



2017-2018 CrowdStreet Investor Survey

UNLOCKING THE MOTIVATIONS OF THE
ONLINE CRE INVESTOR



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INTRODUCTION

Ten years ago, few people could have foreseen the transformation of the real estate market in the aftermath of the 2008 financial crisis. Today, thanks to the passage of the Jumpstart Our Business Startups (JOBS) Act, online real estate crowdfunding has become a multibillion-dollar industry with sustained, year over year growth.

At the heart of this growth is a flourishing and sophisticated population of commercial real estate investors. In an increasingly unpredictable economic market, more and more individuals are turning to real estate to diversify their portfolios and insulate their wealth. Accordingly, today's investors demand accountability, expertise, and business acumen from the people and organizations with whom they do business. They are at once bullish and skeptical—driven by opportunity, but loath to place their trust in unfamiliar sponsors. At the same time, the internet has not only empowered them with greater access to offerings and information, but democratized the playing field, creating opportunities for individuals who span geographic regions and demographic identities.

As a whole, these investors are as diverse as they are alike: divergent in experience and preferences, but united by a demand for offerings of value.

Perhaps because of all this variation, sponsors lack unequivocal insight into core characteristics of the people they seek to attract: What motivates commercial real estate investors? How much research do they do before they invest, and where do they look for resources? What do they expect from sponsors in terms of background information, frequency of reports, level of guidance, and depth of risk assessment?

INTRODUCTION

To find the answers to these questions, we decided to go straight to the source. Our inaugural Annual Investor Survey collected detailed feedback from over 200 online investors. We posed questions such as the following:

- How would you rate your level of expertise in online commercial real estate investing?
- Do you expect to invest more or less in commercial real estate in 2018 vs. 2017?
- What kinds of investment opportunities appeal most to you?

The results were informative and, in some cases, surprising. Respondents gave candid, detailed responses to each topic we raised—from ideal property types to sponsor communication, and everything in between. We learned why “quality” is the first thing any investor looks for, how experienced our investors really are, why ease of use is as important as the particulars of a listing, and what investors need from sponsors in order to establish lasting trust.

Read on for an overview of our questions, respondents’ answers, and overall trends in the 2017-2018 CrowdStreet Investor Survey.



Online real estate investors: Who are they?

INVESTOR DEMOGRAPHICS

Before we examine data related to investors' motivations, it is important to understand investor demographics.

Where there is a multitude of investment options, there is a multitude of investors. Online marketplaces are full of active investors who take advantage of deal-rich platforms to find unique real estate opportunities and build diversified portfolios. These individuals run the gamut in terms of age, household size, marital status, education, race and ethnicity, gender, and cultural background.

Nonetheless, CrowdStreet online marketplace users tend to have a few things in common. All are high-net worth, accredited investors (i.e. they make over \$200,000 per year or have more than \$1 million in net worth excluding their primary residence). Many are retired or semi-retired, meaning they have the capacity to focus on their investments full-time.

