# Crowdfunding and Direct to Consumer Platforms: Where The Opportunities Can Be Found For Wealth Managers

HLC EQUITY

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# WHAT IS CROWDFUNDING?

A way for small businesses and projects to fund themselves by raising small amounts of capital from a large pool of investors

## 2012

With the passing of the JOBS (Jumpstart Our Business Startup) Act in 2012, crowdfunding became a legal way for businesses to raise money.

## 2016

In 2016, crowdfunding became available to non-accredited investors, opening up the door for smaller investors to get invested.

As a result, many crowdfunding platforms began to enter the real estate arena, flooding the market with cheap capital. Initially, many platforms hoped to target middle to upper-class investors that historically didn't have access to this asset class. However, many were already able to buy into real estate via rental apartments or shares in a REIT.

Soon enough, demand outweighed supply, leaving investors scouring the crowdfunding platforms only to find risky and less appealing projects. Additionally, platforms are volume-driven, making money from placement fees, rather than based off the quality or performance of the transactions they offer.

**"Proponents thought a tactic that could raise large sums while lowering marketing costs would transform real-estate investing the way Airbnb changed hospitality or Amazon changed retail."**

**- Wall Street Journal**

i. Putzier, Konrad, January 2020, "Crowdfunding Firms Blow Up the Model to Survive in Real Estate" | Wall Street Journal

In the days since the World Health Organization declared the pandemic in mid-March, the offerings on CrowdStreet's site have declined by 70%.

70%

But investor demand for those deals has increased by 50%, according to Ian Formigle, CrowdStreet's chief investment officer.

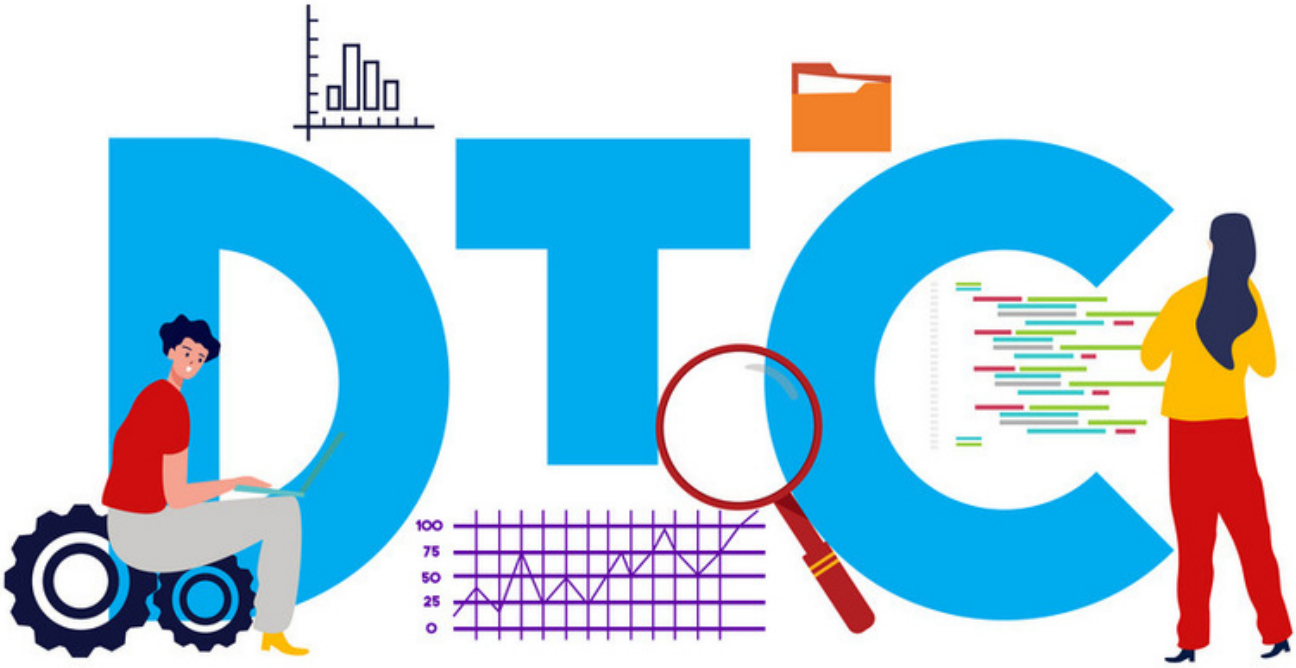
50%

CROWDSTREET

World Health Organization

i. Grant, Peter, June 2020, "Small Investors Are Crowdfunding Property Deals While Stuck at Home" | Wall Street Journal

**As the real estate crowdfunding industry shifts and evolves to adapt itself to current trends, many real estate veterans have opened up their platforms directly to investors.**




# WHAT IS DIRECT-TO-CONSUMER?

Direct-to-consumer refers to selling products, or in this case offering investments, directly to consumers or investors, bypassing any third-party groups or middlemen.

Among others, private wealth managers are increasingly turning to real estate sponsors to add real estate to their clients' portfolios. DTC platforms have made it easier for wealth managers to get connected with sponsors and get their clients invested.

