Viability of crowdfunding in the South African commercial real estate market

Elan Zwick

A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Wits Business School

February 2016

ABSTRACT

Crowdfunding can be defined as an open call for funding over the internet. This is done with the aid of an online portal which connects the investing crowd with the entrepreneur/deal sponsor in order to fund a project.

The rapid growth and adoption of crowdfunding in the United States and Europe, combined with the relaxing of financial regulations in these countries, has given rise to equity-based crowdfunding, whereby an investor can contribute money in exchange for an equal portion of equity in a given project. Equity-based crowdfunding laid the foundation for commercial real estate crowdfunding which allows a large number of people to contribute small amounts of capital in exchange for an equity stake in a commercial property.

Equity based crowdfunding and commercial real estate crowdfunding does not yet exist in the South African marketplace.

A survey on the notion of commercial real estate crowdfunding was conducted to gain insight from commercial property professionals in the investment and development market in South Africa. An in-depth interview was also conducted with a financial and legal expert from Java Capital to provide understanding into the commercial property regulatory and securities environment in South Africa and where real estate crowdfunding could potentially fit into a South African context.

The key findings of the survey suggest that both investors and developers of commercial real estate: (1) experience difficulty in raising bank finance and sourcing qualified investors, hence losing out on otherwise viable investment and development opportunities; (2) prefer different property types and attributes when purchasing or developing commercial real estate; (3) view the internet and its various online portals as an important asset when procuring new business.

A key finding of the interview is that equity-based crowdfunding and commercial real estate crowdfunding has a long road to travel from a crowdfunding regulatory/legal framework to come into existence in South Africa. No legal framework exists yet for this type of investment platform. The closest connection

to real estate crowdfunding would be the Collective Investment Schemes Act, Act 45 of 2002. This Act is governed by the auspices of the Financial Services Board and has the most stringent set of regulations compared to other Acts that govern the exchange of securities in the commercial property marketplace.

Evidence from my research suggests that commercial real estate crowdfunding poses a big opportunity for the South African commercial real estate market. Although equity-based crowdfunding legislation is a long way from fruition in South Africa, government, together with the FSB must take the necessary steps to allow for such an investment platform to coexist alongside other investment vehicles.

If crowdfunding, in all its various forms discussed in this research paper, is implemented and executed well, the benefits to South Africa are enormous. The main benefits include: stimulation of the economy and driving economic growth; providing entrepreneurs with an alternate access to capital; and ultimately creating jobs for the millions of unemployed people in the country.

DECLARATION

I, Elan Zwick, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Elan Zwick

Signed at ……………………………………………………

On the …………………………….. day of ………………………… 2016

ACKNOWLEDGEMENTS

First and foremost, I would like to express my eternal gratitude to my rock, my soulmate, my wife. Without her unwavering support during the past two years, and her tireless dedication to our two children in my absence, this feat would've been impossible.

I would further like to express thanks to my supervisor, Mr David Zidel. Without his introductory MBA class, the notion of my research topic would never have materialised. Thank you for encouraging me and motivating me with your words of wisdom and displaying a real interest in my chosen topic.

Finally, I wish to express gratitude to my family, friends and classmates for their enduring support over the past two years.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1. INTRODUCTION

1.1 Purpose of the study

The purpose of this research is to ascertain whether South African real estate investors, property developers and owners of commercial real estate (CRE) will adapt to a highly innovative and technology-driven crowdsourcing platform as an alternate means of raising capital for viable property investments and disposing of commercial property.

1.2 Context of the study

Molick (2014) defined crowdfunding as the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries. Crowdfunding is an open call for funding on the internet. An online portal provides the necessary means for the transaction to take place.

Crowdfunding was originally intended at donation-based raises, most notably with the likes of Kickstarter and Indiegogo, where no benefit was meant to be derived by a funder. Over the past few years, crowdfunding has evolved to include equity-based crowdfunding which is where an investor will provide funding for an equity stake in the crowdfunded project or business. Crowdfunding is an embryonic online trend representing a new potential pool of capital as a source of start-up equity financing (Ley & Weaven, 2011).

There is an essential trait in crowdfunding, and that is, the crowd funds what the crowd wants. It is a venture that is entirely dependent on desirability. Projects that are of a high quality are clearly distinguishable to funders (Mollick, 2014). From this viewpoint, it was deduced by Gorman and Sahlman (1989) that funders act as venture capitalists and evaluate the quality of the product, the team and the likelihood of success.

Due to the success of equity-based crowdfunding, a new form of equity-based funding was born – Real Estate Crowdfunding.

According to a survey which was conducted by the Property Sector Charter in 2013, The South African commercial real estate market is worth an estimated R780 billion. Corporate investment property accounts for R600 billion of this, and includes R120 billion which is held by the country's listed property sector. The balance of the R180 billion is held by the life and pension funds, as well as private equity funds. There is a further R520 billion rand worth of property investment through undeveloped land (EAAB, 2013).

There are numerous reasons why commercial property investors find immense value in the underlying asset: Commercial property is an asset which appreciates in capital value over time, commercial property investors benefit from rental income with the upside of annual rental escalations and commercial property is a tangible asset comprised of bricks and mortar. A commercial building has many uses and can be maintained, upgraded or redeveloped depending on the changing needs of the market.