55%

Investors who make
more than one
investment

4.6x

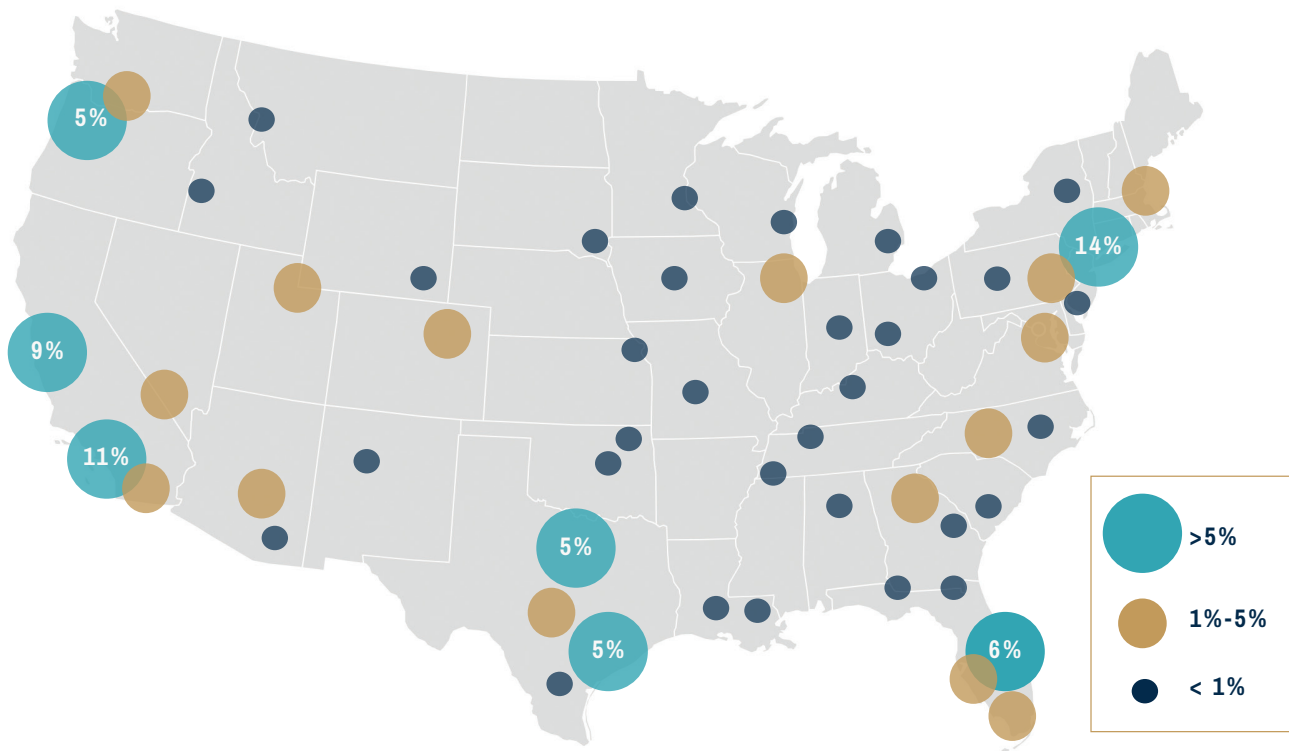
Average investments
per repeat investor

\$209K

Average portfolio
size of a repeat
investor

Although CrowdStreet investors who participate in online syndication are located in cities and regions throughout the United States, many are clustered in certain locales that correspond to dense population centers and key real estate markets:

- More than 20% of investors reside in California (11% in the southern portion of the state, 9% in the northern region), localized largely around Los Angeles and the San Francisco Bay Area.
- Roughly 14% reside in or around New York City.
- Over 10% reside in Texas, with 5% in the Dallas/Fort Worth Metroplex and another 5% in or near Houston.
- Over 6% reside in Florida, largely in the Orlando, Miami, and Fort Myers metropolitan areas.



Together, these clusters account for about 55–60% of all investors who use online marketplaces. Other regions and cities with large concentrations of investors include Chicago, Illinois; Seattle, Washington; Portland, Oregon; Charlotte, North Carolina; Atlanta, Georgia; Boston, Massachusetts; Denver, Colorado; Salt Lake City, Utah; and the Baltimore–Washington, DC metropolitan area.



