tr>
<td>Role of Civic Society</td>
<td>Individual Power</td>
<td>Collective Power</td>
</tr>
<tr>
<td>Economy</td>
<td>Free Market</td>
<td>Regulated Market</td>
</tr>
<tr>
<td><strong>Institutional Environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Regulation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coordination Principle</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Policy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Play of the Game'</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discriminating</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alignment Hypothesis</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decision Making Process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Behavioural Assumptions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Table 7.3: Theoretical Framework as distilled from Williamson. The empty cells are left blank to be completed in the conclusion (own illustration)*
8 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 and different crowdfunding models. Further paragraphs provide insight into the motivations and incentives for initiators, funders and intermediaries. Finally, a comparison between crowdfunding in the United States and Netherlands is projected. This chapter’s objective is to clarify the theoretical and pragmatic characteristics of crowdfunding and its relation to real estate. It will be concluded by answering the sub-question ‘what is the concept of crowdfunding and how does crowdfunding real estate work?’.

8.1 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, hence bypassing venture capitalists and angel investors.

Among others, Ahlers et al. (2013), de Buyser 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 (social-)network of undefined (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 8.1.

<table>
<thead>
<tr>
<th>Benefits and Disadvantages of Crowdfunding</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
</tr>
<tr>
<td>- You are in control of everything (costs, timing, delivery, creative vision, marketing and execution)</td>
</tr>
<tr>
<td>- Tests and proves the popularity of your model</td>
</tr>
<tr>
<td>- Backers will market your product to their friends and contacts</td>
</tr>
<tr>
<td>- Possibility to raise a larger amount of capital than the intended funding goal</td>
</tr>
<tr>
<td>- Chance to receive valuable advice from your backers, who after all want you to succeed</td>
</tr>
<tr>
<td>- Tests elements of your product’ marketing approach</td>
</tr>
</tbody>
</table>

Table 8.1: Benefits and Disadvantages of Crowdfunding (Steinberg & DeMaria 2012)
8.2 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 8.2.

<table>
<thead>
<tr>
<th>Role</th>
<th>Initiator</th>
<th>Funders</th>
<th>Intermediaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiates a request for funding</td>
<td>How much capital is needed and for what cause</td>
<td>What, if so, is offered in return</td>
<td>What, if so, is offered in return</td>
</tr>
<tr>
<td>How much capital is needed and for what cause</td>
<td>What, if so, is offered in return</td>
<td>Technical platform</td>
<td>Technical platform</td>
</tr>
<tr>
<td>What, if so, is offered in return</td>
<td>Exchange of Funds between the above actors</td>
<td>Manages the voting rights</td>
<td>Manages the voting rights</td>
</tr>
</tbody>
</table>

Table 8.2: Roles of the Actors in the Crowdfunding Process (Ahlers et al. 2013)

8.3 Four Crowdfunding Models
In general, four different types of crowdfunding are found in the literature: donation-based (patronage model), reward-based, loan-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)
Schwienbacher & 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 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,

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20 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)
However, it 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. Notable feature 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.

**Loan-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 interest on their capital (Hol & Daamen 2014; Sharp 2014; Wilson & Testoni 2014; Hemer 2011; Griffin 2012; Mollick 2014). The existing literature is very concordant regarding loan-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 at a stock exchange.

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 maturing.

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21 Forbes, More over, Kickstarter: Real Estate Equity Crowdfunding Is Catching On With Investors, 9-10-2014 from [http://onforb.es/1BsyHjK](http://onforb.es/1BsyHjK)
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 8.1).

Figure 8.1: Relation between the varying crowdfunding models and their complexity within the process (Hemer et al. 2011 in Couffinhal 2014)

8.4 Incentives and Motives for Initiators
Launching a crowdfunding campaign is not charity fundraising, the majority of the crowd expects something in return for their investment. Incentivising 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 (from the viewpoint of the initiator) are achieved for three reasons: (1) a stronger match with a willing 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 initiators (or creators as they call them) 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 8.3 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

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</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>• Attracting additional sources of capital</td>
<td>• Attracting capital in a second round of funding</td>
<td>• Raise capital Long Term relationships</td>
<td>• Attract traditional sources of capital after crowd-funding</td>
<td>• Higher willingness to pay by the crowd-funders</td>
</tr>
<tr>
<td></td>
<td>• Lower Costs of Capital</td>
<td>• Raising capital</td>
<td>• Long Term relationships</td>
<td>• Marketing Purposes</td>
<td>• Price Discrimination</td>
</tr>
<tr>
<td>Marketing</td>
<td>• Word-of-mouth</td>
<td>• Expand awareness through social media</td>
<td>• Publicity</td>
<td>• Generating Enthusiasm</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Social Marketing</td>
<td>• Marketing Purposes</td>
<td>• Generating Enthusiasm</td>
<td>• Demonstrate demand for a proposed product</td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>• Information on the demand for a certain product</td>
<td>• Demand for the product</td>
<td>• Receive validation</td>
<td>• Demonstrate demand for a proposed product</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Pricing Information</td>
<td>• Pricing Information</td>
<td>• Receive validation</td>
<td>• Demonstrate demand for a proposed product</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Potential Buyer</td>
<td>• Potential Buyer</td>
<td>• Receive validation</td>
<td>• Demonstrate demand for a proposed product</td>
<td></td>
</tr>
<tr>
<td>Social or Emotional</td>
<td>• Establish relationships with the consumers</td>
<td>• Replicate success of other people</td>
<td>• Establish relationships with the consumers</td>
<td>• Replicate success of other people</td>
<td>• Presence of communal beliefs</td>
</tr>
</tbody>
</table>

Table 8.3: Incentives for Initiators to Crowdfunding their Projects (own illustration)

Please be aware, Agrawal et al. (2013) mention that lower costs of capital motivate the initiator to participate in crowdfunding, yet this has not been quantitatively studied and is therefore a limited assumption that might just be untrue. Sure, the assumption bundles benefits like willingness of the investors, gathering of information and marketing of the product, but this is not necessarily directly reflected in the cost of capital.

8.5 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 8.2 clarifies this relation between the separate motives and various crowdfunding models (or hybrid models).
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).

Altogether, table 8.4 illustrates the broad variety of motives for the crowd to participate and fund crowdfunding campaigns.
### Incentives and Motivation for the Funder

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Access to investment opportunity</td>
<td></td>
<td>Financial Return</td>
<td>Financial return</td>
<td>Material Return (pre-sales, reward product or service)</td>
<td>Interest (loan)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Reward-based (perceived value can be higher than the economic value)</td>
<td>Revenue-sharing (risk-sharing loan without interest)</td>
</tr>
<tr>
<td>Material or Functional Return</td>
<td>Early access to new products</td>
<td></td>
<td>Seek (material) rewards</td>
<td></td>
<td>Material Return (pre-sales, reward product or service)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Formalisation of financial (loan) contracts</td>
<td></td>
<td></td>
<td></td>
<td>Reward-based (perceived value can be higher than the economic value)</td>
<td></td>
</tr>
<tr>
<td>Social or Emotional</td>
<td>Community participation</td>
<td></td>
<td>Social Return</td>
<td>Philanthropic Goals</td>
<td>Philanthropic Goals</td>
<td>Presence of communal beliefs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(intrinsic value of the project to succeed)</td>
<td>Support Creator</td>
<td>Support Causes</td>
<td>Immaterial acknowledgments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Support Causes</td>
<td>Engage in a community</td>
<td>Credit the funder’s name</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Small gift(s)</td>
</tr>
</tbody>
</table>

Table 8.4: Incentives and Motivation for the Funder to Participate in Crowdfunding (own illustration)

### 8.6 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 as this increases their revenues. In some cases, usually when payments are flowing through the platform for longer periods, the intermediary also charges a periodic fee to compensate for facilitating an operational payment system.

Research by AFM (2014) backs the proposition that intermediary platforms tend to favour many and large transactions as they gain a percentage of the donated, loaned or invested money. This incentivises the platform to accept as many projects as possible, something that in some cases might be conflicting with the extensive due diligence processes to decline high risk or extremely difficult projects. A second incentive is to attract people that are able to generate large amounts of media attention (this is beneficial for the intermediary party).

### 8.7 Summary

It is now clear that crowdfunding comprises several actors, models and many varying incentives to indulge into crowdfunding. Important are the different actors in the process of crowdfunding: initiator, intermediary (platform) and funders (the crowd). Their roles and differing incentives should be very much taken into account. Distinguishing four models of crowdfunding is essential in understanding the relevance of crowdfunding in the real estate industry. Donation-based and reward-based crowdfunding involve concepts in which funders do not request a monetary return, they are motivated by philanthropy or rewards such as access to pre-sales or a gift. Loan-based and equity-based crowdfunding have a strong monetary incentive. In the case of loan-based crowdfunding the funder offers a loan to the initiator while receiving a predefined interest-rate as return. Equity-based crowdfunding is an investment that gives the funder an equity-stake or right of ownership in the project. Altogether, these funding structures vary in complexity as researched by Hemer (2011), ranging from lowest complexity in donation-based crowdfunding structures and highest complexity in equity-based crowdfunding structures.
9 Real Estate Finance

By introducing the basic background on real estate finance and the relevant financing structures this chapter aims to shape the financial background required for this study. Before digging into specific real estate financing structures it is helpful to explain the investment industry and how this relates to real estate financing. This is followed by a more extensive outlay of the different (traditional) financing structures in real estate. Eventually, this chapter aims to give clarification on capital structures used for real estate investments and how this relates to crowdfunding real estate.

9.1 The Investment Industry and Capital Markets

According to Geltner et al. (2006) ‘the word industry refers to purposeful working and diligence’, in economic terms the word is used ‘to refer to a branch of economic activity or trade’. Investors buy and sell capital assets, hereby determining market prices and influencing demand and supply of capital. Geltner et al. (2006) also introduces two types of investment objectives when investing in real estate:

- **Growth objective**: implies a relatively long time horizon with no immediate or likely immediate need to use the cash being invested;
- **Income objective**: in this case the investor has a short-term and ongoing need to use cash generated by the investment.

Additionally, most investors are limited by a huge amount of constraints and concerns, influencing their investments to varying extents. Real estate investors are not different from other investors in terms of these limitations. Geltner et al. (2006) names six:

- **Risk**: the possibility that investment performance will vary over time in a manner that is not entirely predictable at the time that the investment is made;
- **Liquidity**: the ability to sell and buy investments assets quickly at full value and without much affecting the price of the assets;
- **Time Horizon**: the future time over which the investor’s objectives and limitations are relevant;
- **Investor Expertise & Management Burden**: how much ability and desire the investor has to manage the investment process and assets;
- **Size**: how “big” the investor is in terms of the amount of capital in need of investment;
- **Capital constraint**: whether the investor faces an absolute constraint on the amount of capital they have available to invest, or can obtain additional capital relatively easily if good investment opportunities are available.

Crowdfunding offers investors a new opportunity to enter capital markets. As Geltner et al. (2006) explains it is the investors that make up the demand and supply side of capital markets by buying and selling capital assets. Illustrated in figure 9.1 is the traditional capital markets system. In short, traditional capital markets function by means of a well-provided supply side of individuals deploying capital towards an intermediary – be it a bank, pension fund or insurance company. This intermediary has, as a consequence of the above, capital available to deploy towards the demand-side of the capital market. This demand-side is made up of real estate investors, project developers, individual home-buyers or other parties intending to purchase or finance a property. The arrows indicate capital being deployed into real estate through an intermediary party. Next paragraphs venture into the specific capital structures that are used to buy and sell these assets, together with the specific possibilities of financing real estate.
9.2 Capital Structures in Financing Real Estate

‘The types and amounts of capital that are employed to finance a property are referred to collectively as its capital structure’ (Glickman 2013). There is a large variety in debt, hybrid and equity securities to finance real estate, ranging from mortgages to preferred equity and everything in between (Glickman 2013; Bergsman 2006). This might raise questions why such differentiation in the capital structure is required and wished for. First, as explained by Bergsman (2006), much of the distinction is because capital providers try to stratify the total real estate capital structure into tranches and match these to different risk profiles associated with each tranche. As a result, the appropriate yield requirements are aligned with the correct tranche(s) of the capital structure. Glickman (2013) adds to this that capital structures are typically configured to maximise return on equity for the owner, generally referred to as the optimal capital structure (closely related to leverage).

Two more motivations for investors to use other capital structures than purely equity funded investments are introduced by Geltner et al. (2006): first, to take advantage of an investment opportunity with a positive NPV (Net Present Value) and second, to diversify their investments. Due to the lumpy character of direct real estate investments, the acquisition of whole assets, large amounts of equity capital may only be sufficient for the acquisition of one or a few assets (this reflects on the capital constraints introduced in the previous paragraph). This makes it difficult to diversify with equity capital only, debt offers a tool to break through this equity capital constraint. In other words, it can split equity capital across multiple investments and diversify the investor’s portfolio (Geltner et al. 2006).

Investments in real estate have the benefit of a steady stream of cash flow from (long-term) leases which can provide for the cash needed to pay long-term debt financing (Glickman 2013). Additionally, a typical real estate investor uses the debt to employ at least one level of leverage when financing the asset. According to Glickman (2013) usually real estate investors use a number of hybrid forms of capital structure that combine both debt and equity securities. Lastly, of essential knowledge in order to understand capital stacks is the notion that each level of capital (tranche) has its own terms and requirements (Glickman 2013).

9.3 Tranches and the Capital Stack

Capital is ordered by means of seniority on claims and cash flow, this diversification is ordered in the tranches of the property’s capital structure (Glickman 2013). Seniority of debt or equity reflects the right of the lender to receive operating cash flow and/or proceeds from a sale or liquidation. Glickman (2013) illustrates this through the first mortgage, being the first tranche in the capital stack and having the first right to receive cash flow or value from a sale or liquidation.

Debt layers in the capital stack have a first-priority right in cash flow generated by the asset. Their (limited) claim has to be paid in full prior to any distribution of cash to the equity tranches. Preferred stock is the most senior equity position in the capital stack, being granted a fixed dividend and first distribution of cash flow (Glickman 2013; Bergsman 2006). Regular equity has the most junior claim on any cash flow generated by the asset. In the event of a sale or liquidation it
is the debt layers of the capital stack that have seniority positions. All debt, accrued with any interest, has to be paid prior to any distribution of proceeds from the sale or liquidation to the equity holders. Logically, if insufficient proceeds are available to pay for all debt, the lenders are paid off in order of seniority (Glickman 2013). Similarly, if claims have a similar level of seniority the claims are paid pro rata.

Capital stacks are not solely structured by means of seniority of the tranches, time of repayment can differ for senior and junior claims, imposing the capital stack also to be of temporal nature (Glickman 2013). Following Glickman (2013), he explains that ‘unless it is in default, a senior claim does not have the right to demand the repayment of principal prior to its maturity’. A more junior claim that matures earlier can demand repayment upon its maturity and thus requires fulfilment before the more senior loan is due. Glickman also explains that equity holders might have rightfully received annual cash distributions from an asset that is ultimately unable to repay its senior debt. In this case, the equity holder(s) receive payments ahead of the senior debt issuer(s).

Together, this illustrates the twofold categorisation of seniority and temporal in capital structure that influences both the debt and equity tranches. Thus, it is not merely a case of matching seniority to appropriate yield requirements (as Bergsman stated that a higher yield is justified as seniority level decreases) but also to adjust for timespan of the capital tranches (Glickman 2013).

9.4 Filling the Capital Stack
In general, there is a true difference between debt and equity financing since the latter creates an ownership position as reward for the investment while debt financing does not (Bergsman 2006). It is rarely the case that commercial real estate investments use just one loan to finance the asset and thus is a large variety presented by the literature. Bergsman (2006), Geltner et al. (2006) and Glickman (2013) identify many different loan structures that can be found in the capital stack. Most important (and most prevailing) structures are elaborated upon below (table 9.1).

<table>
<thead>
<tr>
<th>Common Loan Structures</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Loan</td>
<td>Is a short-term line of credit to construct a project, land and</td>
</tr>
<tr>
<td></td>
<td>development are collateral. Usually an interest-only loan,</td>
</tr>
<tr>
<td></td>
<td>amortisation is applied when the project is sold. Money is</td>
</tr>
<tr>
<td></td>
<td>accrued as the contractor progresses.</td>
</tr>
<tr>
<td>Bridge Loan</td>
<td>Is a short-term provision of capital to bridge the capital gap</td>
</tr>
<tr>
<td></td>
<td>between an earlier loan (i.e. a construction loan) and a</td>
</tr>
<tr>
<td></td>
<td>permanent loan. It carries the investor until permanent</td>
</tr>
<tr>
<td></td>
<td>financing can be put in place.</td>
</tr>
<tr>
<td>Mezzanine/Convertible Loan</td>
<td>Is a loan that is not secured against the asset but against the</td>
</tr>
<tr>
<td></td>
<td>equity invested by the investor. Mezzanine lenders usually</td>
</tr>
<tr>
<td></td>
<td>negotiate the ability to (at the time when the loan matures)</td>
</tr>
<tr>
<td></td>
<td>convert their loan into equity capital for a predefined price</td>
</tr>
<tr>
<td></td>
<td>(and thus be able to, if successful, share in increased value).</td>
</tr>
<tr>
<td>Permanent/Mortgage Loan</td>
<td>Is a long-term loan with first right (seniority) collateral on</td>
</tr>
<tr>
<td></td>
<td>the by the investor acquired asset. Usually by far the largest</td>
</tr>
<tr>
<td></td>
<td>part of the capital stack.</td>
</tr>
</tbody>
</table>

*Table 9.1: Variations of Loan Structures that are Commonly Used in the Real Estate Industry (based on Geltner et al. 2006; Bergsman 2006 and Glickman 2013)*

Loan structures do not fill the entire capital stack, there is equity capital committed to the investment as well. Naturally, equity capital committed by the investor shapes the top of the capital stack and has a junior position against almost all other tranches. Yet there are other forms of equity capital committed that have seniority over the investor’s capital. Brueggeman & Fisher (2011) and Glickman (2013) present preferred equity as the most commonly used equity commitment, after common equity, to the capital stack. The tranche holding preferred equity represents an equity interest in the asset but with very debt-like characteristics (Brueggeman & Fisher 2011). Preferred equity investors have a claim on cash flow generated by the asset before the common equity investor does. This adds up over the (projected) period of the investment, suggesting that the predefined return on equity needs to be paid in full without any shortfalls in any year, before the common equity investor receives cash distributions (Brueggeman & Fisher 2011). Figure 9.2 gives a fictional example of a real estate finance structure over time.
Optimisation and Leverage

Dynamic tension between debt and equity in the capital stack is permanent due to the fact that lenders demand higher interest rates as the amount of debt relative to the income stream of the asset increases (Glickman 2013). This is reflected in the different tranches of debt, Glickman (2013) states that ‘the first dollar of senior debt is borrowed will typically command a lower return than the average return on the asset, [hence improving] the return to the equity holder. This type of borrowing is said to create positive leverage. The last dollar of debt added to the stack will command a higher return than will ultimately be available to the equity. This type of borrowing creates negative leverage.’ Knowing this, it is clear that optimising the capital stack can add value to the projected investment. The optimal capital structure is the level of debt capital that maximises the return on equity (Glickman 2013).

Optimisation of the capital structure is measured through the weighted average cost of capital (WACC), combining the costs of debt and equity employed to finance the asset (Glickman 2013; Geltner et al. 2006). Costs are weighted in proportion to the amount of debt and equity in the capital stack. Following formula represents the WACC and is widely used in the financial literature. Outcome of the formula is the expected costs of both equity and debt in the capital structure. If the asset (investment opportunity) is expected to be able to yield at or above the WACC it is a good prospect for the investment and the opportunity can be seized (Glickman 2013).\(^\text{22}\) Obviously, this on applies if the opportunity fits the by Geltner et al. (2006) defined concerns and constraints.

\[
\text{WACC} = (K_d \times D) + (K_e \times E)
\]

\(D = \) Percentage of Debt in the Capital Stack  
\(E = \) Percentage of Equity in the Capital Stack  
\(K_d = \) Cost of Debt (represents the interest rate paid for debt)  
\(K_e = \) Cost of Equity (represents the return expected by the equity holders)

Glickman (2013) and Geltner et al. (2006) explain that leverage is used to increase the yield on equity invested. If the return on the asset (ROA) is greater than the cost of debt (Kd) the return on equity increases. On the other hand, if the return on the asset (ROA) is less than the Kd and debt is added to the capital stack, this causes the return on equity to decrease. Leverage is calculated by dividing the amount of debt by the sum of debt and equity (Glickman 2013; Geltner et al. 2006). Return on the asset (ROA) is calculated by dividing the gross earnings by the total capital invested. This results in the following options given by Glickman (2013):

\[^{22}\text{Example:}\ \text{An investment opportunity of a €100 million asset arises and the potential investor is willing to invest a €60 million bank loan and €40 million of equity. The debt is a 7% interest only loan, while the equity holders expect a return of 14%. Using the WACC formula enables the potential investor to calculate the costs for debt and equity and thus the return the asset would have to earn in order to cover these costs. The opportunity’s WACC is calculated as follows: (7% \times 0.6) + (14\% \times 0.4) = 9.80\%. This means the asset has to yield €9.80 million, in other words 9.80% of its €100 million price. If the investor expects the asset to be able to do so, it might be an interesting opportunity (Glickman 2013).}\]
If ROA > Kd: leverage is positive and adding debt to the capital structure increases the return on equity.
If ROA < Kd: leverage is negative and adding debt to the capital structure decreases the return on equity.

In most cases, the author points out, increasing the leverage ratio on an asset will result in rising cost of debt (Kd) as the lender's risk increases as well. This is captured by Brueggeman & Fisher (2011) under the term incremental cost of debt. These additional costs are compared to the levered return. Higher incremental cost of debt will lower the eventual levered return on investment, suggesting that it is not wise to employ a higher leverage ratio. The other way around, lower incremental cost of debt will increase the levered return (Brueggeman & Fisher 2011). However, Geltner et al. (2006) justly explain that, under normal circumstances, if leverage increases the return on equity, it will also increase the risk in that equity. Leverage is not without risks.

9.6 Summary

Crowdfunding real estate is a financing tool that adds to the traditional real estate financing capital structures and thus in order to fully grasp its implications requires adequate knowledge on financing structures. This chapter introduces a large variety of financing structures, reasons for this variety include matching risk to the different tranches in financing structures, maximising return on equity and enable for investors to spread capital across multi projects in order to diversify (Bergsman 2006; Geltner et al. 2006; Glickman 2013). Seniority orders the capital stack’s tranches, each having its own risk level, requirements and constraints. Important feature besides seniority of the capital stack is the independent temporal nature of varying tranches of debt or equity. The temporal nature and seniority levels of tranches are reflected in the most commonly used debt and equity structures of the capital stack: senior debt (mortgage), mezzanine debt, preferred equity and common equity. Other tranches that significantly differ in timespan are bridge and construction loans.

Now that the concept of capital stack in real estate is clarified, Glickman (2013) and Geltner et al. (2006) describe how to measure and optimise the varying tranches into a solid capital stack. Leverage is able to increase or decrease the return on equity, measured through the weighted average cost of capital (both debt and equity) and incremental cost of debt. In general, leverage can have a positive return on equity if the cost of debt is lower than the return on the asset. Adding debt involves higher risks for the lender, reflected in a higher interest rate. This cost increase is called the incremental cost of debt and, in order to positively add to the situation, should not outweigh the leveraged return on equity.

Crowdfunding is taking a place somewhere in the capital stack, be it debt or equity, and influences the (potential) results of an investment opportunity. Adequately understanding the capital structure in which crowdfunding operates assists development of a theory answering the main research question.

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23 Example: an investor can obtain an 80 percent loan to acquire a €100,000 asset at an interest rate of 10 percent, this is projected to provide a 15.4 percent levered return. A second option is to use an 85 percent loan to finance the asset, however against a higher interest rate of 10.25 percent instead of 10 percent (due to the higher risk for the lender). The incremental cost is calculated as follows: interest rate on the 85 percent loan is .1025 x €85,000 = €8,712.50. Interest rate on the 80 percent loan is .10 x €80,000 = €8,000. An additional €712.50 has to be paid for the 5 percent additional loan (€5,000). Thus, the incremental cost of debt is €712.50 divided by €5,000 = 14.25 percent. Since this is lower than the 15.4 levered return in the 80 percent loan situation, the additional funds are able to generate a positive leverage on the incremental debt. Thus, the leveraged return should increase if the additional funds are borrowed (the 85 percent loan) (Brueggeman & Fisher 2011).
10 Theoretical Findings and Conclusions

Before presenting and discussing the empirical results this chapter will review and analyse the theoretic knowledge assembled for this research. It illustrates the most important outcomes in order to form a theoretic framework that assists in processing the empirical results. Main purpose of this recapitulation is answering the relevant sub-questions as stated in part II.

10.1 Institutional Environments

New Institutional Economics provides an excellent point of departure for comparing different nations (Ball 2006). The model of new institutional economics as developed by Williamson has been extensively adopted in this chapter, introducing institutions on four different levels: social embeddedness/informal institutions, institutional environment/formal institutions, governance structures and the neoclassical ideology (Williamson 1998a). Foremost, the literature findings assist in understanding the institutional characteristics of both the United States and Netherlands. Since this study involves an institutional comparison of two nations, the lowest level concerning neoclassical thinking or the agency theory is of less importance (as stated by Williamson in chapter eight). Therefore, less attention is generally paid to the agency theory but more to the behavioural assumptions encapsulating crowdfunding real estate.

Williamson, Adams, Watkins & White, Coase and North offer ample clarification on the concept of new institutional economics, primarily explaining the need for institutions on explaining economic behaviour (in short: a more comprehensive representation of economy instead of being based solely on rational behaviour). Followed by argumentation of Acemoglu & Robinson, Heurkens and de Vries both the Anglo-Saxon and Rhineland environments are described and compared. This theoretic background is required to answer the first sub-question regarding the institutional economics of both nations.

As a conclusion table 7.3 provides a clear overview of the relevant similarities and differences between the United States’ and Dutch institutional environment and economies. It is the institutional framework and background in which this study takes place. Empirical results and findings will provide for the different attributes left blank (primarily those on the lower three levels introduced by Williamson).

10.2 The Phenomenon of Crowdfunding Real Estate

By means of extensive literature review and an exploratory interview chapter 8 introduced and enlightened the concept of crowdfunding and how it relates to crowdfunding real estate. It starts with clearly defining crowdfunding. This study adopts the definition as developed by Belleflamme et al. (2013):

“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.”

Generally three actors are involved in the process of crowdfunding: the initiator, the platform (intermediary) and the crowd (investors). All roles contribute to funding a project by raising capital from the crowd. Within this process of collecting capital the body of academic literature distinguishes four types of crowdfunding: donation-based, reward-based, loan-based and equity-based. As the characteristics for each type of crowdfunding differ significantly, the complexity of the process tends to vary as well. This is very well illustrated in figure 8.1.

Crowdfunding real estate through loan- and equity-based typologies incorporates the most complex processes as explained by Hemer (2011). In the Dutch environment only loan-based platforms have been established for crowdfunding real estate yet.24 Equity-based crowdfunding solely exists in other fields and industries (primarily SMEs and entrepreneurs). In the American context almost all kinds of crowdfunding are employed in funding real estate projects.

Motivations by the crowd to participate in crowdfunding projects can be versatile. Research by (among others) De Buysere et al., Autar, Agrawal, Goldfarb & Catelini, Geber, Hui & Kuo and Mollick expose the large variety of

24 http://douwenkoren.nl/
motivations, often classified in financial, social and material motivations. Yet, one should keep in mind that motivation can differ strongly among people in different environments.

This summarises the process of crowdfunding and answers the sub-question on how the concept of crowdfunding originated. Crowdfunding (commercial) real estate is mostly completed through loan- and equity-based crowdfunding structures. This assumption is not entirely true as some civic structures (bridges and community centres) have been funded through a donation- or reward-based structure. Yet, for the purpose of this study these are eliminated from the theoretical framework.

10.3 Crowdfunding as a Financing Tool
There is a large variety of financing structures that have been introduced in chapter 9. This raises the question how these structures differ from crowdfunding. Figure 9.2 offers an example of the capital stack in a traditional real estate investment. Essential in understanding the capital stack is the level of seniority and timespan of a loan or debt. These key aspects determine much of the risk, returns (or interest levels in the case of debt) and liability. Bergsman, Geltner et al. and Glickman explain these aspects to be leading in forming the capital stack. Optimising the stack is employed through measuring the WACC and incremental cost of debt (Brueggeman & Fisher 2011; Glickman 2013).

Theoretically, crowdfunding is able to raise capital in both equity and debt structures (as explained in chapter 8). In this sense it would be possible to utilise crowdfunding to raise all forms of capital structures. However, theoretical evidence on the timespan of capital raised by the crowd can be committed to the capital stack is lacking. Maximum timespan of crowdfunding loans or equity placements before needing to be refinanced may differ and is unknown.

10.4 Conclusion
Concluding, the institutional framework offers grip on comparing both nations. Using the existing body of knowledge a sufficient foundation for ideologies in both nations has been defined. Being more precise, the social embeddedness of institutions in both nations has extensively been described and is included in the literature review. Institutional aspects of crowdfunding real estate markets and how these relate to the United States and Dutch ideologies are yet to be studied and defined.

Crowdfunding is not unambiguous. Many forms of crowdfunding exist. The literature review offers four categories with different complexity levels. Therefore, full awareness of the crowdfunding form that is being discussed is required since this can have a hefty impact on the results and conclusions. Being a financing tool, crowdfunding is subject to financing structures and decision-making processes regarding risk, return, seniority and timespan (and many other variables as explained by Geltner et al.) (2006). The empirical findings will present the relationship between crowdfunding real estate markets and the financial decision-making process.

Crowdfunding is clearly defined and described and will as such be adopted in this research. However, crowdfunding has many sometimes confusing alternative names and varieties (crowdfinance, civic crowdfunding, etc.). Do not be distracted by such terminology as this research adopts the most general explanation of crowdfunding as described in chapter eight.
Part IV: Empirical Findings
Part IV: Desk Research and Interviews

After introducing the theoretical framework of the institutional environments in both the United States and Netherlands it is essential to relate this to the results. This part introduces the collected empirical findings, distinguishing between desk research and interviews. First, results of the desk research are discussed. This includes the studying of laws, legislature, policy documents, governmental memos and such. This is followed by two chapters on the empirical findings collected through expert interviews. First we discuss the interview findings collected in the United States environment, after which the results of the Dutch interviews are presented. These interviews enlighten the impact of the institutional environment on funding real estate through the crowd.

11. Crowdfunding Real Estate in the United States and the Netherlands

This chapter analyses and compares the results found in governance, regulations, state initiative and other (semi-)state documents to the theoretical framework as presented in the previous chapter. Both the American and Dutch environment affect the phenomenon of crowdfunding differently, as will be reflected upon in this and following parts. The earlier explanation on the concept of crowdfunding will help to understand the implications institutions have on emerging markets like crowdfunding real estate. Each of the following paragraphs reflects upon a level of Williamson’s model (figure 7.1), starting with level 1 (social embeddedness), followed by levels 2 & 3 (respectively institutional environment and governance) and finalised by level 4 (on the neoclassical theory).

