EPISODE 1218

[INTRODUCTION]

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today is a Highlights show that's packed with value from different guests around a specific topic.

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[INTERVIEW 1]

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WS: Our guest is Amy Wan. Thanks for being on the show.

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Amy Wan (AW): Thanks for having me back.

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WS: Get us started. Is that (crowdfunding) something you consider or not, and why and where do we go to figure it out?

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AW: Yeah, sure. So, maybe let's start off with what crowdfunding is not, right? And so, crowdfunding is not a way to make money rain from the sky. It is not a way for folks to go find capital when they have no other way of finding capital. I just wanna make that really clear.

I always get a lot of calls. I got one last week. It was from someone who was like, "Hey, I wanna do a $50 million offer," and I was like, Great, okay. And they're like, And I wanna go to real state credit funding platform like, "Oh, okay." And so as we were going into conversations about why and what specific projects you wanted to do and stuff like that. The story was they wanted to raise $50 million for an office building and I asked him, "how much money can you from your investor base actually bring to the table?" And they say $1 million. And I said, "Okay, well, are you gonna get financing on this project because then you don't have to raise $50 million? Maybe you only have to raise like 10 or 20." And they don't want to bring financing.

And so, this is where a lot of people, I think have unrealistic expectations, if you can only raise one yourself and you want to go to the crowd to get the other $49 million, you're gonna be very, very hard-pressed to do that, right?

And, there are ways that you can bridge the gap in what you need versus what you can bring to the table without crowdfunding too. And so we can talk about that. But I guess maybe first, let's talk about what are the types of crowdfunding and there are four types.

So the first type is donation-based crowdfunding and that's like, GoFundMe, right? So, if I go and put up a GoFundMe page, then you Whitney, you give me $5, and in return, you get good happy feelings. Right? So that's not what we really do in the real estate industry. There's also awards-based crowdfunding. So that's chick starter Indiegogo, right? If I am doing an awards-based crowdfunding campaign to, I don't know, like make really cool pens, then you Witney give me $5 and I give you the first edition of this really cool pen. Again, not what we do in the real estate industry so often. The other two are what I really call investment crowdfunding, and these are the ones that real estate folks can use. Most of your listeners will be using what we call equity-based crowdfunding. And so, that is "I'm raising for a real state project, I already have a loan term sheet or something like that, so I've got financing, I just wanna bring the equity piece to the table 'cause I don't have that cap on myself, or I'm trying to conserve my capital." And so I will go ask the crowd, "Hey, just like I would in a regular real estate syndication of where I'm doing like a 506 (b) or a private offering, he said, I'm gonna go to the crowd, I'm gonna advertise, give me this equity money and you guys will get a return on investment."

And then the last one is debt-based crowdfunding. And there are a lot of real estate debt crowdfunding platforms out there. The one I was General Counsel at previously was (inaudible), and there's a ton of them now, right?

There's also one I don't have to do with real estate. You guys might have heard of Lending Club prosper, funding circles, those will do debt-based funding to individuals. They'll do them to small businesses, you can do it for your start-up, whatever, right? So those are really the four types. What we're really gonna concentrate on today is equity-based crowdfunding, where you're bringing the equity piece of the pie to the table.

I think the next thing to tackle is who should be doing it and who should not be doing it. So, there are different types of crowdfunding, we talked about credit crowdfunding, which is probably the type of crowdfunding that people in the real estate space tend to do the most, if they do, do it at all.

There are other types of crowdfunding. Regulation Crowdfunding, Regulation A-plus, where really it's much more of a niche thing and you're not really going to use it as a strategy unless there's a really good justification for it. So, the type of crowdfunding I'm really gonna be concentrating on today is Rule 506 D of Regulation D.

So I would say folks that are equipped to do this, it's probably not gonna be your first deal if you're just starting off or the real estate syndication. Why? Because when you go off and you generally solicit to bring in credit investors, those investors oftentimes tend to be much more sophisticated, you're more experienced. They would do due diligence. Right? And at the end of the day, crowdfunding has never been and would ever be, "Hey, I bought a Google ad and I advertise my deal, and someone saw it and they clicked a button and they invested $25,000." If that happens at all, it happens very, very rarely with probably someone who maybe hasn't done a lot of investment before.

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WS: They just won the lottery or something.

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AW: Yeah, I know, I know. And take it from me, I actually used to work at a real state crowdfunding platform, right? And it was never like, "Oh, we do advertisements and people click and they invest." No. We had an entire investment relations team because people wanted to talk to someone, they wanted to make sure this isn't some Ponzi scheme, this isn't some scam or illegitimate operation -- that there are real people, and there's a real company that operates out of a real office somewhere in the United States, right? If they're close, they may wanna come to meet you, if they're not close, they want to know that other people invest with you, that you have a track record, that you're great with underwriting.