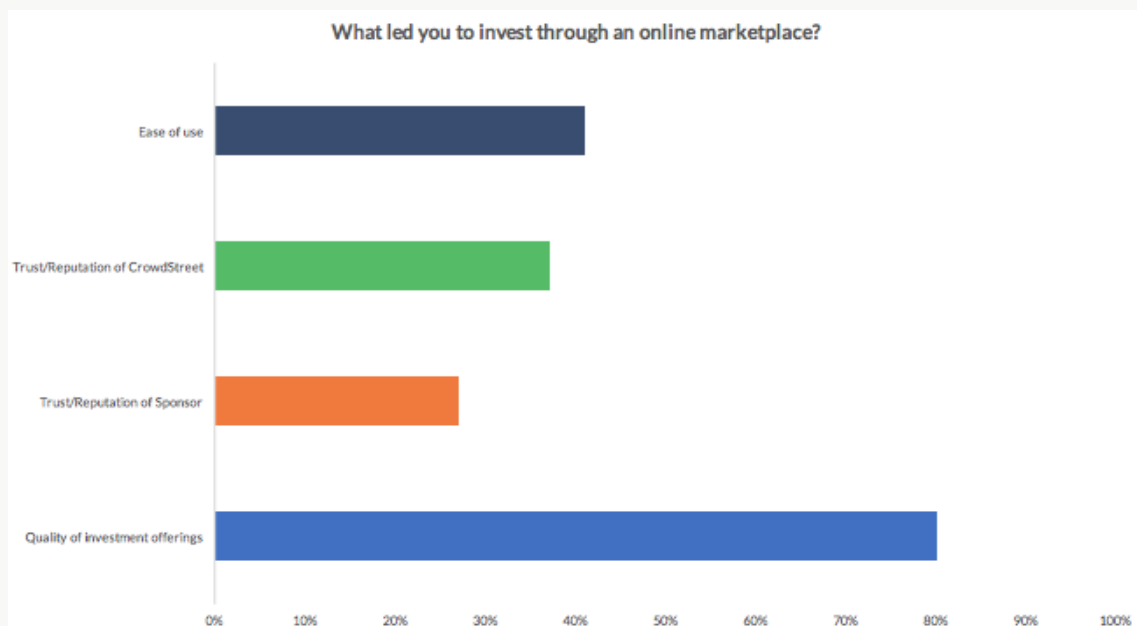
The search for quality investments and sponsors

WHAT MOTIVATES INVESTORS

Of course, demographics are only the beginning of the story. To know what kinds of offerings and experiences sponsors should offer to individuals who invest online, we needed to find out what those individuals were searching for.

So, what motivates investors? In a word: quality.

We asked those who participated in our survey, “What led you to invest through an online marketplace?” Respondents were allowed to select multiple answers. A total of 81% of respondents told us they participated in online syndication because of the quality of investment offerings listed in the marketplace. Contrast that number to the percentage of respondents who selected “ease of use” (41%), CrowdStreet’s reputation (36.5%), and the reputation of a particular sponsor on a given platform (27%).



Additionally, in response to how online syndication has exceeded expectations, many respondents left further comments related to the quality of available offerings:

“[T]he quality of deals and potential returns are attractive.”

“Being new to commercial real estate investing, I think that the most important advantage [the platform] offers me is the ability/opportunity to invest in a wide variety of high-quality real estate projects. The platform enables me to participate in potentially lucrative opportunities across the U.S. that would otherwise have been unknown/unavailable to me.”

“Investment offerings seem to be of a superior quality.”

“Quality of deals and sponsors plus good amount of deal flow.”

Although these answers shed light on investors’ wants and needs, a central question remains: How, exactly, do investors define “quality?”

Listings provide some insight. Generally, investors consider not only how a deal is marketed, but its distribution structure and timeline. Class A and Class B properties comprise the majority of offerings on many leading online investment marketplaces, and some platforms will only accept a Class C offering if the company is completely confident the sponsor will improve the asset to sufficiently bump it up to Class B. Countless successful deals project internal rates of return (IRR) at or above 20%, and many have relatively short-term holding periods (between 2–4 years).



“It is especially important (for me) that Crowdstreet perform a stringent due diligence to qualify the sponsors. Additionally, to act as an advocate for the investors...”

Investor from Plano, TX

It’s not just the deal—the quality of a sponsor matters to investors, too. Several respondents commented that the most important feature of an online marketplace is the level of access it provides to qualified, reputable, experienced sponsors. (In a later section of this report, we will examine how and why investors consider sponsor transparency a key measure of sponsor quality.)

Irrespective of a deal’s terms or a sponsor’s background, investors need to know that the offering has been vetted by a real estate investment professional. Respondents remarked that they pay close attention to a platform’s due diligence process and knowledge base; several commented that they are taking a wait-and-see approach toward online investment solutions.

In short, investors who use direct investment platforms online, like CrowdStreet’s, seek institutional-quality real estate offerings rather than “fix and flips” and smaller deals.

