



By combining resources, crowdfunding opens the real estate market to more retail investors

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# Crowdfunding real estate: a new reality booming?

Here's why this investment platform is good for the industry and for you

By Tanvir Shah

Everyone remembers that day in school when friends pitched in to buy equipment for a sports competition. We've all done it. A jointly owned asset to bring wealth and glory to the community. Sourcing physical assets jointly, co-owning them with others and distributing rewards are fundamental human behaviours. These fundamentals underpin real estate investment trusts (REITs), which are a blind pool of wealth that jointly own and manage real property assets and redistribute rental

receipts and sales proceeds. REITs usually operate multiple large assets. We are talking entire buildings or communities. REIT managers also charge a fee to manage the fund and its assets.

Similarly, online REITs use online platforms and digital technology to enable wider access to REITs and quicker dissemination of REIT information. This allows mass participation and broader wealth distribution.

Then comes innovation. The Smart Dubai initiative has enabled blockchain at the Dubai Land Department. The Dubai International Fi-

nanacial Centre (DIFC) and Abu Dhabi Global Market (ADGM) have low-cost special purpose vehicle (SPV) regimes. Lower costs could justify even a single-unit REIT. A registered, regulated entity that could own just one studio apartment let's say.

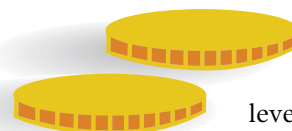
This leads us nicely to crowdfunding of hard assets. The crowd — you, me, friends, family and neighbours — can pool money to buy physical real property assets.

This is very common in banking,

where it's called syndicated finance and used heavily for large national infrastructure projects. The smart crowd of bankers and high-net-worth individuals were privy to these deals for practical reasons. The ticket size to crowdfund a \$1-billion airport is not exactly for everyone. However, a three-bedroom apartment in Mumbai, Manchester or Dubai Marina jointly owned by a hundred individuals sounds realistic.

It also helps diversify risks for investors.

At the unit level, this can have



## An investor's perspective

By Siddiq Farid

Crowdfunding breaks barriers and lowers the entry point for real estate. A crowdfunding mechanism allows you to build a diversified real estate portfolio. This in turn protects you against the failures of owning only one or two properties. Real estate crowdfunding also offers attractive risk-adjusted returns.

Even though real estate crowdfunding seems like a real estate investment trusts (REIT), it is quite different and offers better value proposition to retail investors. Unlike REITs, where investors have no control on investment decisions, crowdfunding provides full control of investment decisions, transparency on ownership and income generation.

A publicly traded REIT's performance correlates

closely with public markets, but direct real estate investing, which crowdfunding relates to, offers better diversification against public markets such as stocks and bonds. This makes it an attractive alternative to an investment portfolio.

However, investors should do their homework. Many such platforms have been formed recently, but only a few pass the smell test. It is important to understand whether they are regulated and how the investments are structured. Ensure you are not exposed to the operational risk of the platform. Is your investment ring-fenced

and protected against fraud?

Before considering any investment, make sure you understand how much due diligence the platform does itself. You should raise serious questions about anything that seems unclear.

Real estate crowdfunding is innovating how real estate investment takes place. It offers many benefits, but it is also important to understand the cost structure. Ensure you receive value for your money. Evaluate the returns offered on a risk-adjusted basis, and don't allocate your entire investment portfolio on such platforms. Utilise it as an integral part of your investment portfolio.

At Smart Crowd we were cognitive of this and ensure that our platform is regulated, and our legal structure adheres to local rules and regulations. Each property investment is also ring-fenced to protect the investors. ■



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Siddiq Farid, co-founder, of Smart Crowd, receives the top prize at the Gitex Accenture FinTech competition

a huge positive impact on the real estate market. It opens demand for real estate at even Dh5,000 in savings. The crowd is activated: fresh, much-needed demand for developers and investors. Even individuals earning less than Dh50,000 per month can now own slices of a wide real estate portfolio, helping minimise risks.

Instead of one person buying a Dh500,000 apartment, what if we each contribute Dh5,000 each? And we each hold one share in a DIFC- or ADGM-registered SPV entity? So we each own 1 per cent beneficial ownership of a real property asset, e.g. an apartment.

Smart Crowd, a DIFC FinTech Hive-incubated startup, is planning to do just that. It recently won the Gitex Accenture FinTech competition and also took home the winner's prize of Dh100,000 at the Sharjah Entrepreneurs Festival. Smart Crowd is a crowdfunding platform, very different from an online REIT. The company believes it can enable anyone with Dh5,000 in savings to enter the Dubai property ladder. Its platform is awaiting final regulatory approval from the Dubai Financial Services Authority (DFSA), which will open fresh untapped demand for Dubai's property markets.

Siddiq Farid, co-founder, says, "For far too long the average person has not had an opportunity to access the real estate asset class in a meaningful way. We want to change that by allowing them to access it and sustain the investment through cyclicity of the market."

It's truly an amazing time to be in property technology. These innovations will have a net positive impact on unlocking real estate wealth. ■



Tanvir Shah is managing director of The Partnerships Consulting. The views expressed here are his own.