In South Africa there are various methods of investing in commercial real estate.
Firstly, investors can buy shares in listed property funds. Commercial property acquisitions by listed funds are driven by the quality of the asset and the strength of the occupying tenant. The majority of the property held by listed funds is tenanted by national, blue-chip tenants. This provides security to an investor and minimises the risk associated with the investment. A key benefit for an investor is that "listed property outpaces inflation, which means the sector is a good way to get around inflation"(Boshoff & Bredell, 2013)

Another avenue to investing in a commercial building is by using angel investors and venture capitalists who will provide the initial capital outlay to secure a transaction in exchange for a large equity stake in the property transaction.

The most traditional means for securing a loan to purchase commercial real estate is by utilizing bank financing. Most banks in South Africa require a, investor to put down a minimum 20%-30% deposit to finance the commercial property transaction.

Another way to invest in commercial property in South Africa is by way of a property syndication. Property syndication is seen in a negative light in South Africa due to high levels of fraud in recent years. This method of investing is still a favourable method for a group of individuals pooling resources together to acquire commercial property.

On the other end of the spectrum, there are very few ways an owner of CRE can dispose of his/her property. These ways include selling through CRE agents, selling privately or by way of a public auction.

With the inception and adoption of CRE crowdfunding in South Africa, an opportunity will present itself to investors, property developers and sellers alike.

1.3 Problem statement

Main problem

The research problem is to assess the feasibility of a real estate crowdfunding platform and to ascertain if the South African commercial real estate market and the relevant governing bodies for trading securities will have both buy-in and support. If the outcome of the research is favourable, there is major potential for a commercial application into commercial real estate crowdfunding.

Sub-problems

The first sub-problem is to analyse the effectiveness of a crowdfunding platform.

The second sub-problem is to ascertain whether the South African commercial property market will adapt to a real estate crowdfunding platform whereby investors can gain access to property investments by contributing capital in exchange for equity.

The third sub-problem is to assess and establish a legal framework that must comply with the Securities Law in South Africa.

1.4 Significance of the study

Globally, very little research has been conducted in the area of real estate crowdfunding. Internationally, crowdfunding is a new phenomenon that is completely revolutionising the way entrepreneurs and business start-ups are able to gain access to funding for various projects. Crowdfunding is causing a major disruption to the financial sector as the crowdfunding model provides an alternate means for raising capital.

Until the recent introduction of the Jumpstart Our Business start-up (JOBS) Act in the United States in 2012, it was illegal for companies to sell equity and debt in exchange for future compensation. This all changed in July 2013, when the ban on soliciting private placement securities was lifted. The primary objective of the JOBS Act was to aid capital formation that can stimulate small business growth, which includes sourcing capital from the crowd. It also provides strict regulatory guidelines for the sale of securities via the crowd which helps to eliminate fraud.(Burgett & McDonald, 2013)

The commercial property market in South Africa has been plagued in recent years with many property syndications gone wrong, with the founders of these schemes defrauding billions out of the unassuming investor – most times the elderly's pension life savings. This has created a stigma attached to property syndications and it is now perceived as a risky investment for two reasons: property syndication has proved to be an area for high levels of fraud and corruption, and secondly, the lack of a defined governing body that is responsible for the regulation of property syndications in South Africa. (Woker, 2013)

The study aims to benefit commercial real estate investors, commercial property developers and owners of CRE investments.

Commercial property investors will benefit from the study due to the creation of a new platform for investing relatively small amounts of money for an equivalent equity stake in the property. Unlike owning shares in a listed property fund, the investor will actually own a portion of a fixed asset and should benefit from annual rental escalations as well as capital growth when the asset is eventually sold.

One of the main reasons why most financial institutions decline financing of commercial property is due to the imbalance of income versus expenditure of commercial property investors – a commercial real estate crowdfunding platform will eliminate this imbalance.

Property developers, who often struggle to raise finance on the back of a proposed development scheme, will benefit from the crowd who could find favour and immense value for the proposed development. In today's current market, South African banks are extremely reluctant to finance the purchase of land and require a substantial deposit – more so for a ready built, income-producing commercial property.

Owners of CRE investments have very few avenues for disposing of their assets or raising equity to finance a project, and a crowdfunding platform will provide access to a relatively large database of CRE investors to purchase or invest in the underlying asset.

1.5 Delimitations of the study

Included	Excluded
✓ **Commercial real estate**	✗ Residential property ✗ Agricultural land
✓ **Online property transactions**	
✓ **Financial Services Board**	✗ Department of Trade and Industry ✗ South African Reserve Bank ✗ Consumer Commission

1.6 Definition of terms

- Crowdfunding: The practice of funding a project or venture by raising money from a large number of people who each contribute a relatively small amount, typically via the Internet (Oxford Dictionary)
- FSB: Financial Services Board
- JSE: The Johannesburg Stock Exchange
- Angel Investor: A person who supports a business financially, typically one who invests private capital in a small or newly established enterprise.
- PUT: Property Unity Trust with listings on the JSE
- PLS: Property Loan Stock listing on the JSE
- REIT: Real Estate Investment Trust – replacing the traditional PUT and PLS listings to keep up with global standards as well as providing a large tax benefit to both company and investor.
- Mixed-use building: Property with a combination of retail and offices or retail and residential (classified as commercial property).