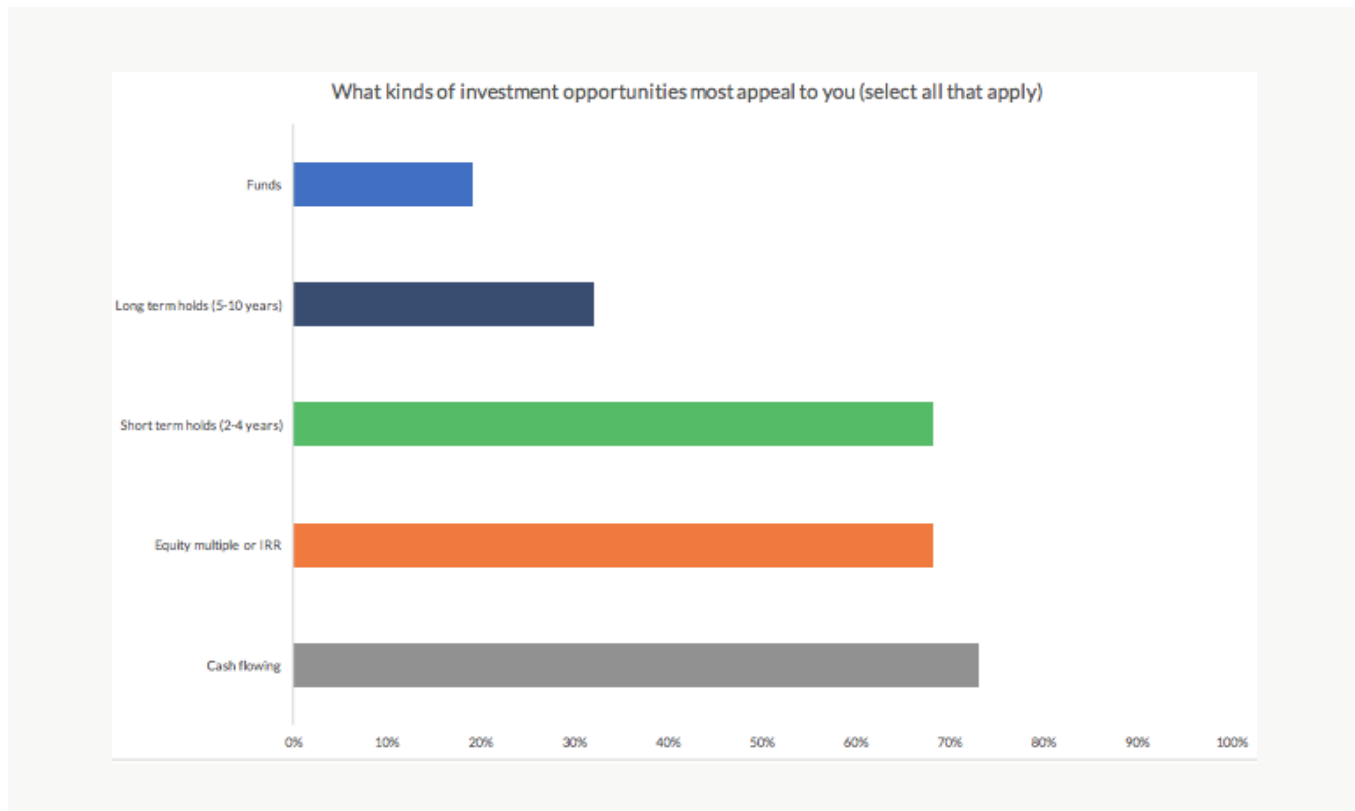


The importance of variety

A DIVERSE PORTFOLIO

Diversity is inherent to the success of today’s real estate market. A variety of offerings create the foundation for a dynamic, robust online marketplace that appeals to new and experienced investors alike, and will continue to provide value for all parties—investors and sponsors—for years to come.

Perhaps more than the quality of a specific deal, a variety of offerings is what keeps investors coming back to the marketplace. Today’s investors want options; they are looking to diversify, whether that means investing in a mix of opportunities with different distribution models, or, in the words of one respondent, “developing a ladder portfolio of short-term and long-term hold periods.”