11.1 Anglo-Saxon vs Rhineland

The existing literature is quite evidently clarifying the differences between the Dutch and American social environment. Social embeddedness is reflected in the ideologies of both nations, respectively Rhineland and Anglo-Saxon. To illustrate that these ideologies have contrasting characteristics the following newspaper article sheds light on Rhineland vs Anglo-Saxon ideologies in a real estate company. Het Financieele Dagblad (financial newspaper, Dutch counterpart of the Financial Times) published an article on the situation in the United States [Anglo-Saxon], explaining that PGGM (a Dutch pension fund) openly criticised an American real estate trust in which it has a relatively large stake. PGGM demanded the entire board to resign (for being at the top of the firm for over 10 years) and assigning two separate professionals for the role of CEO and chairman of the board. Eventually, the real estate trust complied with PGGM’s terms and renewed the board and split the functions of CEO and chairman of the board. The newspaper also illustrates that American investors are not used to openly criticising firms, but prefer to take legal action when they are unsatisfied.

This is just one of the examples of Anglo-Saxon vs Rhineland ideology, reflecting level one of Williamson’s model on the economics of institutions. Yet it perfectly illustrates the situation in which both nations exist. Further paragraphs will go into depth on crowdfunding real estate markets, as these institutions might differ from regular real estate markets. To do so, the next paragraph will venture into the second level of the institutional model: institutional environment.

11.2 Discerning the Institutional Environment of the United States and the Netherlands

Aspects of the institutional environment are defined as presented in table 7.3. Market regulation, ownership, coordination principle, legislation and tax policy are among the environment’s aspects that guide markets. This paragraph will attend to these aspects and compare those in the United States to those in the Netherlands.

Regulations for Crowdfunding

Two aspects are vital in understanding the differing legal situations in the Netherlands and United States. Highly important is the Jumpstart Our Business Startups (JOBS) Act, signed by the President of the United States Barrack Obama in 2012 (Burgett & McDonald 2013) and 2015. Secondly, the Dutch regulative body, the Authority of Financial Markets (AFM), introduced guidelines and regulations for crowdfunding practices. These documents introduce the differences in crowdfunding relating to investors (the crowd), initiators (of projects) and platforms. The American policy maker has a different approach to regulating this new and rapidly growing market than the Dutch regulative body does.

Netherlands Authority for the Financial Markets

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25 Van der Marel, G. (2015) PGGM claimt overwinning in strijd tegen bestuurscultuur vastgoedfondsen in VS. Het Financieele Dagblad, 29 September, p. 21
The Dutch AFM acknowledges the growing presence of crowdfunding and reacts by publishing their approach to these operations and introducing regulations. In December 2014 the AFM published a paper on guidelines and short-, mid- and long-term regulations for the crowdfunding sector (AFM 2014). Based on the (potential) growth of the industry, the AFM developed various rules and guidelines to be implemented now or in the future. It clearly formulates that among the top-priorities of the AFM are: creation of a minimal level of transparency, a minimal security level for the investors, a minimal security level for the initiators and the establishment of an industry association to support collaboration and information-sharing among crowdfunding platforms. This is captured in short-, mid- and long-term recommendations for the regulations on crowdfunding, as can be seen in table 11.1.

### AFM Legislation

<table>
<thead>
<tr>
<th>Term</th>
<th>Implementation</th>
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<tbody>
<tr>
<td>Short-term</td>
<td>Processing legislative bottlenecks by new implementations:</td>
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<td></td>
<td>- Directive on Payment Services: If platforms process over €3 million on average a</td>
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<td></td>
<td>month as payments it requires an exemption by the Dutch National Bank (DNB)</td>
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<td></td>
<td>- Synchronizing AFM regulations with DNB regulations: to lower barriers for</td>
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<td></td>
<td>crowdfunding platforms</td>
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<tr>
<td>Mid-term</td>
<td>Protection of the investor is listed in regulations that apply to the investor, some parties find these obstruction. Following measures are taken to loosen these regulations:</td>
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<td></td>
<td>- Increase maximum amount of investments: this rule used to restrict investors from</td>
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<tr>
<td></td>
<td>investing in more than 100 investments, in the mid-term this will rule be removed since</td>
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<td></td>
<td>it obstructs the investors' ability to diversify its portfolio and spread its risk</td>
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<td></td>
<td>- Maximum of €40,000 per platform loan-based: new legislation will update this rule to</td>
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<td></td>
<td>the extent that investors can be screened (by the platform) whether they have sufficient</td>
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<td></td>
<td>capital to invest with</td>
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<tr>
<td></td>
<td>- Maximum of €20,000 per platform equity-based: new legislation will update this rule to</td>
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<tr>
<td></td>
<td>the extent that investors can be screened (by the platform) whether they have sufficient</td>
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<tr>
<td></td>
<td>capital to invest with</td>
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<tr>
<td>Long-term</td>
<td>Differentiation in the legal system for both loan-based and equity-based crowdfunding platforms</td>
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<tr>
<td></td>
<td>Both investors and initiators should receive adequate protection</td>
</tr>
<tr>
<td></td>
<td>It is desirable that the term ‘initiator’ gains further differentiation in order to</td>
</tr>
<tr>
<td></td>
<td>more adequately implement regulations regarding the various projects</td>
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</tbody>
</table>

Table 11.1: Summarising the AFM legislation (own illustration based on AFM 2014)

### The United States’ Securities and Exchange Commission

The new Jumpstart Our Business Startups Act adopted by the Securities and Exchange Commission (SEC) in March 2015 facilitates smaller companies to more easily gain access to capital. By implementing the so called Regulation A+, start-up businesses acquire an effective new path to raising capital. Companies pursuing this method of raising capital are now ironically referred to as if they conduct a ‘mini-IPO’27. They are now able to sell up to $20 million of securities without having to file extensive financial documentation, so called Tier 1 offerings. Tier 2 offerings enable a business to raise up to $50 million but require audited financial statements, annual and semi-annual event reports and have a limitation to the amount of securities being sold to non-accredited investors. These reports are often relatively expensive to acquire. By passing this Act the SEC offers businesses more space for financial manoeuvres.

For investors, the Act means that from 2016 the SEC will democratise the crowdfunding industry. Non-accredited investors will then be able to invest in crowdfunding as well as accredited ones. In this case, the non-accredited investors are protected (or limited) by certain legal barriers. Accredited investors are clearly favoured by the United States government since they are not limited by these legal barriers.

Altogether, funding by the crowd is made more accessible, both from the initiator’s and investor’s viewpoint. This Act perfectly suits the Anglo-Saxon principles of a reactive state that shapes the legal environment in which business operates. It clearly illustrates that the government is not actively involved in business partnerships or other collaborations or guarantees. It broadens the legal boundaries in which businesses can operate by loosening legal barriers, this is possibly an influential strategy adopted by the United States Government.

### Comparing the Dutch and American legislature

With the 2015 JOBS Act and the new AFM’s approach to crowdfunding, both nations have clearly illustrated that they are moving towards a growing and more mature industry. Striking is the resemblance of both regulative policies,

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27 As introduced by the Entrepreneur and other magazines on http://www.entrepreneur.com/article/244278
especially the direction these policies are moving towards. Both the AFM and the SEC introduce a protective limit for non-accredited and non-screened investors on the amount of capital to invest with. In both cases this barrier is lifted as an investor complies with a certain set of prerequisites.

A difference can be observed when comparing regulations on initiators and projects. The American SEC clearly aims to smoothen access of companies and projects to raising capital (illustrated by increasing the maximum amount of securities being sold to $20 or $50 million). Dutch regulations burden the crowdfunding platform when exceeding certain levels of monetary transactions (currently this is limited to €3 million a month) with tighter DNB regulations. This specific limitation could be a difficult restriction for crowdfunding platforms in the real estate industry. Since real estate often involves large sums of capital being committed to projects, the limitation of processing €3 million a month could possibly hamper growth of the crowdfunding real estate industry.

Additionally, a clear statement is given by the AFM that as the crowdfunding industry in the Netherlands grows its regulations will increase similarly (AFM 2014). This means that large amounts and more specific regulations could be implemented, generally leading to more secure markets but potentially slower industry growth.

All things considered, the research suggests that Dutch and American regulations differ. This would imply that the Dutch regulations tend to reflect the Rhineland ideology, but a slightly altered by Anglo-Saxon influences. This is primarily reflected through the AFM’s statement that it would like to see an industry association to be established, yet without taking an (pro-)active role itself. On the other hand, the American SEC offers strong Anglo-Saxon freedom and relatively loose limitations to the industry. This very much represents the Anglo-Saxon ideology, contrary however this is less visible in securing the crowd. Offering security to the investors imposes regulations that limit the free market perspective that characterises Anglo-Saxon principles, hereby to some level introducing Rhinelan policy.

**Initiative by the State**

An example of initiative by the State is given by the UK Government. In December 2014 it revealed a package of measures to support alternative financing 28. Part of these measures is the removal of certain regulations and changing tax structures for peer-to-peer lending and crowdfunding platforms. Even more interesting is the Government partnership between platform JustInvet and the Department of Business, Innovation and Skills 29. Furthermore, the UK Government also designed an investment scheme for small, early-stage companies to raise equity finance called Small Enterprise Investment Scheme (SEIS) 30. Investors in these companies are offered tax reliefs when purchasing new shares in these companies. This online (equity) crowdfunding platform is completely state initiated and run. It was launched as an addition to the EIS (Enterprise Investment Scheme) that mirrors the SEIS except that it is focused on higher-risk small companies.

Clearly, the UK Government takes an (pro-)active role in supporting crowdfunding, very much like the Rhineland model. It offers tax reliefs, removes certain regulations, creates partnerships with commercial platforms (and as a results cooperates with the market actors) and initiates own platforms for small (high risk) companies.

**Community Initiative in the United States**

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28 Changing the tax structure for peer-to-peer lending and crowdfunding platforms enables a lender to offset any losses from bad (peer-to-peer) loans against other peer-to-peer income. For example, the lender receives a 10.5% gross interest rate but loses 2.1% on a bad loan and 1% in fees to the platform. This adds up to a 7.4% net return. The current tax system taxes the lender on the full 10.5% gross interest rate. In the new system it is possible for the lender to pay tax on the 7.4% net rate only. This saves the lender approximately 25% of the tax costs. Source: Financial Times’ report on the Autumn Statement 2014 retrieved from http://www.ft.com/intl/cms/s/0/500ec82e-7af9-11e4-b630-00144feabdc0.html#axzz3nykmGFA

29 The JustInvest platform runs a new platform (GrowthShowcase) to support start-ups and entrepreneurs. Structure of this platform is a partnership between JustInvet and the Department of Business, Innovation and Skills established in conjunction with: Innovate UK, GrowthAccelerator, British Business Bank and UK Business Angels Association. Source: https://www.justinvesting.com/ and http://www.altfi.com/

30 (Seed) Enterprise Investment Scheme (SEIS & EIS) are both initiated by the UK Government, hereby taking a very proactive role in supporting crowdfunding and small enterprises. Source: https://www.gov.uk/guidance/seed-enterprise-investment-scheme-background
Initiative by the United States government is lacking. Yet, some States do participate in and initiate crowdfunding operations. Example is the Michigan Municipal League that partnered with crowdfunding platform Patronicity and the Michigan Economic Development Corp. (MEDC) to initiate Public Spaces, Community Spaces. This is a platform that offers communal projects around the state supported by the State. As part of the programme the MEDC matches the amount raised by the crowd (up to $100,000).

Clearly, the Michigan State takes an active role in initiating crowdfunding, primarily for communal purposes. This is however very different from the United Kingdom government that is involved in the market – offering tax reliefs, loosened regulation – in order to support the market (high risk) SMEs have to enter.

Yet, many States initiate (equity-) crowdfunding by shaping the legal boundaries that are required to do so. Robert Rapp clearly illustrates that many States implement new laws that act apart from the Federal laws governed by the SEC and Federal Government. This ‘intrastate’ cooperation between several States allows for crowdfunding growing across State borders. Important notion however is that most States limit their initiative to new legislation other than Federal legislation. It is still very uncommon for States to initiate in crowdfunding as the United Kingdom Government does.

**Passive Dutch Government**

Strong initiative as presented by the United Kingdom Government is equally lacking in the Netherlands as in the United States. However, the Dutch Government is increasingly involved in crowdfunding, often referred to as civic crowdfunding. Exploratory research offers insight in these developments that are usually initiated by the Dutch municipalities.

Most adequate example is the development of the ‘Luchtsingel’ in Rotterdam, also extensively described in Autar’s work. The municipality of Rotterdam offered a large sum of money for projects that would upgrade the public spaces and beautify the city. All citizens of Rotterdam were allowed to vote for their preferred project, after which the municipality would finance (part of) the project. Luchtsingel became the championing project but required additional funds, eventually raised by the local community through crowdfunding (offering their name on the Luchtsingel, a kind of bridge, in return). This combination of municipal initiative, communal selection and crowdfunding is what can be described as civic crowdfunding in the versatile environment of urban development.

Aside from the municipality of Rotterdam, other municipalities such as Alkmaar, Assen, West-Friesland and others participate in crowdfunding as well, each in their own way. This however is merely executed in the field of communal, donation- or reward-based crowdfunding projects. Initiative, support or cooperation between the government or municipalities and the Dutch crowdfunding market as a whole is not present as is in the United Kingdom (the example of SEIS and EIS).

**Comparison**

All things considered, three different approaches can be observed. A very pro-active and initiating approach is held by the government of the United Kingdom. It acts on multiple levels and with varying tools, ranging from tax reliefs to cooperating with market actors and setting up a crowdfunding platform not only for small enterprises but also for larger enterprises seeking capital. The American and Dutch government are notably less pro-active; initiative by the Federal government in the United States is absolutely absent. Some States however facilitate legislature for an ‘intrastate’ expansion of crowdfunding markets and Michigan State actually indulges in the phenomenon of civic crowdfunding. The Dutch government is, especially on the municipal level, much more involved in crowdfunding, focusing on communal projects and incorporating civilians. It actually initiates on this level, however only for civic

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projects. Initiative for the crowdfunding market as a whole is however also lacking in the Netherlands. There is no cooperation with or support for crowdfunding platforms that focus on other aspects than civic works.

**Social Security Policy**

Before moving on it is essential to shortly shape the differences and similarities of pension systems in both the Netherlands and the United States. As this study compares both nations at a certain moment in time, being the time of writing, the situation of both pension systems is taken as a given fact (over time, these systems are of course subject to influences of social embeddedness and institutions).

**The Netherlands**

A brief description of the Dutch pension system is given by an OECD research report, distinguishing three pillars adding to the system. The first pillar encompasses the public PAYG (pay-as-you-go) pension system, providing a flat-rate pension benefit from the statutory age of retirement (65, but increasing to 67 in 2023). Contributions of the employees’ salary are used to fund this first pillar (which is only fully paid to those living in the Netherlands from the age of 15 to the age of retirement) (OECD 2014). Participation in an occupational pension plan is due to collective agreements that ensure a quasi-mandatory coverage of more than 90% of the employed population, this is the second pillar. Usually, second pillar pension schemes aim to add to the first pillar to approximately 70% of the career-average earnings (OECD 2014). Lastly, the third pillar of pension arrangements is the ability for all individuals to buy an individual private pension plan. This type of pension arrangements is especially useful for the self-employed as these individuals usually do not build up a large second pillar occupational pension scheme.

**The United States**

Other than in the Netherlands, the United States PAYG pension system is generally only available for ‘gainfully occupied’ persons (in other words, persons with a stable employment) and self-employed. The funding is contributed by both the employee and the employer (50% each) (OECD 2014). Before being eligible for social security benefits, a minimum amount of time should be spent on working. Additionally, employers are allowed to voluntarily establish a complementary occupation pension plan for their employees. If such a plan is present, participation is automatic and compulsory for the employees. This however is not an obligatory pension plan for employers and thus does not cover the entire working population (excluding self-employed and unemployed). Voluntary personal pension plans are available through a special form of Individual Retirement Arrangements (OECD 2014).

The OECD’s research shows that the Dutch pension system fully protects pensioners from poverty (2014). It specifically states that ‘in the Netherlands, social assistance benefits complement pensioners’ income up to the social minimum (EUR 1,000 per month in 2010 terms) if they have incomplete public pension entitlements and low amounts of occupational pension and wealth. As the social minimum corresponds to the official Dutch poverty line, pensioners cannot have an income below that threshold’ (OECD 2014). This is different in the United States, as OECD (2014) clearly states that ‘working-age individuals at retirement may have a present value of pension income below their current country-specific poverty threshold’.

**Summary**

Together, this illustrates the contrasting pension systems in both nations. Typically striking is the fact that the Dutch pension system offers retirement benefits to almost all inhabitants and the United States does not. Specific criteria have to be met before Americans are eligible for these retirements benefits. Additionally, the Dutch pension system is more extensive and generally more compulsory. As a result, Dutch inhabitants are perceived to generally be less motivated to arrange for their own retirement than Americans are. This can lead to Americans having to invest or save their money for after retirement way more often than the Dutch.

**11.3 Market Governance & Transaction Costs**

The theoretical framework includes information on governance structures and the discriminating alignment hypothesis. Important aspects are asset specificity, uncertainty and frequency of the transaction. This paragraph with describe the governance structures in both the United States and the Netherlands. Comparing these offers insight in the process of transactions within the crowdfunding real estate industry. However, before doing so it is useful to outline the asset specificity, uncertainty and frequency of real estate as an asset.

**Specificity of the Real Estate Asset Class**

Asset specificity is mainly measured through at what costs the asset can be sold in another transaction. Knowing this, it is fair to state that as most real estate assets require marketing (and many brokers), elaborate due diligence and a lot of time before transaction takes place, crowdfunding real estate can be regarded to as a relatively specific asset (Cheng,
Lin & Liu 2010). Of course, this has all to do with the difficult character of real estate to change its use, inability to change location and long investment timespan. Its illiquidity can (partly) be countered through REIT structures or comparable financial solutions however this cannot change the asset’s core characteristics such as its location.

As discussed, if the asset is of nonspecific nature the uncertainty of a transaction is of less importance, in other words a commodity transaction is less influenced by the uncertainty of the transaction (since there are many other sellers and buyers who are willing to transact commodities). Cheng et al. (2010) explain that since real estate can be regarded to as a relatively specific asset, high transaction costs incur and an investor would aim to extend its investment horizon to achieve the desired return on investment (compared to an equal nonspecific asset). However, extending the investment horizon increases uncertainty of future income and future asset value. Therefore, uncertainty cannot be neglected and will be discussed in the following paragraph.

**Transaction Uncertainty**

Uncertainty is more related to the transaction rather than the asset’s characteristics. Uncertainty arises when unpredictable changes in the environment or in the behaviour of contracting parties occur. Adams et al. (2008) explain that uncertainty refers to a lack of knowledge of all possible outcomes and the impossibility of specifying their likelihood. Additionally, Adams et al. (2008) consider uncertainty to have potentially significant transaction costs in new institutional economics. This emphasises the capacity of strong property rights to reduce risk and uncertainty by minimising negative institutional interruptions. However, rules, norms and conventions can play an equally important role in reducing uncertainty.

Since uncertainty involves a large number of parameters such as property rights, rules, norms, values, conventions and much more, it is difficult to quantitatively compare the real estate market-situation in the United States and the Netherlands. Best case for comparison would be comparing the nations’ credit ratings, used to compare economic stability in a nation. Most renown agencies for comparing nations on their economic stability are S&P, Fitch and Moody’s. The latter two equally rate the Netherlands and the United States with ‘triple-A’ ratings, resembling the highest category awards. Both rating agencies indicate both nations as stable and to be prime economies. Late November 2015 the Financial Times reports that S&P lifted its credit rating for the Netherlands to triple-A status. Compared to the United States, the Netherlands is now considered slightly more stable as the United States is awarded with an AA+ rating by S&P (one level below triple-A). Summarising, both nations are considered to be high quality and stable economies, indicating a strong and steady environment of political, governmental and legal institutions.

*Once in a year, twice in a week but never in a day*

Third and last driver of structuring governance is frequency of the transaction. Trading parties are not expected to exchange assets on a recurring basis since most assets are relatively specific and illiquid. Bypassing this specificity and illiquidity through REIT structures, or in the future perhaps through crowdfunding, results in asset types that are able to be traded frequently. However, becoming more of a commodity trade there is less justification for safeguarding frequency of a transaction by means of a long-term contract. Together, this means that real estate is not frequently traded due to its asset specificity and thus barely requires long-term contracts to bypass negotiation costs.

**Governance Structure**

Above observations illustrate that real estate is a specific asset with a relatively low uncertain environment as both the United States as well as the Netherlands are regarded as part of the world’s most stable economies. This illustrates little differences between the Dutch and American real estate market. Lending and investment markets however differ significantly as the United States context shows signals of overheating property values. Aligning governance with the relevant market characteristics of asset specificity, uncertainty and frequency is executed differently in both nations, however for the sake of this study both nations will be regarded to as having comparable assets and environments – as the goal of this paragraph is to enlighten the asset class, the environment it is traded in and how these differ in both nations. In other words, there is no aim to clarify how parties align their governance structure with their transactions.

**Transaction Costs and Offering Documents**

34 http://www.tradingeconomics.com/country-list/rating
Information asymmetry influences the transaction costs of traded securities. Reducing information asymmetry among publicly traded securities eventually returns lower transaction costs and less fraud. First, the situation as applicable in the United States is elaborated upon. Abola and Spitz (2011) explain that antifraud ruling has been designed to ‘ensure that all parties buying or selling securities have access to the information that is necessary to make an informed investment decision’. This is one of the foundations captured in the 1933 Securities Act as the following objective: ‘to require that investors receive financial and other significant information concerning the securities being offered for public sale’. Distinguishing between public and private sale is especially important in the American context as only public offerings are subject to this ruling. Unregistered offerings (private offerings meeting certain restrictions) can be identified by clear notifications of not being registered with the SEC and having restrictions on transferring the securities. In the specific case of crowdfunding this means that platforms have to register with the SEC and become a member of the registered national securities association: FINRA (Financial Industry Regulatory Authority). Information that requires to be disclosed by initiators to the platform and the crowd includes: (1) the price of the securities to the public, (2) a discussion of the company’s financial conditions, (3) (audited) financial statements accompanied by tax returns, (4) description of the company and the use of the proceeds from the offering, (5) information on the directors and officers and, if any, owners of at least 20% of the company, (6) certain related-parties transactions and (7) an annual report. In addition to the above, crowdfunding platforms may also have some limited obligation to provide for information on the offering (if available).

In the Netherlands, issuers of securities are obliged to provide a publically available prospectus when offering (financial) securities on a crowdfunding platform. Two general exemptions apply, if the nominal value of the security is at least € 100,000 or if the total amount being issued is below € 2.5 million the obligation to provide for an approved prospectus. If offered securities comply with one of these rules the issuer has the obligation to clearly state that the securities are exempt from AFM supervision and there is no obligation to provide for an approved prospectus. Among others, crowdfunding platforms are imposed to advise the consumer on the size of the investment relative to the investor’s private equity, on diversification of invested capital and on investment opportunities through an assessment. Additionally, the crowdfunding platform has to ensure there is sufficient background information including (accountant audited) financial statements, credit and (if present) revenues and returns of previous years and lastly the business plan.

Both nations provide policy and ruling on preventing fraud and information asymmetry among the issuer, sellers and buyers of securities. Crowdfunding is in both nations subject to relatively broad levels of information provision by the issuer and the crowdfunding platform. Differences occur when comparing the obligation to provide a prospectus. The Netherlands practice a very specific level from which a prospectus is necessary while the United States provides flexibility in this obligation. If the issuer offers securities to accredited investors only (and a maximum of 35 non-accredited investors) it is able to bypass the obligation to provide any prospectus or likewise documentation (yet it would hardly classify as crowdfunding since the securities are not offered to the crowd but to a specific selection of individuals). In short, the minimal requirements of information are comparable in both nations. For larger sums of capital both nations employ differing ruling. As most real estate investments involve large amounts of capital, this would (if it exceeds € 2.5 million being raised) impose the requirement of a prospectus in the Netherlands. The United States ruling would not require such a prospectus, regular crowdfunding information as stated above is in that case sufficient. Keeping in mind the requirement for prospectus and regular crowdfunding ruling it is possible to state that information asymmetry is fenced off in both nations. However, the Dutch AFM has a slightly stricter ruling to protect consumers.

11.4 The Decision Making Process

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37 http://www.sec.gov/answers/regis33.htm

38 Distinguishing between public and privately offered securities is concerned with the method of issuing securities. In general, securities that are privately offered automatically become restricted securities. This means two things: (1) restricted securities can only be traded among accredited investors and (2) issuers of restricted securities can offer them only to accredited investors and a maximum of 35 non-accredited investors with sufficient financial knowledge and experience. However, this is a very simplified explanation of private and public offered (restricted) securities, in reality there is a large variety between the two extremes. Retrieved from http://www.sec.gov/oiea/investor-alerts-bulletins/ib_privateplacements.html


40 https://www.afm.nl/nl-nl/professionals/onderwerpen/crowdfunding-overig

41 https://www.afm.nl/~/profmedia/files/wet-regelgeving/beleidsuitingen/beleidsregels/beleidsregel-informatieverstrekking.ashx
When two situations’ profitability differs, a rational decision making process would (all other things considered equal) pick the most profitable option. Capital structures can differ in return on equity due to their differing leverage ratios. This is where crowdfunding real estate in the Netherlands differs from the United States. American platforms clearly advertise with their new capital structures in which crowdfunding mezzanine or junior loans are added to senior debt and equity.

**Senior and Mezzanine to Lower Cost of Capital**

Fundrise and AronDevelopers (and many others) clearly promote that cost of capital will be reduced when employing crowdfunding as a mezzanine-debt or junior-loan in addition to a senior loan. Generally speaking, this promotion and advertising has no scientific backing and does not clarify upon the increased risk when including crowdfunding debt or equity into the capital stack. However, science suggests that parties trying to raise cheaper capital inherently increases risk. Using this method of capital raising brings LTV levels up to pre-crisis levels of 85% or more. Employing additional debt (or preferred equity) into the capital stack suggests that the initiator is aiming to minimise cost of capital and increase return on equity. This suggests that profitability and positive risk-return ratios are dominant factors for initiators to engage in high leveraged crowdfunding loans. Attention is drawn from the crowd by promising relatively high interest rates on crowdfunded loans. Simultaneously, such loans incur an increased risk level for the crowd (when compared to the senior loan). Figure 11.1 illustrates this situation.

![Figure 11.1: Representation of the Capital Stack in Real Estate Crowdfunding Platforms (based on Fundrise and AronDevelopers)](image)

**Netherlands**

Dutch crowdfunding platforms have a slightly different approach. Current offerings (only one active project at the time of writing) include a capital stack that is predominantly build out of a senior loan funded by the crowd and equity committed by the initiator (in this case a developer). Important note is that in this particular case the crowd funds the purchase of the land, backed by a first lien mortgage. Construction on the premises was financed through a regular bank loan and equity deployed by the developer. In a later stage, having more offerings, little to no diversification among the loan structures can be found. All platforms employ debt structures in which a bank loan is combined with debt raised by the crowd.

### 11.5 Summary on Crowdfunding Real Estate in Two Differing Nations

As this research is rooted in the area of crowdfunding real estate, it is interesting to note the impact that the differences of both socio-political systems have and how these are reflected in the nations’ institutional environment in which crowdfunding takes place. This comparison starts with the relevant socio-political aspects as defined earlier this chapter (table 3.X). Following the aspects are the specific institutions (policies, acts, principles or norms) that relate to the institutional aspects of the United States & The Netherlands. Together this provides the main desk research results of comparing both nations, as presented in table 11.2.

These preliminary results outline the differences between the United States and the Netherlands and how they approach crowdfunding real estate markets. Differences and similarities occur in governmental involvement and support, the institutional environment and neoclassical economics. This influences the process, development and growth of such markets. The Netherlands enjoy an institutional environment that is largely based on the Rhinemodel ideology, other than the United States that is most engaged with the Anglo-Saxon ideology. For example the state interference in the market, the Dutch Government is currently barely involved in initiating crowdfunding real estate.

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43 http://bouwaandeel.nl/
Minor initiative is taken by municipalities but this is all related to civil projects. The United States have a similar situation in which only some States initiate crowdfunding real estate with a communal goal. An Anglo-Saxon point of action is the government’s approach to free markets and strong competition among the market players. The Dutch Government (AFM) states that as the crowdfunding sector matures, so should regulations, hereby perfectly aligning with the Rhineland model.

Altogether we can state that the desk research results indicate a, unsurprisingly, relatively very Anglo-Saxon environment in the United States. The crowdfunding real estate market encounters no direct initiatives by the government and is bound to (loosening) regulations that stimulate private initiative. Individuals live in a nation with pro-investment norms, a passive state and tendency to make individual investments for their pension.