- Due Diligence: The procedure undertaken by commercial property investors to make sure that they have all the necessary information on the property or development to make an informed decision before purchasing.
- Deal Sponsor: Individual or business looking to raise capital for a CRE project

1.7 Assumptions

- All CRE investors have access to the internet.
- CRE investors will purchase property via the internet – this is a critical assumption for the CRE crowdfunding portal to work.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

This literature review aims to unpack all relevant information surrounding the relatively new phenomenon of crowdfunding, the commercial real estate market and the current laws and regulations governing the equity–based (which includes commercial real estate) crowdfunding market.

The review starts with a broad definition of crowdfunding. I then list and describe the various types of crowdfunding models and highlight the key model which will be used in assessing the feasibility for the study, namely, Equity crowdfunding.

The next element to be covered in the report is the Commercial Real Estate (CRE) market, with particular attention to the South African market. Several categories of commercial real estate investment will be discussed, followed by the various channels used for individuals and institutions to invest in CRE.

The literature review will end off describing the regulatory environment for equity crowdfunding. Literature pertaining to equity-based crowdfunding will be based from a European (UK) and American framework as currently there are no laws or regulations for this type of investment in South Africa. I will however make reference to laws governing the securities market in South Africa.

Crowdfunding Defined

Valančienė and Jegelevičiūtė (2013) define crowdfunding as a method to establish the link between entrepreneurs, who aim to raise capital, and innovative investors, who form an emerging source of capital and are willing to invest small amounts, through internet-based intermediaries. In other words, crowdfunding is a method for entrepreneurs to raise money, from a large pool of investors, via an online platform, in order to fund a particular project, product or business.

Crowdfunding involves three participants (1) The crowd (also known as the contributor or investor); (2) The crowdfunding platform; (3) Crowdfunding campaign creator (also known as fund seekers/deal sponsors)

The Crowd (Contributors/Investors)

Investors or Contributors are members of the crowdfunding community who decide to commit their financial resources to a project (Valančienė & Jegelevičiūtė, 2014) Investors will contribute their money toward a project either for philanthropic reasons such as supporting a charity or alternatively for receiving a financial reward in the form of a promised return on his/her investment.

Fund Seekers (Entrepreneurs or Start-ups)

Fund seekers make an open call for funding with the promise of either monetary or non-monetary returns for investors (Valančienė & Jegelevičiūtė, 2014) Two key questions for fund seekers is how much money needs to be raised and how much information they are willing to disclose to the public about the particular venture. Fund seekers must play an active role in marketing their project by word of mouth. This is achieved via family members, friends and their social networks. (Gabison, 2014)

The Crowdfunding Platform

This is the intermediary connecting the fund seekers to the investors. The intermediary comes in the form of a website/portal that publicises the fund seekers' projects and provides constant feedback to the crowd about on-going, as well as already funded projects.

Types of Crowdfunding Platforms

There are four main types of crowdfunding models: (1) Donation-based; (2) Reward-based; (3) Lending-based and (4) Equity-based.

Donation-based Crowdfunding

Investors contribute to causes they want to support with no expected reward. This is done purely for philanthropic reasons. This is the simplest of the models and legally the transaction takes the form of a donation (Wilson & Testoni, 2014). Various donation-based crowdfunding sites have gained traction in South African in recent years, namely, *Thundafund.com*; *Startme.co.za* & *fundfind.co.za*.

Reward-based Crowdfunding

This is similar to donation-based in that the investor is not interested in financial gain, but rather supports an entrepreneur to launch a new product or service. The crowdfunding platform allows the entrepreneur to attract a group of investors who essentially pre-purchase the product. Certain projects will appeal to some funders while being completely irrelevant to others. This implies that “taste heterogeneity among funders plays a more prominent role for projects launched on reward-based than on investment-based crowdfunding platforms” (Belleflamme et al, 2015)

Mollick (2014) conducted an exploratory study to decipher what the key drivers are to a successful reward-based crowdfunding campaign. His research was done on US, reward-based platform, *Kickstarter.* The purpose of the research paper was to test which attributes of a project-raising campaign are most likely to determine their success or failure. The study concluded that funded projects tend to have (1) excellent communication by the fundraiser, which represents the quality of the project; (2) where the fundraiser has a large social network base; and (3) where there is a close relationship between the business idea and the cultural environment in which it will come to existence.

Lending-based Crowdfunding

A fund seeker makes an open call for a loan whereby the investor receives a fixed periodic income in the form of interest payments as well repayment of the original principal investment (Wilson & Testoni, 2014). Also known as Peer-to-peer (P2P) lending, this model has gained increased interest as a way of introducing increased liquidity into the market (Harrison, 2013). Examples of a P2P crowdfunding portal are *peerform.com* and *lendico.com*. This model plays a role in CRE crowdfunding when a property developer is looking at developing a piece of land and requires start-up capital to get the development underway. Another example would be when a commercial property owner is seeking a loan to refurbish his property.