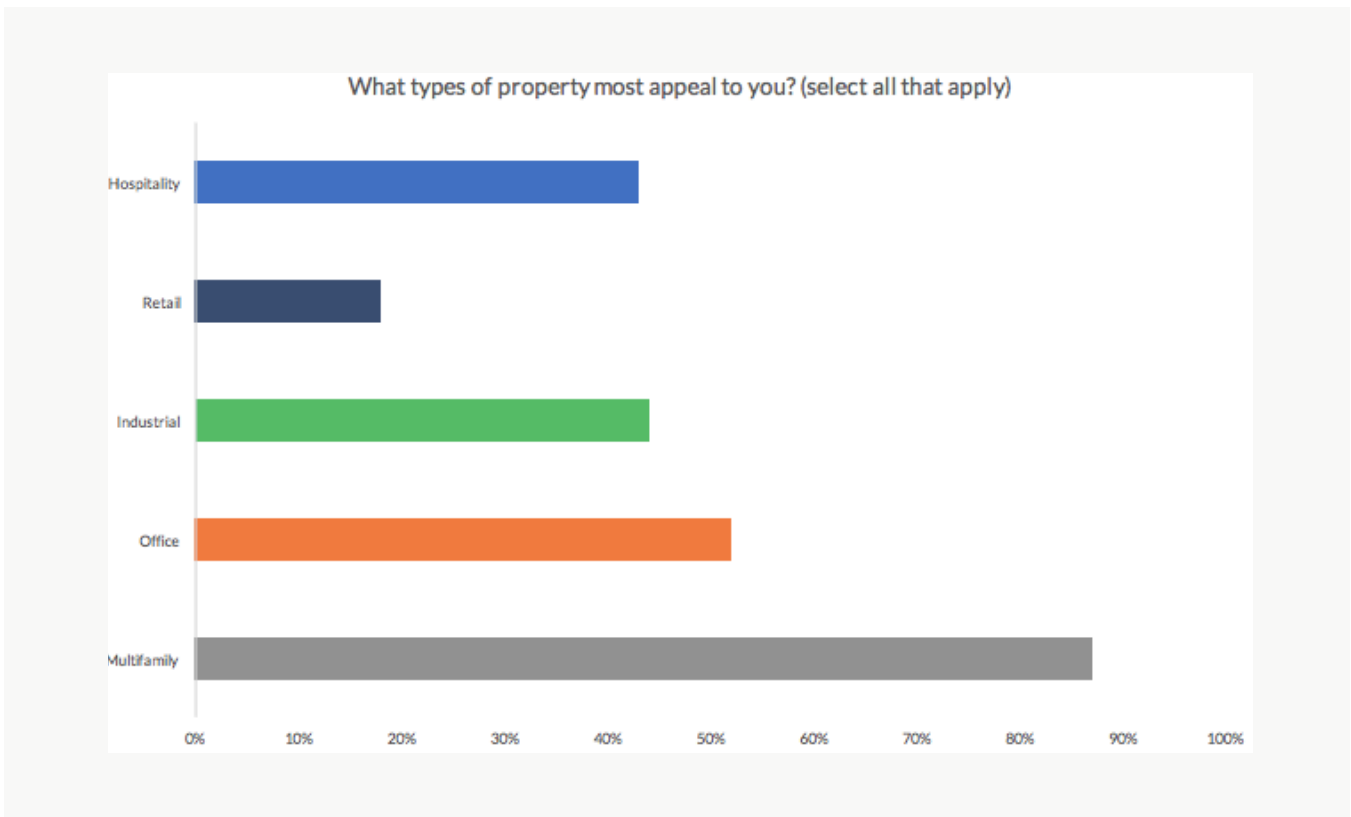
We asked investors, “What kinds of investment opportunities most appeal to you?” Respondents were allowed to select more than one answer—and in fact, most did:

- 74% said they find cash flowing appealing.
- 68% find equity multiple/IRR appealing.
- 68% also responded that they were attracted to short-term holds (2–4 years).
- 32% said they like long-term holds (5–10 years).
- Just under 20% selected funds.

In the words of one respondent: “all of the above, really.” Another wrote, “Can’t find enough deals to invest in.”

Based on respondents’ commentary, it is evident that the internet gives investors an ideal vehicle to diversify their investments—and to participate in deals outside of their local market. One respondent explained how an online platform “lets me invest in CRE with good returns and diversify from stock market,” and “presents opportunities in other regions in US where I otherwise would not be able to find investments.”