The Dutch crowdfunding real estate market however encounters a different institutional environment. Its Rhineland based model largely influences the crowdfunding real estate business by a regulative body that plans to extend regulations as the market matures. It has an active and obligatory pension scheme in which pension funds invest the collective capital. Additionally, municipalities increase their interest in civic crowdfunding and projects with a communal goal. Nevertheless, markets are liberalised in a similar way as in the United States, indicating clear influences of the Anglo-Saxon model. By liberalised is meant that platforms are primarily privately owned, private initiatives and have to comply to regulations that protect the investor to a certain level (low entry barriers for anyone to access the market). This reflects the valid statement of Heurkens (2009; 2012) and Bakker et al. (2004) that Anglo-Saxon winds influence the Dutch institutional environment, as is reflected in the crowdfunding real estate market as well.
### Table 11.2: Preliminary Results of Comparing the Institutional Environment of the United States and the Netherlands

<table>
<thead>
<tr>
<th>Aspect for Comparison</th>
<th>United States</th>
<th>The Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Embeddedness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socio-Political / Ideology:</td>
<td>Anglo-Saxon Ideology</td>
<td>Rhineland Ideology with an Anglo-Saxon wind</td>
</tr>
<tr>
<td>Role of the State:</td>
<td>Passive &amp; Powerless</td>
<td>Active &amp; Powerful</td>
</tr>
<tr>
<td>Role of the Market:</td>
<td>Economic Driver</td>
<td>Employment &amp; Economic Driver</td>
</tr>
<tr>
<td>Role of Civic Society</td>
<td>Individual Power</td>
<td>Collective Power</td>
</tr>
<tr>
<td>Economy</td>
<td>Free Market</td>
<td>Regulated Market</td>
</tr>
<tr>
<td><strong>Institutional Environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Regulation</td>
<td>Approach is top-down; the government (SEC) shapes the legal environment</td>
<td>Approach is top-down; the government (AFM) shapes the legal environment</td>
</tr>
<tr>
<td>Ownership</td>
<td>All platforms are privately owned</td>
<td>Platforms are privately owned, (semi) government is not participating</td>
</tr>
<tr>
<td>Coordination Principle</td>
<td>Based on rules set by the government (SEC) State initiative is lacking, some States do indulge into crowdfunding if it has a community or shared goal</td>
<td>The AFM shares its ideas and guidelines towards the industry’s future development</td>
</tr>
<tr>
<td><strong>Legislation</strong></td>
<td>Protective limit for non-accredited investors, as a result accredited investors are legally less limited by the government</td>
<td>Protective limit for non-accredited investors, as a result accredited investors are legally less limited by the government</td>
</tr>
<tr>
<td>Tax Policy</td>
<td>Pension system is not compulsory and inhabitants have to meet certain criteria before retirement benefits are allowed for (private pension schemes are commonly used)</td>
<td>Pension system includes retirement benefits for all inhabitants and is generally compulsory (optional private schemes are available)</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>‘Play of the Game’</td>
<td>Environment in which governance structures are aligned to transactions can be regarded to as (similar to the Netherlands):</td>
<td>Environment in which governance structures are aligned to transactions can be regarded to as (similar to the United States):</td>
</tr>
<tr>
<td></td>
<td>• High asset specificity</td>
<td>• High asset specificity</td>
</tr>
<tr>
<td></td>
<td>• Low uncertainty</td>
<td>• Low uncertainty</td>
</tr>
<tr>
<td></td>
<td>• Low frequency</td>
<td>• Low frequency</td>
</tr>
<tr>
<td>Transaction Cost</td>
<td>High transaction costs</td>
<td>High transaction costs</td>
</tr>
<tr>
<td>Economics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discriminating Alignment Hypothesis</td>
<td>Clear motivation of initiators; higher leveraged properties in order to reduce cost of capital and increase return on equity</td>
<td>Platforms facilitate senior loans or almost entirely crowd funded projects (low leveraged)</td>
</tr>
<tr>
<td>Decision Making Process</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 11.2: Preliminary Results of Comparing the Institutional Environment of the United States and the Netherlands
12. Crowdfunding Real Estate Explorations in the United States

Studying the real estate crowdfunding industry and the impact of the United States’ institutional environment was conducted through various semi-structured interviews. This chapter illustrates the primary results distilled from the interviews with parties in the United States. Before presenting the results it will shortly elaborate upon the semi-structured interview, its questions and the categories.

12.1 Interviewees
Conducting qualitative research through interviews is sensitive for selecting the appropriate interviewees. In the United States over 50 crowdfunding platforms that focus on funding real estate projects were selected and approached. Appendix I offers an overview of the collection of crowdfunding platforms engaged with funding real estate in the United States, the United Kingdom and the Netherlands. It is essential that these platforms were (close to) operational at the time of interviewing and had significant experience in entering the market. To ensure correct and qualitative data, interviewees have been selected based on their role in the company. In general, interviews have only been conducted with directors or (co-)founders of the company.

Additionally, a professor at a reputable university in New York participated as his extensive knowledge on crowdfunding in the built environment adds significant value to this research and especially the point of departure. Results have been anonymised to assure no sensitive information will be shared with third parties.

12.2 Categories and Questions
Desk research, an explorative interview and the preliminary results highlight several elements that are of importance. These elements are used as backbone for the semi-structured interview and assist in guiding the interview. Together, this formed the categories and subjects as described in table 12.1. Remember that the interview is semi-structured, hence offering flexibility in follow-up questions and reactions or comments put forward. The interview, as a result, offers primarily qualitative data. Anonymised transcription summaries of all the interviews with United States parties are included in Appendix II.

<table>
<thead>
<tr>
<th>Category</th>
<th>Question</th>
</tr>
</thead>
</table>
| General  | What would you think is the most viable type of crowdfunding real estate?  
|          | • Crowdfunding mortgages  
|          | • Equity crowdfunding of investments  
|          | • Mezzanine- or bridge-debt for investments  
|          | • Short-term projects that require either bridge-debt or short-term equity |
| Legal    | Are legal vehicles used to accommodate crowdfunding of the project? I.e. using a consortium to facilitate investments in real estate (or development)?  
|          | • Is your business’ growth hampered by a situation in which only accredited investors are allowed to participate in crowdfunding real estate?  
|          | • How does the JOBS-Act influence your business? And do you expect the crowdfunding real estate market to increase due to this legislation? |
| Financial| In your opinion, is crowdfunding real estate a tool that can offer full funding of a real estate investment or development (hence decreasing the role of a bank loan)?  
|          | • Are you offering cheaper or more expensive loans/equity than banks do? |
| Market   | What is the most important aspect of crowdfunding for the crowd to participate in such investments? (e.g. philanthropy, profit, community feeling, tangible/real asset investment, etc.)  
|          | • Did your organisation encounter specific crowdfunding related bottlenecks when starting or operating your business? |

Table 12.1: Categories and questions for the semi-structured interviews

12.3 Completeness of the Data
Before moving on to the gathered data and data analysis attention needs to be paid to the completeness and reliability of the data. Saunders et al. (2009) explain that a coding scheme can assist in checking whether the gathered data complies with the required information and completeness hereof. Following scheme (table 12.2) sheds light on these aspects of the data. If an interview touches upon one of the following coding categories it is regarded to as influential to the interview results. Interesting to note is that most interviews touch upon all defined categories. This offers plenty of opportunity to analyse the data and produce useful results. Following paragraph will venture into analysing the gathered data and distilling results.
12.4 Results

The interviews were analysed by means of the institutional aspects introduced in the theoretical framework. Following paragraphs introduce the results and their relation to institutions and crowdfunding markets. Relevant aspects of the institutional environment have been described in the theoretical framework, consisting of socio-political, initiative, legal structure and tax, economy and markets, ownership and governance principles. Results of the interviews have been coded in the subcategories defined in the theoretical framework: role of the state and market, market regulation and coordination, legislation, transaction costs and rational decision making.

**Embeddedness of Crowdfunding**

The theoretical framework introduces a large variety of factors that influence the social embeddedness of a nation. Much of which has been extensively studied by a large amount of scientists, however it is interesting to note whether contemporary crowdfunding real estate experts share this perspective or not.

Part of the interview encompassed the question whether crowdfunding platforms receive State support or benefits, to which all participants responded that absolutely no State incentives are given to private crowdfunding platforms. Additionally, interviewee B added that some State benefits are given to projects with a communal goal or otherwise shared value. On its own, this is a valid result that offers insight into situation of State initiative in the United States. However, a notable addition is the response by interviewee A that ‘of course we did not [receive any] governmental support. You have to understand that our government is very limited in providing support for the private sector. They shape the environment in which we can trade and execute commerce.’ These answers clearly illustrate the situation in the United States, initiative and support by the government is barely present and especially absent for non-communal goals. More explicit, governmental support is not sought after by the private sector and all market players refer to the government as setting the playing field through clear regulations (table 12.3).

Trust is part of the social embeddedness of crowdfunding real estate in the United States’ society. Participants of this study consistently distinguish between for-profit individuals seeking a return on their investment and funders interested in charity and community projects. One respondent managed to explain that real estate crowdfunding does not yet have the trust of the general public to use it as donation channel. Primary donations for charity and community projects are usually made to charity associations and churches, since people trust these parties. Donation-based crowdfunding of real estate is therefore relatively uncommon in the United States. Respondent C adds to this that trust is a general bottleneck for all types of crowdfunding of real estate.

It is clear that all interviewees regard to crowdfunding real estate to be a viable market with a specific role. Interviewee A explains that crowdfunding is able to produce equity faster and probably cheaper than traditional banks are able to. In this concept crowdfunding platforms would collaborate with banks in order to gain their share (equity) while banks provide debt. Interviewees B and C state that crowdfunding real estate is definitely viable, however traditional banks will not be completely abandoned by real estate investors (as banks will provide debt). This similarity among all interviewees is striking and suggests that there is a consensus in the (niche-)market that is most suitable for crowdfunding. According to interviewee B this would be the lending market for non-prime real estate investments, since banks will probably shy away from these investments while crowdfunding lurks for these high return opportunities (table 12.3).

Altogether, the proposition that contemporary crowdfunding platforms that are engaged with real estate focus on a target group that is not yet fully trusting the platforms seems to be relevant. This suggests that crowdfunding real estate is not yet fully embedded in the United States’ society and institutions. However, experts indicate a clear role for the market and where (possibly in what niche) it can add value.

### Table 12.2: Indication of the completeness of the through American interviews gathered data

<table>
<thead>
<tr>
<th>Coding Category</th>
<th>Subcategory</th>
<th>Interviewee A</th>
<th>Interviewee B</th>
<th>Interviewee C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Embeddedness</td>
<td>State</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Market</td>
<td>Partly</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Institutional Environment</td>
<td>Market Regulation</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Coordination</td>
<td>Yes</td>
<td>Partly</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Legislation &amp; Tax</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Governance Structure</td>
<td>Transaction Costs</td>
<td>Partly</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Behavioural Assumptions</td>
<td>Decision Making Process</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

60
Institutional Environment

A large variety of aspects exists in forming the institutional environment in which a market functions. These aspects, defined in the theoretical framework, consist of regulations, ownership, coordination and legislation. Gaining more insight in the situation in the United States offers material for comparison with the Dutch situation. Overview of the summarised data can be found in table 12.4, illustrating the responses in accordance with their relevant coding category and subcategory.

First subcategory encompasses market regulation(s) and the economy. Interviewees A and C explicitly state that the Federal Reserve is powerful and artificially keeps the interest rate low. This is strengthened by interviewee B’s explanation that low interest rates instigate larger amounts of capital being available. Additionally, some concepts for investments that generate excessive returns on investment (‘get rich quick’) are prohibited by the government in order to protect the consumer. Clearly, the market is regulated by the Fed and government to a certain level.

Coordination of the market is mostly top-down as is clearly illustrated in the responses by all interviewees. In all cases, the interviewee accepts the fact that the (semi-)government solely shapes regulations. There is little indication that market parties can provide feedback or are enabled to scrutinise the established regulations. Summarising interviewee B’s response leads to the notion that crowdfunding real estate investments are not directly favoured by legal institutions in any way.

A large variety of results appear in the subcategory of legislation and tax. Generally, the JOBS Act is of importance as it influences all crowdfunding platforms. Interviewee A and C add the 1932 Securities Act to this list and count in the setup of the Delaware Statutory Trust (DST) structure. It can be observed that all interviewees regard to non-accredited investors differently. Interviewee A is clearly in favour of opening up the crowdfunding markets to all Americans since this adds value in general. It can be interpreted as an optimistic viewpoint that is primarily concerned with the free market perspective for all Americans. Contrary to this belief, interviewee B is afraid that allowing non-accredit investors to participate in crowdfunding will be problematic. An increase of capital flowing to a limited number of real estate investment opportunities could pressure return on investment ratios. Interesting is interviewee C’s opinion that it does not threaten its company in any way since the niche market in which it operates attracts accredited investors mostly. Yet this niche market also has its limitations, primarily in financial structures and capital expenditures.

From this data it is possible to distil results that reflect the institutional environment in the United States. The Federal Reserve, Securities and Exchange Commission and government regulate the market. Most important driver seems to be the Fed’s artificially kept low interest rate. Yet, eventually it is the government that shapes laws and legislature such as the JOBS Act that facilitate crowdfunding to be employed. Coordination of this market is clearly my means of rules set by the government. None of the interviewees responded in a way that insinuated having any input in formulating the rules and regulations as proposed by the government. One of the respondents (interviewee A) stated that ‘you have to understand that our government is very limited in providing support for the private sector. They shape the environment in which we can trade and execute commerce’. This is a clear sign of how institutions influence thinking and behaviour of market players and individuals, as this perfectly corresponds with the Anglo-Saxon ideology of the United States.

<table>
<thead>
<tr>
<th>CODING CATEGORY</th>
<th>SUBCATEGORY</th>
<th>INTERVIEWEE A</th>
<th>INTERVIEWEE B</th>
<th>INTERVIEWEE C</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Social) Embeddedness</td>
<td>State Initiative</td>
<td>We did, logically, not receive any governmental support as their task is to shape the environment in which we can trade and execute commerce.</td>
<td>Not directly, however indirectly there are some States that offer tax reliefs for communal or social goals.</td>
<td>We received absolutely no governmental support.</td>
</tr>
<tr>
<td></td>
<td>Market (role of the market and economy)</td>
<td>Whatever percentage of equity the bank requires (to finance a project or purchase), CF can produce it.</td>
<td>Crowdfunding will be a niche market for non-prime real estate as prime real estate will almost always be fully funded with traditional sources of capital.</td>
<td>A lot of attention is in the media to CF conquering traditional banks and the capitalistic woes of this country. In practice though, there will always be a need for banks.</td>
</tr>
</tbody>
</table>

Table 12.3: Summary of the gathered data referring to the (social) embeddedness of crowdfunding real estate
**Coding Category** | **Subcategory** | **Interviewee A** | **Interviewee B** | **Interviewee C**
--- | --- | --- | --- | ---
Institutional Environment | Market Regulation & Economy | 1) The Federal Reserve has kept the interest rates low in the United States. 2) The government prohibits the industry to develop ‘get rich quick’ schemes. | There is too much capital available for real estate in general due to the low interest rates and cash-flow generating character of real estate. | Banks are far cheaper, due to the interest rates not being increased by the Fed.

**Coordination** | 1) In many cases, an almost perfect instrument to meet all parties’ wishes is available in real estate investments. We offer all forms of capital tailor-made. 2) Active effort is required to be compliant with all securities laws in different States. | Crowdfunding real estate investments are not directly favored through legal institutions. | When the government allowed for offering securitizations online, we knew we had to start this business.

**Legislation & Tax** | 1) Federal law (especially the 1932 Securities Act and JOBS Act) differs from the limitations and restrictions from the State legislation. Some States have more narrow legislation, however the other way around is also possible. 2) When the general public gains access to the real estate surrounding it, people will engage as partly business owners rather than consumers only. There is just value all over letting non-accredited investors participate in real estate (if you have good quality deals that have been looked at and made by professionals we think that it is a shame that non-accred investors are not allowed to participate. | 1) Money laundering requires regulation. Banks have a careful due diligence process to counter money laundering while crowdfunding platforms do not always have this. 2) Allowing non-accredited investors to participate in crowdfunding as well will be problematic since there are a limited number of assets available for investments. An increase in capital flowing to these assets could push ROI rates down. | 1) For equity-crowdfunding it is the DST structure, for mezzanine-crowdfunding it is typically a LLC. But, in most cases it is tailor-made. 2) Debt structures have larger consumer protection. 3) In our niche we almost solely deal with accredited investors, however we did see some deals fell through since the sponsor was an unaccredited investor. 4) Our niche market has limitations; we cannot change an existing loan on a property and we cannot employ major capital investments.

Table 12.4: Summary of the gathered data referring to the institutional environment of crowdfunding real estate

**Governance Structure**

Within the governance category various answers have been found. Interviewee A provided perhaps the most evident proposition: ‘crowdfunding platforms are now knocking on the doors of banks saying: we can produce equity, probably more and faster than you can!’. Here, clear alignment between the transaction (offering equity to an investment opportunity while receiving ownership in return, in addition to a senior debt issued by a traditional bank) and governance structure takes place. Crowdfunding platforms seek relationships with banks and work in tandem to ensure long-term collaboration and future workflow. However, there is a tendency of spot market governance in here as well, the fact that crowdfunding states that it can commit equity probably faster and in larger sums instigates an incentive-based market that autonomously adapts to regulatory or environmental changes.

Less explicitly stated but certainly similar is interviewee B’s answer. It projects a gap between the shortage of capital of banks and the large demand for debt in the market. In this gap crowdfunding would specifically be able to provide for debt structures. This indicates for a market that is based on competitive pricing originating from the banks inability to provide sufficient debt. Interviewee C illustrates a similar situation of a niche-market in which crowdfunding real estate is profitable due to competitive pricing and additional capital supply. The respondent adds to the following that if the situation remains equal, prices can only go up since there is not enough funding available. All these factors indicate for a lending market with a large amount of transactions.

Based on these results it seems the governance structure would preferably be situated between a market and hybrid form. This form would comply with the many transactions, incentive and pricing based market and aim to collaborate with the ‘buying’ party (table 12.5). Simplifying this, short-term relationships are common and market-players tend to increase their market share with these relationships.
This level of institutional economics ventures into the decision making view. Together with attractive return the tendency that the motive became very apparent that other. These motives are strictly separated. In the case of real estate, all interviewees name the motive of profitability and philanthropy. However, differentiation of motives is mentioned among all interviewees. Notable feature is the twofold character of investors according to interviewees A and C. It became very apparent that the motive of profitability and philanthropy usually do not go together. These motives are strictly separated. In the case of real estate, all interviewees name the profitability group as leading. Interviewee C is the only interviewee able to list examples of philanthropic real estate such as community centres, schools and orphanages.

When solely observing the profitable character of crowdfunding real estate, it is according to interviewee A that pride adds to the charm of investing in real estate, specifically expressed through the ability to walk down the road and see the property that has been invested into. Most interviewees add to this that the tangible feeling of investing in your neighbourhood or city pushes the crowd to participate. Together with attractive return-on-investment rates this is found to be sufficient for a large part of the crowd to venture into crowdfunding. These attractive returns are generated by mezzanine debt or equity investments in real estate. These investments prompt increasingly high returns (as well as risk).

Together, this shapes the neo-classical economic environment in which crowdfunding takes place in the United States. This is represented in table 12.6.

<table>
<thead>
<tr>
<th>Coding Category</th>
<th>Subcategory</th>
<th>Interviewee A</th>
<th>Interviewee B</th>
<th>Interviewee C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance Structure</td>
<td>‘Play of the Game’</td>
<td>1) CF platforms are knocking on the doors of banks saying: we can produce equity! (probably more and faster)</td>
<td>Due to cash-flow issues or a shortage of equity the banks’ lower LTVs can lead to a larger demand for mezzanine- or bridge-debt, crowdfunding can very possibly fill this gap.</td>
<td>1) A niche market has been found in which equity-based crowdfunding is profitable.</td>
</tr>
<tr>
<td></td>
<td>‘Discriminating Alignment Hypothesis’</td>
<td>2) There is a strong working relation between crowdfunding and banks.</td>
<td></td>
<td>2) Investment demand is huge due to the large amounts of cash in the market. As a result prices can only go up since there is not enough funding available from the traditional banks to fulfil that need.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3) CF can work in tandem with banks.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 12.5: Summary of the gathered data referring to governance structures in crowdfunding real estate

The Decision Making Process
Based on neo-classical economics crowdfunding markets would only exist if they were cheaper than traditional ways of raising capital. This level of institutional economics ventures into the decision making process and behaviour of crowdfunding real estate markets. In the first place, all interviewees move towards the tendency that the largest part of crowd participates through financial rational decision making: a for-profit investment with the highest revenue possible. Return on investment is therefore the primary driver (interviewee B). This clear view on the market offers platforms the ability to precisely target the consumer.

Therefore, differentiation of motives is mentioned among all interviewees. Notable feature is the twofold character of investors according to interviewees A and C. It became very apparent that the motive of profitability and philanthropy usually do not go together. These motives are strictly separated. In the case of real estate, all interviewees name the profitability group as leading. Interviewee C is the only interviewee able to list examples of philanthropic real estate such as community centres, schools and orphanages.

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Together, this shapes the neo-classical economic environment in which crowdfunding takes place in the United States. This is represented in table 12.6.

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<tr>
<th>Coding Category</th>
<th>Subcategory</th>
<th>Interviewee A</th>
<th>Interviewee B</th>
<th>Interviewee C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behavioural Assumptions</td>
<td>The Decision Making Process</td>
<td>1) Real estate is a great investment to gain wealth and produce revenue &amp; the opportunity cost of equity is valuable since people do not want to keep their money parked in a bank account.</td>
<td>1) Return on Investment (ROI) is the primary driver for people to participate in crowdfunding.</td>
<td>1) Americans are also very philanthropic and want to do good.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) Conventional ways of raising debt are cheap and we think investors online aren’t interested in earning 6% on a debt structured CF real estate investment.</td>
<td>2) Crowdfunders are often searching for approximately 12% ROI, this aligns with the higher risk they are willing to take and the ROI rates offered by higher risk investments.</td>
<td>2) Some examples in real estate are there: community centers, ‘help me build my house’, schools and orphanages.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3) It is the sense of pride. Investors can walk down the road and see the buildings they invested in.</td>
<td></td>
<td>3) Important to remember is that giving is usually done through church or charity, CF has yet to win the crowd’s trust.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4) There are two groups of investors: a group looking for return on investment and a more subjective group driven by engagement and communal goals.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 12.6: Summary of the gathered data referring to the behavioural assumptions of the decision-making process in crowdfunding real estate
12.5 A Financial Point of View
This paragraph introduces additional results on the various types of crowdfunding real estate; mortgages, equity, mezzanine- and debt-structures or short-term debt/equity. General consensus was found in crowdfunded mezzanine- and bridge-debt being very appropriate financing structures for real estate due to their stacked character. This enables the party requiring funds to layer the financing of its project or investment into a senior loan, usually provided by a bank, mezzanine- or bridge-debt, in this case provided by the crowd, and its own equity. Essential in this process is the fact that real estate can serve as collateral, essentially offering a bank first lien mortgage and the crowd a second lien mortgage. Three reasons seem to form the basis for this thinking.

Crowdfunding bridge-debt seems to be able to offer a quick way of acquiring capital to fund a project or investment for a short period. Essential is the limited time that is linked to such a loan, this offers the capital seeking party proceed with the exchange, purchase or development of a property when initial funding was insufficient. Secondly, the funding gap that might exist between the party’s available capital and the loan provided by a bank can be closed through utilising crowdfunding. Yet, most significant reason is probably the fact that loan-based crowdfunding offers investors a more comfortable way of investing due to larger safety. The loans have collateral in the form of a second lien mortgage. Yet, due to the fact that mezzanine-debt is at the top of the stacking funding it does offer a relatively high return on investment.

Interviewee C: ‘There is a lot to say for the mezzanine-debt coming in to fill the gap and giving the investor a safer and more fixed return, leading to a more comfortable feeling for the investor. Additionally, mezzanine-debt is at the top of stacking funding, having greater risks but also receiving larger returns. Real Estate markets in the United States are intensely hot right now, almost over-boiling. This is because the demand of real estate investments is huge, due to the large amounts of cash in the market. As a result prices can only go up since there is not enough funding available from the traditional banks to fulfil that need. Crowdfunding using (mezzanine-)debt enables to (partly) fill that gap.’

The often returning notion on the variety of crowdfunding platforms is notable. Interviewee A is very much engaged with equity-based crowdfunding. In short, the response proclaimed equity-based crowdfunding is the sole future for crowdfunding real estate investments. The explanation given included that ‘currently, the Federal reserve has kept the interest rates so low in the United States that it is highly unlikely that crowdfunding will raise the debt of real estate investments, simply because conventional ways of raising debt is cheap and it wouldn’t be competitive since we think investors online aren’t interested in earning 6% on a debt structured crowdfunding real estate investment.’

Lastly, as mentioned before, trust is an important factor to achieve for crowdfunding platforms. Since these platforms offer financial products for all individuals it is essential to gain trust from society in order to succeed. Several respondents (especially C) explain that trust is now lacking and might hamper the growth of the crowdfunding real estate industry in the United States.

12.6 Summary
Table 12.7 summarises all the empirical results found in three interviews with American experts. Further interpretation and concluding of this data is presented in chapter 14.
<table>
<thead>
<tr>
<th>Coding Category</th>
<th>Subcategory</th>
<th>Interviewee A</th>
<th>Interviewee B</th>
<th>Interviewee C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td>Embeddedness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>State</td>
<td>We did, logically, not receive any governmental support as their task is to shape the environment in which we can trade and execute commerce.</td>
<td>Not directly, however indirectly there are some States that offer tax reliefs for communal or social goals.</td>
<td>We received absolutely no governmental support.</td>
</tr>
<tr>
<td></td>
<td>Initiative</td>
<td>Whatever percentage of equity the bank requires (to finance a project or purchase), CF can produce it.</td>
<td>Crowdfunding will be a niche market for non-prime real estate as prime real estate will almost always be fully funded with traditional sources of capital.</td>
<td>A lot of attention is in the media to CF conquering traditional banks and the capitalistic woes of this country. In practice though, there will always be a need for banks.</td>
</tr>
<tr>
<td>Institutional</td>
<td>Environment</td>
<td>The Federal Reserve has kept the interest rates low in the United States.</td>
<td>There is too much capital available for real estate in general due to the low interest rates and cash-flow generating character of real estate.</td>
<td>Banks are far cheaper, due to the interest rates not being increased by the Fed.</td>
</tr>
<tr>
<td></td>
<td>Regulation</td>
<td>1) The government prohibits the industry to develop ‘get rich quick’ schemes.</td>
<td>1) Coordination real estate investments are not directly favoured through legal institutions.</td>
<td>When the government allowed for offering securitisations online, we knew we had to start this business.</td>
</tr>
<tr>
<td></td>
<td>Economy</td>
<td>2) Active effort is required to be compliant with all securities laws in different States.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Legislation</td>
<td>1) Federal law (especially the 1932 Securities Act and JOBS Act) differs from the limitations and restrictions from the State legislation. Some States have more narrow legislation, however the other way around is also possible.</td>
<td>1) Money laundering requires regulation. There are cases of due diligence process to counter money laundering while crowdfunding platforms do not always have this.</td>
<td>1) For equity-crowdfunding it is the DST structure, for mezzanine-crowdfunding it is typically a LLC. But, in most cases it is tailor-made.</td>
</tr>
<tr>
<td></td>
<td>Tax</td>
<td>2) When the general public gains access to the real estate surrounding it, people will engage as partly business owners rather than consumers only. There is just value all over letting non-accredited investors participate in real estate (if you have good quality deals that have been looked at and made by professionals we think that it is a shame that non-accredited investors are not allowed to participate.</td>
<td>2) Allowing non-accredited investors to participate in crowdfunding as well will be problematic since there are a limited number of assets available for investments. An increase in capital flowing to these assets could push ROI rates down.</td>
<td>2) Debt structures have larger consumer-protection.</td>
</tr>
<tr>
<td>Governance</td>
<td>Structure</td>
<td>1) CF platforms are knocking on the doors of banks saying: we can produce equity! (probably more and faster)</td>
<td>Due to cash-flow issues or a shortage of equity the banks’ lower LTVs can lead to a larger demand for mezzanine- or bridge-debt, crowdfunding can very possibly fill this gap.</td>
<td>3) In our niche we almost solely deal with accredited investors, however we did see some deals fall through since the sponsor was an unaccredited investor.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) There is a strong working relationship between crowdfunding and banks.</td>
<td></td>
<td>4) Our niche market has limitations; we cannot change an existing loan on a property and we cannot employ major capital investments.</td>
</tr>
<tr>
<td>Behavioral</td>
<td>Assumptions</td>
<td>3) CF can work in tandem with banks.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Decision</td>
<td>1) Real estate is a great investment to gain wealth and produce revenue, but the opportunity cost of equity is valuable since people do not want to keep their money parked in a bank account.</td>
<td>1) Return on Investment (ROI) is the primary driver for people to participate in crowdfunding.</td>
<td>1) A niche market has been found in which equity-based crowdfunding is profitable.</td>
</tr>
<tr>
<td></td>
<td>Making</td>
<td>2) Conventional ways of raising debt are cheap and we think investors online aren’t interested in earning 6% on a debt structured CF real estate investment.</td>
<td>2) Crowdfunders are often searching for approximately 12% ROI, this aligns with the higher risk they are willing to take and the ROI rates offered by higher risk investments.</td>
<td>2) Investment demand is huge due to the large amounts of cash in the market. As a result prices can only go up since there is not enough funding available from the traditional banks to fulfil that need.</td>
</tr>
<tr>
<td></td>
<td>Process</td>
<td>3) It is the sense of pride. Investors can walk down the road and see the buildings they invested in.</td>
<td></td>
<td>3) Important to remember is that giving is usually done through church or charity, CF has yet to win the crowd’s trust.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4) There are two groups of investors: a group looking for return on investment and a more subjective group driven by engagement and communal goals.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 12.7: Overview of the Empirical Results from the Interviews with American parties
13. Crowdfunding Real Estate Explorations in the Netherlands

Results of interviewing several Dutch crowdfunding platforms are presented in this chapter. Studying the institutional environment in which the platforms operated was conducted through semi-structured interviews. After introducing the primary data gathered from the interviews with parties in the Netherlands, all data will be analysed and distilled into useful results.

13.1 Five Interviewees

Other than in the American situation there are barely six crowdfunding platforms in the Netherlands by the time of writing. Most of these are still in start-up phase and do not operate yet. The six platforms and their status (at time of writing) are presented in Appendix I. Since most platforms only employed a few individuals, it was relatively easy to interview a co-founder or someone of similar stature. Ensuring the required quality of the research was done through exclusively interviewing (co-)founders or directors. Additionally, one expert in alternative real estate finance was interviewed. This individual is renowned for excellent knowledge on alternative real estate finance and teaches at an educational institution.

13.2 Categories and Completeness

As previous chapter, several elements distilled from preliminary research were used to form the backbone of this semi-structured interview and assist in guiding the interview. Needless to say, similar questions as the Americans were asked were used to interview the Dutch crowdfunding platforms. Yet, since new data is being analysed it makes sense to assess the completeness of the data before moving on. Table 13.1 introduces the level of completeness of the gathered data.

<table>
<thead>
<tr>
<th>Coding Category</th>
<th>Subcategory</th>
<th>Interviewee D</th>
<th>Interviewee E</th>
<th>Interviewee F</th>
<th>Interviewee G</th>
<th>Interviewee H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Embeddedness</td>
<td>State</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Market</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Institutional Environment</td>
<td>Market</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Regulation</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Coordination</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>Legislation &amp; Tax</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Governance Structure</td>
<td>Transaction</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Behavioral Assumptions</td>
<td>Decision Making Process</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 13.1: Indication of the completeness of the through Dutch interviews gathered data

13.3 Findings

As has been done with the American results in the previous chapter, following paragraphs will introduce the relevant aspects of crowdfunding real estate markets. Similar coding is used to categorise the data and link it to its relevant subject.

Social Embeddedness of Crowdfunding in the Netherlands

Observing the gathered data suggests most interviewees indicate that no financial benefits are given to the crowdfunding real estate industry. Initiative however is not necessarily financial. Response by interviewee G suggests that the AFM is willing to take a pro-active position through participating in brainstorming and suggestions for dealing with the rapidly changing crowdfunding environment. Other than the AFM’s progressive stand, no nationwide support or initiative can be reported. On a smaller scale, one local municipality is mentioned for assisting entrepreneurs that venture into new areas of expertise such as crowdfunding. However, this is not specifically aimed to instigate or accelerate the crowdfunding real estate market.