Equity-based Crowdfunding (Crowdinvesting)

By far the most complex of all the crowdfunding models, Equity-based crowdfunding is where investors receive financial compensation in the form of fundraiser's equity-based revenue or profit-share arrangements (Wilson & Testoni, 2014). In other words, the entrepreneur decides how much funding is needed to get the initiative going in exchange for a percentage of equity, usually in the form of shares. The investors will receive a pro-rata share depending on how much capital they intend committing. Examples of equity-based crowdfunding platforms are *crowdcube.com* and *equitynet.com.*

Figure 1 illustrates two variables, namely, Level of uncertainty and Complexity. As investors progress from donation-based crowdfunding to equity-based crowdfunding, both the levels of uncertainty and complexity increases. This is due to the fact of increased regulation and concern from policymakers when delving into financial-based reward investments. There is also strong information asymmetry at the debt and equity-based investment models which will be discussed later on. (Ahlers et al, 2015)

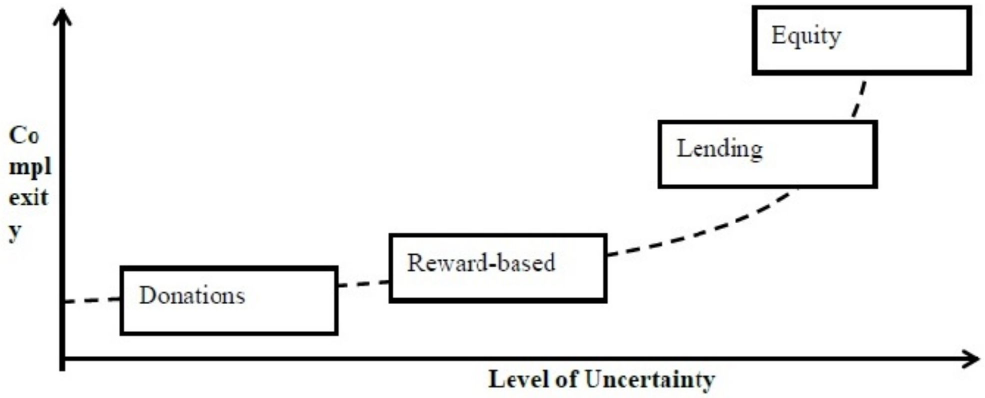


Figure 1: Complexity and Uncertainty of Crowdfunding Business Models

Adapted from (Hemer 2011)

Equity Crowdfunding and the Link to CRE Crowdfunded Investments

"Equity crowdfunding is a limited initial public offering (IPO) conducted via an internet intermediary, often called a funding portal, and during the internet based IPO, companies seeking funds give campaign contributors stakes into their ventures. This is typically in the form of shares" (Gabison, 2014) This can be compared to a private company which is about to go public with a listing on the JSE. Shares will be offered to individual investors and institutions who find value in the business proposition.

Since the global financial crisis of 2008, there has been a severe drop in bank lending to new and small businesses. The establishment of the vast majority of European portals overlaps with the global financial crisis of 2008 and subsequent credit crunch. (BORELLO et al, 2015)

Wilson and Silva (2013) state that banks are hesitant to fund young entrepreneurs due to their perceived riskiness and lack of collateral. The risk is evident for funding young entrepreneurs but at the same time, equity crowdfunding poses a great opportunity for emerging markets such as South Africa. According to the

Crowdfund Capital Advisors Report (2014), “Equity crowdfunding should be considered as one of the main mechanisms for economic development and job growth policy interventions.” Equity crowdfunding has the potential to create jobs, speed-up economic recovery and drive innovation (Valančienė & Jegelevičiūtė, 2014).

With the adoption of an equity-based crowdfunding platform in South Africa, property developers and CRE landlords will be able to make an open call to investors to fund a particular CRE project.

Due to its many complexities, special attention has been given to equity-based crowdfunding by policymakers. Regulations pertaining to the model will be discussed in more detail in the final section of the literature review.