We also asked investors what types of property appealed most to them. The overwhelming majority (87%) selected multifamily properties, although about half also chose at least one other property type, again indicating an appetite for diversity.



Investors’ answers reveal a diversity of opinions and outlooks within a fairly experienced and optimistic group. Roughly 72% have invested one or more times with crowdfunding platforms, and their reasoning and investment strategies vary down to each individual’s unique profile.

Regardless of their specific objectives, investors generally recognize the value of CrowdStreet and other online investment platforms. Responses indicate that the CrowdStreet platform provides the diversity investors demand. With 81% of respondents expecting to invest the same or more in commercial real estate in 2018, now is the time for sponsors to bring their offerings online—or miss out on a prosperous era in this emerging industry.



For investors, transparency means more, and more detailed information

INVESTORS WANT INFORMATION

The number one takeaway from the 2017-2018 CrowdStreet Investor Survey? Investors want information.

Investors want information and communication from sponsors. Many respondents prefer platforms that allow direct access to sponsors, but feel that sponsors too often fall short by not providing timely updates about existing investments. Generally, investors would like to receive this information in a standardized, recurring format, such as monthly updates, the more detailed, the better. Some respondents characterized this as “transparency,” “responsiveness,” or “professionalism,” indicating it is a common expectation among investors rather than a nice-to-have. Sponsors can meet this need through calls (one-on-one and conference calls), webinars, emails, and in-person meetings.



[The] most important is quality of sponsors... good documentation and communication post deal investment.

Investor from Irvine, CA

Investors also want information from crowdfunding platforms, including information about sponsors' past performance, as well as general information about the real estate market. Respondents told us they assess platforms based on the quality and variety of educational resources such as blog articles, ebooks, podcasts, and webinars. In the eyes of investors, an online syndication platform should act as an advisor and provide information about how to assess risk in investment offerings, compare sponsors, gauge investment performance, diversify a portfolio, and more. A handful of respondents commented that they would like assistance evaluating private placement memoranda and other legal documents. According to one respondent, “it’s a bear to have to go through each offering’s docs in detail and try to compare with other offerings.”

Overall, investors want sponsors to step up and earn their confidence by delivering detailed information from the outset. Investors will conduct their own due diligence, but they would prefer CRE firms (and syndication platforms) to make it as fast and easy as possible. This feedback aligns with the recommendations CrowdStreet gives sponsors who use our platform: a strong business plan, high-quality photos, consistent branding, and other professional touches go a long way towards drawing investors in and earning their trust.

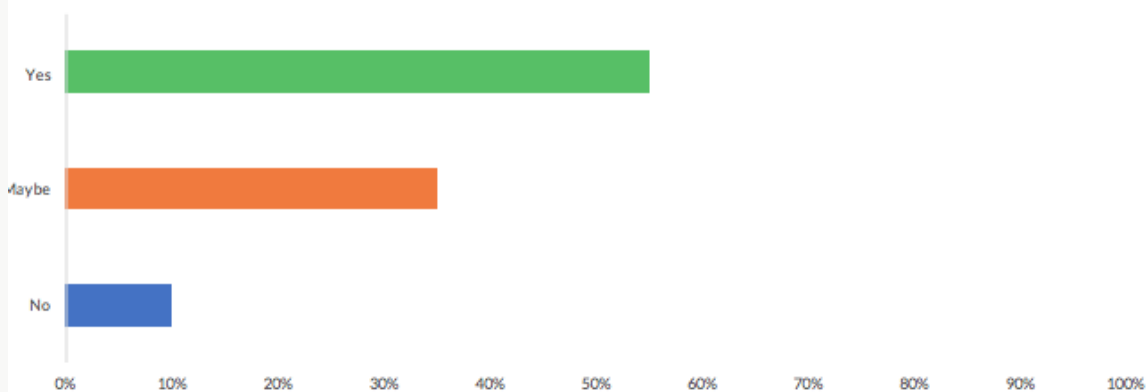
Finally, investors are enthusiastic about connecting with each other to share information and learn from each other. Over 90% of respondents told us they would possibly attend a live investor education forum for networking, meeting sponsors, and hearing from online crowdfunding experts, and many said they would be interested in participating in or leading a local investor user group. Based on survey responses, a majority of investors consider themselves experienced and educated in the market, but feel they could be better informed about the market, and that there is always more to learn.