Striking feature is that two interviewees refer to the United Kingdom as example for an active and initiating role of the government. This is an example of a progressive stand that supports crowdfunding platforms and projects through multiple channels, of which financial warranties is one. Interviewee F and H specifically mention the United Kingdom to feature the required state initiative for a flourishing crowdfunding market.
Resulting from the gathered data is the idea that banks heavily influence the role and performance of the market. Diversity is observed among the responses towards the role and performance of the market. Multiple references to the banking system being large, dominant and having entry barriers indicate that the banking sector is not specifically welcoming the alternative methods of financing real estate. Contrary to this, interviewee D explains that banks are no longer interested in financing real estate below €1 million. Altogether, it is possible to conclude that the banking industry seems positively tempered towards the development of a vivid crowdfunding real estate market. Yet, there is no clear conformity on the relations between bank and crowdfunding platform and how to shape these. One interviewee responds with a possible solution of equally sharing risk and participation in a senior loan and thus creating a similar risk level for the crowd and the bank. The lack of a secondary market in the Netherlands might offer possibilities for crowdfunding platforms and banks to cooperate. Banks or other large parties with sufficient capital would be able to provide liquidity for the (relatively short-term) crowdfunding market. This would possibly offer a more solid base for crowdfunding in the Netherlands and instigate further growth.

In terms of social embeddedness the results suggest that crowdfunding real estate is far from fully embedded in state initiative, state organs and the economy. Some clarity is certainly found in the role of the market, the contemporary real estate (finance) industry is clearly expected to cooperate with crowdfunding platforms. A strategy for doing so is however difficult to formulate and hardly touched upon (apart from one interviewee suggesting equal partitioning of risk between the bank and crowd).

<table>
<thead>
<tr>
<th>CODING CATEGORY</th>
<th>SUBCATEGORY</th>
<th>INTERVIEWEE D</th>
<th>INTERVIEWEE E</th>
<th>INTERVIEWEE F</th>
<th>INTERVIEWEE G</th>
<th>INTERVIEWEE H</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Social) Embeddedness</td>
<td>State Initiative</td>
<td>1) The local Municipality is promoting young start-ups to venture into new areas of expertise. 2) There is a positive attitude of the existing business towards crowdfunding.</td>
<td>-</td>
<td>Stimulation by the government is essential for a growing crowdfunding real estate industry. For example the UK, in which the government supports business by active involvement and financial warrants.</td>
<td>Small pro-active position by the AFM: they sometimes participate in brainstorming how to tackle the very changing environment in which the crowdfunding real estate industry now takes place.</td>
<td>1) The UK is a great example of how an active state can promote crowdfunding 2) We received absolutely no governmental support</td>
</tr>
<tr>
<td>-</td>
<td>Market (role of the market and economy)</td>
<td>Banks generally regard to crowdfunding as a positive development, adding to the possibilities of financing real estate. 1) We pursue a situation in which debt is split between the bank and crowdfunding at comparable risk (same risk for the funder as for the bank). 2) The American citizen is used to taking higher risks.</td>
<td>One of the largest bottlenecks is the banking system. This system consists of large entities only. They leave little space for new parties and create heavy entry barriers.</td>
<td>The Dutch population is very loyal to their mortgage lender, nearly no one has arrears on their interest and amortization.</td>
<td>1) Large problem for the CF market, especially in the Netherlands, is the lack of a secondary market to provide for liquidity. 2) The Dutch population is not as investment-minded as the United States.</td>
<td></td>
</tr>
</tbody>
</table>

Table 13.2: Summary of the gathered data referring to the (social) embeddedness of crowdfunding real estate

The Institutional Environment of Crowdfunding

Shaping the institutional environment of crowdfunding in the Netherlands requires careful exploration of all institutional layers as presented in the theoretical framework. Market regulation and the economy are clearly subject to AFM ruling. The results indicate that most parties consider it task for the AFM to check platforms whether they comply with the rules and regard to this task as crucial to the industry. So called ‘cowboy-behaviour’ of crowdfunding platforms (the interviewee refers to the Trustbuddy-case in Sweden) can lead to fraud, bankruptcy or reputation-loss for the industry. In terms of economy, interviewee F suggests it is difficult for platforms to operate in a highly fragmented market such as the Dutch market. This however also offers opportunities for platforms to access niche-markets. Most relevant data to the institutional environment has been summarised into Table 13.3.
Macro market regulation, in this case quantitative easing, implemented by the European Central Bank (ECB) leads to larger amounts of available capital and artificially low interest rates. One respondent explains that this hampers growth of the crowdfunding industry in the Netherlands. Accordingly, the risk premium offered for investments in crowdfunding (primarily mortgages) is too low. If interest rates (for mortgages) would increase, the risk premium given to the crowd will increase while saving accounts do not necessarily offer increasing interest rates. Hence, marginal differences between the crowd's saving accounts and crowdfunding loans in mortgages are generally too small to provide for a sufficient risk premium. Summarised, crowdfunding markets are governed and managed by governmental institutions that hamper the potential growth of the crowdfunding industry.

On micro level, crowdfunding is a highly regulated market subject to many rules set by the AFM for large part of the finance industry. Yet, this is mainly due to the fact that it is under finance law. The perception by another interviewee (H) is that the AFM pays little attention on the crowdfunding industry because of its small size. Due to this small interest by the AFM there is less tight regulation applicable when compared to other financial markets. Thus, when compared to other financial markets it is not as highly regulated. In absolute terms (and maybe in general for financial markets) many regulations are implemented by the AFM and lead to a highly regulated sector.

In terms of coordination, a top-down approach is not the sole coordination principle. The AFM also employs a more cooperative approach to platforms, including gathering information on the marginal rates used to operate, diversification methods, screening investments and measures to prevent fraud. These are more soft values that require the AFM's opinion rather than minimum or maximum hard values. In general, this is a relatively mixed approach towards crowdfunding, both top-down as well as cooperative.

Additionally, platforms make a considerable effort to protect consumers from fraud through professional due diligence and implementation of credit and risk management software (such as Graydon and Kredietpaspoort) for the parties they cooperate with. As a result, only well-monitored investment opportunities pass the due diligence and tests required to be offered online. Yet, this is not as developed as screening and monitoring practices in the United States according to respondent H. Crowdfunding platforms in the United States tend be use more professional screening, rating and monitoring systems that serve the needs of more professional and experienced investors.

Findings indicate that industry growth is not hampered by legislation, three reason can be defined that influence growth, being (1) the conservative population of the Netherlands, (2) trust for the crowdfunding industry and (3) the prevailing traditional investment methods. If this perception of investing alters, the willingness of the crowd to participate in crowdfunding is expected to increase. Yet, within the area of legislation and tax ruling a variety of applicable regulation can be observed. The AFM is less concerned with your operations if investment opportunities are aimed at large investors, institutional investors, professionals and wealthy individuals rather than at the entire crowd. Offering investment opportunities to the general public introduces a larger amount of limitations which are anticipated to create larger security for the consumer. Yet, offerings to the crowd do expose projects to a larger population and return more adequate information on whether there is demand for it.

Concluding, crowdfunding real estate seems to be situated in an institutional environment that is not (yet) fully adapted to crowdfunding markets. It is highly regulated through financial laws and regulations, yet there is no significant monitoring by the AFM yet (mainly because crowdfunding markets are still very small). However, crowdfunding parties do not always feel this is limiting their possibilities, rather they add to the security by including professional due diligence and credit checks. The interviewees experience the market regulation environment as necessary and negotiable. Collaboration and brainstorming with the government (AFM) is possible and assists in shaping the environment. This is an interesting combination of high regulation and cooperation between governmental bodies and market players. Among the interviewees, responses regarding the artificially low interest rates indicate an insufficient risk premium related to crowdfunding. This hampers the potential growth of the entire industry.
### Alignment of Crowdfunding Transactions to Governance Structures

Market players aim to align its governance structure to their transactions. Table 13.4 illustrates the interviewees' responses. Most general observation indicates that all interviewees are open-minded towards collaboration between crowdfunding platforms and other market players, be it banks, shadow banks or other stakeholders. Collaboration can be found in among others sharing capital, sharing risk, pre-financing and spin-off value between (shadow) banks and crowdfunding platforms. Notable statement is given by interviewee G, bringing forward that contemporary banks are unable to act quickly and swiftly. This obstructs the ability of agile crowdfunding platforms to collaborate with parties relying on slow and heavy business models due to the deviating speed of business. Similarly paced companies such as shadow banks or other nimble concepts probably offer more suitable partners for collaboration.

The added value of cooperation is reflected by spin-offs such as crowdfunding platforms linked to a financial institution that create loans in which not only the spin-off participates, but also the financial institution and the initiator of the project. In doing so, parties essentially bundle strengths, mitigate risks and diminish (financial) exposure. Eventually, equally sharing risk might even be one of the possibilities for platforms and other financial institutions to collaborate and broaden their relationship, as interviewee E is seeking after.

Another difficulty in the growth of crowdfunding markets is the lack of a secondary market to provide liquidity. In this secondary market opposition parties purchase offered loans that might require refinancing or restructuring and hence provide for liquidity on the marketplace. Institutional investors, banks or other stakeholders with sufficient capital available could possibly be viable partners to provide liquidity to crowdfunding markets. These results indicate that market players are actively searching for parties to cooperate with.

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### Table 13.4: Summary of the gathered data referring to the institutional environment of crowdfunding real estate

<table>
<thead>
<tr>
<th>Coding Category</th>
<th>Subcategory</th>
<th>Interviewee D</th>
<th>Interviewee E</th>
<th>Interviewee F</th>
<th>Interviewee G</th>
<th>Interviewee H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional Environment</td>
<td>Market Regulation &amp; Economy</td>
<td>1) Crowdfunding is new to the AFM, thus they are a bit hesitant. 2) The AFM has to check whether we comply to their rules without supporting us.</td>
<td>Banks in the Netherlands usually do not finance under €1 million, leading to a shortage of capital debt.</td>
<td>It is hard for platforms to operate in a highly fragmented market (such as the Dutch market) but it also offers opportunities to access niche-markets.</td>
<td>We think the AFM regulation is important since a lot of regulation has been lifted for CF platforms in the SMEs industry, now we see that this led to cowboy-scenes such as Trustbuddy in Sweden (fraud and bankruptcy).</td>
<td>Interest rates are too low in the Netherlands, the risk premium is therefore too small and leads to smaller margins and less profitable investments.</td>
</tr>
<tr>
<td></td>
<td>Coordination</td>
<td>The AFM wants to know the marginal rates we use to operate, how we diversify and monitor/screen investment opportunities, what measures we take to prevent fraud.</td>
<td>Dutch legislation will increase the maximum investment volumes for loan-based crowdfunding, favouring this type of crowdfunding above equity-based.</td>
<td>Due diligence by crowdfunding platforms is very professional and utilizes Graydon, ‘Kredietpaspoort’ and other guarantees to provide for well-monitored investment opportunities.</td>
<td>It is a highly regulated market with many rules on all levels of the finance industry.</td>
<td>The AFM is not prioritising this market since it is too small, leading to little attention from the state.</td>
</tr>
<tr>
<td></td>
<td>Legislation &amp; Tax</td>
<td>1) Obligation to work with the notary (to ensure capital is employed for its intentional use). 2) Traditional ways of investing are prevailing, this has to change rather than CF legislation.</td>
<td>-</td>
<td>-</td>
<td>If you offer CF for large investors, institutional investors, professionals or wealthy individuals the AFM regulates less than when you offer investments to the public, leading to more limitations.</td>
<td>Dutch legislation (allowing everyone to participate in CF) exposes a project to a larger crowd and a more adequate test for whether there is demand for the product.</td>
</tr>
</tbody>
</table>

---

### Table 13.3: Summary of the gathered data referring to the institutional environment of crowdfunding real estate
Above stated examples direct towards a hierarchical form of governance. Transaction partners tend to seek collaboration and commit to collective action. Engaging in long-term relationships but maintaining their autonomy – as explained by interviewee G not all parties are appropriate to work with and this requires autonomy to make such decisions – links the behaviour of transaction parties towards adopting hybrid governance structures. This reasoning becomes even more apparent when considering that long-term relationships are also sought after in the area of investors. Interviewee G explains that it specifically selected mortgages as type of debt in order to attract lenders that always pay their debt, even if it takes up to 30 years (not uncommon for a mortgage). Dutch citizens are among the world’s leading nations in terms of lowest payment arrears on (home) mortgages. Platforms are therefore strongly motivated to establish a long-term relationship with both its partners (such as banks or institutional funds) and initiators (party receiving the mortgage). Supplementary to this, cooperation with other stakeholders seems necessary for the crowdfunding industry to further grow, as these parties could provide for liquidity in the currently illiquid marketplace.

Based on the above it is fair to state that Dutch stakeholders in the crowdfunding real estate market align primarily hybrid forms of governance to their transactions. Yet, applied structures do have some tendency to look similar to aspects of hierarchy governance structures. Best example of this the situation in which platforms could cooperate with larger institutions with larger availability of capital. Most responses are based upon (potential) transactions or business plans and thus cannot be regarded to as solid. However, it does provide an in-depth reflection of market stakeholders’ perceptions on governance structures.

The Decision Making Process in Crowdfunding Markets

According to the results, a large diversity of aspects influences the decision making process of investors from the crowd. All respondents indicate the importance of profitability. It seems essential for investors to make a return on their investment when participating in crowdfunding real estate. Interviewee F explicitly states that ‘profit in this case is the primary driver’. Another essential cause is the requirement that returns on invested capital need to outweigh returns on the investor’s savings account. However, the decision-making process is not only affected by financial motives, all responses include additional motives.

Risk is mentioned to be important by most respondents. Being strongly linked to return on investment it was expected that risk would be added to this list. This is also reflected in various responses, mentioning collateral as crucial and of paramount importance. However, more interesting is the notion of investors being attracted to crowdfunding due to its short-term loans (of approximately 2 to 3 years maximum). This indicates that investors do not wish to freeze their investment for the coming decade or longer. The time horizon of an investment is therefore an important aspect in the decision-making process of the crowd. Lastly, communal and social goals are considered relatively important. This motivates possible investors to personally select their investments based upon adding communal value, characteristics of the neighbourhood and such.

The results do not illustrate a clear diversion between for-profit motives and charity or communal motives, actually they indicate the opposite – financial and social motives go hand-in-hand in the Netherlands. It seems that both
financial as well as social incentives act on the same playing field and influence the Dutch crowd. Ideas on the near future indicate that, eventually, this hand-in-hand attitude is expected to diversify into a twofold crowdfunding market: financially driven and socially driven. Yet, solid background information is not disclosed by the results of the interview on this topic. An overview of the most relevant responses is given in table 13.5.

<table>
<thead>
<tr>
<th>CODING CATEGORY</th>
<th>SUBCATEGORY</th>
<th>INTERVIEWEE D</th>
<th>INTERVIEWEE E</th>
<th>INTERVIEWEE F</th>
<th>INTERVIEWEE G</th>
<th>INTERVIEWEE H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Behavioural Assumptions</td>
<td>Decision Making Process</td>
<td>Social and communal goals are considered important, as well as return on equity. It however also motivates people to find their own properties to invest in, selecting them on the characteristics of communal value, risk, return on investment and such.</td>
<td>1) We think that investors still feel insecure about stocks, a mortgage is feeling more secure. 2) Costs of financing are crucial to decision-making to generate the highest possible return (investor) 3) For initiators the societal backing and marketing add value, it is not merely decided upon financial return.</td>
<td>1) Profit in this case is the clearest driver. 2) High return on investment ratios and the relatively short-term loans attract investors.</td>
<td>Trust is essential in persuading the crowd to fund real estate loans. Additionally the following three aspects: 1) Security due to collateral 2) Higher returns than savings account 3) Lower risk than investments</td>
<td>The crowd will probably move towards other, more profitable projects than mortgages as they are searching for return on investment. This is the primary driver, other drivers include engagement with the community or friends and family. A diversification between charity and for-profit crowdfunding will eventually take place.</td>
</tr>
</tbody>
</table>

Table 13.5: Summary of the gathered data referring to the Neo-classical Economics of crowdfunding real estate

13.4 Summarising Findings from the Netherlands

A summary of the findings is presented in table 13.6. It mentions the related responses of all interviewees. Further interpretation of this data is presented in the next chapter.
<table>
<thead>
<tr>
<th>Coding Category</th>
<th>Subcategory</th>
<th>Interviewee D</th>
<th>Interviewee E</th>
<th>Interviewee F</th>
<th>Interviewee G</th>
<th>Interviewee H</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Social) Embeddedness</td>
<td>State Initiative</td>
<td>1) The local Municipality is promoting young start-ups to venture into new areas of expertise. 2) There is a positive attitude of the existing business towards crowdfunding.</td>
<td>-</td>
<td>Stimulation by the government is essential for a growing crowdfunding real estate industry. i.e. the UK in which the government supports business by active involvement and financial warrants.</td>
<td>Small pro-active position by the AFM: they sometimes participate in brainstorming how to tackle the very changing environment in which the crowdfunding real estate industry now takes place.</td>
<td>1) The UK is a great example of how an active state can promote crowdfunding. 2) We received absolutely no governmental support</td>
</tr>
<tr>
<td></td>
<td>Market (role of the market and economy)</td>
<td>Banks generally regard to crowdfunding as a positive development, adding to the possibilities of financing real estate. 1) We pursue a situation in which debt is split between the bank and crowdfunding at comparable risk (equal risk for the funder and bank). 2) The American citizen is used to taking higher risks.</td>
<td>One of the largest bottlenecks is the banking system. This system consists of large entities only. They leave little space for new parties and create heavy entry barriers.</td>
<td>The Dutch population is very loyal to their mortgage lender, nearly no one has arrears on their interest and amortization.</td>
<td>1) Large problem for the CF market, especially in the Netherlands, is the lack of a secondary market to provide for liquidity. 2) The Dutch population is not as investment-minded as the United States.</td>
<td></td>
</tr>
<tr>
<td>Institutional Environment</td>
<td>Market Regulation &amp; Economy</td>
<td>Crowdfunding is new to the AFM, thus they are a bit hesitant. The AFM has to check whether we comply to their rules without supporting us.</td>
<td>Banks in the Netherlands usually do not finance under € 1 million, leading to a shortage of capital debt.</td>
<td>It is hard for platforms to operate in a highly fragmented market (such as the Dutch market) but it also offers opportunities to access niche-markets.</td>
<td>We think the AFM regulation is important since a lot of regulation has been lifted for CF platforms in the SMEs industry, we now see that this led to cowboy-scenes such as Trustbuddy in Sweden (fraud and bankruptcy).</td>
<td>Interest rates are too low in the Netherlands, the risk premium is therefore too small and leads to smaller margins and less profitable investments.</td>
</tr>
<tr>
<td></td>
<td>Coordination</td>
<td>The AFM wants to know the marginal rates we use to operate, how we diversify and monitor/screen investment opportunities, what measures we take to prevent fraud.</td>
<td>Dutch legislation will increase the maximum investment volumes for loan-based crowdfunding, favouring this type of crowdfunding above equity-based.</td>
<td>Due diligence by crowdfunding platforms is very professional and utilizes Graydon, 'Kredietpaspoort' and other guarantees to provide for well-monitored investment opportunities.</td>
<td>It is a highly regulated market with many rules on all levels of the finance industry.</td>
<td>The AFM is not prioritising this market since it is too small, leading to little attention from the state.</td>
</tr>
<tr>
<td></td>
<td>Legislation &amp; Tax</td>
<td>Obligation to work with the notary (to ensure capital is employed for its intentional use). Traditional ways of investing are prevailing, this has to change rather than CF legislation.</td>
<td>-</td>
<td>If you offer CF for large investors, institutional investors, professionals or wealthy individuals the AFM regulates less than when you offer investments to the public, leading to more limitations.</td>
<td>Dutch legislation (allowing everyone to participate in CF) exposes a project to a larger crowd and a more adequate test for whether there is demand for the product.</td>
<td></td>
</tr>
<tr>
<td>Governance Structure</td>
<td>'Play of the Game'</td>
<td>Capital coordination</td>
<td>1) Americans are more financially liquid. 2) We pursue a situation in which debt is split between the bank and crowdfunding at comparable risk (same risk for the funder as the bank).</td>
<td>1) Banks are risk-averse and utilize low LTVs 2) Most successful platforms are linked to a bank or other financial institution. These spin-offs create loans in which the bank participates, the spin-off and the initiator.</td>
<td>We see that banks do not finance under € 1 million, leading to a shortage of capital debt.</td>
<td>Due to the lack of a secondary market for crowdfunding, banks or other large stakeholders with sufficient capital could possibly be viable partners to provide liquidity to the crowdfunding market.</td>
</tr>
</tbody>
</table>
**Overview of the Empirical Results from the Netherlands (Continued)**

<table>
<thead>
<tr>
<th>CODING CATEGORY</th>
<th>SUBCATEGORY</th>
<th>INTERVIEWEE D</th>
<th>INTERVIEWEE E</th>
<th>INTERVIEWEE F</th>
<th>INTERVIEWEE G</th>
<th>INTERVIEWEE H</th>
</tr>
</thead>
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</tr>
</tbody>
</table>

*Table 13.6: Overview of the Empirical Results from the Netherlands*
Part V: Synthesis
Part V: Synthesising the Results

As the results from desk research and the interviews from both nations have been outlined in the previous chapters, this part will continue with comparing findings from both nations. Processed from this comparison are lessons and interpretations for crowdfunding markets in the United States and Netherlands, followed by the conclusions derived from the results, interpretations and lessons. Continued from this is the answering of the main research question. Lastly, the discussion sheds light upon the limitations of this study, improvements and recommendations for further research.

14. Interpreting the Empirical Results on Crowdfunding Real Estate

Interpretation of the empirical results and comparing findings is at the heart of this chapter. Continuing on the results as observed and described in the previous part it will venture into comparing and interpreting empirical data from both nations. The most striking similarities and differences are presented after which it describes the lessons that can be distilled from this analysis. Assisted by the theoretical framework and tables 11.2, 12.7 and 13.6, it is possible to discover and identify the most important similarities and differences between both nations.

14.1 Desk Research from the United States versus the Interpretations of American Interviews

Comparing findings on the embeddedness of crowdfunding recovered from desk research and interviews offers striking resemblances. Interview results confirm the extensively studied and generally accepted notion that the United States government adopts Anglo-Saxon ideologies and acts passive and powerless. None of the interviewed parties enjoyed governmental support and no initiative by the government is referred to (except for a single exception of State initiative for communal and social goals). This perfectly matches the theoretical background as defined in the theoretical framework. Additionally, one observation of significance is the American participants replying almost astonished after questioning whether they received governmental support or benefits. This illustrates that the passive and powerless position of the state is heavily anchored in the United States’ social embeddedness spheres. Lastly, free market perspective as presented in the literature is reflected in the interview findings. All parties explain that their role concerns of boosting a new or niche market that adds to the existing and traditional finance markets (of banks).

Studying the institutional environment of crowdfunding real estate employs three categories; regulations, coordination and legislation & tax. Clearly, the interviewees criticise the Fed’s monetary policy on artificially restraining interest rates to rise. This adds to the more general proposition found in the desk research findings that the government (mainly the SEC) practices a top-down regulation system for the entire financial industry. These results are complementary and strengthen the significance of such a regulatory system and its implications. This is also the case for market coordination. The general perception of ruling set by the government (SEC) as boundaries of the marketplace is shared by the interview results. Marginal note to this perception is that the government did (for several years) not allow the entire crowd to participate in crowdfunding, in order to protect the general public. This concurs with the Anglo-Saxon principles of individual power and free (unprotected) markets.

The legislation & tax category however requires to be more extensively scrutinised. The literature refers to the American legal and tax context to be based on rules rather than shared values. Some interview results reflect this proposition, i.e. one of the participants would not exist if there was not a strict legal context in which it has to operate. Others however have a more open-minded approach towards the legal context and combine rules with shared values, i.e. the added value of non-accredited investors having access to currently inaccessible markets. Best example for this is probably the fact that many States initiate interstate legislation to lower the threshold for non-accredited investors to access crowdfunding markets.

American market players show a relatively specific goal: increasing individual profitability. Cooperation is therefore only stimulated when both parties gain value through an increase in trade frequency or market share. This amplifies the observation that American market-players do not primarily engage into long-term relationship. This is best illustrated by the market claiming to be able to offer larger amounts of capital more quickly than contemporary finance parties.

The preliminary results found through desk research implicate for a crowd in the United States that is driven by profitability and return on investment. This financially driven decision-making process is clarified more in-depth by the interview results. Clearly, there is a diversification between for-profit investors that are predominantly driven by gains
and investors that seek social and communal goals. Crowdfunding real estate is, currently, mostly employed by for-profit investors since most philanthropic donations are still channelled through church or charity organisations.

14.2 Interpreting desk research and interviews in the Dutch context
The Dutch institutional context is, by experts, often referred to as adopting a Rhineland model ideology. It enacts an active and powerful state that is engaged with collective power and a regulated market. Desk research and the interviews do indicate that the Dutch government treats crowdfunding markets in a (relatively) collective, regulated way. There is, according to the findings, plenty of regulation that is expected to increase as the market grows.

However, collective efforts by state and market are lacking as well as evident state initiative. It should be noted that some of the findings indicate a need for state initiative (i.e. as in the United Kingdom) for the crowdfunding real estate sector to grow. This could assist the industry in operating in a fragmented real estate market as in the Netherlands. Currently, the only governmental bodies slightly initiating crowdfunding are a few municipalities. Also, within the real estate industry there is an undiversified scene of banks issuing loans (only three large parties), instigating onerous thresholds for new entries. Yet, new entries increasingly aim to reach this market and challenge established powers. One specific role for the market to further mature is improving its institutions with a secondary market, liquidity and collaboration (possibly through collaboration with the established powers).

Interest rates are currently kept artificially low by the European Central Bank (ECB), the findings criticise this policy as risk premiums are required to motivate the crowd into investing part of their savings account’s capital. Additionally, the top-down approach by the AFM as found in the desk research strokes with some interview results. Other than anticipated, the AFM does occasionally enter into discussion with market players. Yet the findings indicate that they are somewhat hesitant towards crowdfunding and do not necessarily prioritise this particular small market.

The policy employed by the AFM does correspond to the shared value market principle, illustrated by the fact that the entire crowd is allowed to participate in crowdfunding (for up to a predefined amount, in order to protect the crowd). Also, their guidelines for crowdfunding platforms to incorporate sufficient screening and monitoring systems are aimed at protecting the consumer from fraud and such. It is not surprising that crowdfunding is subject to a large amount of regulations as it is part of the highly regulated finance industry.

Within the ‘play of the game’ there are plenty of interview findings that represent the market’s willingness to cooperate and share risk with established parties in the finance industry. This is driven by an urge to mitigate risk and contribute to a collectively powered industry. The market’s ingenuity is manifested in the empirical results by the diverse proposals for cooperation with (shadow-)banks and other financial institutions.

Preliminary results presented after the desk research indicate an unclear motivation for the crowd to participate in crowdfunding real estate. The current projects, which are among the first crowdfunding real estate projects in the Netherlands, are low levered and received (part of) their senior loan from the crowd. Since all crowdfunding real estate platforms in the Netherlands use loan-based models with low leverage ratios, it seems possible that the Dutch are generally not used to taking large risk and usually opt for risk-averse investment opportunities. More clarification is given in the interview results, remarkable corresponding answers were given by all interviewees. According to the market the main purpose of participating in crowdfunding real estate is a return on investment. This could be seen as a prerequisite for the crowd to participate. Of comparable or slightly less importance are the more social and communal goals, usually crucial for the crowd to be convinced and invest in the project.

14.3 So alike and yet so different
Embeddedness of crowdfunding real estate in a nation’s context is shaped by a large amount of precarious aspects that are difficult to measure. The provided framework offers support in comparing the embeddedness, institutional environment, governance structures and neoclassical economics of crowdfunding real estate in the Netherlands to the United States. Both unexpected similarities and striking differences occur when doing so. Table 14.1 provides an overview of the findings of this comparison.
### Interpretation of and Lessons Learned from the Gathered Data on Crowdfunding Real Estate Markets

#### Embeddedness

<table>
<thead>
<tr>
<th>Aspect for Comparison</th>
<th>United States</th>
<th>The Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Socio-Political / Ideology:</td>
<td>Anglo-Saxon ideology</td>
<td>Rhineland ideology with an Anglo-Saxon wind</td>
</tr>
<tr>
<td></td>
<td>Individual Power</td>
<td>Collective Power</td>
</tr>
<tr>
<td></td>
<td>Passive &amp; Powerless</td>
<td>Inactive &amp; Powerful</td>
</tr>
<tr>
<td></td>
<td>Initiative is rare, some initiative at the lower-State and municipal level</td>
<td>Municipalities are the only governmental bodies that initiate in crowdfunding</td>
</tr>
<tr>
<td></td>
<td>Social/communal goals only</td>
<td>Social and communal goals only</td>
</tr>
<tr>
<td></td>
<td>Market accepts role of the government</td>
<td>Market calls for a more progressive state</td>
</tr>
<tr>
<td><strong>State Initiative</strong></td>
<td>Private market players</td>
<td>Regulated Market</td>
</tr>
<tr>
<td></td>
<td>Free Market</td>
<td>Private or semi-private market players</td>
</tr>
<tr>
<td></td>
<td>Competitive and ‘may the best win’ (cooperation is only ‘permitted’ if it serves the financial goals of the company)</td>
<td>Collective approach towards this new industry (platforms may cooperate with established forces such as banks or other organisations)</td>
</tr>
<tr>
<td><strong>(Role of the) Market &amp; Economy</strong></td>
<td></td>
<td>Undiversified real estate banking scene; (ABN AMRO, ING and Rabobank)</td>
</tr>
</tbody>
</table>

#### Institutional Environment

| **Market Regulation** | Approach is top-down; the government (SEC) shapes the legal environment | Approach is top-down; the government (AFM) shapes the (small) legal environment |
| | The market accepts this approach and is satisfied when the legal boundaries are clear | The market indicates a demand for a more bottom-up regulative policy in which policy is based upon shared values rather than rules |
| **Coordination Principle** | Based on rules set by the SEC | The AFM shares its ideas and guidelines towards the industry's future development |
| | | Sector growth: larger sector → more appropriate regulations |
| **Legislation & Pension Structure** | Protective limit for non-accredited investors, as a result accredited investors are legally less limited by the government | Protective limit for non-accredited investors, as a result accredited investors are legally less limited by the government |
| | Pension system is not compulsory, this urges Americans to invest for their retirement. | Best pension system in the world, inhabitants are less motivated to invest for the future |
| | Less taxes and thus more capital to invest | More taxes lead to less capital to invest |

#### Governance

| **‘Play of the Game’** | Goal is to increase individual profitability | Goal is to mitigate risk and contribute to a more stable crowdfunding real estate market |
| | Cooperation between parties mainly to increase frequency or to gain market share | Motive for cooperation between parties is to mitigate risk and/or gain societal momentum |
| | No focus on long-term relationships with other parties | |

#### Behavioural Assumptions

| **Decision Making Process** | Financial Decision Making | ‘Welfare Decision Making’ |
| | Clear motivation of initiators; higher leveraged properties in order to reduce cost of capital (reduce WACC) and increase return on equity | Motivation of initiators; lack of funding available, crowd can fill this gap (platforms facilitate low leveraged finance structures |
| | Clear motivation of investors; highest possible returns on investment | Motivation of investors; a combination of for-profit aims and social or communal goals |
| | Strictly divided group of for-profit investors and charity projects | Lower risk premiums are accepted when compensated for with added social value |
| | Two channels: (1) crowdfunding real estate to gain profits and (2) church or charity organisation to reach social goals | One channel: combining social and financial goals |

*Table 14.1: Interpretation of and Lessons Learned from the Gathered Data on Crowdfunding Real Estate Markets*

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**Embeddedness**

The table illustrates that crowdfunding real estate is, in both nations, not (yet) fully embedded in its social and economic spheres. Both nations do not engage into support for the crowdfunding real estate sector. Only social and communal projects have a chance of receiving support or benefits from the local government, municipalities or (in the United States) State authority. First major differences occur in the perception of the role of the market and economy, the American findings indicate the free market to be private and, in the specific case of crowdfunding real estate markets, not necessarily competitive towards established markets. Dutch institutions tend to lean towards a more collective approach in which (successful) crowdfunding platforms cooperate with banks and complement resources and
knowledge into a cooperative. Private ownership is not a prerequisite. It stems from this reasoning that the Dutch market players call for policy measures to support the crowdfunding industry as the United Kingdom government does.