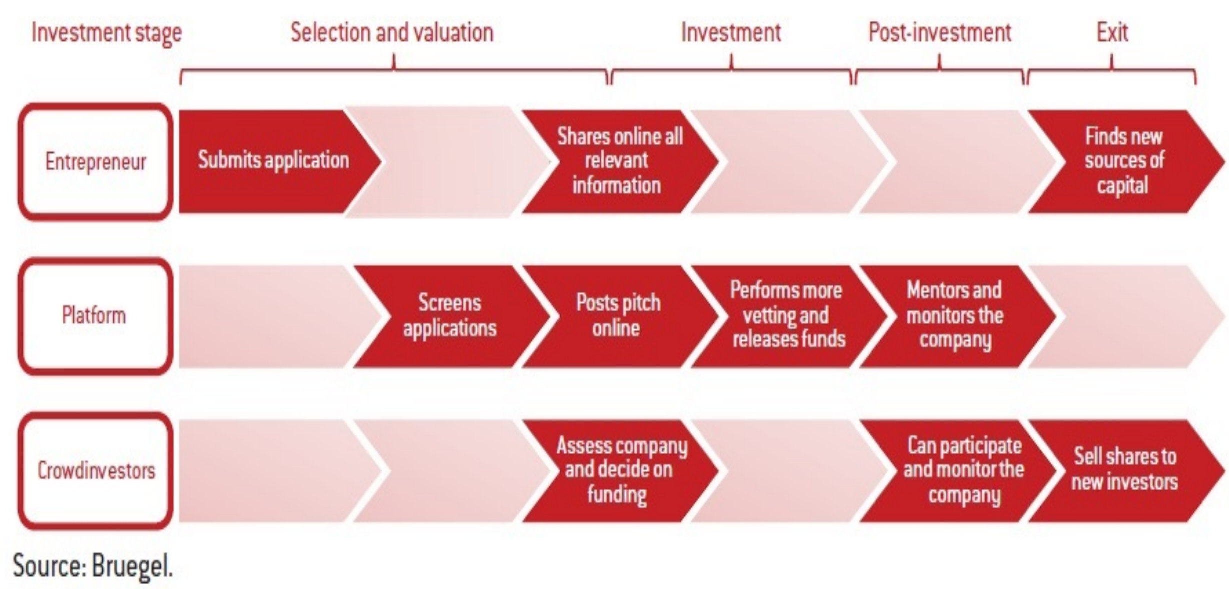


Figure 2: The equity crowdfunding process

Source: Bruegel (Wilson & Testoni, 2014)

2.2 The South African Commercial Real Estate Market

For the purpose of this research, commercial property includes the following types of properties: office buildings; industrial warehouses or factories; retail malls; strip malls; multi-use buildings including a retail component, office and/or residential component; land zoned for commercial or industrial use; hotels and petrol stations.

The main benefits to investing in commercial real estate are (1) Capital appreciation of the asset; (2) rental income and (3) Diversification (Sebehela 2007).

Capital appreciation

Capital appreciation refers to an increase in the market value of the underlying asset over time. Property assets can appreciate due to infrastructure improvements such as new roads and improvement to existing arterial routes. An example in South Africa is the creation of the Bus Rapid Transit System (BRT) which aims to link various parts of a city into a network (Government, 2007). These BRT routes allow for employees to easily access key business districts.

Another way for a property to appreciate is by physically improving the asset with a complete renovation or refurbishment.

Lastly, capital appreciation occurs due to annual increases in rental income. Typically speaking, rentals escalations are above inflation in South Africa, ranging from eight to ten percent per annum. Each year the underlying asset will earn the landlord more money, thus increasing the value of the property over time,

Rental Income

Rental income is the driving force behind owning commercial real estate. The aim for majority of commercial real estate investors is to own an asset where the rental income pays for the monthly bond repayments. Rental income comes in the form of a commercial lease agreement whereby a tenant pays a monthly rental for use of the property. In most cases, rental income increases annually between 6-10%. Rule of thumb is that the better the quality of the tenant and the longer the lease term, the lower the annual rental escalation, and the riskier the tenant and a shorter lease term, the higher the annual rental escalation. Over time, the increase in rental income increases the value of the underlying asset.

“Real estate today can provide investors with an on-going income yield as well wealth appreciation and a number of other financial benefits” (Burgett & McDonald, 2013)

Diversification

Diversification occurs in two areas in CRE, geographically and asset type diversification. The old adage goes “do not put all your eggs in one basket”. This is portfolio diversification. Investors have a choice of investing within certain sectors of property or geographic regions (Sebehela, 2007). The benefit derived in portfolio diversification is hedging your risk as an investor. Certain property investments might fare well in high growth suburban areas and at the same time, an investor may experience difficulty in collecting rent from tenants in slower growth locations. “The challenge is to construct a portfolio that suits investors’ risk and utility levels at the same time have assets that are independent of each other” (Sebehela, 2007)

This research will propose that portfolio diversification can be achieved by a CRE crowdfunding platform, allowing investors to pick and choose which assets they would like to own in their portfolio. This differs substantially from investing in the listed property sector where an investor buys shares into a broad range of properties without being able to select his own portfolio and keep track of the property’s individual performance.

2.3 Investing in Commercial Real Estate

There are numerous ways in which individuals can invest in commercial real estate, including; bank financing; angel investors and venture capitalists; property syndication and buying shares in listed property companies

Bank Financing

When an individual want to finance a commercial property transaction in South Africa, he/she can do so by approaching a financial institution such a bank. Major Banks in South Africa that provide commercial property financing include Absa; FNB; Nedbank and Standard Bank. The biggest downside in obtaining a commercial loan from a bank is that the banks require a minimum 25-30% deposit in order to qualify for the loan. To put this deposit into context, an individual wanting to invest in a R10m commercial property would have to put down a sizeable deposit of R2.5m-R3m. While investing in this real estate transaction may present a unique opportunity for the investor, typically speaking, "it is generally not possible for small individuals who are not very wealthy to own whole commercial properties directly. But it is possible for wealthy individual investors, as well as investment institutions to own large commercial properties or portfolios of properties directly"(Geltner et al, 2013).

The research proposes that a commercial real estate crowdfunding platform would allow smaller, lower net-wealth individuals, an opportunity to own a stake in a sizeable commercial property investment without the complexities of putting down a large deposit or signing suretyships.