So a lot of people tend to call and say like, "Oh, I don't have a list of investors yet. I wanna go crowdfunded." I say "no." Start off with friends and family, why? Because you want to, you don't have a track record yet, right, you want to build your track record and who is gonna trust you more than friends and family, and hey, maybe when you get one or two or three deals funded with friends and family that are paying out, maybe one of them exits very quickly, whatever, and then you start getting more and more accretive tors that you're meeting through meet-ups or podcasts that you do, or networking events at Jo's conferences or whatever.

Once you start getting that track record underway, then it's a lot easier for people to invest in you. A, because you can say, "Hey, these were the last three deals that I did." You can give them examples, if they want to talk to one of your other investors, you can refer them to one of your friends and family, because you have had practice and experience talking with your friends and family and selling them on this deal. Right? And so when the hard questions come, hopefully, your friends and family have asked them a view before. And so you will actually know what kind of answers to give.

And so I would say credit crowdfunding is really good for your person who is not just a beginning real estate syndicator. I think a lot of people always come in through the door thinking it's the answer to all my problems, and I'm just telling you it isn't. Right? Here's the other thing, I think that there are ways to utilize credit crowdfunding much more effectively. And then there are ways to raise a lot of money doing it right.

If you are truly going to use it effectively, I would say at the bare minimum, have a website. Have your website set up so that it is able to do this, and while you can go and use one of the white label crowdfunding platforms, you don't have to. There are much, much cheaper options of doing this, and I say this because I've been in real state card funding since the beginning of 2014, and I've seen people who've wanted to reinvent everything from scratch, they wanna go hire this tech team or outsource this tech team, and to spend hundreds of thousands of dollars building real estate crowdfunding platform. Or they even wanna go white label one, you don't have to do that.

The technology is not going to be what takes your business and makes it super scalable. There's not gonna be a great ROI because real estate crowdfunding sites are a dime a dozen. There are so many out there. I think in 2016, there were probably over a thousand of them. And so, don't waste your money or your time trying to build all this from scratch if you don't need to. You're much more effective ways of doing this.

Also, if you're going to do this effectively, I would say you want to make sure that you have a very good marketing team. So you can go out and obviously tweet and go post on LinkedIn for free. But really, I always tell people, if you're gonna do a 506 (c), it is best if you only do it once in a while, because most of your money is still gonna come from your 506 (b) investors. 506 (c) is a great way to funnel people into the pipeline that haven't previously heard of you. But you don't have to do every single deal. And so the deals that you do it on, make sure you're using it effectively and go out there, do advertising campaigns, go to pitch things, go announce at meet-ups, right? Because that's really the only opportunity that you can, to do all that stuff, you cannot do that for your regular 506 (b) deals.

[INTERVIEW 2]

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WS: Our guest is Kam Zainabadi. Thanks for being on the show, Kam.

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Kam Zainabadi (KZ): Thank you for having me, Whitney.

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WS: Dr. Zainabadi is both a medical doctor and a seasoned real estate investor. He's teamed up with Silicon Valley to remove any barrier for syndicators to enter online real estate crowdfunding. These barriers imposed by current platforms include high-cost stringent assets, under management criteria, exclusivity, agreements and many more.

Kam, thank you again for your time, it's interesting topic, especially for syndicators and I felt like we should all know more about crowdfunding probably and what that is and why that relates to our business. And so, let's jump right in and tell us a little more about you know, your background, your business in real estate and you know, your crowdfunding piece here that you're building.

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KZ: Absolutely. I mean, my background as you said, I'm a medical doctor but I've known all my life that real estate is the way to build the best way to have assets. Right after residency, when I started, it was actually during the financial crisis and I started building my real estate portfolio through the purchase of many single-family homes in the area, in the markets around where I was working and then I expanded that into the multifamily portfolio. Then I went through the kind of connections I made in this real estate business I started investing as a passive investor into syndications. Then I jumped into 2012 and afterward when crowdfunding became a viable entity through the JOBS Act and there were these crowdfunding sites trying to take root and take hold of that segment of the crowdfunding market and for real estate, I started investing with them.

That's really my personal background. Besides real estate, I've also invested an angel, I've been an angel investor, I've made connections in the Silicon Valley and that's where really my strengths are that I had the connections in the relationship between both the real estate market and a good knowledge of it and also, from the VC side or angel side, I kind of really got to know the workings of Silicon Valley and how a startup could succeed.

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WS: Nice, it's interesting just your history and investing and single-family to multifamily, then you went passive in syndications and then also you know, got into crowdfunding as well and other types of investing also.

Talk a little bit to us about what you're currently working on in the crowdfunding space and let's jump into what crowdfunding is and what you're doing there?

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KZ: Let's go back a little bit, in order to sell any kind of security, usually SEC frowned upon general solicitation and that meant that the only – whether it's stocks or real estate, you can't really go and advertise it for example in The Wall Street Journal or nowadays in online, on the internet or social media.

That was really frowned upon until around 2012 and later on, when you know, we had these crowdfunding exemptions and the 506(c) exemption and things like that. That allowed actually kind of the burgeoning or the rise of this whole sector of the market which actually one of the largest growth sectors about 50% year over year. It's going to get larger and larger in the future and that's no doubt about it.