**Institutional Environment**

Striking difference between both nations is found in the institutional environment, particularly regarding market regulation and coordination. The Dutch are relatively outspoken about the AFM and government being hesitant and hardly affected about the developments in the crowdfunding real estate industry, this clearly implies a craving of market players for participation and discussion in the policy-making process. However, the Dutch government and AFM do not seem to enact such a policy, as is reflected in the empirical results.

Opposing this perspective are the American results, implying a dominant government should shape the boundaries of the playing field in which market players must act. This mentality is strongly embedded in the American culture as most professionals react almost amazed when questioning whether they were allowed to offer any kind of contribution to the government in shaping the regulative environment. Corresponding to the above, the United States adopt a market regulation and coordination approach for crowdfunding real estate markets that is based upon top-down regulative principles rather than shared values and collaboration (or including the market players into the policy-making process).

Other than the above stated differences, both nations seem to similarly coordinate crowdfunding real estate markets. No regulative, coordinative or legal benefits or allowances are granted to specific market players or a wide range of them.

In terms of legislation, the United States adopt an Anglo-Saxon approach of legislation based on ruling rather than on shared values. In the Netherlands, a more Rhineland-model based legislative body is adopted. Dutch crowdfunding real estate markets are therefore based on shared values and equal rights rather than ruling and individual power. Example of this comparison is the participation of accredited investors only into crowdfunding real estate in the United States, indicating an individual approach to crowdfunding ruling. Other than limiting all inhabitants unless they prove capable of investing before granting access to a new market, the Dutch opened crowdfunding markets to all. The consumer is protected (and limited) to a certain predefined amount of capital invested through crowdfunding, after which AFM approval is required to exceed this amount.44

It is the nations’ pension systems that truly differ greatly. Social security is perceived to be extremely important and governed in the Netherlands. While the pension system in the Netherlands is mandatory for all labourers (working and living in the Netherlands), in the United States this is not the case. Employing a three-layered pension fund, amenable to all inhabitants of the Netherlands, makes the Dutch pension system one of the best (or possibly the best) in the world. On the other hand is the liberalised, individual pension system as adopted in the United States, which is ranked fairly lower. This is predominantly voluntary and can only be counted upon if the individual worked sufficiently in the United States. Hence decreasing the social security and leading to the necessity to invest savings in order to enjoy a (financial) uncerned retirement. It is therefore immensely prevailing for Americans to individually or collectively invest their savings in order to provide for a retirement fund. Both Dutch and American professionals express this as a critical difference between both nations and its population’s willingness to take risk and invest personal savings.

**Play of the Game**

Market players in the crowdfunding real estate industry of both nations differ considerably. Dutch market players aim to mitigate risk, increase trade frequency, create a more stable market, find partners in solving liquidity problems or gain social momentum. Long-term relationships are therefore not restrictive or cumbersome for these parties, rather they might be essential for them.

Quite the opposite is present in the United States, goal is to increase individual profitability, market share, trade frequency and short-term gains. Long-term relationships are therefore not part of the initial concept of cooperation. Naturally, this can partly be explained by the differing economic climate and its impact on transaction frequency (since there are many more platforms and real estate projects in the United States).

**Behaviour**

44 Important note, the United States government is altering this policy as described in chapter 11 towards a more progressive model which is relatively similar to the Dutch approach.
Two main differences occur when comparing both nations’ behavioural assumptions. First, the United States have strictly divided groups of for-profit investors and investors with a social gain. Such a separation is not present in the Netherlands. Incentives for Dutch investors tend to mingle into the large crowd, composing a crowd that is both financially as well as socially driven. Financial returns are certainly important, but lower risk premiums are accepted if the project adds social value that is of importance to the investor. Secondly and following from the previous aspect, Americans channel their funds differently if the goal varies. Americans do not employ crowdfunding as means of charity giving, they rather use church or a charity organisation for this purpose. Crowdfunding real estate is regarded to as a platform with for-profit projects. According to the Americans this is partly due to the crowd not trusting crowdfunding platforms with charity and social goal projects, rather it only trusts such platforms for profit generation. The Dutch however tend to combine these incentives and undo the necessity to use different channels for various goals.

Summarised from the results given in table 14.1 regarding the decision making process is the financial importance in America, indicating a financially driven decision-making process intended to maximise monetary returns. The behavioural assumptions in the Netherlands could be regarded to as ‘welfare decision making’, incorporating not only financial returns but also generating social, environmental or communal value.

14.4 Crowdfunding as Financing Tool

The above stated comparison of the United States and the Netherlands offers insight in how crowdfunding is employed as a (primarily) financing tool. For American investors, crowdfunding real estate is primarily employed as means of generating profit. Financial drivers stimulate the American investor to accept higher risks with higher corresponding yields. This is usually achieved through high-returning mezzanine debt or (preferred) equity structures. The more conservative approach of Dutch investors, more interested in senior- and mezzanine-loan structures, originates in their demand for added social or communal value. Remarkable observation in both nations is the industry’s perception that investors seek an investment horizon that is relatively short-term. Investment opportunities usually represent a timeframe of 6 months (bridge-debt) up to 3 years (mezzanine-debt or equity investments). These observations can be concluded into figure 14.1 that clarifies the different capital structures that correspond with investor preferences in both the United States (United StatesA) and the Netherlands (NL).

America’s appetite for profit generation is represented by the investors’ search for double-digit return rates, resulting in investment opportunities in the higher-risk tranches of the capital stack. Other than the Americans, Dutch citizens tend to move to lower-risk tranches of the capital stack, reflecting lower risk and less high returns. The for-profit attitude that is so strongly embedded in the American context seems less relevant in the Dutch environment. Hence, crowdfunding real estate is therefore not merely a financial tool for Dutch investors but also of social or communal value.

These capital structures match the motivation-triangle as presented by De Buysere et al. (2012) in figure 14.2, clearly illustrating the financial motive of Americans leading to equity- and loan-based structures that generate a return on investment. Dutch investors are more between social- and regular loan structures that generate both a return on investment and social or communal added value.
14.4 Summary

Previous paragraphs provide many differences and similarities between the gathered data, desk research, the United States and the Netherlands, made possible by the theoretical framework. Most of the empirical results coincide with the information found in the literature review. The United States practise an Anglo-Saxon ideology that trickles down into the crowdfunding real estate markets. It is individual, a free market and strictly regulated by rulings set by the SEC. The playing field is where companies act and align their governance structures, leaning towards free market models, with transactions. Yet, not all is Anglo-Saxon typified, its legislation tends to move towards more collective, Rhineland model typologies that protects the consumer by limiting its total investments (shifting from no-if towards yes-but).

As Heurkens (2012) explained, the Dutch culture is rooted in the Rhineland-model ideologies, however Anglo-Saxon winds gain grip and influence some of the policy-making and decision-making. Institutions of the crowdfunding real estate market in the Netherlands encompass a more collective market that is bound by the collaborative goal of developing a viable market. This includes cooperative models with established companies, development of a secondary market, collaboration with the AFM and (possibly the most important part) motivating the government to take a pro-active stand and initiate crowdfunding.
15. Conclusion

This chapter is concerned with answering the main research question: What institutional factors are dominant and favourable for employing crowdfunding as financing tool for real estate and how should these factors be treated to stimulate growth of a viable crowdfunding real estate market in the Netherlands? Building on the lessons learned from the gathered data it is possible to provide an answer to this question. Yet, methodological caveats and other limitations confine the reliability of this study and need to be explored. The next chapter will venture into the discussion, limitations and recommendations of this study.

In order to fully answer the main research question it is necessary to split it into two parts: (1) what institutional factors are dominant and favourable for employing crowdfunding as financing tool for real estate and (2) how should these factors be treated to stimulate growth of a viable crowdfunding real estate market in the Netherlands? Each part will be answered separately after which a final conclusion can be distilled from the previous chapters. As this research is concerned with explorative research a theory will be developed in order to explain the specific phenomenon of differing growth-patterns and behaviour of crowdfunding real estate markets in the United States and Netherlands.

15.1 Institutional Factors

The theoretical framework offers an adequate approach to report the findings from the gathered data. Four levels of institutional economics – (social) embeddedness, institutional environment, governance structure and behavioural assumptions, largely based upon Williamson’s theory – form a comprehensive guideline for this study.

Dominant factors in the institutional economics of crowdfunding real estate are highlighted in table 15.1, based upon the empirical results and interpretation of comparing the American situation to the Dutch situation in the previous chapter. It is possible to state that these factors (chapter 14, table 15.1) are dominant, based on correspondingly mentioned results by interviewees and in the document analysis or, in other words, (minor) triangulation of the results.

In terms of embeddedness, both nations’ governmental bodies express passiveness and inactiveness regarding crowdfunding real estate. Within the institutional environment striking resemblance is found in market regulation and coordination, both nations enact a top-down approach with governmental decision-making for shaping the institutional environment (in an even more densely regulated market in the Netherlands than the United States). Yet, pension systems mark a large difference for both nations as this influences the willingness to invest of its inhabitants. At the level of governance – play of the game – market players tend to differentiate in short-term and long-term relationships. Short-term relationships are prevailing in the United States and primarily focus on gaining profit. Longer-term relationships aim to mitigate risk and/or gain societal momentum as exemplified in the Netherlands. Lastly, it is the differing decision-making process by the crowd that impacts the institutional economy of crowdfunding real estate. Financial (for-profit) versus ‘welfare’ decision making affects the demand for specific types of crowdfunding, reflected in figure 14.2.

Given the situation in which the American crowdfunding real estate market performs notably stronger than its Dutch counterpart, the dominant factors of crowdfunding real estate economics in the United States could be designated as favourable above those dominant in the Netherlands. However, this would be an unjust conclusion since it does not consider the relation of the institutional economics dominant factors relative to the nation’s socio-political environment. Thus, before answering the second part of the main research question the relation between the institutional economy and the socio-political environment will be outlined.

As introduced in chapter 7, the socio-political principles of the Anglo-Saxon and Rhineland ideology differ greatly (illustrated in table 7.2). However, both are rooted within the economic system of capitalism and based upon private ownership of production, goods and services. Projecting the institutional economics of crowdfunding real estate markets upon their socio-political background sheds lights upon the environment in which the market grows, declines or behaves. Table 15.2 offers clarification on comparing the crowdfunding markets to their socio-political principles. Matches between the socio-political principles and the market’s aspects are expressed in bold.
### Dominant Factors of the Institutional Economics of Crowdfunding Real Estate

<table>
<thead>
<tr>
<th>Dominant Factor</th>
<th>United States</th>
<th>The Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Embeddedness</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socio-Political / Ideology:</td>
<td>Anglo-Saxon Ideology</td>
<td>Rhineland Ideology with an Anglo-Saxon wind</td>
</tr>
<tr>
<td></td>
<td>Individual Power</td>
<td></td>
</tr>
<tr>
<td>State Initiative</td>
<td>Passive &amp; Powerless</td>
<td>Inactive &amp; Powerful</td>
</tr>
<tr>
<td></td>
<td>Initiative is rare, some initiative at the lower-State and municipal level</td>
<td>Municipalities are the only governmental bodies that initiate in crowdfunding</td>
</tr>
<tr>
<td></td>
<td>Social/community goals only</td>
<td>Social and communal goals only</td>
</tr>
<tr>
<td></td>
<td>Market accepts role of the government</td>
<td>Market calls for a more progressive state</td>
</tr>
<tr>
<td>(Role of the) Market &amp; Economy</td>
<td>Private market players</td>
<td>Regulated Market</td>
</tr>
<tr>
<td></td>
<td>Free Market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Competitive and ‘may the best win’ (cooperation is only ‘permitted’ if it serves the financial goals of the company)</td>
<td>Collective approach towards this new industry (platforms may cooperate with established forces such as banks or other organisations)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Undiversified real estate banking scene; (ABN AMRO, ING and Rabobank)</td>
</tr>
<tr>
<td><strong>Institutional Environment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Regulation</td>
<td>Approach is top-down; the government (SEC) shapes the legal environment</td>
<td>Approach is top-down; the government (AFM) shapes the (small) legal environment</td>
</tr>
<tr>
<td></td>
<td>The market accepts this approach and is satisfied when the legal boundaries are clear</td>
<td>The market indicates a demand for a more bottom-up regulative policy in which policy is based upon shared values rather than rules</td>
</tr>
<tr>
<td>Coordination Principle</td>
<td>Based on rules set by the SEC</td>
<td>The AFM shares its ideas and guidelines towards the industry’s future development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sector growth: larger sector → more appropriate regulations</td>
</tr>
<tr>
<td>Legislation &amp; Pension Structure</td>
<td>Protective limit for non-accredited investors, as a result accredited investors are legally less limited by the government</td>
<td>Protective limit for non-accredited investors, as a result accredited investors are legally less limited by the government</td>
</tr>
<tr>
<td></td>
<td>Pension system is not compulsory, this urges Americans to invest for their retirement</td>
<td>Best pension system in the world, citizens are less motivated to invest for retirement</td>
</tr>
<tr>
<td></td>
<td>Less taxes and thus more capital to invest</td>
<td>More taxes lead to less capital to invest</td>
</tr>
<tr>
<td>Governance</td>
<td>‘Play of the Game’</td>
<td>Motive for cooperation between parties is to mitigate risk and/or gain societal momentum</td>
</tr>
<tr>
<td></td>
<td>Goal is to increase individual profitability</td>
<td>Goal is to mitigate risk and contribute to a more stable crowdfunding real estate market</td>
</tr>
<tr>
<td></td>
<td>Cooperation between parties mainly to increase frequency or to gain market share</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No focus on long-term relationships with other parties</td>
<td></td>
</tr>
<tr>
<td>Behavioural Assumptions</td>
<td>Decision Making Process</td>
<td>‘Welfare Decision Making’</td>
</tr>
<tr>
<td></td>
<td>Financial (profit) Decision Making</td>
<td>Motivation of initiators; lack of funding available, crowd can fill this gap (platforms facilitate low leveraged finance structures</td>
</tr>
<tr>
<td></td>
<td>Clear motivation of initiators; higher leveraged properties in order to reduce cost of capital (reduce WACC) and increase return on equity</td>
<td>Motivation of investors; a combination of for-profit aims and social or communal goals</td>
</tr>
<tr>
<td></td>
<td>Clear motivation of investors; highest possible returns on investment</td>
<td>Lower risk premiums are accepted when compensated for with added social value</td>
</tr>
<tr>
<td></td>
<td>Strictly divided group of for-profit investors and charity projects</td>
<td>One channel: combining social and financial goals</td>
</tr>
<tr>
<td></td>
<td>Two channels: (1) crowdfunding real estate to gain profits and (2) church or charity organisation to reach social goals</td>
<td></td>
</tr>
</tbody>
</table>

*Table 15.1: Dominant Factors of the Institutional Economy of Crowdfunding Real Estate in the Netherlands and the United States*
Remarkably, the crowdfunding real estate market in the United States is behaving and treated in perfect accordance with the nation’s Anglo-Saxon socio-political principles. It precisely fits principles ranging from a passive government to individual power (competitiveness), free markets being regulated and coordinated with rules and common law in a limited welfare state in which financial (for-profit) decision making is prevailing.

This comparison suggests two possible conclusions regarding the most favourable institutional conditions for crowdfunding real estate markets to flourish. First, the American crowdfunding real estate market delivered its promising growth-pattern due to the dominant factors of its institutional economy. These dominant factors are the competitive environment in a free market with private players based upon ruling and the government shaping the legal environment. A limited welfare state with optional pension schemes and financially (for-profit) driven decision making processes are required to facilitate willingness of the crowd. Second possible conclusion can be found in the proposition that the American crowdfunding real estate market perfectly aligns with the socio-political and economic principles of the Anglo-Saxon model. This would suggest the American crowdfunding real estate market is almost fully embedded in the socio-political environment of the United States. This near full adoption of the crowdfunding real estate market signals acceptance and practice by the American crowd and results in the most favourable institutional conditions for crowdfunding real estate markets.

Following this line of reasoning, comparing the dominant factors of the United States and Netherlands offers further insight. These aspects bear evident similarities. Both governments act passive and inactive. Secondly, there is no collective power in the Dutch crowdfunding real estate market (and thus it acts as if it is an individually powered market). Thirdly, market regulation and coordination is in both nations top-down and based on rules rather than shared

<table>
<thead>
<tr>
<th>SOCIETY &amp; ECONOMIC ASPECTS</th>
<th>ANGO-SAXON PRINCIPLES</th>
<th>UNITED STATES CROWDFUNDING REAL ESTATE MARKET</th>
<th>RHINELAND PRINCIPLES</th>
<th>DUTCH CROWDFUNDING REAL ESTATE MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of the State Market</td>
<td>Passive &amp; Powerless</td>
<td>Passive – no initiative</td>
<td>Active &amp; Powerful</td>
<td>Inactive – no initiative</td>
</tr>
<tr>
<td></td>
<td>Individual Power</td>
<td>Competitive and ‘may the best win’</td>
<td>Collective Power</td>
<td>No collective power (demand for industry-organisation)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Market-players are motivated to cooperate</td>
</tr>
<tr>
<td>Economy</td>
<td>Free Market</td>
<td>Free Market</td>
<td>Market Regulation</td>
<td>Regulated Market</td>
</tr>
<tr>
<td>Market Regulation</td>
<td>Competition</td>
<td>Competitive and ‘may the best win’</td>
<td>Collaboration</td>
<td>Top-down approach; shapes legal environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Top-down approach; shapes legal environment</td>
<td></td>
<td>AFM shares guidelines on industry growth</td>
</tr>
<tr>
<td>Ownership</td>
<td>Market Sector (Privatisation)</td>
<td>Private market players</td>
<td>Collective Sector</td>
<td>Private market players</td>
</tr>
<tr>
<td>Coordination Principle</td>
<td>Rules</td>
<td>Based on rules set by the SEC</td>
<td>Shared Values</td>
<td>The market indicates a demand for a more bottom-up regulatory policy in which policy is based upon shared values rather than rules</td>
</tr>
<tr>
<td>Legislation</td>
<td>Case/Common Law (judge-made decisional-law having precedential effect on future cases)</td>
<td>For accredited investors only Moving towards a protective limit for non-accredited investors</td>
<td>Civil Law (treating similar facts differently on different occasions is unfair)</td>
<td>Protective limit for non-accredited investors, as a result accredited investors are legally less limited by the government</td>
</tr>
<tr>
<td>Welfare State</td>
<td>Limited</td>
<td>Pension system is not compulsory, this urges Americans to invest for their retirement</td>
<td>Progressive and extensive</td>
<td>Best pension system in the world, inhabitants are less motivated to invest for the future</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial (-profit) Decision Making</td>
<td></td>
<td>‘Welfare Decision Making’</td>
</tr>
</tbody>
</table>

Table 15.2: Comparing Dominant Factors of the Crowdfunding Real Estate Markets to their Socio-political Principles
values. Last but not least, they adopt similar legislation and all market players are private. If it were the dominant factors of the institutional economics that would instigate and stimulate a flourishing market, why would the Netherlands not have a similarly growing and developed crowdfunding real estate market as the United States when the dominant factors are nearly identical? This reasoning suggests the second possible conclusion to be more plausible. Yet, before fully neglecting the first possibility the differing pension systems and decision making process (based on financial rational or welfare) can hardly be altered or influenced by the dominant factors of the institutional economics of crowdfunding real estate. Hence, these two factors seem important and influential to the institutional economics of crowdfunding real estate.

Finally, this analysis enables to conclude upon the first part of the main research question: what institutional factors are dominant and favourable for employing crowdfunding as financing tool for real estate? Dominant factors in the institutional economics of crowdfunding real estate are present through all levels of institutional economics as presented by Williamson. The embeddedness level indicates state initiative and the role of the market and economy to be essential, followed by the institutional environment level implying market regulation and coordination to be important. Governance and behavioural assumptions levels indicate the play of the game by its market-players and the decision making process of the crowd to impact the growth-pattern of crowdfunding real estate markets.

Dominant factors becoming favourable factors have a twofold origin; (1) primarily perfect alignment of the nation’s socio-political and ideological principles with the dominant factors of the crowdfunding real estate market and (2) secondary the crowd’s decision making process matching the welfare state situation (be it limited or progressive) – which is hardly influenced by the dominant factors of the crowdfunding real estate market.

15.2 Stimulate Factors towards a Viable Crowdfunding Real Estate Market

Knowing the dominant and favourable factors of the institutional economics of crowdfunding real estate offers justified reasoning to continue upon stimulating a viable crowdfunding real estate market. Yet first this paragraph will reflect upon the essence of crowdfunding real estate markets, how they are defined and what shapes them.

Studying crowdfunding real estate under the assumption that it primarily is a financial tool, rather than a marketing and research tool, simplifies the matter. Earlier chapters have discussed the traditional capital markets, the demand- and supply-side of capital and the traditional intermediaries. Building upon this financial scheme this study discovered crowdfunding real estate markets to form a parallel flow of capital between the demand- and supply-side of capital. Figure 15.1 illustrates crowdfunding real estate platforms passing capital from the crowd towards an investment opportunity in real estate. Yet, interesting is the connection between both intermediaries – crowdfunding platforms and traditional parties such as banks and pension funds. This represents capital flowing from crowdfunding platforms towards traditional intermediaries before being invested into property.

![Figure 15.1: Capital Flows in the Traditional- and Crowdfunding Capital Market](image-url)
Regardless of the institutional economics of the nation or ideology in which crowdfunding real estate occurs, a capital flow from crowdfunding platforms towards traditional intermediaries is observed and motivated for. Market players approach traditional intermediaries for multiple reasons depending on the institutional environment, following have been distilled from this study:

1. the temporal nature of crowdfunded loans (usually loans are issued for up to 3 years) requires banks to supply market liquidity – a ground for cooperation between the two (figure 14.1);
2. crowdfunding platforms can raise capital more quickly and less expensive than banks, thus adding value to a bank’s capital flows;
3. securing the platform’s business by frequent exchange of funds and investment opportunities (and thus combining crowdfunding loans with bank loans).

Stimulating growth of a viable crowdfunding real estate market is henceforth not limited to capital flowing from the crowd through a platform towards property investments. Horizontal relationships and exchange of funds are similarly important. Knowing this, it is possible to conclude with the dominant factors of the institutional economics of crowdfunding real estate that stimulate growth towards a viable market. Coming forth from the previous paragraph are the following aspects enable such stimulation.

<table>
<thead>
<tr>
<th>Stimulating Factors</th>
<th>Alignment of the Factors with the Dutch Crowdfunding Real Estate Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of the State</td>
<td>• Active &amp; Powerful In order to stimulate a stronger and more viable crowdfunding real estate market, the Dutch government should act active and progressive. It should initiate crowdfunding real estate projects, possible through a great many actions (guarantees, cooperation, subsidising or other instruments). The English government provides a strong example.</td>
</tr>
<tr>
<td>Market Regulation &amp; Coordination</td>
<td>• Shared Values Dutch market players demand a regulative body to be composed in accordance with the shared values of all parties involved. This means including them into the policy-making process (market coordination). Regulating the market should (partly) be the responsibility of the market, in close cooperation with the regulative body (AFM).</td>
</tr>
<tr>
<td>Governance and Cooperation</td>
<td>• Cooperate A viable market requires parties of all kinds to cooperate, this mitigates risk and increases resilience of the market (see previous three motives for market players to cooperate). This is not only subject to private parties, semi-private and public parties could (and should) be included in this cooperation for it to provide maximum value.</td>
</tr>
<tr>
<td>Decision Making Process</td>
<td>• Welfare State Market players should incorporate the ‘welfare’ decision making of the Dutch crowd (and government) into their projects – aligning the product to the target group is essential.</td>
</tr>
</tbody>
</table>

Table 15.3: Factors that Require Stimulation in order to Increase the Viability of the Dutch Crowdfunding Real Estate Market

Altogether, this table answers the second part of the main research question. Stimulating a viable crowdfunding real estate market seems most likely to happen in these four domains, divided across the four levels of the institutional economics as introduced by Williamson.

15.3 Theorising
Concluding, this study has explored the institutional economics of crowdfunding real estate and the dominant factors influencing its markets. The empirical results from specific American and Dutch interviews and document analysis provided insight on how to stimulate these factors to encourage the development of a viable crowdfunding real estate market. Yet, one of the most important conclusions arose in the process of digesting dominant factors into favourable and stimulating factors. Essential in stimulating growth of a viable crowdfunding real estate market is the alignment of the institutional dominant factors to the nation’s institutions.

Great example is the legislation imposed by the SEC, based on ruling and rules without consent of the market – strikingly, market players accept this and are satisfied when their boundaries are set clear. This did not hamper the development of a viable crowdfunding real estate market. While on the other hand, a similar approach by the AFM does hamper the growth of the Dutch crowdfunding real estate market. It is therefore due to this adverse and dominant approach by the AFM that the crowdfunding real estate market encounters barriers that could be mitigated if a more appropriate approach was adopted. In this case, a more appropriate approach would be one that matches the socio-political and institutional environment of the Netherlands.

This is also true for the market regulation, state initiative and other aspects within the institutional economics of crowdfunding real estate.
Second conclusion of paramount importance is that the welfare state (regarded to as the behavioural assumptions following from the pension system and decision-making process) has considerable influence on the willingness of the crowd to participate. In a nutshell, the decision-making process of the crowd requires alignment with the crowdfunding platforms, this introduces other goals than solely for-profit crowdfunding projects.

In short, alignment of the dominant factors to the nation’s institutions and welfare state (be it limited or extensive) has the power to develop a viable and resilient crowdfunding real estate market. Stimulation of these factors, as described in table 15.3, is essential to move towards a similar growth-pattern of crowdfunding real estate in the Netherlands as in the United States. Following chapter will scrutinise this theory within the body of knowledge that is available.
16. Discussion, Limitations and Recommendations

Recommendations originating from this study are categorised into two groups of practical and scientific nature. The practical recommendations aim to instigate momentum in the field of governmental bodies and market-players. To stimulate further research into the field of crowdfunding real estate, various scientific recommendations propose possible valuable research topics. Following the recommendations, a discussion relates this study to the body of knowledge surrounding this field of study and introduces the various limitations subject to this research.

16.1 Practical Recommendations
As explained in the introduction, the crowdfunding real estate market in the Netherlands is small, unexplored and juvenile. Creating a more viable and resilient crowdfunding real estate market can lead to further diversification of financing real estate, it democratises the real estate investment industry (Burgett & McDonald 2013). Supporting the development of such a market requires governmental and market-players’ effort, elaborated upon below.

Governmental areas of improvement
This study concluded governmental initiative to be highly important in stimulating a viable market. Yet, it is not fully explored to what extent and into which direction. Therefore, it is recommended for the Dutch government to exchange knowledge with the English government. The United Kingdom does actively support and initiate the crowdfunding (real estate) markets and is praised for this approach by mainly European (or specifically Dutch) sources. Possible instruments for policy-making could be subsidies, guarantees by the government or cooperating with crowdfunding platforms.

Secondly, market regulation and coordination is a thorny issue according to the conducted research. Explicit recommendation for the Dutch government would be to act predictable: be the government that incorporates all actors in the decision-making process to achieve consensus. This (close to) ‘polder-model’ policy-making process could alter the market regulation and coordination into a broadly supported approach, enabling the market to develop into a strong collaborative power (represented by all actors). This is, obviously, not solely the government’s task, market-players and other actors have to push aside personal gains and support the development of regulations and coordination that are based upon shared values.

Market areas of improvement
Cooperation of market-players and other actors, or more precisely the lack of cooperation, relates to the market being competitive and based on a free market perspective with largely privately owned actors. These characteristics stroke with the general principles of the Rhineland model, which prescribe collaboration and cooperation based on shared values. Therefore, market players should approach established players within the real estate finance industry to build partnerships. In doing so, actors mitigate risks and increase the resiliency of the market (since established parties can provide market liquidity, certainty, increased trading frequency, knowledge-sharing and other benefits).

Lastly, market players should engage the ‘welfare’ decision making process into their business. Briefly spoken, this study concludes that the decision-making process of Americans is based on different principles than the Dutch process. As a result, the Dutch crowd is concerned far more with social engagement and communal benefits than Americans are (who channel this through different organisations). Based on this conclusion it is recommended that market-players match their business to the crowd’s decision-making process in order to fully employ its capabilities.

16.2 Recommendations for further research
There is much that cannot be explained by this study, it is of explorative nature and only ventures into crowdfunding real estate markets on a very limited level. Even after the extensive document analysis and various interviews this study might even raise more questions than that it provides answers to, establishing a base for future research.

Validation through quantitative analysis
This research is focused on qualitative results forming a theory providing answers to the most general questions. Yet, a study focusing on the quantitative analysis of market players – possibly through a survey – will provide further details to sharpen and enhance the above developed theory. Such research can enhance contemporary knowledge on the importance of different factors influencing the institutional economics of crowdfunding real estate markets. Validation of the findings presented in this research can further increase understand of crowdfunding real estate and how this relates to the environment in which it is employed.
Diversification of subjects
Unfortunately, this study was only able to focus on two types of research: document analysis and (a limited amount of) semi-structured interviews. Broadening into other types of research (surveys, case-studies, quantitative analysis of quantitative data) will improve the general understanding of how crowdfunding real estate functions and behaves.

Possibly more important is the diversification into studying other actors as well. One could think of studying the crowd (both crowdfunders and non-crowdfunders), financial institutions (such as pension funds, insurance companies and investment companies), banks or policy makers (government, SEC, AFM and such) to gain more in-depth results from a particular actor-group. Such research would add considerable value and understanding to the functioning of crowdfunding real estate.

