

# Crowdfunding & Housing:

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## Creative Approaches to Community-Based Financing

Presented by Kate Redman  
Commonplace Practice

# Overview of Presentation

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- Quick Review of Community-Based Financing & Crowdfunding
  - What it is, why it is changing, and why it might matter.
- Group Discussion: What are the key barriers to meeting our community housing gaps?
- Potential Tools/Models for Using Crowdfunding & Community-Based Financing for Housing Development
- Potential Applications: Next Steps

# Community-Based Financing

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## Quick Review

# Community Based Financing & Crowdfunding: Quick Review

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- Terminology
  - Community –Based Funding vs Crowdfunding
  - Investment vs Donation Crowdfunding
- Other types of Community-Based Financing
  - Cooperatives (Cherryland Solar; Oryana expansion)
  - Local investment networks (As Local As Possible)
  - Small, local pooled-investment clubs (Common Cents Capital)

# Community Based Financing & Crowdfunding:

## Types of Crowdfunding

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- “Rewards” or “Donation-Based” Crowdfunding
  - This might include: Civic Crowdfunding, Crowdresourcing
  - Local examples: Rialto Theater; Rare Bird; Grand Traverse Edible Trails; Carter’s Compost
- Investment Crowdfunding
  - This might include: Revenue Share, 0% Loans, Equity Crowdfunding; Accredited Investor-Only Crowdfunding
  - Local examples: MI Farm Market, Earthen Ales

# Community Based Financing & Crowdfunding: Crowdfunding Trends

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- **Small but Growing Fast**

- Estimated \$6 billion dollars raised globally in 2013; \$16.2 billion in 2014; \$34.4 billion in 2015
- 22% of Americans have participated in at least one crowdfunding (Pew Foundation, May 2015)
- Crowdfunding is still small percent of total raised funds in US –But platforms and crowdfunding are in triple digit growth.
- 2017 is predicted to continue rapid growth, especially for investment crowdfunding in U.S.

# Community Based Financing & Crowdfunding: Crowdfunding Trends

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- Equalizer/Innovator/Purpose-
  - More funding for small business, for women, for artists, for entrepreneurs.....
  - 32% of first 50 projects using national Title III crowdfunding were social enterprise (which are only 5.7% of total entrepreneur economy)

**Forbes** / [Entrepreneurs](#)

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## Rewards Crowdfunding: Still Propping Up The Innovation Economy

# Community Based Financing & Crowdfunding: Crowdfunding Trends

- In United States, we hear more about donation crowdfunding, but globally investment crowdfunding is dominant. Why is that? **Enter securities law . . .**





# Investment Crowdfunding: Securities Law Applies

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- Most loans and investments are a “security”
  - A “security” must be registered with state and/or federal agencies unless it fits within exemptions to state and federal law
- Important points of securities law:
  - Different rules for “accredited” investors
  - Limits on public advertisement for investment
  - Limits on asking for or accepting investment from “non-accredited” investors (regular people)
- Recent changes in securities law enabling community-based investment
- Allow public advertisement to non-accredited investors (within limits)

# Community Based Financing & Crowdfunding: Why does it matter?

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- Securities laws are invisible infrastructure that determines how businesses and community members think about investment
- For communities: Community-based financing can be MORE than financing
  - Economic and community development: fill vacant buildings and empty lots
  - Builds new relationships
  - Diversify local economies
  - Encourage development that community members want to see (such as workforce an affordable housing)
  - Attract & retain talent
  - Multiplier effect of local capital staying local

# Community Based Financing & Crowdfunding: Why does it matter?

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- Benefits for local community members/investors
  - Connection and engagement of donors/investors with local projects
  - Diversify investments for financial stability
  - Bring more than funding: customers, promoters, advocates
- Local Businesses/Nonprofits/Organizations
  - Funding source with motivation beyond financial return
  - Can fill gaps in access to capital
  - Use crowdfunding for engagement of customers/community