Crowdfunding allows, for example, let's talk about real estate because that's what we're here for, allowing real estate professionals such as syndicators to take advantage of that because as you know, syndicates were limited to the pool of investors they knew. I mean, they usually have a core of investors and they always are trying to get more investors to invest with them.

This is – I mean, there's certainly wide part of the spectrum, there's really high – they're really successful syndicates that have a large number of assets under management and there's a large sector of the market that's just trying to build a network of investors, so what does that mean? They could be able to acquire a larger asset class, you've kind of limited by real money, right? That's always the issue.

This allows really those syndicates that are trying to build up their pool of investors to jump into the arena and be able to be more successful. The way to do it typically is through 506(c), that's mostly what the real estate syndicates have done because Reg A which is one of the other two ways of doing crowdfunding is very difficult and strenuous and tenants, very difficult to do it. Most syndicates don't really do that. It's really kind of a pre-IPO and it's very – just time and money-consuming, it doesn't really work.

The CF or crowdfunding exemption, actually the limitation is really, allows only one million – 1.07 million dollars but that's actually has changed. The big limitation crowdfunding exception was you could only get it – you could only raise about a million which you know, it's most of the time doesn't really work for any kind of syndicated deals.

However, there's been a new ruling which is going to go into effect in the next few months, it's going to raise the limit of five million. That's a big deal for crowdfunding exemption, that allows more of these real estate syndicated deals to be able to actually use crowdfunding exemption. Those are the three different exemptions we talked about.

Where Park Place comes in is so you know, in my investment with the crowdfunding platforms which I'm not going to name, I found that there are certain limitations and there are certain strengths to them. They highly vet their deals, so that means the end of the funnel really allows only .2% of their – all the deals that they vet to go through. It's a very difficult selection criterion for that.

Number two is the cost they impose on syndications could be anywhere between five to seven percent. As you can imagine, if you want to raise 10 million dollars, it could be quite a bit of money. Their deals are kind of limited to the larger syndications that are really kind of okay with that. But that leaves a large amount of the startup syndications and mid-sized syndications out of the arena.

What some of these syndications have done, they have created these portals for themselves either through white-label software and allow to build up the pool of investors. As you can imagine, it's very difficult to market yourself to the entire internet community because you know, their strength is not really in that. Their marketing was more towards the friends and family model, it's not really their segment of strength.

Having said all that, that you know, I realized, listen, I know I mean, this is just, it's time for it to change that really and that's where Park Place came from. I spoke to a few of my associates, some Silicon Valley, and they kind of did some due diligence. They said, "Yeah, this is actually a really good idea." I mean, you could – the idea is, create a platform that basically, it's a marketplace where syndications could list their deal, it's actually, it's very simple to list, they could list it within 10 to 15 minutes and the listing goes live.

And then from the investor side, the investors, you know, if they search for a deal and if it meets their, for example, location, certain criteria, then they basically connect. That's what we're doing, we're facilitating those transactions and meeting up of the investors with the syndications. We're not getting a cut of that. That's the model that's different, we're trying to democratize the entire sector and I think I believe there are many ways –

As far as the company's health financially, you could monetize it in a different way than the current crowdfunding platforms. The way that would create a more of a win/win situation for both investors, both for syndications and of course, for us to be able to survive financially and bring more of our services to the community.

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WS: Could you go a little more in-depth on the – just the relationship between let's say, the syndicator operator and you know, like Park Place Investment and what that relationship looks like when they have the deal and what happens?

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KZ: Sure, absolutely. The relationship, it's a partnership really because the syndications have complete control of your deal and Park Place is – we want them to know that park place is another way, not the only way so when they sign an agreement to list a deal with us, we don't have the exclusive agreement. That's not our business. We want them to succeed any way they can.

It's really a partnership, they would list their deal, the deal is going live, we do have a vetting process ourselves, make sure we don't have any bogus deals but we really kind of rely on our relationship that we built even before the listing for the syndications because we have so many syndications that we know and we want them to create the partnership of going live and that's for both of our benefits.

When Park Place – when the syndication lists the deal in Park Place, the deal is live they could upload their photos, the entire deal information. And the second thing we provide, if they choose to use our services, we have services that provide anything with the – you know, if they wanted to do 506(c), we provide all those services, if they want to do a perspective or offering them randomly, which is a requirement, although not strict for 506(c), we could provide those services. Obviously forming a real estate entity which you know, if they choose to use our services, we could do that, that's from the legal and kind of the regulatory standpoint. Those are the things we facilitate for them.

And also, we've created relationships with certain financial institutions that if they want to use our lenders, our choice, we could sound and provide that. It's a community, you know, we provide these survive if they choose to use it, they would if they don't, they don't.

Lastly, we do not charge any percentage commission on the capital raise, that's not how our model works. We want to make it really easy for them. We don't want them to list the deal and be charged $50,000 really. I don't think that is really a way to form a partnership.

[END OF INTERVIEW]

[OUTRO]

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