United Kingdom and others
Focusing on the United States and the Netherlands provided ample results for this study, since it is rooted in the Dutch environment and provides ample clarification upon the research questions. Yet, it raises questions on how and why these phenomena are or are not happening elsewhere. Especially the United Kingdom offers a well-developed crowdfunding market – not only focused on real estate projects but fixed on a large variety of projects and products. The institutional environment in the United Kingdom is considerably different than the United States or Netherlands. It offers further in-depth analysis of the institutional influences of a nation on the development, implementation and acceptance of a crowdfunding real estate market. Naturally, similar opportunities lie in Asia, Europe, Canada, Australia and almost any nation on Earth that has a matured real estate finance industry.

Civic Crowdfunding
Given one of the conclusions of this study – the Dutch crowd demanding social or communal value of a crowdfunded real estate project – and the recommendation that governmental initiative is essential to create a maturing and more resilient market, further research into the concept of civic crowdfunding could offer clarification on this type of crowdfunding real estate. Comparing this study to such a civic crowdfunding study could enhance the understanding of institutional influences on (civic) crowdfunding real estate markets – particularly their relation to the behavioural assumptions and decision-making process of the crowd.

Geographic dispersion of the crowd-project relation
A study into the relation between the location of the crowd and project(s) invested in – or geographic dispersion – can offer insights into where, why and on what parameters the crowd decides to participate. Proximity or distance of the funder to its investment says something about investment considerations, parameters and reasoning. This can be included into the existing knowledge and studied on the crowd’s motivation to participate. Hopefully, this also offers insight into the differences in the decision-making process of the crowd in various nations or economics climates.

Crowdfunding Real Estate as a Financial Tool
This research ventured into the overall aspect of crowdfunding real estate as finance structure. It however does not study the possibilities of crowdfunding real estate within the finance structure and capital stack. There is no comparison between stronger, time horizon, more liquid, cheaper or faster ways of raising capital in a contemporary manner and through crowdfunding real estate. Further research into the potential of crowdfunding as financial tool can shed light upon the utilisation and application of crowdfunding for real estate purposes.

The Political Debate of Crowdfunding Real Estate
Crowdfunding real estate is considered a financial tool by the AFM and government. Platforms therefore have to comply with large amounts of rules and regulations imposed by the AFM and DNB. This raises barriers and hampers potential entries to the market. A social research on the political willingness and regulatory feasibility of dismantling these barriers can result in grounded recommendations to (in general) politics and provide guidance to opening this market to all entrepreneurs.

16.3 Discussion
This paragraph presents the relation of the findings and conclusions presented in this research to comparable research conducted by scientific, research or press entities. Goal is to place this study into its broader field of knowledge, developed by the established discipline.

Reflected in the conclusions, this study theorises upon the institutional economics of crowdfunding real estate unfolded in the comparison of the United States and Netherlands. It describes the market’s behaviour based on the institutions
at force, within the existing context of real estate finance. The majority of the findings indicate alignment of the crowdfunding real estate market to the institutional context of the nation to be essential for acceptance by the socio-political environment. Within the field of financing real estate through crowdfunding much research is based on case studies exemplifying the employment of crowdfunding real estate. This study however adds to the body of knowledge by describing the relation between this activity and the institutional context of its nation.

While this study primarily focused on the financial aspects of crowdfunding real estate, there is reason and knowledge to believe that the motive for funders to participate differs tremendously according to the institutional environment in which the market exists. Results of this study indicate the social character of crowdfunding to be very important in the Netherlands, yet not so important in the United States. Autar (2015) introduced similar conclusions to the results presented above: besides financial value, crowdfunding would add social, research and marketing value. However, the Dutch authority on financial regulation does not consider crowdfunding (real estate) to be anything else than a financial tool. As a result, crowdfunding markets are now subject to general financial regulations applying to all financial institutions. Additionally, one of the conclusions of this study is that regular finance regulations imposed by the AFM heavily impact this industry. Recent research by a consultancy firm takes on a similar proposition, mentioning the introduction of a strong regulative regime by the AFM. This culminates to even larger entry-barriers and fewer resemblances between Dutch regulative institutions and crowdfunding regulations.

Lastly, the temporal character of crowdfunding real estate influences the growth of the market. Depending on the project, many real estate financing do not match the time horizon of crowdfunded capital. Due to the large variety of real estate financing matches and mismatches will occur, increasing the demand for liquidity. This problem is to be solved, possibly through cooperatives, regulative changes or new entries to the market, before further maturing of crowdfunding real estate markets is possible.

Now that crowdfunding (in general, not solely real estate related) markets face these challenges, institutional alignment of the Netherlands and crowdfunding real estate markets seems less likely to happen in the near future than ever before. As long as the Dutch government, AFM, market actors and established forces do not with great effort cooperate to align the institutional economics of crowdfunding real estate to the Dutch Rhineland principles, the growth-pattern of the Dutch crowdfunding real estate market will deviate disadvantageous from its American counterpart.

This raises the question how to break through this status quo. Valuable knowledge can be obtained from studying the English situation. The United Kingdom does actively support and initiate the crowdfunding (real estate) markets and is praised for this approach by mainly European (or specifically Dutch) sources. This supports the line of thought that progressive governmental support and initiative is favourable for stimulating the crowdfunding sector to expand and improve.

16.4 Limitations

Without doubt, crowdfunding is a relatively new concept with a limited amount of scientific research. Especially the information available on crowdfunding real estate is scarce and hard to find. Obviously, explorative research is often burdened with small amounts of scientific research or reliable information to theorise upon a phenomenon that is far from fully understood. Additionally, this explorative research is positioned in a juvenile market with few examples of crowdfunded real estate, increasing the difficulty of gathering data. For now, it would seem impossible to conduct a quantitative study on crowdfunding real estate.

Given the extensively shaped institutional paradigm, crowdfunding phenomenon and real estate finance framework, this study primarily focuses on an institutional comparison. Studying actual trading results, motives, demand or supply is underexposed and might offer opportunities for future research.

Similarly to the above is the fact that primarily crowdfunding platforms have been captured in the scope of this study. There was absolutely no contact with financial institutions, governmental authorities or the crowd. This is essential in the conclusions rendered from this study, since the results are all based upon the perception of crowdfunding platforms. Validity of the results is therefore studied to guarantee a certain level of completeness and relevance.

45 Douw&Koren Crowdfunding Consultancy, januari 2016
16.5 Bias
Given the distance of the interviews with Americans a potential hazard for bias has occurred. Answers given by American parties were very much in line with the Anglo-Saxon principles presented in the theoretical framework. Due to American individualism and a ‘the-winner-takes-it-all’ mentality it was not expected for all American interviewees to comply to or agree with the institutional environment as developed in the United States. This raises questions whether all parties involved sincerely responded to the interview questions.

Following possibilities may have, under the assumption of a possible bias, caused the interviewees to adjust their responses. First, in order to protect their business from competitors interviewees adjusted or omitted crucial information in their response. Verifying whether this is the case requires off-the-record conversation with the interviewee, which is impossible when conducting the interview through an online teleconference. Secondly, interviewees could have answered in a politically-correct manner. Potential political forces at play (i.e. the company applied for subsidies or requires the government to grant it a permit or exemption) could have influenced the (open) responses of the interviewees. Lastly, interviewees could have answered in accordance with the American norms and values to present their nation as the greatest nation on earth. This would fit the possibility of chauvinistic Americans answering the desired responses. Given the strongly embedded ‘American dream’-ideology this study assumes the last option to be most genuine and plausible. Promising the participants to publish their responses anonymously (and cooperate with potential non-disclosure agreements) eliminates the first two options from being the most plausible explanation.

Insisting on signing a non-disclosure agreement (which did not happen once in this study) could have led to a more objective research method. Participants would have had more certainty and would probably be more willing to share their ideas, even if these were not chauvinistic or in accordance with the law. A second option would be to physically interview the participants. This would mean for this study to have relocated temporarily to the United States. Assuring confidentiality and discretion in the physical encounter increases the credibility and reliability of the interviewer.

16.6 Processing Results – Triangulation or not?
The study gathers data by means of two methods: document analysis and interviews. This combination allows for minor triangulation (double-checking) of the results. Hereby adding to the validity of the results and enriching the data (where specific notions might have been missed when assessed without triangulation). However, the triangulation employed in this research is minor compared to studies using multiple sources of data gathering. Document analysis may very well lead to insights that adjust the interview process or the other way around. Stronger differentiation of methods (i.e. case-studies, quantitative data analysis, financial modelling) would add significantly to the interpretation of certain data and conclusions. Corroborating qualitative results with quantitative data would provide for even more triangulation.

It is possible to conclude that more in-depth case-studies or a quantitative analysis would objectify the study and create more robust results.

16.7 Final Remarks
Greed is good – the American credo from the fictional character Gordon Gekko in the movie Wall Street (1987) – seems strikingly relevant to this study. Crowdfunding real estate is, in the United States, not primarily undertaken to finance real estate as an alternative to the lack of bank loans. Rather, savvy American initiators aim to increasingly leverage their investment opportunities by adding a crowdfunding loan(s) to an already issued bank loan. Their aim is to decrease the WACC and increase their internal rate of return. As the desk research shows, various platforms advertise their finance structures to potential initiators. The advertisements are focused on adding debt, increasing the leverage ratio and promising higher returns on equity. Such actions respond to the initiator’s appetite for profits.

Increasing leverage (LTV) to over 80% levels seems worrying and closely similar to pre-2007 investment practices. Basel III regulations are meant to decrease LTV levels issued by bank loans. However, these regulations only apply to banks and other large financial institutions. Crowdfunding, in this sense, only provides an alternative route for initiators to increase their LTV ratios. This phenomenon should be closely monitored and, if necessary, regulated. Governmental authorities such as the SEC and AFM play a crucial role in performing this task.

However, it is not merely the initiator’s appetite for higher returns on their invested capital. Squires (2015) explains that financing real estate benefits projects when multiple-institutional vehicles are adopted and generate coordination through the larger amount of interests that are engaged with the project. Such partnerships have many different (economic) stakes and voting rights, leading to a situation in which consensus is required in order to progress. This
backs the recommendation that governments should take a more initiating stand in crowdfunding real estate as another party at the table (in this case the government) creates more robust coordination.

Last remark encompasses the comparison of REITs, Tenants in Common (TIC)\textsuperscript{46} structures and crowdfunding real estate. Before the real estate meltdown and financial crisis that started in 2007, the concept of pooling investors to own fractional interests in real estate gained momentum. This eventually led to highly-overvalued properties that were impossible to refinance (due to the large amount of investors and issuing bank that had to agree on taking a loss) or break down (part of the investors would take their loss while others would prefer to wait). Current developments in crowdfunding real estate combine similar amounts of investors into a structure that invests in (partial) real estate.\textsuperscript{47} Could this possibly lead to similar consequences as the REITs and TICs did? Yes, and maybe even worse since crowdfunding allows non-accredited investors to participate as well, where TICs did not.

\textsuperscript{46} Structure of co-owners of an undivided interest in real property. Tenants in common each own a separate and undivided interest in the same real property and each has an equal right to the possession and use of the property. In short, a legal structure to share ownership of a real property among up to 500 individuals (Glossary).

\textsuperscript{47} Source: http://nreionline.com/finance-investment/5-ways-2015-looks-lot-2007-0#slide-5-field_images-1812871
17. Reflection

This chapter reflects upon the research method and to which extent the research topics and variables could adequately be measured. It scrutinises the relevance of the research within the wider social context, the adopted research method, processing of the results and gathering data.

17.1 The Relevance of Crowdfunding Real Estate

As elaborated upon in the problem analysis and research problem, this research is focused on exploring an alternative finance tool within a sometimes difficult and rapidly changing environment. The practical relevance can be found in the subject’s addition to contemporary finance parties, the empirical data underwrite that crowdfunding offers an alternative to the troubled real estate finance market (in the Netherlands). Similarly, crowdfunding real estate is socially relevant as it involves (especially in the Netherlands) social and communal goals. Therefore, democratizing crowdfunding and allowing all inhabitants (as has happened in the Netherlands and is about to happen in the United States) to participate is socially responsible and adds value to community. Also this is empirically underwritten and supported. Part I elaborates further on the relevance of this research.

17.2 Research Approach and Potential Methods

Selecting a qualitative research approach is based on the nature of crowdfunding real estate. It is a novel market, separated from regular crowdfunding markets. In finding an answer to how this market functions and whether this relates to the explosive growth in the United States versus the minor importance of crowdfunding real estate in the Netherlands asks for qualitative research. The study requires extensive conceptualisation of the situation in both nations. It requires local experts to describe their perception of certain aspects, increasing the chances for biases. Together with the document analysis it is attempted to mitigate this potential hazard of biases. Reflecting upon this approach, it would be highly unlikely due to the vast amount of qualitative data and interpreting to have chosen a different approach.

During the research process various potential research methods have been discussed. First, a quantitative data analysis on the crowd could offer insight in the crowd’s decision-making process and reasoning why to participate in crowdfunding. Yet, this approach is primarily concerned with finding answers to the crowd’s motives, which is very difficult if the crowd of participating individuals is relatively small, as is in the Netherlands. As a result, this study abandoned the potential method of data analyses on the crowd.

Secondly, in an early stage of the research the potential method of data analysing successful projects was discussed. Dropping this method was based on similar reasons as the first potential method: there are far from sufficient projects in the Netherlands that include financing real estate through the crowd.

Third, and last, considered method featured a financial model which would assess the financial feasibility and potentially describe the optimal (financial) conditions for crowdfunding to flourish. Aspects such as investment horizon, return on investment, interest levels and such were to be adjusted for optimising the WACC. Eventually also this method was abandoned since it did not sufficiently relate to the institutional character of crowdfunding real estate.

17.3 Adopted Methods

The explorative character of this research fits perfectly with the qualitative approach, adopted models and data gathering. An extensive literature study provided the theoretical models that were needed to measure the variables.

Gathering data is primarily executed through studying policy documents, institutional documents, regulative documents and semi-structured interviews with American professionals and Dutch professionals. Interviews are executed among market actors and experts, related to some knowledge institute or university, to preserve diversity and objectivity when interpreting the data. Other actors within the crowdfunding real estate process are unfortunately not included in this research.

The literature review holds three different aspects, namely the new institutional economics, crowdfunding and real estate finance theory. Literature on new institutional economics and real estate finance is widely available. Crowdfunding however is a relatively recent developed tool that is not as extensively studied as the other two fields of expertise. Sufficient literature was found on the overall concept of crowdfunding, yet hardly any literature is available
that links crowdfunding to real estate. This is difficult when researching crowdfunding real estate markets, yet this has been partly bypassed by focusing on real estate markets rather than on individual projects.

17.5 Data Gathering
Gathering policy, law and regulative documents caused relatively little obstructions, yet it was time-consuming. Many documents are easily accessible through governmental or public websites, often widely announced through (online) media. Most documents offered a clear notion on what was aimed to achieve and how this was meant to reach. This resulted in a thorough document analysis providing ample information to assist in shaping the institutional economics of crowdfunding real estate markets.

Conducting interviews turned out to be a significantly more problematic method of gathering data. Interviewing Dutch parties had the advantage of physical meetings, offering more flexibility and easier conversations. Yet, only a few crowdfunding platforms focusing on real estate exist in the Netherlands. The study was successful in interviewing most important platforms and some experts. However, a broad range of interviews with substantially differing platforms is far from possible.

In the United States a much larger number of platforms are engaged with crowdfunding real estate, facilitating a fairly broader scope of potential interviewees. Yet, the study encountered great difficulties in reaching these parties. First, ordinary skype-interviews hindered communication and therefore might have reduced the interview’s quality. But even more impacting was the difficulty of reaching the American interviewee. Many parties seemed willing but did not respond to the invitations which were sent to a great many parties. And even if they did respond, communication could cease without any notice or further response. This raised barriers for this research since only a few platforms eventually participated. Eventually, the conducted interviews provided extensive and in-depth results offering profound knowledge on the institutional economics of crowdfunding real estate.

17.6 Process
A transparent process emerged during the preparations and execution of this study. Both mentors monitored the initial cause and purpose of the study without interfering in the soft process of data gathering, interpretation and concluding. They improved the study by guiding it into the right direction without executing it themselves.
Part VI: Summary, References Appendices and more
Executive Summary

Introduction
The commercial real estate investment industry has seen few major innovations since the introduction of the Real Estate Investment Trust (REIT) structure in the 1960s and the commercial mortgage-backed securitisation (CMBS) structure in the 1990s (Burgett & McDonald 2013). For decades, REITs have been the prime investment vehicle for investments in diversified real estate portfolios. Crowdfunding real estate however might be the next major innovative investment-structure.

Increasing complexity in financing real estate is fuelled by poor market conditions, growing risks and fiercer European banking supervision (Gehner 2008). Acquiring financing for real estate investments and development projects is an overarching issue within the real estate and area development industry. This led to perilous situations for most (50% of the Dutch) developers and extraordinary limited amounts of real estate transactions. According to Mackaaij & Nozeman (2014) this led to the alteration of banks and their growing aversion towards financing real estate. Developers respond to the growing scarcity of debt by experimenting with alternative financial sources such as forward funding, crowdfunding and private equity funding.

The Dutch crowdfunding market is a young and dynamic market full of growth and diversification. Crowdfunding real estate is a minor, largely unexplored asset market in the larger crowdfunding industry. In the United States, the real estate crowdfunding industry is growing fast (Gose 2015). From only a handful of platforms a few years ago the industry has experienced a rapid growth to countless platforms dedicated to real estate.

This leads to the problem definition: the phenomenon of crowdfunding demonstrates tremendous growth in most Anglo-Saxon nations, reflected in the growing popularity and increasing frequency that alternative tools are employed to finance real estate. Contrary to the United States, the Dutch real estate market scarcely ventures into crowdfunding as alternative financing tool to finance real estate. Diversification of real estate finance and the recovery hereof are hampered by the lack of a growing crowdfunding real estate industry in the Netherlands.

Rising from this problem statement is the general question of this study: How can the differing growth-patterns and behaviour of crowdfunding real estate markets in the United States and the Netherlands be explained? This will be answered through the main research question: What institutional factors are dominant and favourable for employing crowdfunding as financing tool for real estate and how should these factors be treated to stimulate growth of a viable crowdfunding real estate market in the Netherlands?

Methodology
In this study, the phenomenon of crowdfunding employed in real estate markets is, due to the very nature of crowdfunding, institutionalism and real estate finance, approached from an interdisciplinary perspective. In-depth explorations into the variables that could explain why the growth-pattern in the Netherlands is so very different from its United States counterpart are explored. This comparison is represented in the conceptual framework given in figure S.1.

![Figure S.1: Conceptual Model (own illustration)]
Gathering empirical results is based upon a twofold model of document analysis and semi-structured interviews. Documents selected for analysis consist of policy documents, laws and regulations, governmental memos or guidelines and such. Interviews are held with market-players and experts in the United States and Netherlands. In order to maintain a certain level of coordination within the interview, a semi-structured approach is adopted.

The Institutional Theoretical Framework

New Institutional Economics provides an excellent point of departure for comparing different nations (Ball 2006). The model of new institutional economics as developed by Williamson has been extensively adopted in this study. It introduces institutions on four different levels: social embeddedness/informal institutions, institutional environment/formal institutions, governance structures and the neoclassical ideology (Williamson 1998a). Foremost, the theory assists in understanding the institutional characteristics of both the United States and Netherlands.

The concept of new institutional economics is primarily concerned with explaining economic behaviour. It focuses on a more comprehensive representation of economy instead of being based solely on rational behaviour, as neo-classical economics does. There is no single clear definition of institutions, many authors use varying definitions. This study primarily adopts North’s definition of institutions. This definition is represented below (North 1994):

Institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (e.g. rules, laws, constitutions), informal constraints (e.g. norms of behaviour, conventions, selfimposed codes of conduct), and their enforcement characteristics. Together they define the incentive structure of societies and specifically economies (North 1994).

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 (figure S.2). He states that most economists take this level as given since the institutions at this level change very slowly, on the order of centuries. North (1991) explains that among these constraints are informal constraints like customs, traditions, codes of conduct and taboos. Level two (L2), the (formal) institutional environment, includes structures of political origins (Williamson 1998a). Examples of the informal institutions’ counterparts are constitutions, laws and property rights, also labelled formal institutions (North 1991). 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. Finally, level four is concerned with marginal analysis, based on neo-classical economics and the agency theory. This last level is mostly related to what would be called rational decision making. In this study it will be regarded to as the behavioural assumptions within the decision making process (be it rational or not).

Table S.1 provides information on the social embeddedness of both nations that has been derived from literature. This is however not directly related to crowdfunding real estate markets. This is important since it forms the nation’s environment in which the crowdfunding real estate market operates. The empty cells in the table represent the lack of knowledge on the institutional environment and governance of crowdfunding real estate markets in both the United States and the Netherlands. This study aims to significantly fill the empty cells. Aspects and principles of the markets’ drivers are described in second column. Together, this framework enables the study to describe the behaviour and growth of both crowdfunding real estate markets.

The Phenomenon of Crowdfunding Real Estate

By means of extensive literature review and an exploratory interview chapter 8 introduced and enlightened the concept of crowdfunding and how it relates to crowdfunding real estate. It starts with clearly defining crowdfunding. This study adopts the definition as developed by Belleflamme et al. (2013):

“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.”

Generally three actors are involved in the process of crowdfunding: the initiator, the platform (intermediary) and the crowd (investors). All roles contribute to funding a project by raising capital from the crowd. Within this process of collecting capital the body of academic literature distinguishes four types of crowdfunding: donation-based, reward-based, loan-based and equity-based. As the characteristics for each type of crowdfunding differ significantly, the complexity of the process tends to vary as well.
Figure S.2: Economics of Institutions, four levels of social analysis (illustration based on Williamson 1998a)

Table S.1: Theoretical Framework as distilled from Williamson. The empty cells are left blank to be completed in the conclusion (own illustration)
Crowdfunding real estate through loan- and equity-based typologies incorporates the most complex processes as explained by Hemer (2011). In the Dutch environment only loan-based platforms have been established for crowdfunding real estate yet. Equity-based crowdfunding solely exists in other fields and industries (primarily SMEs and entrepreneurs). In the American context almost all kinds of crowdfunding are employed in funding real estate projects.

Motivations by the crowd to participate in crowdfunding projects can be versatile. Research by (among others) De Buyssere et al., Autar, Agrawal, Goldfarb & Catelini, Geber, Hui & Kuo and Mollick expose the large variety of motivations, often classified in financial, social and material motivations. Yet, one should keep in mind that motivation can differ strongly among people in different environments.

Crowdfunding (commercial) real estate is mostly completed through loan- and equity-based crowdfunding structures. This assumption is not entirely true as some civic structures (bridges and community centres) have been funded through a donation- or reward-based structure. Yet, for the purpose of this study these are eliminated from the theoretical framework.

Crowdfunding as a Financing Tool
There is a large variety of financing structures and it is unclear how these structures differ from crowdfunding. Figure S.2 offers an example of the capital stack in a traditional real estate investment. Essential in understanding the capital stack is the level of seniority and timespan of a loan or debt. These key aspects determine much of the risk, returns (or interest levels in the case of debt) and liability. Bergsman, Geltner et al. and Glickman explain these aspects to be leading in forming the capital stack. Optimising the stack is employed through measuring the WACC and incremental cost of debt (Brueggeman & Fisher 2011; Glickman 2013).

Theoretically, crowdfunding is able to raise capital in both equity and debt structures. In this sense it would be possible to utilise crowdfunding to raise all forms of capital structures. However, theoretical evidence on the timespan of capital raised by the crowd can be committed to the capital stack is lacking. Maximum timespan of crowdfunding loans or equity placements before needing to be refinanced may differ and is unknown.

Concluding, crowdfunding is not unambiguous. Many forms of crowdfunding exist. The literature review offers four categories with different complexity levels. Therefore, full awareness of the crowdfunding form that is being discussed is required since this can have a hefty impact on the results and conclusions. Being a financing tool, crowdfunding is subject to financing structures and decision-making processes regarding risk, return, seniority and timespan (and many other variables as explained by Geltner et al.) (2006). The empirical findings will present the relationship between crowdfunding real estate markets and the financial decision-making process.

Empirical Findings
Conducting the document analysis and interviews offered a large amount of in-depth data. Distilling the raw data into comparable chunks of text required careful summarising and categorisation. Table S.2 illustrates this comparison.

Most of the American empirical results coincide with the information found in the literature review. The United States practise an Anglo-Saxon ideology that trickles down into the crowdfunding real estate markets. It is individual, a free market and strictly regulated by rulings set by the SEC. The playing field is where companies act and align their governance structures, leaning towards free market models, with transactions. Yet, not all is Anglo-Saxon typified, its legislation tends to move towards more collective, Rhineland model typologies that protects the consumer by limiting its total investments (shifting from no-if towards yes-but).

As Heurkens (2012) explained, the Dutch culture is rooted in the Rhineland-model ideologies, however Anglo-Saxon winds gain grip and influence some of the policy-making and decision-making. Institutions of the crowdfunding real estate market in the Netherlands encompass a more collective market that is bound by the collaborative goal of developing a viable market. This includes cooperative models with established companies, development of a secondary market, collaboration with the AFM and (possibly the most important part) motivating the government to take a proactive stand and initiate crowdfunding.

Remarkable observation in both nations is the industry’s perception that investors seek an investment horizon that is relatively short-term. Investment opportunities usually represent a timeframe of 6 months (bridge-debt) up to 3 years (mezzanine-debt or equity investments). These observations can be concluded into figure S.4.
America’s appetite for profit generation is represented by the investors’ search for double-digit return rates, resulting in investment opportunities in the higher-risk tranches of the capital stack. Other than the Americans, Dutch citizens tend to move to lower-risk tranches of the capital stack, reflecting lower risk and less high returns. The for-profit attitude that is so strongly embedded in the American context seems less relevant in the Dutch environment. Hence, crowdfunding real estate is therefore not merely a financial tool for Dutch investors but also of social or communal value.

Figure 5.3: Example of a fictional Capital Stack and the Investment Timeline (own illustration based on the literature)

Figure 14.1: Relation between Risk & Seniority and Investment Horizon for American and Dutch Investors

Conclusion

Finally, this study is able to conclude upon the research question: what institutional factors are dominant and favourable for employing crowdfunding as financing tool for real estate? Dominant factors becoming favourable factors have a twofold origin; (1) primarily perfect alignment of the nation’s socio-political and ideological principles with the dominant factors of the crowdfunding real estate market and (2) secondary the crowd’s decision making process matching the welfare state situation (be it limited or progressive) – which is hardly influenced by the dominant factors of the crowdfunding real estate market.

Essential in stimulating growth of a viable crowdfunding real estate market is the alignment of the dominant factors of its institutional economics to the nation’s institutions.
Great example is the legislation imposed by the SEC, based on ruling and rules without consent of the market – strikingly, market players accept this and are satisfied when their boundaries are set clear. This did not hamper the development of a viable crowdfunding real estate market. While on the other hand, a similar approach by the AFM does hamper the growth of the Dutch crowdfunding real estate market. It is therefore due to this adverse and dominant approach by the AFM that the crowdfunding real estate market encounters barriers that could be mitigated if a more appropriate approach was adopted. In this case, a more appropriate approach would be one that matches the socio-political and institutional environment of the Netherlands.

Table S.2: Interpretation of and Lessons Learned from the Gathered Data on Crowdfunding Real Estate Markets
Last conclusion of paramount importance is that the welfare state (regarded to as the behavioural assumptions following from the pension system and decision-making process) has considerable influence on the willingness of the crowd to participate. In a nutshell, the decision-making process of the crowd requires alignment with the crowdfunding platforms, this introduces other goals than solely for-profit crowdfunding projects.

In short, alignment of the dominant factors to the nation’s institutions and welfare state (be it limited or extensive) has the power to develop a viable and resilient crowdfunding real estate market. Stimulation of these factors is essential to move towards a similar growth-pattern of crowdfunding real estate in the Netherlands as in the United States. Following chapter will scrutinise this theory within the body of knowledge that is available.

Table 5.2 illustrates the alignment or misalignment of the crowdfunding real estate market to the socio-political environment in a nation.

<table>
<thead>
<tr>
<th>SOCIETY &amp; ECONOMIC ASPECTS</th>
<th>ANGLO-SAXON PRINCIPLES</th>
<th>UNITED STATES CROWDFUNDING REAL ESTATE MARKET</th>
<th>RHINELAND PRINCIPLES</th>
<th>DUTCH CROWDFUNDING REAL ESTATE MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Role of the State Market</td>
<td>Passive &amp; Powerless Individual Power</td>
<td>Passive – no initiative Competitive and ‘may the best win’</td>
<td>Active &amp; Powerful Collective Power</td>
<td>Inactive – no initiative No collective power (demand for industry-organisation) Market-players are motivated to cooperate</td>
</tr>
<tr>
<td>Economy Market Regulation</td>
<td>Free Market Competition</td>
<td>Free Market Competitive and ‘may the best win’</td>
<td>Market Regulation Collaboration</td>
<td>Regulated Market Top-down approach; shapes legal environment AFM shares guidelines on industry growth</td>
</tr>
<tr>
<td>Ownership (Privatisation)</td>
<td>Market Sector Based on rules set by the SEC</td>
<td>Private market players The market accepts this approach and is satisfied when the legal boundaries are clear</td>
<td>Collective Sector</td>
<td>Private market players</td>
</tr>
<tr>
<td>Coordination Principle</td>
<td>Rules</td>
<td>Based on rules set by the SEC</td>
<td>Shared Values</td>
<td>The market indicates a demand for a more bottom-up regulative policy in which policy is based upon shared values rather than rules</td>
</tr>
<tr>
<td>Legislation</td>
<td>Case/Common Law (judge-made decisional-law having precedential effect on future cases)</td>
<td>For accredited investors only Moving towards a protective limit for non-accredited investors</td>
<td>Civil Law (treating similar facts differently on different occasions is unfair)</td>
<td>Protective limit for non-accredited investors, as a result accredited investors are legally less limited by the government</td>
</tr>
<tr>
<td>Welfare State</td>
<td>Limited</td>
<td>Pension system is not compulsory, this urges Americans to invest for their retirement</td>
<td>Progressive and extensive</td>
<td>Best pension system in the world, inhabitants are less motivated to invest for the future</td>
</tr>
</tbody>
</table>

Table 15.2: Comparing Dominant Factors of the Crowdfunding Real Estate Markets to their Socio-political Principles
Nederlandse Samenvatting (Dutch Summary)

Introductie
De investeringsmarkt in commercieel vastgoed heeft weinig significante innovaties voortgebracht sinds de introductie van Real Estate Investment Trusts (REIT), in Nederland bekend als de Financiële Beleggingsinstelling (FBI structuur), in de jaren '60 en de Commercial Mortgage-backed Securities (CMBS) in de jaren '90 (Burgett & McDonald 2013). Decennia lang zijn REITs (of FBIs) als primair beleggingsvehikel gebruikt om te investeren in een gediversifieerde vastgoedportefeuille. Crowd funding kan potentieel de volgende significante innovatieve investeringsstructuur worden.