Angel Investors (Business Angels) and Venture Capitalists

Both angel investors and venture capitalists are options for individuals wanting to invest in commercial real estate. Both types of investors will provide an initial capital outlay in order to secure the property transaction in exchange for a considerable share of equity in the commercial real estate asset.

Business Angels are typically high net wealth individuals that look for business opportunities from entrepreneurs whereby they can gain a considerable financial return on their investment. "An angel investor is a person who provides capital, in the form of debt or equity, from his own funds to a private business owned and operated by someone else who is neither a friend nor a family member" (Shane, 2012). Business angels will invest in areas where they have expertise and market knowledge.

Venture Capitalists (VCs) provide an opportunity for start-ups who lack the resources to access capital markets. VCs pool resources such as finance, expertise and management to effectively run the new venture. Based on research conducted by Portmann and Mlambo (2013), the top three criterion for Venture Capitalists to invest in a start-up are: (1) the entrepreneur is honest and has integrity; (2) the entrepreneur has good knowledge of the sector; and (3) the entrepreneur has a great desire for success. This research proposes that these will be important factors to consider when assessing the profiles of fund seekers on commercial real estate crowdfunding platforms.

Property Syndication

Due to an individual's limited access to capital, coupled with a lack in expertise, and combined with a strong desire to build a commercial real estate portfolio, there is the option of joining public-property syndications. Through this type of investment scheme, money is pooled from numerous investors to purchase or develop a property (Woker, 2013). Unfortunately, over the past few years, property syndication in South Africa has received a negative stigma due to the large amounts of fraud and corruption by syndicate administrators. The most notable and costliest scam to date is the *Sharemax* public-property syndication, which was declared by the FAIS Ombud as a Ponzi scheme. According to a Business Report in September 2014, more than 33,000 investors invested R4.5 billion in various *Sharemax* schemes. The *Sharemax* property syndication makes it the largest fraud case in South African history (Cokayne, 2014)

According to Woker (2013), consumers generally do not have the expertise to judge the validity and risk of many investment opportunities and therefore have to trust that there is a system in place which is designed to protect their interests. The most concerning issue in Woker's (2013) paper is that there is little certainty as to which governing body is responsible for the control and regulation over public-property syndications.

Commercial real estate crowdfunding is closely tied to public-property syndication in that small amounts of money are pooled by numerous investors to facilitate the purchase of commercial property in exchange for receiving a pro-rata financial return according to the value of the shares. Special attention must be given to eliminating the negative stigma associated with property syndication as well as providing certainty over the correct regulatory governing body for commercial real estate crowdfunding in South Africa.

The relevant governing bodies and regulations will be discussed in greater detail later on in the chapter.

The Listed Commercial Property Sector in South Africa

Doppegieter and Rode (2002) make a distinction between real estate investments as being either direct or indirect.

Direct real estate investments are owned by the investor(s) who actively partake in managing the operational elements of the asset.

On the other hand, “Indirect real estate investments refer to shares that are issued against a portfolio of properties” (Boshoff, 2012). Due to the fact that shareholders do not own the physical assets, indirect real estate investments are treated as financial investments. Shareholders participate indirectly in the rental income derived from the property, but ultimately have no direct involvement in the operations of the asset.

The indirect real estate market is characterized by the listed property sector. CRE companies are either listed on the JSE or the ALTX depending on the market cap

of the portfolio. As at December 2013, the listed property sector's market cap was sitting at R222 billion (Boshoff & Bredell, 2013).
"Catalyst Fund Managers actively monitor 44 real estate companies listed on the JSE and as at the end of January 2015, the market capitalisation of these (excluding Intu and Capco) was R370 billion" (BROLL, 2015)

Patrick and Ralf (2003) deduced that the behaviour of listed price shares is influenced by pro-active involvement by institutional investors as well as the quality and amount of information that is available to them when they are about to make investment decisions. This opinion is further supported by research conducted by Boshoff (2012). A test was performed and it was concluded that companies who had up-to-date, accurate information, had substantially higher percentages of institutional investors as opposed to companies that provided very little information or where there were gaps in the information supplied. This is a very important point to note when pursuing a CRE crowdfunded deal. Up-to-date reporting on the overall transaction is crucial and provides credibility for investors (both individual and institutional)

Prior to the adoption of the current Real Estate Investment Trust (REIT) legislature in South Africa, there existed two types of property investment vehicles: (1) Property Unit Trusts (PUT's) and (2) Property Loan Stocks (PLS's)

Property Unit Trusts (PUT's)

PUT's comprised of a portfolio of investment grade real estate which shareholders would benefit from the rental income and capital appreciation of the assets. Properties were held in a trust and were listed on the JSE. The governing body of PUT's was the Collective Investment Schemes Control Act (Act 45 of 2002) and the trusts were held to a stringent regulatory framework.

PUT's were permitted to invest a portion of assets into foreign fixed property and property shares, gear up to 30% of the value of the underlying asset and could invest directly in property, as opposed to investing in shares of property-holding companies.

With regards to tax dispensation, tax was not paid on the income that was distributed to the trust. Distributions were treated as interest and were taxed in the hands of the unit-holder. PUT's were also exempt from paying Capital Gains Tax (CGT)" (Boshoff 2012)

Property Loan Stocks (PLS's)

A PLS is a company that invests exclusively in real estate and is subject to the Companies Act and JSE regulations. A PLS is governed by their own Memorandum and Articles of Association.