# Investment Crowdfunding

## JOBS Act – Title III Federal Crowdfunding

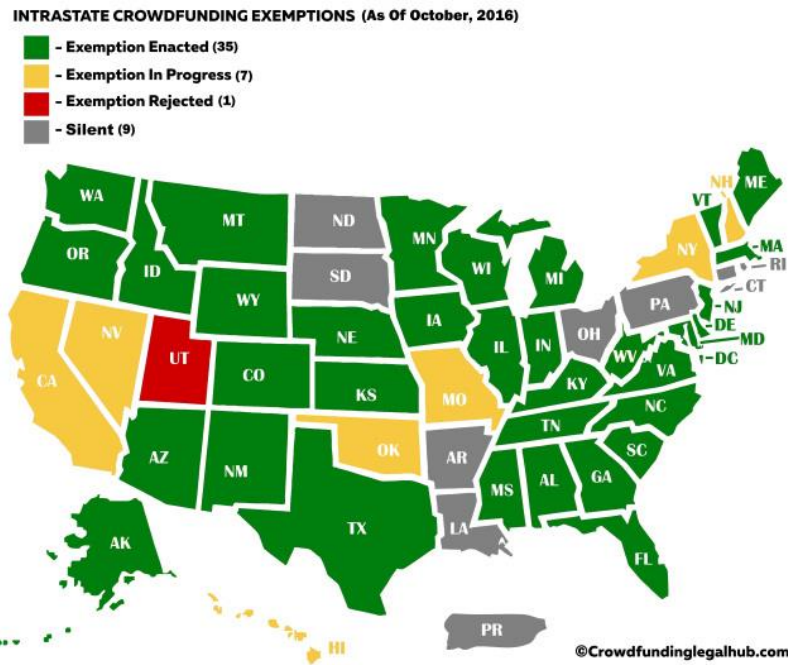
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- Became in effective in May (finally)
- Businesses can raise up to \$1 million per year
- Individual investors have annual limit on all investments: varies, but for most people is around \$2000 (if annual income OR net worth is < \$100K)
- Allows flexibility in structure (loans, equity, etc)
- Other rules to note
  - Must register offering with SEC (“Form C”), including numerous disclosures
  - Annual reports to investors/SEC
  - Must use SEC-registered online platform
  - Public advertising (social media) permitted but limited to specific info
- Other exemptions/registrations can be used for crowdfunding under federal law

# Investment Crowdfunding

## Michigan Invests Locally Exemption (MILE)

- Must comply with “intrastate” exemption to federal securities law: Michigan business with Michigan residents as investors
- Straight-forward registration process
- Raise up to \$1 million or \$2 million with audited financial statements
- Accredited investors can invest unlimited amount; non-accredited can invest up to \$10,000 in any one campaign
- Allows flexibility in structure (loans, equity, etc)
- ***Look for changes in limits on social media advertising***



# Investment Crowdfunding: Some Pros/Cons

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- **Pros (from business perspective)**

- Flexible structure for terms of debt; Can be used to leverage additional funds
- Can sell project to funders based on concerns beyond financial return
- Crowdfunding is a marketing tool, too
- Community-based financing can benefit local community, residents, businesses

- **Challenges**

- Administrative workload
- It won't be useful for all businesses or all capital raises
- It is still pretty new: uncertainty and education of investors and advisors

# Community Based Financing & Crowdfunding: Quick Review

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- Examples of other types of Community-Based Financing
  - Cooperatives (Cherryland Solar; Oryana expansion)
  - Local investment networks (As Local As Possible)
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# Affordable/Workforce Housing

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What are the barriers?



# Barriers: Why is this a problem?

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- Lack of financing?
- Property values?
- Compliance/regulatory costs?
- Zoning/land use regulations?
- Lack of community support?
- Lack of leadership to implement projects?
- Lack of developer interest?
- Comparatively lucrative alternative projects?