Toenemende complexiteit in het financieren van vastgoed wordt gevoed door de lastige marktomstandigheden na de crisisjaren van 2007-2010 en fellere Europese supervisie over de bankindustrie (Gehner 2008). Het financieren van vastgoedinvesteringen of vastgoedontwikkeling is een overkoepelend probleem geworden in de vastgoed industrie. Voor bijna 50% van de Nederlandse ontwikkelaars heeft dit gezorgd voor financiële problemen, zij zijn of failliet of staan onder curatorie. Gevolg hiervan is een buitengewoon lage hoeveelheid vastgoedtransacties over de afgelopen jaren. Volgens Mackaaij & Nozeman (2014) hebben al deze ontwikkelingen gezorgd voor een groeiende afkeer van banken tegenover het financieren van vastgoed. Ontwikkelaars beantwoorden deze schaarste van leningen met het aantrekken van kapitaal middels alternatieve financieringsmethoden zoals forward funding, crowdfunding en private equity financieringen.

De Nederlandse crowdfunding markt is jong en dynamisch, groeit relatief snel en diversifieert. Het crowdfunding van vastgoed is echter een kleine, onontdekte niche in de groeiende crowdfunding markt. In Amerika groeit deze niche echter heel snel (Gose 2015). Van een paar platforms enkele jaren geleden is de industrie gegroeid tot ontelbare platforms die zich bezighouden met het financieren van vastgoed middels crowdfunding.

Hieruit volgt de probleem stelling: het fenomeen crowdfunding groeit hard in de meeste Angelsaksische landen, te zien aan hun groeiende populariteit en frequentie waarin crowdfunding wordt toegepast voor vastgoedfinancieringen. In Nederland kijkt de vastgoedmarkt echter nauwelijks naar crowdfunding om financiering op te halen. Door het tekort aan een dergelijke markt wordt diversificatie in de vastgoed financieringsmarkt geremd.

De algemene vraag die hieruit volgt luidt: hoe kunnen de verschillende groei-patronen en gedrag van crowdfunding vastgoedmarkten in Amerika en Nederland worden verklaard? Antwoord hierop wordt gezocht middels de onderzoeksvraag: welke institutionele factoren zijn dominant en gunstig voor het gebruik van crowdfunding als vastgoedfinanciering en hoe moeten deze factoren worden behandeld om de groei van een levensvatbare crowdfunding vastgoedmarkt te stimuleren?

Methodiek
Het fenomeen vastgoedfinanciering door middel van crowdfunding wordt, wegens het onbekende terrein van crowdfunding en vastgoedfinanciering, vanuit een interdisciplinair perspectief benaderd. Diepgaand onderzoek naar de variabelen die invloed hebben op het verschil tussen Amerika en Nederland vormt hierbij het uitgangspunt. De vergelijking van beide landen is in figuur S.1 weergegeven. Het verzamelen van empirische resultaten bestaat uit een tweezijdig model van document-analyse en semigestructureerd interviews. Voor de document-analyse worden beleidsstukken, wet en regelgeving, overheidsmemo’s of richtlijnen en dergelijke geselecteerd. De interviews worden gehouden met marktpartijen en experts in Amerika en Nederland. Om een bepaald niveau van coördinatie te behouden wordt gebruik gemaakt van semigestructureerde interviews.

Een Institutioneel Theoretisch Raamwerk
‘New Institutional Economics’ is een perfect uitgangspunt voor het vergelijken van verschillende landen (Ball 2006). Dit model, ontwikkeld door Williamson, wordt uitgebreid behandeld en toegepast in dit onderzoek. Het is gebaseerd op instituties verspreid over vier niveaus: sociale verankering/informele instituties, de institutionele omgeving/formele instituties, bestuursstructuren en neoklassieke ideologie (Williamson 1998a). De theorie is voornamelijk behulpzaam voor het begrijpen van de institutionele overeenkomsten en verschillen van Amerika en Nederland.

De theorie van New Institutional Economics tracht economisch gedrag te verklaren, het focust op een volledigere representatie van de economie dan de veelvuldig gebruikte theorie van neoklassiek rationeel gedrag. Een eenduidige definitie van instituties is er dan ook niet, verschillende auteurs gebruiken verschillende definities. Dit onderzoek heeft de definitie van North aangenomen. Deze definitie presenteert instituties als volgt (North 1994):
Instituties zijn menselijk bedachte beperkingen die structuur aanbrengen in de menselijke interactie. Ze zijn gemaakt van formele beperkingen (bijvoorbeeld regels, wetten, grondwetten), informele beperkingen (bijvoorbeeld gedragsnormen, conventies, zelf opgelegde gedragscodes), en kenmerken de handhaving daarvan. Samen bepalen zij de incentive-structuur van de samenleving en, specifiek, de economie (North 1994).


Tabel S.1 geeft de informatie over de (bijna statische) sociale verankering en ideologie van beide landen. Dit is niet direct gerelateerd aan crowdfunding van vastgoed, echter vindt het financieren van vastgoed middels crowdfunding wel plaats in deze omgeving. Lege cellen in de matrix geven aan waar nog geen kennis beschikbaar is, voornamelijk de institutionele omgeving, bestuursstructuren en de gedragsassumpties zijn hier onbekend. Deze studie tracht deze lege cellen te vullen. Wanneer deze matrix gevuld is kan het gedrag en de groei-patronen van beide landen vergeleken worden.

Het Fenomeen Crowdfunding Vastgoed
De definitie geïntroduceerd door Belleflamme et al. (2013) wordt in deze studie gebruikt. Deze luidt als volgt:

“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.”

Over het algemeen zijn er drie actoren betrokken bij het crowdfunding-proces: de initiator, het platform (of intermediair) en de crowd (investeerders). Alle rollen dragen op een andere manier bij aan het financieren van een project d.m.v. het ophalen van kapitaal bij de crowd. Binnen dit proces bestaan vier types van kapitaal verwerving: donaties, beloningen, leningen of eigen vermogen. Deze zijn elk zeer verschillend, niet alleen procesmatig maar ook qua complexiteit en rechten.

Meest complexe vormen van crowdfunding zijn lening- en eigen-vermogen-gebaseerde types (Hemer 2011). In Nederland zijn er momenteel alleen crowdfunding platformen voor lening-gebaseerde vastgoedinvesteringen. Andere sectoren (SME’s, start-ups e.d.) bieden al wel investeringen middels eigen vermogen aan. In Amerika zijn er ook al investeringsmogelijkheden in vastgoed middels eigen vermogen.

Er is grote diversiteit van motivaties in de crowd om mee te doen aan crowdfunding projecten. Onderzoek van De Buysere et al., Autar, Agrawal, Goldfarb & Catelini, Geber, Hui & Kuo en Mollick geven een grote verscheidenheid van motivaties weer. Over het algemeen gecategoriseerd in financiële, sociale en materiële doelen.

De assumptie dat crowdfunding van vastgoed voornamelijk lening- en eigen-vermogen-gebaseerde investeringsstructuren zijn is niet geheel correct. Er bestaan (gerealiseerde) ontwikkelingen van civiele werken (bruggen, buurtcentra e.d.) die zijn gefinancierd vanuit donaties of beloningen (naam op gevel o.i.d.). Echter, voor deze studie kijken we slechts naar de commerciële investeringen en valt filantropie niet binnen de scope van dit onderzoek.

Crowdfunding als Financierings-tool
Er is grote verscheidenheid aan financieringsmogelijkheden voor vastgoed en het is onduidelijk hoe deze verschillen van crowdfunding. Figuur S.2 laat een voorbeeld zien van een (fictionele) kapitaalopbouw van een vastgoedfinanciering. Belangrijkste aspecten zijn de senioriteit en looptijd van een lening. Deze aspecten leiden vaak tot de risiconiveaus,
rendementen en aansprakelijkheid. Optimalisatie van de kapitaalopbouw wordt door middel van de Weighted Average Cost of Capital (WACC) en incrementele kosten van schuld bepaald (Brueggeman & Fisher 2011; Glickman 2013).

Theoretisch gezien kan crowdfunding niet alleen schuld maar ook eigen vermogen ophalen, hieruit volgt dat crowdfunding op bijna alle plekken in de kapitaalopbouw toegepast kan worden. Onbekend is echter de maximale looptijd van leningen of eigen-vermogen ‘placements’ die de crowd acceptabel vind. Daardoor is het onbekend wanneer een herfinanciering nodig is.

Hieruit concluderend, crowdfunding is niet eenduidig, er bestaan vele vormen van crowdfunding. Vier typen worden door de literatuur gegeven, met elk verschillende complexiteit-niveaus. Omdat crowdfunding een financieringsmethode is betekend dit ook dat het moet voldoen aan financieringsstructuren en het beslis-proces omtrent risico, rendement, aansprakelijkheid en looptijd (Geltner et al. 2006). De empirische resultaten trachten de relatie tussen crowdfunding van vastgoed en het financiële beslis-proces te presenteren en verklaren.

Empirische Resultaten

De document-analyse en semigestureerde interviews hebben veel specifieke data opgeleverd. Door zorgvuldig samenvatten en categoriseren kan deze rauwe data naar vergelijkbare tekstblokken gedistilleerd worden, waarna vergelijking mogelijk is. Tabel S.2 geeft deze vergelijking weer.

De meeste Amerikaanse empirische resultaten komen overeen met de conclusies uit de literatuur. De Angelsaksische ideologie druppelt door de gehele economie, zo ook naar de crowdfunding vastgoedmarkten. Deze zijn individueel, een vrije markt en sterk gereguleerd op basis van een vaste set regels (ingevoerd door de SEC). Het speelveld lijkt dan ook ten zeerste op een vrije markt en hier passen marktspelers hun bestuursstructuren op aan. Echter, de regelgeving lijkt op sommige gebieden op regelgeving die meer op het Rijnlandse type lijkt. De consument wordt beschermd en de maximale investering via crowdfunding is gelimiteerd tot een bepaald maximum (shift van nee, tenzij naar ja, echter).

Heurkens (2012) laat zien dat de Nederlandse cultuur vanuit een Rijnlandse ideologie is opgebouwd, met invloeden vanuit een Angelsaksische beleidsstructuur en beslis-proces. Instituities zijn collectief en proberen de opereren binnen de collaboratieve doelen van een markt (voor alle betrokkenen). Coöperatieve modellen met bestaande partijen, het opzetten van een tweede market ten behoeve van de liquiditeit en samenwerking met de AFM zijn hier goede voorbeelden van.

Opmerkelijk in beide landen is de observatie dat de marktspelers overtuigd zijn dat de crowd een investeringshorizon ambieëren van maximaal drie jaar. Deze relatief korte periode doet zich dan ook voor de meeste investeringsmogelijkheden, deze lopen van 6 maanden (bridge-lening) tot 3 jaar. Dit is weergegeven in figuur S.4.

De Amerikaanse wil om winst te genereren is te zien in de crowd’s zoektocht naar hoogrenderende investeringsmogelijkheden. Dit resulteert in investeringen in een ander gebied binnen de kapitaalopbouw, meestal in de hoog-risico regio’s. Nederlanders daarentegen zoeken juist minder risicovolle middelen op met minder rendement. De Amerikaanse winstgevendheids-eis is in Nederland nauwelijks aan de orde. Nederlandse investeerders accepteren lagere rendementen zolang er ook sociale of gemeenschappelijke waarde wordt toegevoegd.

Conclusie

Het beantwoorden van de onderzoeks vraag moet leiden tot de conclusie van dit onderzoek: welke institutionele factoren zijn dominant en gunstig voor het gebruik van crowdfunding als vastgoedfinanciering en hoe moeten deze factoren worden behandeld om de groei van een levensvatbare crowdfunding vastgoedmarkt te stimuleren? Dominante factoren die ook gunstig zijn voor het gebruik van crowdfunding ontstaan op twee mogelijke manieren: (1) de overeenkomstigheid van de socio-politieke principes en ideologie in het land met de dominante factoren van crowdfunding vastgoed en (2) ten tweede het beslis-proces van de crowd in het land moet overeenkomstig zijn met het welvaartsmodel van het land (gelimiteerd zoals in Amerika of progressief zoals in Nederland) – deze laatste factoren worden nauwelijks door de crowdfunding markt zelf beïnvloed.

Essentieel in het stimuleren van de gunstige factoren is dan ook het matchen van deze factoren met de institutionele aspecten van de crowdfunding vastgoedmarkt. Goed voorbeeld hiervan is de regelgeving die ingesteld wordt door de SEC (zonder betrokkenheid van de marktspelers) – opvallend genoeg accepteren Amerikaanse partijen dit en zijn ze tevreden met het feit dat er een grens wordt bepaald. Dit heeft geen verdere groei van de Amerikaanse crowdfunding vastgoedmarkt veroorzaakt terwijl eenzelfde werkwijze van de AFM in Nederland wel voor een groeibeperking zorgt.
Deze barrières, opgeworpen door de AFM door niet in te spelen op de lokale instituties, zouden voorkomen kunnen worden door in samenwerking met de markt regelgeving te bepalen – dit is overeenkomstig met de gewenste institutionele situatie in Nederland.

De laatste belangrijke conclusie gaat over het welvaartssysteem en beslis-proces van het land en de crowd. In het kort, het beslis-proces behoeft overeenkomstigheid met de producten die een crowdfunding platform aanbiedt. In Nederland geldt dat andere doelen dan winst ook belangrijk zijn voor de crowd in zijn beslis-proces.

Tabel S.2 geeft de overeenkomstigheid, of tekort hieraan, van de crowdfunding vastgoedmarkt met de socio-politieke situatie in Amerika en Nederland weer.
References

A


B

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C


D


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## Terminology / Glossary

### Bad Bank

A bad bank is an organization set up to buy the bad loans of a bank with significant nonperforming (or distressed) assets at market price. By transferring the bad assets of a bank to the bad bank, the banks clear their balance sheet of toxic assets but would be forced to take write downs. Shareholders and bondholders stand to lose money from this solution (but not depositors). Banks that become insolvent as a result of the process can be recapitalized, nationalized or liquidated. 48

### Basel III

European policy agreement on regulating the banking industry, includes considerable requirements for banks on solvency, leverage and liquidity.

### Commercial Mortgage-Backed Security

Financial product

### Crowdfunding

- 

### Crowdfunding Campaign

- 

### De Nederlandsche Bank

The Dutch National Bank, concerned with national (and partly European) monetary policy, regulating the banking industry, stabilising the Dutch financial system and the supervision of the Dutch finance industry.

### Delaware Statutory Trust

Legal structure that offers investors the opportunity to share ownership of a property among up to 500 individuals/owners. Real estate can hereby be divided into smaller pieces of property that are accessible to less wealthy individuals. Hence, it makes expensive property more accessible.

### European Central Bank

Banking authority concerned with monetary policy, policy execution and banking regulations in the European Union.

### Federal Reserve System

Central banking system for the United States, having duties in a.o. monetary policy, regulating banks, maintaining stability of the financial system and providing financial services to the United States government.

### Industry

The word ‘industry’ carries a large variety of meanings, yet in this paper the following definition is adopted. Industry refers to purposeful work and diligence, the term industry refers to a specific branch of economic activity or trade (i.e. investment business, pharmaceutical industry, automotive industry and real estate) (Geltner, Miller, Clayton & Eichholtz 2006).

### Initial Public Offering

Process in which a company offers (part of) its shares to the public, hereby entering a stock exchange.

### Institutions / Institutionalism

A concept of entities

### Net Present Value

Net Present Value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows (indexed). It is used to calculate capital budgeting and analyse the profitability of an investment opportunity or project.

### New Institutional Economics

New Institutional Economics (NIE) is a concept used to explain the variances and malfunctioning of markets in traditional neo-classical thinking. It is an extension to contemporary concepts of neo-classical markets in which rational decision-making is prevalent.

### Property Development

- 

### Real Estate Development

- 

### Real Estate Finance

- 

### Real Estate Investment Trust

Entity that, while listed on a stock exchange, owns, maintains and trades real estate. This type of entity was introduced to increase liquidity and diversification, as it offers investors the possibility to easily trade shares of the entity. Diversification happens through the entity owning a large number of properties (it is hardly possible for individuals to obtain such diversification).

### Securities and Exchange Commission

Governmental agency of the United States responsible for regulating markets and enforcing law on the securities industry, stock and option exchanges and other exchanges (such as electronic exchanges, i.e. crowdfunding).

### Tenants in Common

Structure of co-owners of an undivided interest in real property. Tenants in common each own a separate and undivided interest in the same real property and each has an equal right to the possession and use of the property. In short, a legal structure to share ownership of a real property among up to 500 individuals.

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Abbreviations

AFM  Authority for the Financial Markets *(Glossary)*
CFRE  Crowdfunding Real Estate *(Glossary)*
CMBS  Commercial Mortgage-backed Security *(Glossary)*
DNB  De Nederlandsche Bank (The Dutch National Bank)
DST  Delaware Statutory Trust *(Glossary)*
ECB  European Central Bank *(Glossary)*
IPO  Initial Public Offering *(Glossary)*
Fed  Federal Reserve System *(Glossary)*
FINRA  Financial Industry Regulatory Authority
NIE  New Institutional Economics *(Glossary)*
NPV  Net Present Value *(Glossary)*
REIT  Real Estate Investment Trust *(Glossary)*
ROA  Return on the Asset
ROE  Return on Equity
SEC  Securities and Exchange Commission *(Glossary)*
SME  Small & Medium Enterprises
TIC  Tenants in Common *(Glossary)*
UK  United Kingdom
United States  United States of America
WACC  Weighted Average Cost of Capital
# List of Tables & Figures

## Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>p.</th>
<th>Title</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1.1</td>
<td>10</td>
<td>Real Estate Investment Timeline</td>
<td>Own illustration</td>
</tr>
<tr>
<td>Figure 1.2</td>
<td>11</td>
<td>Investment volumes per asset class</td>
<td>CBRE, <em>The Netherlands Markets Outlook 2015 retrieved from</em> <a href="http://nieuws.cbre.nl/download/65535/capitalmarketsoutlook2015.pdf">http://nieuws.cbre.nl/download/65535/capitalmarketsoutlook2015.pdf</a></td>
</tr>
<tr>
<td>Figure 1.3</td>
<td>13</td>
<td>Total investment volumes of Crowdfunding in the Netherlands</td>
<td>Douw&amp;Koren (2015)</td>
</tr>
<tr>
<td>Figure 3.1</td>
<td>18</td>
<td>Conceptual model</td>
<td>Own illustration</td>
</tr>
<tr>
<td>Figure 4.1</td>
<td>19</td>
<td>Research model</td>
<td>Own illustration</td>
</tr>
<tr>
<td>Figure III.1</td>
<td>23</td>
<td>Venn Diagram of Literary Contributors</td>
<td>Own illustration</td>
</tr>
<tr>
<td>Figure 7.1</td>
<td>25</td>
<td>Economics of Institutions, four levels</td>
<td>Williamson (1998a)</td>
</tr>
<tr>
<td>Figure 7.2</td>
<td>27</td>
<td>Role of the market in Anglo-Saxon and Rhineland models</td>
<td>Albert (1993)</td>
</tr>
<tr>
<td>Figure 7.3</td>
<td>29</td>
<td>Governance Structures: Spot market &amp; Hierarchical structures</td>
<td>Williamson &amp; Tadelis (2013)</td>
</tr>
<tr>
<td>Figure 8.1</td>
<td>35</td>
<td>Relation between crowdfunding model and the complexity of the process</td>
<td>Hemer et al. (2011) in Couffinhal (2014)</td>
</tr>
<tr>
<td>Figure 8.2</td>
<td>37</td>
<td>Relationship between crowdfunding model and funder’s motives</td>
<td>De Buysere et al. (2012)</td>
</tr>
<tr>
<td>Figure 9.1</td>
<td>40</td>
<td>Traditional capital markets</td>
<td>Own illustration (based on Geltner et al. 2006 &amp; Glickman 2013)</td>
</tr>
<tr>
<td>Figure 9.2</td>
<td>42</td>
<td>Fictional Capital Stack and Investment Timeline</td>
<td>Own illustration</td>
</tr>
<tr>
<td>Figure 11.1</td>
<td>54</td>
<td>Representation of the Capital Stack on Real Estate Crowdfunding Platforms</td>
<td>Fundrise and AronDevelopers (<a href="https://fundrise.com">https://fundrise.com</a> and <a href="https://arondevelopers.com/how-it-works">https://arondevelopers.com/how-it-works)</a></td>
</tr>
<tr>
<td>Figure 14.1</td>
<td>77</td>
<td>Relation between Risk &amp; Seniority and Investment horizon for American and Dutch investors</td>
<td>Own illustration</td>
</tr>
<tr>
<td>Figure 14.2</td>
<td>78</td>
<td>Crowdfunding Motives for American and Dutch investors</td>
<td>Adjusted illustration from De Buysere et al. (2012)</td>
</tr>
<tr>
<td>Figure 15.1</td>
<td>82</td>
<td>Capital Flows in traditional- and crowdfunding capital markets</td>
<td>Own illustration</td>
</tr>
</tbody>
</table>
Table 2.1 15 List of sub-questions and chapters Own illustration
Table 7.1 27 Principles of Anglo-Saxon and Rhineland Ideology Heurkens (2012) based on Bakker et al. (2005) and Williamson (1998a)
Table 7.2 29 Three models of governance structures Van Genugten (2008)
Table 7.3 31 Theoretical Framework Own illustration (based on the literature in chapter 7)
Table 8.1 32 Benefits and Disadvantages of Crowdfunding Steinberg & DeMaria (2012)
Table 8.2 33 Role of the Actors in the Crowdfunding process Ahlers et al. (2013)
Table 8.3 36 Incentives for Crowdfunding initiators Own illustration
Table 8.4 38 Incentives for Crowdfunding funders Own illustration
Table 9.1 41 Variations of loan structures in real estate finance Own illustration based on Geltner et al. (2006); Bergsman (2006) and Glickman (2013)
Table 11.1 48 AFM Legislature AFM (2014)
Table 11.2 56 Preliminary Document Analysis Results Own illustration
Table 12.1 57 Interview questions and categories Own illustration
Table 12.2 58 Indication of completeness of the data (United States) Own illustration
Table 12.3 59 Summary of social embeddedness findings (United States) Own illustration
Table 12.4 60 Summary of institutional environment findings (United States) Own illustration
Table 12.5 61 Summary of governance structure findings (United States) Own illustration
Table 12.6 61 Summary of behavioural assumptions findings (United States) Own illustration
Table 12.7 63 Overview of the Empirical Findings (United States) Own illustration
Table 12.8 64 Indication of completeness of the data (NL) Own illustration
Table 12.9 65 Summary of social embeddedness findings (NL) Own illustration
Table 13.1 67 Summary of institutional environment findings (NL) Own illustration
Table 13.2 68 Summary of governance structure findings (NL) Own illustration
Table 13.3 69 Summary of behavioural assumptions findings (NL) Own illustration
Table 13.4 71 Overview of the Empirical Findings (NL) Own illustration
Table 14.1 75 Interpretation and Lessons Learned from the Empirical Findings Own illustration
Table 15.1 80 Dominant Factors of the Institutional Economics of Crowdfunding Real Estate Own illustration
Table 15.2 81 Comparing the Dominant Factors to their Socio-Political Principles Own illustration
Table 15.3 83 Factors that require stimulation to create a viable Dutch crowdfunding real estate market Own illustration
Appendix I

At the time of writing following crowdfunding platforms have been found in the crowdfunding real estate market of the United States.

<table>
<thead>
<tr>
<th>Crowdfunding Platform</th>
<th>Nation</th>
<th>Status (at the time of writing)</th>
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<th>Focus</th>
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<td>Residential, Retail &amp; Offices</td>
<td>Investments</td>
</tr>
<tr>
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<td>United States</td>
<td>Performing</td>
<td><a href="https://patchofland.com/">https://patchofland.com/</a></td>
<td>Residential</td>
<td>Loans</td>
</tr>
<tr>
<td>Tycoon Real Estate</td>
<td>United States</td>
<td>Performing</td>
<td><a href="http://www.tycoonre.com/">http://www.tycoonre.com/</a></td>
<td>Residential</td>
<td>Loans</td>
</tr>
<tr>
<td>iFunding</td>
<td>United States</td>
<td>Performing</td>
<td><a href="https://www.ifunding.co/">https://www.ifunding.co/</a></td>
<td>Residential, Retail &amp; Offices</td>
<td>Investments &amp; Loans</td>
</tr>
<tr>
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<td>United States</td>
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<td><a href="http://www.investpeer.com/">http://www.investpeer.com/</a></td>
<td>Residential</td>
<td>Loans</td>
</tr>
<tr>
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<td>United States</td>
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<td><a href="http://primarq.com/">http://primarq.com/</a></td>
<td>Residential</td>
<td>Loans</td>
</tr>
<tr>
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Appendix II

Transcripts and summaries of all interviews with all United States parties.

**Respondent A**

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<td><strong>GENERAL QUESTIONS</strong></td>
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<td>Question 1: When did your organisation operate its first projects?</td>
<td>Answer: 2013 we started, focusing on hotels as these are an excellent candidate for crowdfunding real estate in our point of view. We collaborate purely with franchised hotels like Marriott, Hyatt and others as we like the stability these branded assets offer. More in general, all assets class are uniquely positioned, have their own challenges and own cycles that influence the assets’ performance.</td>
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<td>Question 2: Did you receive any government support?</td>
<td>Answer: Of course we did not, you have to understand that our government is very limited in providing support for the private sector. They shape the environment in which we can trade and execute commerce.</td>
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<td>Question 3: Does your organisation offer one of the following services? (multiple answers possible)</td>
<td>Answer: I think you are referring to the types of capital that we raise. Our platform offers different funding structures since each project is unique and has its own funding challenges due to the unique circumstances with the issuer and the investors. We craft structures that serve the wishes of both parties and in some instances that might be equity, in others this might be debt, a convertible note, preferred debt, preferred equity or something else. There is, in many cases, an almost perfect instrument to meet all parties’ wishes in real estate investments. We offer all forms of capital on a tailor-made basis. Currently, the Federal reserve has kept the interest rates so low in the United States that it is highly unlikely that crowdfunding will raise the debt of real estate investments, simply because conventional ways of raising debt is cheap and it wouldn’t be competitive since we think investors online aren’t interested in earning 6% on a debt structured crowdfunding real estate investment. Therefore, I can say, partly for the entire industry but especially for my own company, that we are focused on equity based crowdfunding since this offers returns in the range of 8 to 12%.</td>
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<td><strong>LEGAL QUESTIONS</strong></td>
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<td>Question 5: What is the legal situation of your organisation?</td>
<td>Answer: Obviously, we are positioned in a much diversified field of work. Three pillars: finance law, property (real estate) law and technical law (intellectual law). Differs a lot per State, securities law differs immensely per State and requires to be studied to offer security for both sides of the deal. Active effort is required to be compliant with all securities laws in different States and provide security for the investors and initiators.</td>
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<td>Question 7: How does the JOBS-Act influence your business? And do you expect the crowdfunding real estate market to increase due to this legislation?</td>
<td>Answer: It is yet to be utilized in the industry. But sure it will influence the industry. Short explanation: Real estate is not new, it is a great investment to gain wealth and produce revenue, but the opportunity cost of equity is (in all parts of the world) valuable since people do not want to keep their money parked in a bank account. When the general public gains access to the real estate surrounding it, people will engage as partly business owners rather than consumers only. There is just value all over letting non-accredited investors...</td>
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participate in real estate.

It is a shame but it is understandable that the government did not allow for non-accredit investors to participate in order to prevent them from high losses. The government does not want the industry to sell ‘get rich quick’ schemes, which is understandable and we fully support that notion. However, if you have good quality deals that have been looked at and made by professionals we think that it is a shame that non-accredit investors cannot access these opportunities.