The core difference between a PLS and a PUT is that the owners of a PLS fund the company.

"When you purchase a linked unit in a PLS, it consists of part share and part debenture (loan). The debenture portion of the linked unit earns interest at a variable rate. This interest is derived from profits, which the PLS achieves from rental income from its property investments" (Boshoff, 2012). In simple terms, PLS companies offer both debt and equity to investors, and each has their own return based on the risk. Listed PLS companies offer both A and B linked units. Generally speaking, the A and B linked units offer different return to investors. The higher the return is, the more risky the investment. Boshoff's (2012) test went a step further to deduce that the debt to equity ratio plays no major role as far as institutional investors are prepared to invest. Cash returns are considered the most important factor.

When applying a CRE crowdfunded transaction, an interesting research proposition would be to discover whether a strong, corporate tenant, on a long term lease holds more weight compared to how the transaction is financed.

Although PLS's and PUT's operate very similarly, they have very different structures, and most notably completely different tax structures.

This is one of the driving reasons the South African listed property sector has decided to implement the more globally accepted REIT structure.

Real Estate Investment Trust (REIT) in South Africa

On the 25th of October 2012, the National Treasury formally published the REIT tax legislation and on the 1st May 2013, the new REIT structure came into effect in South Africa. "REIT legislation entails that the governance and tax treatment of PLS entities will be aligned with the present treatment of the regulated PUT, thus aiming to incorporate PLS and PUT under a single umbrella" (Boshoff and Bredell 2013).

Implementation of the REIT structure in South Africa is intended to create transparency, flexibility and clear tax guidelines in the listed property sector.

According to SAREIT (2013), A South African REIT is "a listed property investment vehicle that is similar to internationally recognised REIT structures from around the world. Listed Company REITs (previous PLS) or Trust REITs (previously PUT's) are publically traded on the JSE REIT board and qualify for the REIT tax dispensation.

A JSE-listed SA REIT must own at least R300million of property; keep its debt below 60% of its gross asset value; earn 75% of its income from rental or from property owned or investment income from indirect property ownership; have a committee to monitor risk; not enter into derivative instruments that are not in the ordinary course of business and must pay at least 75% of its taxable earnings available for distribution to its investors each year.

The JSE (2013) published a report outlining the benefits for investors investing in the new REIT structure:

REITS give investors indirect exposure to a wide variety of expertly managed property, combined with a regular income stream based on long term lease agreements with annual escalations.

Investors in REITS are exposed to immovable property with lower initial outlays.

REITs are exempt from Capital Gains Tax (CGT) in respect of the disposal of the its immovable property, shares in another REIT or shares in a controlled property company; REIT shareholder will only pay CGT when the REIT share is sold; Interest distributions by a REIT (or a controlled property company) payable to South African resident investors are re-characterised as taxable dividends, but dividends withholding taxes will not apply; Where the recipient is a non-resident investor, the dividend will remain exempt from income tax.

REITS have high levels of liquidity. REITS are traded on the stock exchange and are considered more liquid than immovable property

REITs, notwithstanding the JSE Listing Authority, are subject to the REIT legislation particular to the country in which the company is incorporated, the Companies Act as well as their own Articles of Association or the Collective Investment Schemes Control Act

Finally, pricing of REITS is transparent. The share price of REITs is determined by market forces (demand and supply) and is visible to the public.

REITS are very similar to CRE crowdfunded transactions in that both structures allow for smaller investors to pool funds together and invest in property. The major difference being that investors in CRE crowdfunded transactions get to allocate their own portfolio of properties. Although REITS have the advantages of liquidity and convenience over CRE crowdfunded transactions, “they also come with the downside of high (and often hidden) management expenses and fees” (Burgett & McDonald, 2013)

	Investment Form	Pros	Cons
EQUITY	Direct Real Estate	• Can target specific markets/ property types • Investment in "hard assets" • Specific cash flows from rental income	• More asset-specific risk • Need for a property/asset manager • Liquidity issues — takes time to sell or buy physical assets • High transaction costs
	Pooled Investments in Direct Real Estate	• More diversified portfolio of underlying properties • Potential for increased liquidity	• Product claims to offer daily or monthly liquidity, but underlying assets can take much longer to sell • Transaction costs to buy and sell units are high
	Listed Real Estate Securities (REITs)	• Easier to diversify portfolio • Daily liquidity and pricing • Transparency of reporting • Attractive dividend yields	• Moves more in line with short-term movements in broad equity markets
	REIT Preferred Stock	• Has a priority claim on cash flow • Higher dividend yields than REIT common stock • Listed on major exchanges and can be traded in small quantities	• Can offer lower total returns than common stock • Liquidity issues
DEBT	First Mortgage Debt	• Occupies first position in capital stack • Provides income throughout investment period	• Liquidity issues
	Commercial Mortgage-Backed Securities (CMBS)	• Can invest selectively in tranches to manage investment risk profile	• New issuance collapsed in the credit crunch • Diffusing risk to more investors doesn't make risk disappear
	Mezzanine	• Can offer higher returns than first mortgage debt	• Greater risk than first mortgage debt
	REIT Unsecured Debt	• Offers greater liquidity than many other forms of real estate debt	• Dependent on a REIT's ability to repay • Not secured by specific assets • Can be volatile and illiquid

Figure 3: Pros and Cons of Real Estate Investment Forms

Source: Urdang (Briddell 2010)

2.4 The Regulatory Environment for Equity-based Crowdfunding

CRE Crowdfunding – International rules and regulations for equity-based crowdfunding

Due to lack of regulation in a South African context when it comes to equity based crowdfunding laws, this part of the literature review will focus on rules and regulations that govern the American and UK equity crowdfunding environment.