# WHY INVEST THROUGH A DTC PLATFORM?

By investing directly with real estate sponsors, wealth managers benefit from:

## 1 Avoiding additional fees from middlemen

Crowdfunding sites charge per transaction adding to fees already charged by the sponsor of the transaction

## 2 Enhanced transparency into the transaction

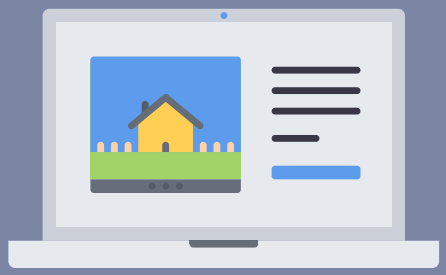
Direct access to sponsor's models, marketing material, and ongoing reporting throughout the life of the deal

## 3 Direct relationship with sponsors

Ability to create long standing relationships with sponsors who can give you market insight and updates on specific investments

## 4 Alignment of interests

Typically, sponsors will co-invest alongside their investors in all transactions ensuring an alignment of interest between the sponsor and their investors

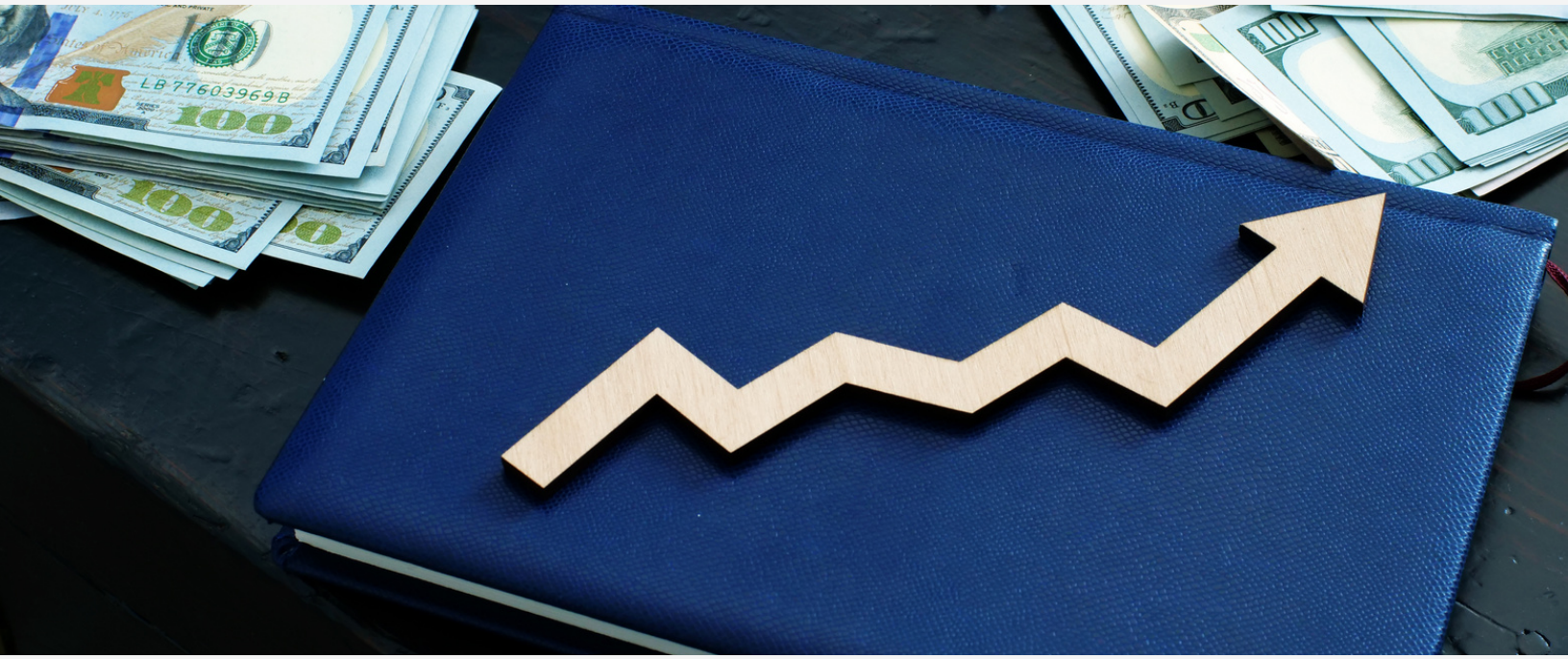


# What should wealth managers look out for when choosing a DTC platform?

Similar to other investments, investing in real estate carries a fair amount of risk. It's important to not only research the sponsor's track record within real estate, but within the sector or type of real estate that they are offering.

Secondly, it is important to match your client's risk profile with the offering as there is a wide spectrum of risk involved ranging from core assets, considered lower risk, to opportunistic, considered higher risk.

Lastly, wealth managers should have a good understanding of the various fee structures used by real estate sponsors.



Given our successful track record, we're looking to expand our investor base and deepen our relationships with wealth managers. As such, we've recently launched HLC Direct, our DTC investment platform, where you can view our current offerings and receive updates from us.

**WWW.HLCEQUITY.COM/HLCDIRECT**

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