<p>| Question 9:  | Do you think structures like mezzanine-debt, junior-loans and other debt structures in real estate are appropriate to fund through crowdfunding? | Answer: Absolutely. CF is effective at solving almost all capital raising issues at all levels. Debt or equity. Differences occur that loans can be recourse or non-recourse, implicating that in the first case one carries liability and in the other case one does not. In the case of new construction, the market shies away from non-recourse loans due to the memories of 2006 in their mind. Usually, recourse loans are used in addition to at least 30 or 40% of equity by the developer. In comparison, if the investor wants to buy the completed hotel, the lender agrees with just 20-25% of equity and non-recourse debt since risk has lowered. Real Estate needs capital at different times for different reasons: to build, to buy, to refinance, to rent, to add value and extend. CF can provide this capital, yet in order to cooperate with banks we (CF platforms) have to adapt to their model as well. In short: whatever % of equity the bank requires (to finance a project or purchase), CF can produce it. Thus, CF can work in tandem with banks. |
| Question 10: | In your opinion, is crowdfunding real estate a tool that can offer full funding of a real estate investment or development (hence decreasing the role of a bank loan)? | Answer: Yes, there is a strong working relation between crowdfunding and banks. Banks want security through cash and CF can produce that cash. Thus, it is a match made in heaven. And do banks approach CF platforms to find this cash? No, it is the other way around. CF platforms are knocking on the doors of banks saying: we can produce equity! Probably more and faster than the bank’s traditional ways of finding equity. What do you think will happen if interest rates start to rise again? Since they are extremely low at the time of writing. Both debt and equity will become much more attractive. Especially debt. But in all cases, there will almost always be a need for equity and thus CF is able to provide that equity. |
| Question 14: | What is the most important aspect of crowdfunding for the crowd to participate in such investments? [e.g. philanthropy, profit, community feeling, tangible/real asset investment, etc.] | Answer: Perfect half-half. There are two groups of investors. Savvy and understand that money has an opportunity costs and have a return-based motivation. Subjective group that has community economic drivers that includes active engagement to participate in their neighbourhood. They know what their community needs and can act on this demand. Lastly, it is the sense of pride. Investors can walk down the road and see the buildings they invested in. This is primarily true for the subjective group, but also the more return seeking investors. |</p>
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<tr>
<th><strong>Question 15:</strong> Did your organisation encounter specific crowdfunding related bottlenecks when starting or operating your business?</th>
<th><strong>Answer:</strong> No, luckily we've got all talented employees. But some of our bottlenecks cannot be disclosed as this is part of our business model and competition sensitive.</th>
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**Further comments:**
## Respondent B

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<td><strong>Question 1:</strong> Many Americans do not use pension-funds to secure their income after they stop working, do you think this boosts investments in real estate through crowdfunding? And do you think their only motive is a return on investment or are more social/public goals important as well?</td>
<td>Answer: Return on Investment (ROI) is the primary driver for people to participate in crowdfunding.</td>
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<td><strong>Question 2:</strong> Do the legal institutions in the United States in your opinion favor crowdfunding real estate investments through loans or equity?</td>
<td>Answer: Not directly, however indirectly there is in some States a tax credit on investments in social housing and/or projects with a social target.</td>
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<td><strong>Question 3:</strong> Does the fact that banks utilise lower LTV’s increase the demand for crowdfunding to finance mezzanine-debt?</td>
<td>Answer: Yes, due to cash-flow issues or a shortage of equity the banks’ lower LTVs can lead to a larger demand for mezzanine- or bridge-debt, crowdfunding can very possibly fill this gap.</td>
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<td><strong>Question 4:</strong> Are financing-costs crucial to developers whether they crowdfund a project or not?</td>
<td>Answer: No this is not crucial, usually a developer turning to crowdfunding aims to acquire either mezzanine- or bridge-debt. In this case the developer does not have enough equity or debt to provide for the full amount himself. Another reason could be marketing of their product, branding in this case is the primary goal of utilising crowdfunding.</td>
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<td><strong>Question 5:</strong> Is risk evenly distributed among the crowdfunding-investors, equity-investors and bank providing a loan?</td>
<td>Answer: Certainly not, crowdfunders are often searching for approximately 12% ROI, this represents the higher risk they are willing to take. It is the money invested by the crowd that is first to be lost and thus subjected to greater risk. This justifies the higher ROI for investments by the crowd.</td>
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<td><strong>Question 6:</strong> What do you think will happen when unaccredited investors gain access to these investment opportunities?</td>
<td>Answer: This will be problematic since there are a limited number of assets available for investments. An increase in capital flowing to these assets could push ROI rates down. This is not just the case for crowdfunding, there is too much capital available for real estate in general, due to the low interest rates and cash-flow generating character of real estate.</td>
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| **Question 7:** Are there specific bottlenecks for the crowdfunding industry regarding the funding of real estate? | Answer: Yes there are:  
- Money Laundering: Banks always carefully DD (due diligence) the parties applying for loans. This way the chance for money laundering or other forms of fraud are minimised. This could be problematic for crowdfunding since DD is not as advanced yet.  
- The large Wall of Money that is available for investments in real estate. |

**Further comments:**  
- Crowdfunding will be a niche market for real estate, prime objects and projects will almost always be fully funded through equity and (bank) debt. Non-prime (sub class-A) properties do provide a suitable market for crowdfunding. This specific niche-market provides higher ratios (ROI) and aligns with the needs of the crowd.  
- Diversification of property is a large pro by crowdfunding. Aside from REITs (which provide for some level of property-diversification but eventually only target one market) crowdfunding offers a unique way of investing in a large variety of properties across various markets.  
- Another pro when compared towards contemporary investment-methods is the fact that both REITs and Crowdfunding are small incremental amounts of capital, yet Crowdfunding offers larger transparency since REITs provide little information on who does what for the REIT.  
- Possibly contact Marc Koiller, Superlofts.co (specialised in infill development)
<table>
<thead>
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<th>Questions</th>
<th>Answers</th>
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| **Question 1:** When did your organisation operate its first projects? | **Answer:** June 2014 was the first initiative to start 1031Crowdfunding, in April 2015 the actual first project was launched.  
**Suggestion by Interviewee:** Are you familiar with the 1031 Exchange? -> It is a tax code that offers an investor to trade one piece of property with another (similar) piece of property without having to pay the capital gains tax. Very common in Real Estate, but also in NFL players contracts and lease cars.  
Traditional securitization of an 1031 exchange: TIC (Tenant-in-Common), ALL owners would have to comply to ANY changes in a property since they are all on the deed. This did clearly caused problems and made them lose large amounts of money, as a result the banks would not lend to TICs anymore. Out of that, the DST (Delaware Statutory Trust) was developed. This is the only current structure that banks will lend on and that is able to securitize on a 1031 Exchange. This structure offers up to 500 owners, hereby enabling a piece of commercial real estate to be chopped in smaller pieces. In this sense, a 1031 Exchange now enables people to scale up from, say, selling a drug store to buying a part of a large shopping mall. |

| **Question 2:** Did you receive any government support? Other than making 1031 exchanges legal for being crowdfunded? | **Answer:** We received absolutely no governmental support. |

| **Question 3:** Does your organisation offer one of the following services? (multiple answers possible) | **Answer:** We focus on equity crowdfunding as this relates best to our DST structure, but yes, we also have a mezzanine- and bridge-debt department as well. Currently, when taking down a property one needs bridge-debt to secure the property for a small amount of time, this is what we also offer.  
And I am sure of that you know this, real Estate market in the United States is intensely hot right now, over boiling. This is because the demand is huge, due to the large amounts of cash in the market. As a result prices can only go up since there is not enough funding available from the traditional banks to fulfil that need.  
**Follow-up questions:** So, there is a gap between the amount of capital that is available and the required funding, resulting in a gap that you try to fill with offering crowdfunded mezzanine-debt structures?  
**Answer:** Exactly, absolutely.  
**Follow-up question:** And what do you think is the most viable structure? Equity- or mezzanine-based crowdfunding?  
**Answer:** If we are talking just traditional crowdfunding, probably debt. Due to the larger consumer-protection. There is a lot to say for the mezzanine-debt coming in to fill the gap and giving the investor a safer and more fixed return, leading to a more comfortable feeling for the investor. Additionally, mezzanine-debt is at the top of stacking funding, having greater risks but also receiving larger returns, this is also what funders wish for (a larger return on investment). This is probably what traditional crowdfunding is moving to, and what we actually see our competitors doing right now. However, in the 1031 exchange industry there is such a large amount of properties that need to be exchanged and require equity that this will blow out of the water in comparison to the debt funded crowdfunding campaigns.  
**Follow-up:** So you found a sort of niche-market in which equity-based crowdfunding is very appropriate? |

| 6. Crowdfunding of (residential) private mortgages (loan-crowdfunding) (i.e. for a house-extension or refurbishment) |
| 7. Equity crowdfunding of investments in real estate |
| 8. Equity crowdfunding of real estate developments |
| 9. Crowdfunding of mezzanine- or bridge-debt for real estate investments/developments (loan-crowdfunding) |
| 10. Other: ... |
| Question 4: | Are legal vehicles used to accommodate crowdfunding of the project? I.e. using a consortium to facilitate investments in real estate (or development) | Answer: | Absolutely, correct. | Yes, for equity-crowdfunding it is the DST structure. For mezzanine-crowdfunding it is typically a LLC. But, in most cases it is tailor-made since every deal is different. |
| Question 5: | How does the JOBS-Act influence your business? And do you expect the crowdfunding real estate market to increase due to this legislation? Especially the new JOBS-act (2015). | Answer: | Allows offering securitisations online, that was when we knew we had to start this business. |
| Question 6: | And how does this relate to the fact that still only accredited investors are able to participate in crowdfunding real estate? | Answer: | No problem at all, since in this industry almost all people that are able to do a 1031 exchange are accredited investors. But yes, we have seen potential deals that fell through since the sponsor was not an accredited investor. |
| Question 7: | In your opinion, is crowdfunding real estate a tool that can offer full funding of a real estate investment or development (hence decreasing the role of a bank loan)? | Answer: | Well, since the DST structure is usually very traditional (60-70% LTV with 30-40% equity) we first need to secure the property by buying it (the equity part), this is where the bridge-capital comes in. Yet, a 1031 exchange has some limitations:  
- You cannot change the loan on the property  
- You cannot have major capital investments in the property  
So the loan, and thus the banks, remain the same. It is therefore not possible to fully fund it through crowdfunding. In our case of 1031 exchanges it is therefore a necessity to have a traditional bank. Our structures usually do not have a permanent mezzanine-debt in it.  
*Follow-up question:* Is crowdfunding in other areas (not 1031 exchange related) able to overcome these banking structures and minimize the role of traditional banks?  
*Answer:* Potentially, yes, but in practice, no. It could be that CF could mature to the level that banks are more or less replaced. A lot of people are anti-wallstreet and anti-banks (Occupy movements etc.). Also, a lot of attention is in the media to CF conquering traditional banks and the capitalistic woes of this country. In practice though, there will always be a need for banks.  

| Question 8: | Are you, in this sense, offering cheaper or more expensive loans/equity than banks? | Answer: | Banks are far cheaper, due to the interest rates not being increased by the Fed. People do not want 4-5% return on their loan, at least 9+% so crowdfunding is much more expensive. If interest rates rise it might be the case that crowdfunding is cheaper, then crowdfunding would absolutely bloom and burst. But I do not see that happening in the near future. (Though in the 1970s this did happen, interest rates rose to over 10%, making crowdfunding cheap) (Interviewers personal opinion: why would crowdfunding remain cheap then? It will probably become more expensive as well, since very little capital is available). |
### MARKET FUNCTIONING

| **Question 9:** What is the most important aspect of crowdfunding for the crowd to participate in such investments? [e.g. philanthropy, profit, community feeling, tangible/real asset investment, etc.] | **Answer:**
| Depends on the part of the country. Reward- and donation-based CF is philanthropic. And this is often used through websites such as Indiegogo and Kickstarter, so yes, I do think that Americans are also very philanthropic and want to do good. |
| **Follow-up question:** I understand, but that is in the most general crowdfunding industry, if we specifically zoom in on the Real Estate industry, do you still think there are initiatives for the common good? | I’ve seen some in RE. This is partly available in community centers, ‘help me build my house’, schools and orphanages. Yet, important to remember is that giving is usually done through a church or charity. Before this will pass through CF platform the industry first has to gain trust by the general public. |
| **Question 10:** Did your organisation encounter specific crowdfunding related bottlenecks when starting or operating your business? | **Answer:**
| 1. Trust of the crowd to participate  
2. Education, DSTs are new and unknown with investors and the crowd  
3. It is difficult to target our niche-market |
Appendix III

Transcripts and summaries of all interviews with all Dutch parties.

**Respondent D**

<table>
<thead>
<tr>
<th>Questions</th>
<th>Answers</th>
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<tr>
<td><strong>GENERAL QUESTIONS</strong></td>
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<tr>
<td>Question 1: When did your organisation operate its first projects?</td>
<td>Answer: Idea in 2013, January 2015 was the actual launch of our system. Purely loan-based.</td>
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<td>Question 3: Does your organisation offer one of the following services? (multiple answers possible)</td>
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<td>11. Crowdfunding of (residential) private mortgages (loan-crowdfunding) (i.e. for a house-extension or refurbishment)</td>
<td>Answer: Only mezzanine debt and junior loans, focused on professional parties to work with. This industry will grow fast in the Netherlands. There are good projects and there is good screening on the market projects.</td>
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<td>12. Equity crowdfunding of investments in real estate</td>
<td>We focus primarily on investment opportunities, not specifically construction deals or refinancing issues, maybe in the future but at first we need to focus on lower risk investments. The first mortgage right usually determines the interest rates of the loan being issued.</td>
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<td>13. Equity crowdfunding of real estate developments</td>
<td>And do you think this will change in the Netherlands? Would it in the future be possible to invest using equity?</td>
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<td>14. Crowdfunding of mezzanine- or bridge-debt for real estate investments/developments (loan-crowdfunding)</td>
<td>Yes, but it is not yet very much integrated in the industry yet. It is easier to get AFM approval for loans than for equity-based crowdfunding, this motivates platforms to offer loan-based investment opportunities. Additionally, it would be difficult to have a large amount of investors that have a vote in the project, this would not improve decision-making. While lenders do not have a voting right and this problem is bypassed.</td>
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<td>15. Other: ...</td>
<td>And how do you mortgage these investments?</td>
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<td>Usually, the mortgage guarantee is subject to the entire property invested in, including the ground. This determines the interest rate.</td>
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<td>In most cases we fund just a smaller part of the loan, in combination with the bank. Up to approximately 75% of the value is funded through the crowd, be it in combination with a bank → 25% equity.</td>
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<td>And is there specific asset class you focus on?</td>
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<td>Yes, residential due to the relatively lower risks in this sector.</td>
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| Question 5: What is the legal situation of your organisation? | Answer: To operate we require AFM approval. However, the AFM does not support us or something. It is an organisation that has to check whether we comply to their rules. So it does not support us. Additionally, CF is new to the AFM so they are a bit hesitant. |
| | Their goal is to protect the consumer. Also, they want to know the marginal rates we use to operate, how we diversify and monitor/screen investment opportunities, what measures we take to prevent fraud and ensure that we always cooperate with a notary (in order to ensure that invested capital is not used for different intentions). |
| | How do you cooperate with banks? I reckon they always want a first mortgage right, how do you cope with that? |
| | We indeed do not have first mortgage rights, but we usually have a second mortgage right with a higher interest rate, enabling to offer a higher return to the investors. This is essentially not harming the industry since this prevents crowdfunding from large problems (defaults) harming the industry’s reputation. → Trust is important. |
How do you screen projects and investors?

Naturally the project side by using Graydon indications. Investors are checked by their account numbers, account name and actual ID name. If these match they are allowed to invest, otherwise it would be possible that investors could use the platform for money laundering purposes.

**Question 8:**
Is your business’ growth hampered by a situation in which only accredited investors are allowed to participate in crowdfunding real estate?

**Answer:**
It is a conservative population in the Netherlands, so it is not primarily hampered by the fact that non-accredited investors are able to invest in it. It is more related to trust, the real estate sector in the Netherlands does not have a very good reputation. Additionally, traditional ways of investing are still prevailing among the population. It is this perception that has to change rather than the legislation surrounding CF real estate (non-accredited vs accredited investors).

**Question 10:**
In your opinion, is crowdfunding real estate a tool that can offer full funding of a real estate investment or development (hence decreasing the role of a bank loan)?

**Answer:**
Yes partly, it might be able to fully fund it but a combination of bank-loan and crowdfunding loan. Banks generally regard to crowdfunding as a positive development, adding to the possibilities of financing real estate. But, agreements with banks are important and banks always come first.

And do you think it would be a possibility to start cooperating with a bank? Yes we thought about this in the sense that it would be an opportunity to add to projects that do not apply for enough funding through the bank. The bank could bring these projects to us and enable the parties to solve the funding gap and enable the initiators to go on with the project.

Another possibility would be to pre-finance projects. In some cases where capital is needed very quickly it would be a tremendous possibility if banks could pre-finance these and crowdfund (part of) the loan afterwards.

**Question 14:**
What is the most important aspect of crowdfunding for the crowd to participate in such investments? [e.g. philanthropy, profit, community feeling, tangible/real asset investment, etc.]

**Answer:**
Social and communal goals are important but this is less influencing in the real estate investment opportunities. But also, the return on equity is important. Additionally, it motivates people to find their own properties they wish to invest in, selecting them on the characteristics of communal value, risk, return on investment and such. In essence: democratizing real estate investments.

**Question 15:**
Did your organisation encounter specific crowdfunding related bottlenecks when starting or operating your business?

**Answer:**
- Municipality of Breda is promoting young start-ups to venture into new areas of expertise. CrowdEstate is now one of the finalists in the race for ‘best new start-up in Breda’. For the winner is a start-up award available.
- There is a positive attitude of the existing business towards crowdfunding.
- Not a bottleneck now, but we receive many projects that wish to crowdfund part of their capital expenditures, this is not bottleneck but might be in the future if we cannot scale up to fund these projects.
- Largest bottleneck by far was the AFM regulation and getting AFM approval.

Further comments:
### Question 1a:
*What differences occur when financing respectively real estate developments or real estate investments by means of crowdfunding?*

**Answer:**
Development: Short term financing structure (often less than one year). A loan (mortgage) is provided to the developer for (say) €100,000 to buy land. The mortgage is backed by the (to be developed) land. Development and construction costs are not financed by the crowdfunding loan. Within the timespan of the mortgage, the developer has to sell the land (ideally also the development on top of it) to the market (be it in one transaction or multiple transactions), thereby enabling the developer to pay back the mortgage. Bouwaandeel.nl used this structure to finance the development of a residential plot (as SamenInGeld is doing as well).

Investing:
Equity-crowdfunding has different approach, it is often long(er) term financing (5, 10, 15+ years). It can most generally be separated into three types: capital (equity), mortgage and mezzanine loans. Crowdfunding platforms can offer these types to investors (capital through equity-crowdfunding, mortgages and mezzanine loans through lending-crowdfunding). In the United States a lot of equity-crowdfunding offers equity for investors in real estate. An important difference is that banks in the Netherlands often finance up to 60% (sometimes 65%) of the object’s market value, while Bouwaandeel.nl can go up to 75%. In the United States context, banks apply lower LTV-ratios, enabling them to finance only up to (approximately) 40% of the property’s value. Adding equity is therefore hypothesized to be more common.

### Question 1b:
*Why did Bouwaandeel.nl use a mortgage structure for the financing of the development?*

**Answer:**
We think that investors still feel insecure about stocks, a mortgage is feeling more secure as it is backed by (in this case) land. Our vision is: “offer the investor a secure investment opportunity”.

### Question 2:
*How does Bouwaandeel.nl work?*

1. Are investors combined into an entity to have a share in the investment/development?
2. And to they have voting-rights/control?
3. Is it an open-end or closed-end investment opportunity?

**Answer:**
We offers financial loans only, it does not involve trading stocks or shares in a development. Hence, no separate entity or consortium is used. Additionally, they use a risk assessment to validate incoming requests for financing projects. They currently aim to sharpen this assessment in order to provide more reliable investment opportunities.

Currently, all the investors have an individual contract with the developer for their share of the loan. We than have a separate agreement (Parallel Debt) with the developer to secure these individual loans and provide legal/management assistance. In the future we will have a mortgage-contract with the developer, after which we will sell parts of the mortgage to the crowd(funders).

Participants do not have a vote or right (as it is a loan with the developer and not shares of a company/initiative). For the same reason this is a closed-end (frozen) investment for the duration of the predefined loan (9 months in the case of our first mortgage).

### Question 3:
*What could be a possible role for the banks in financing real estate developments by means of crowdfunding?*

**Answer:**
Rabobank and ABN AMRO wish to use a mixed financing structure. Most probably a 50% bank loan (mortgage), 25% equity and 25% crowdfunding share. In this case the crowdfunding equity can be seen as mezzanine. Risk is hereby highest for the equity share, high for the crowdfunding share and medium/low for the banker’s share.

We pursue a situation in which private equity will take its share (25%) and highest risk, after which the remaining 75% will be split between the bank and crowdfunding equity, sharing comparable risks. (Same risks for the crowdfunding investor as for the bank)

### Question 4:
*What differences between the Dutch and...*

**Answer:**
Three main reasons can be defined: (1) the pension-system is very differing,
**United States environment are, in your opinion, crucial in forming the fact that crowdfunding is immensely larger in the United States than in the Netherlands?**

most people do not use a pension-fund to manage their pension capital. This offers them the opportunity to diversify their earnings and invest more in their personal favourite investment opportunities. (2) The American citizen is used to taking higher risks and (3) mortgages issued by a bank are generally more expensive in the United States than in the Netherlands (making crowdfunding a more attractive alternative).

**Question 5:**
Are financing-costs crucial to investors whether they invest in a project or not? (Since some projects can by definition be ineligible for a bank loan, as a result the financing costs of that project will raise anyway, as they have to find alternative financing)

**Answer:**
Investor: costs of financing are of crucial importance to decision-making (as they want to have a highest possible return).
Developer: for developers the added value of participating in crowdfunding, societal backing and marketing also very important, it is not merely decided upon financing costs. Usually, financing costs are a smaller part of their budget, decreasing their importance.

**Further comments:**
Banks in America are more expensive in their financing structures.
Mainly equity crowdfunding in the United States, often the appreciating value of an object is taking into the calculations for the rate of return.
Americans are liquid (as they do not have to add to a pension fund)
JOBS act will open the CF world to unaccredited investors as well
Dutch legislation will increase the max. investment € in CF by lending, and decrease the max. investment € in Equity CF.

Banks in the Netherlands usually do not finance under €1 Mio. Shortage of capital! A developer is looking for capital in alternative financing (crowdfunding is then a likeable alternative). Above €1 Mio. banks get interested.

Reijersen Van Buuren – Jan Willem van der Kun ➔ contact him.
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<th>Questions</th>
<th>Answers</th>
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<tr>
<td>Question 1: What, according to you, is the influence of a large number of investors (the crowd) to enter the crowdfunding real estate market (since this used to be limited to accredited investors only in the United States, while Dutch investors can easily enter this market)?</td>
<td>Answer: This is difficult to state since the available money (Wall of Money) is now searching for qualitative real estate while interest rates are low. If interest rates start to rise again the availability of money for real estate will probably shrink. Hence, the gap between high-quality and less-qualitative real estate offers opportunities for crowdfunding to jump into. It is therefore in my opinion not true that the large availability of cash directly relates to crowdfunding investments in real estate (since this targets a different quality level of real estate).</td>
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<td>Question 2: What would you think is the most viable type of crowdfunding real estate in the Netherlands?</td>
<td>Answer: Probably not mortgages, since interest rates are currently very low. If these interest rates remain approximately this level, bank mortgages will remain more attractive. Additionally, investors hope to invest in higher ROIs, so low rates on mortgages are not very attractive. Mezzanine- and bridge-debt is probably the most viable type, it offers high ROIs (6-9%) for junior loans that (in most cases) are relatively short-term. This attracts investors and offers initiators the opportunity to gather funding that is not offered by banks (since they are risk-averse and utilize low LTVs)</td>
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<td>Question 3: Government interference could hamper or boost the development of a healthy market for crowdfunding real estate. How do current policies and legislature influence the crowdfunding real estate market?</td>
<td>Answer: Stimulation by the government is essential for a growing crowdfunding real estate industry. Take a look at the UK, in which the government supports business by active involvement and guarantees, the role of the government is not pro-active, this could positively influence the market.</td>
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<td>Question 4: Are there differences in the aspects of crowdfunding for the crowd to participate in such investments between the Netherlands and the United States? (i.e. philanthropy, profit, community feeling, friends &amp; family, tangible/real asset investments etc.)</td>
<td>Answer: Most successful platforms are linked to a bank or other financial institution. These spin-offs create loans in which the bank participates, the spin-off and the initiator. Profit in this case is the most clear driver (hence the larger ROIs for higher risk loans such as mezzanine- and bridge-debt)</td>
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<td>Question 5: How do you think the difference of DD by banks and crowdfunding platforms influences the chances on money laundering or fraud?</td>
<td>Answer: I disagree that there are large differences, DD by crowdfunding platforms is very professional and utilizes Graydon ratings, 'Kredietpaspoort' and other guarantees to provide for well-monitored and checked investment opportunities. Of course, the crowd adds to this by its own due diligence of selecting the most viable projects.</td>
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| Question 6: Did you encounter specific bottlenecks related to real estate for the crowdfunding industry to grow in the Netherlands? | Answer: Yes, there are various bottlenecks that hamper the rapid growth of the real estate crowdfunding industry in the Netherlands. Among them are:  
- **Passive Government:** the government does not actively stimulate the use of crowdfunding in real estate financing. For example the UK Government offers active involvement in projects and governmental warrants for financing.  
- **Fragmented Real Estate Market:** The Dutch real estate market is very fragmented, opportunities in Amsterdam tend to behave very differently from those in less-populated areas. Amsterdam is a gateway to foreign capital and able to approach (capital) markets with large parties. On the other hand, there are the less-populated areas in the Netherlands being completely secluded from these markets. They are only able to access small local markets. This being said, it is both a bottleneck and opportunity. It is hard for platforms to operate in this fragmented market but it also offers opportunities to access niche-markets.  
- **Banking system:** One of the largest bottlenecks is the banking system. This system consists of large entities only. They leave little space for new parties and creates heavy entry barriers. This definitely hampers the growth of crowdfunding platforms focused on real estate (since they cannot approach large projects as these are still being funded by banks). |
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<th><strong>Question 7:</strong></th>
<th><strong>Answer:</strong></th>
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<td><em>Would you agree with the proposition that crowdfunding is suitable for specific niche-markets in real estate?</em></td>
<td>Yes, I think I would. For two reasons I would agree with this:</td>
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<td>- It offers opportunities for local initiatives for the community. Contrary to banks, communities are willing to fund local projects that benefit the collective.</td>
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<td>- Banks demand a return on their investment and need to be compensated for their costs-of-capital. Therefore they are often quite expensive. Low-budget crowdfunding platforms can offer cheaper funding, this offers a very specific niche-market for small-budget projects.</td>
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<td>However, it does not mean that crowdfunding real estate is solely applicable to a niche-market. Considering interest rates and future economic development it could very likely offer funding on other levels as well.</td>
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**Further comments:**
- 60-70% of the investors in large real estate projects are bankers, accountants or other professionals who are highly experienced in the investment industry.
**Respondent G**

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<th>Questions</th>
<th>Answers</th>
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<tr>
<td><strong>Question 1:</strong> When did your organisation operate its first projects?</td>
<td><strong>Answer:</strong> Started our concept in May 2015, not yet live: aim is to go live in early next year. This takes somewhat longer than anticipated due to slow AFM approval. However, we do think this is good since a lot of regulation has been lifted for CF platforms in the SMEs industry, we now see that this led to cowboy-scenes such as Trustbuddy in Sweden (fraud and bankruptcy).</td>
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<tr>
<td><strong>Question 3:</strong> Does your organisation offer one of the following services? (multiple answers possible)</td>
<td>What is the specific reason for Powered by the Crowd to venture into loan-based crowdfunding of real estate, primarily mortgages? (This is the only field that they actively operate in) <strong>Answer:</strong> Several reasons:  - There is a mortgage lien.  - The Dutch population is very loyal to their mortgage lender, almost everyone is paying interest and amortisation. Nearly no one has payment arrears.  - It is a low risk industry. We want to introduce this to the public in order to enable them to participate in financing mortgages in the Netherlands.  Additionally, there is a practical reason. Our technology partner produces software that offers insurance companies and banks the ability to administrate and monitor their mortgages. This gives us a technological advantage for mortgage crowdfunding. What do you think about the fact that in the Netherlands only loan-based crowdfunding is available for real estate? Since there is both debt- and equity-based crowdfunding for SMEs but only debt-based for real estate. Is this merely an AFM issue?  - The United States market is much more mature. The amounts are way larger and investors + initiatives are willing to take larger risks.  - Our culture is more conservative, leading to less active involvement in crowdfunding and less initiatives in crowdfunding real estate.</td>
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<td><strong>Question 5:</strong> What is the legal situation of your organisation?</td>
<td><strong>Answer:</strong> The AFM is primarily concerned with protecting the consumer. If you only crowdfund for large investors, institutional investors, professionals or wealthy individuals the AFM regulates less. While in the case of offering investment opportunities to the public, the AFM regulates a lot and has many limitations. Did the AFM support you with establishing a sufficient legal structure of your organisation to pass the AFM's regulations? Or did they support in any other way or was it just checking the boxes?  The AFM is not a consultant. We cannot contact them with questions regarding our business plan and whether this complies to their regulations. It is the other way around, we develop a business plan that is scrutinised by the AFM whether this would fit their philosophy on regulations. Their role is informative, not consulting. Small pro-active position of the AFM is found in the fact that they sometimes do participate in brainstorming how to tackle the very changing environment in which the crowdfunding real estate industry now takes place. Yet, they do not state whether this is compliant with their regulations or not.</td>
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Question 10: In your opinion, is crowdfunding real estate a tool that can offer full funding of a real estate investment or development (hence decreasing the role of a bank loan)?

Answer: Theoretically this would be possible. But we do not think this will actually happen in practice.

The problem is the timespan of the mortgage. Usually a mortgage loan is issued for approximately 30 years. Crowdfunding however is not able to fund a mortgage loan for 30 years for the simple reason that the crowd does not want to freeze its money for 30 years.

So you want to make the business model more liquid? But how does this work with the AFM since they do not allow for full liquidity on this market (this would be a derivative exchange, hence you would need AFM approval to do so)?

Correct. And we are not yet sure how to solve this. We are working with our lawyers on how to solve this bottleneck and cannot give any further detail on this.

Question 13: Currently, the market is involved in very low interest rates that are artificially kept this way. How do you think this influences your business model in relation to contemporary banks?

Answer: Banks are not the most competitive parties. It is more the ‘shadow-banks’ or alternative financing parties that are of larger competition.

Banks have to comply to Basel III and IV. There is a lot of overhead and mortgages are therefore generally more expensive. New parties are trying to market mortgages on a very lean way with little overhead and small expenditures. We are one of those parties.

Are you able to provide similar levels of interest rates as contemporary banks?

Yes we can, and that is necessary for us to survive. But, interest is extremely low at the moment, also in your savings account. If there is enough marginal difference between the costs of our company and the interest rates that we charge, we can be a competitive player versus banks while not having to increase our interest rates.

And do you think banks will start working with their own crowdfunding platforms as well? Such as ABN AMRO did some time ago? Or work together?

This surely would be possible and this is a very relevant risk. However, we see that banks cannot act quickly and swift. As a result, we do not think banks are able to integrate a crowdfunding platform into their business model.

In terms of cooperation we think that it would be possible, but as differences occur in speed of business we think that it makes more sense to find other relatively fast concepts to work with. For example other new initiatives that access the mortgage markets.

Do you think there is enough capital and willingness in the Dutch population to participate in such (relatively low) investment opportunities of mortgages?

Yes we do think there is more than enough available. There is more capital available than there are projects. For example, I think there is 300 billion euros in the Netherlands just being parked in saving accounts. If we can persuade them to fund mortgages, which have collateral and are less risky than investments but more profitable than a savings account, our business will thrive. Of course, we do have to persuade them to invest their money in this opportunity via our platform.

Important drivers:
- Security due to collateral
- Higher returns than savings account
What will happen if interest rates will rise? Will crowdfunding grow as well?

We think loan-based crowdfunding mortgages their interest rates will increase as well as the national interest rates. Otherwise the crowd will shy away from funding mortgages through crowdfunding. Essential is to be above the interest rates given on savings accounts.

So do you fund the entire mortgage or is it just a part?

Yes we fund the entire mortgage. But not everything with crowdfunding. We use a hybrid form in which 80% is funded through traditional ways of funding a mortgage (bank/mortgage lender) and 20% is funded through the crowd.

We try to use pension funds, institutional investors or other new parties to fund the larger part of the mortgage.

**Question 14:**
What is the most important aspect of crowdfunding for the crowd to participate in such investments? [e.g. philanthropy, profit, community feeling, tangible/real asset investment, etc.]

**Answer:**
We focus on two groups that might participate in crowdfunding:
- Easy access, everyone can be involved for low investment volumes
- Wealthy individuals wish to invest larger sums of capital without having to select every CF project themselves. This group will be addressed through a different platform.

And do you think this has something to do with trust? Does the Dutch population require a mind-shift?

We divide this market in two regions: the investor’s side (crowd) and the mortgage side (intermediaries). The mortgage side is relatively easy, since low interest rate mortgages sell very easily, even without marketing or advertisements. The investor’s side is more difficult, we have to earn their trust before we can fully count on them. Trust is essential in this case!

Do you use specific screening to secure the projects you offer on your website? I.e. through Graydon or other screening mechanisms?

Yes, we actually use the same screening methods as banks do to screen projects. Also, we do screen the investors by means of checking their identity and bank account in order to prevent money laundering.

**Question 15:**
Did your organisation encounter specific crowdfunding related bottlenecks when starting or operating your business?

**Answer:**
Yes there are few:
- The AFM is a bottleneck, not very large but yes it is a highly regulated market. There are a great many rules on all levels of the financing business, this makes it more difficult to presenting our business.
- Technical knowledge is essential in crowdfunding since this is primarily driven by online platforms.

Further comments: