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The 2014 [Crocker Symposium](#), “Constructive Disruption: Adapting to Change in Evolving Real Estate Markets,” is presented by [UCLA Ziman Center for Real Estate](#) and [Los Angeles County Bar Association](#), November 6, at the Millennium Biltmore Hotel Los Angeles. It will include a panel on “How Today’s Disruptive Technologies will Shape the Future of Real Estate.” Additional panels will explore many other significant demographic, political and economic shifts fundamentally transforming real estate markets.

Crowdfunding Is Causing Creative Disruption to Real Estate Transactions

By Paul S. Rutter, Of Counsel, Gilchrist & Rutter; and Board Member, UCLA Ziman Center for Real Estate

Real estate transactions are quickly evolving through the use of crowdfunding technology. Traditional sources of debt and equity face disruption from online crowdfunding platforms such as Realty Mogul, RealtyShares, Patch of Land and others.

The Internet has created new ways to invest and acquire goods and services. Whether it is Uber for transportation, Airbnb for hotel rooms, or Kickstarter for start-ups, these new business models offer radical new efficiencies— sometimes by avoiding regulations or eliminating redundant layers of costs. Real estate is no exception. Office and retail buildings, industrial properties, multi-family and even single-family homebuilding are experiencing rapid changes in capital formation through internet based platforms.

The impact of such creative disruption is the theme of the November 6, 2014 [Crocker Symposium](#): “Constructive Disruption: Adapting to Change in Evolving Real Estate Markets,” presented by UCLA Ziman Center for Real Estate and Los Angeles County Bar Association.

While real estate syndications are nothing new, the new crowdfunding platforms are making the process so smooth and open that retail investors can easily buy into a residential loan, an office building or an apartment complex in increments starting as low as \$5,000 for some investments. These platforms will not replace the large equity or debt players, but they do open the door to retail investors seeking direct investment in real estate and they offer deals that most investors would not easily find. With these new platforms bringing opportunities daily or weekly, the potential investors can efficiently compare returns and risks in different markets and among different product types, and see how other investors react to the offerings.

“Some of the potential crowdfunding investments are fully subscribed in a day and most of them appear to be sold-out within a few days after they are offered...”

These crowdfunding platforms have brought investors a steady flow of opportunities over the past year and they should continue to expand their deal flow. While the platforms currently only offer deals to Accredited Investors, under SEC Regulation D, the 2012 JOBS Act will allow a crowdfunding exemption for both Accredited Investors and non-Accredited Investors, which will expand access to these private deals.

Some of the potential crowdfunding investments are fully subscribed in a day and most of them appear to be sold-out within a few days after they are offered. This is, no doubt, a function of today's yield-hungry investment environment, but it also reflects the ease of doing these transactions. An investor can review all of the information about an investment and its sponsor from the investor's computer. At least so far, investors are trusting in the quality of the underwriting being done by the online platforms.

To my knowledge, none of these crowdfunded investments have failed. The first such failure will test the durability of the crowdfunding model. Investors must have confidence that the crowdfunding sponsor can and will exercise remedies against a defaulting borrower, or that it can exercise appropriate remedies against a general partner that defaults in a venture. Such defaults and failures are inevitable, and if the platforms protect the rights of their investors, then crowdfunding will become a more mature and durable source of debt and equity capital.

Real estate may still be made of concrete, steel, sticks and bricks, but in many ways it is being impacted by new technology. Crowdfunding is just one example of the impact of technology on our industry: it will likely be an increasingly valuable tool for owners and developers to raise capital and for retail investors to enjoy the advantages of direct real estate investment.