# Can Community-Based Financing Address These Key Barriers?

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- Provide more patient, flexible financing that is less risk averse and more likely to support innovation?
- Show community support to help address regulatory barriers?
- Provide mechanism to build relationship between needed players?
- Provide donations to support “land trust” model to lower cost of land?
- Support creative and eco design features?

# Community-Based Financing

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Potential Tools and Models

# Potential Tools & Models:

## Types of funding

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- Individual Projects
- Community real estate “mutual fund” for all residents/investors
  - Special securities law exemptions: could be either held by 501(c)(3) nonprofit OR invested only in real estate
- Business-stakeholder/supported pooled investment (such as downtown businesses jointly investing in housing)
- Supporting creative and unique design features

# Potential Tools & Models:

## Donation Crowdfunding/“Pre-Selling”

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- Nonprofit affordable & workforce housing
  - Support affordable/workforce housing developed by or in partnership with nonprofit organizations
  - Green design & solar upgrades for affordable housing

# Potential Tools & Models:

## Donation Crowdfunding/“Pre-Selling”

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### Open Building Institute: Eco-Building Toolkit



Open source initiative to make affordable eco-housing widely accessible.

Created by  
Marcin Jakubowski

1,902 backers pledged \$115,860 to help bring this project to life.

- Pre-sell units to support innovative design and affinity-based housing
  - Green design
    - Example: Open Building Institute Eco-Building Toolkit ([www.kickstarter.com/projects/622508883/open-building-institute-eco-building-toolkit](http://www.kickstarter.com/projects/622508883/open-building-institute-eco-building-toolkit))
  - “Millennial” and “Baby Boomer” attractors: tiny houses, storage cubes good design (Hab Housing)

# Potential Tools & Models:

## Investment Crowdfunding

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- Option 1: Individuals invest in individual Projects
  - Loan-based crowdfunding or equity investment
  - Rehab or “flip” homes in need of renovation
  - Multi-family units; Accessory Dwelling Unit development
- Option 2: Create community real estate fund
  - Diversified investment in local real estate projects: balance of affordable and regular investments
  - Could be managed by nonprofit, for profit, or municipal entity
    - Favorable treatment for real estate funds under Investment Company Act
    - Use of municipal bonds
  - Could invest in energy efficiency and “greening” of existing infrastructure

# Potential Tools & Models:

## Investment Crowdfunding

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- Option 3: Business/Stakeholder Supported Fund or Individual Project (local businesses join forces to fund shared housing)
- Option 4: Create community real estate fund
  - Diversified investment in local real estate projects: balance of affordable and regular investments
  - Could be managed by nonprofit, for profit, or municipal entity
    - Favorable treatment for real estate funds under Investment Company Act
    - Use of municipal bonds
  - Could invest in energy efficiency and “greening” of existing infrastructure



# Potential Tools & Models: Investment Crowdfunding

- Lots of room for innovation and creativity
- Community could support development of “infrastructure” to support more local investment, including: self-directed IRAs, local crowdfunding platform, resources for conducting campaigns

grist

ELECTION 2016 BRIEFLY GRIST 50 SECTIONS NEWSLETTER [DONATE](#) MORE



SHARE THE POWER

## **This affordable housing complex has a solar farm on its roof**

By Sam Bliss on Apr 3, 2015

# Potential Tools & Models:

## Other Community-Based Financing

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- Cooperatives
  - Aging in place
  - Affinity-housing
- Condominium/Time-Share
  - Subsidize worker housing with weekly rentals in the shoulder season?
- Land ownership separated from building ownership
  - Community Land Trust
  - New applications for Michigan's obscured and out of date "Summer Resort" laws
  - Potential for community equity real estate investment? Use of secondary market?

# Can Community-Based Financing Address These Key Barriers?

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- Provide more patient, flexible financing that is less risk averse and more likely to support innovation?
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# Community-Based Financing

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Potential Applications & Next Steps

# Are there next steps?

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- Which types of projects are most promising?
- Continuing work groups on specific projects?
  - Who will convene?
  - Which projects are most interesting?
- Other next steps?

# Contact

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