It would be great if the industry adopted standardized PPM and other legal documentation. It's a bear to have to go through each offering's docs in detail and try to compare with other offerings."

Investor from Miami, FL

Would you attend a live investor event?



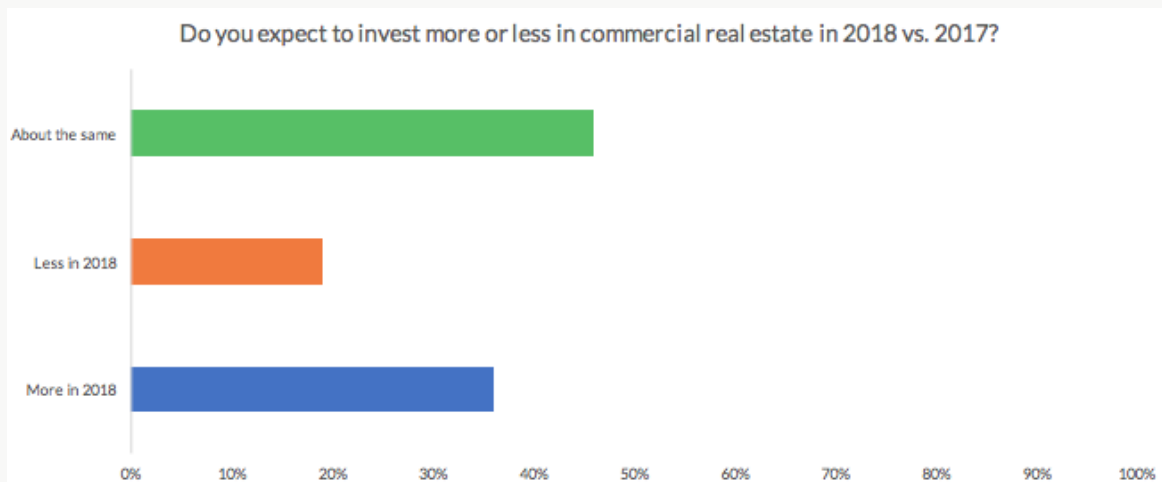
Conclusion

OPPORTUNITY AWAITS

The results from the 2017–2018 CrowdStreet Investor Survey reveal a pool of impassioned investors eager to take advantage of the variety of offerings online. The outlook for 2018 is extremely positive: 81% of investors expect to invest at the same level as they did in 2017, if not more. Investors are embracing online crowdfunding: most (72%) have already used an online platform at least once, and most are confident in their ability to navigate the marketplace and vet listings. And the high rate of investment diversification among respondents indicates that there’s a type of investor out there for virtually every offering.

To tap into this enthusiastic market, sponsors need to meet investors’ standards of transparency and appetites for variety. Based on our findings, sponsors should not be afraid to over-index on quality. There may be more active investors online, but they are no less discerning than their offline counterparts.

Sponsors should thereby prioritize transparency and investor communication. Firms should not only optimize information in their offerings and legal documentation, but develop in-depth educational resources for investors. Investors expect thoughtful, useful, easy-to-understand information—before and after they cut checks. As long as a sponsor can meet these needs, investors appear more than willing to invest—and reinvest—for as long as market conditions remain favorable. After years of regulatory and technological progress, online crowdfunding is realizing its full potential in 2018. For investors and sponsors, opportunity awaits.



About CrowdStreet

CrowdStreet’s innovative online platform makes online fundraising and investment management simple and easy. Our solution helps your company:

- Raise capital with online fundraising,
- Get high-quality deals in front of accredited investors,
- Grow your high-net worth investor network,
- Centralize and simplify your investment management, and provide your investors with a great online experience.

Additionally, sponsors can use CrowdStreet’s set of educational tools to improve investor communication and transparency—and gain a competitive advantage as a result.

For more information and to get started, visit business.crowdstreet.com. If you would like to learn more about our inaugural Investor Survey and discuss how your business can apply these insights for better investor acquisition and management in 2018 and beyond, please get in touch with us at explore@crowdstreet.com or by calling 888.432.7693.