"Countries are choosing one of three options when it comes to equity crowdfunding: (1) Ignore the phenomenon and retrofit the applicable existing regulations; (2) Reaffirm which regulations apply; (3) Create a new regulation to deal with crowdfunding" (Gabison, 2014)

Until the recent introduction of the Jumpstart Our Business start-up (JOBS) Act in the United States in 2012, it was illegal for companies to sell equity and debt in exchange for future compensation. This all changed in July 2013 when the ban on soliciting private placement securities was lifted. The primary objective of the JOBS Act was to aid capital formation that can stimulate small business growth which includes sourcing capital from the crowd. It also provides strict regulatory guidelines for the sale of securities via the crowd which helps to eliminate fraud.(Burgett & McDonald, 2013)

"Title II of the JOBS Act was the first portion of equity crowdfunding laws implemented in September of 2013. This portion of the equity crowdfunding laws allowed for public advertising of fundraising. However, it restricted the right to invest to Accredited Investors and left everyday citizens out in the cold" (Barnett 2015). An accredited investor as defined by the SEC, is an individual with a personal net worth of $1m, and earning more than $200,000 per annum. For companies, an accredited investor is one with net assets worth more than $5m.

On the 25th March 2015, The Securities and Exchange Commission adopted final rules to facilitate smaller companies' access to capital. The new rules provide investors with more investment choices (SEC, 2015). The introduction of Title IV of the JOBS Act, with particular reference to A+ Regulations, now allow for two types of equity crowdfunding: (1) Tier 1, which allows for companies to raise up to $20m via equity crowdfunding, and (2) Tier 2 investments, which allow companies to raise up to $50m in equity crowdfunding transactions. Both Tier 1 and Tier 2 investments can be funded by accredited and non-accredited investors, with the major difference being that Tier 2 crowdfunded investments are obliged to have audited financials and annual reporting requirements (SEC, 2015).

Non-accredited investors will have a cap as to how much they can invest. “Non-accredited investors can invest a maximum 10% of their income/net worth per year, protecting these often less experiences investors and making it so that they can’t “lose it all” with a single crowdfunded investment” (Barnett, 2015).

This is truly a revolutionary Act instituted by the SEC that democratizes equity crowdfunding investing in the US and opens up the market to a wealth of new investors and an opportunity for entrepreneurs to capitalize on this wide investor pool.

In 2013, in the United Kingdom, the Financial Conduct Authority (FCA) stated that investment based crowdfunding platforms must be regulated like any other broker-dealer business.

As at April 2014, all investment crowdfunding platforms needed to be licensed. “ If a crowdfunding platform enables a business to raise money by arranging the sale of unlisted equity or debt securities, or units in an unregulated collective investment scheme, then this is ‘investment based crowdfunding’ regulated by the FCA and the firm operating the crowdfunding platform needs to be authorised” (FCA, 2014)

The new regulation places limits on equity crowdfunding platforms with regard to promotion of the investment and requires that platforms have a compliance director.

For investments above five million euros, a prospectus is required and fund seekers must comply with existing regulations which include; Submitting prospectus to relevant authority for approval, releasing a public prospectus ahead of time, a declaration must be given about accuracy of the information supplied, in-depth financial information regarding the business, the investment objective, organizational structure of the fund-raising entity, and finally, risk factors involved in the project.

According to the FCA (2014), there are exemptions for certain prospectuses and that is in the event that the amount of funding raised is (1) less than five million euros, (2) involves fewer than 150 non-qualified investors or qualified investors with an investment cap of 100,000 euros.

The FCA is concerned about the exposure of investments to unsophisticated investors and therefore limits the promotion these investors can receive. Equity-based crowdfunding platforms in the UK may only directly communicate with retail clients that are certified or self-certify as sophisticated investors. (Gabison, 2014)

Based on COBS 4.7.9R in the FCA handbook for investing in equity based crowdfunding investments: “A certified investor must (1) have an independent certificate, at most 36 months old – proving he understands the risks associated with investing and (2) have signed within 12 months a statement that specifies that investing involves risk and he is willing to take these risks” (FCA, 2014).

Similar to the definition of a high-net wealth investor in the United States, in the UK, a high-net wealth investor may participate in and receive promotional content for equity-based crowdfunding investments. A high-net wealth individual must throughout the financial year, derive an annual income of 100,000 pounds, or more, and hold net assets to the value of 250,000 pounds or more during the course of a financial year.

The last category classified “a certified restricted investor” is the newest change to the equity-based crowdfunding regulations in the UK. “Under these new regulations, platforms can accept contributions from any investors who certify in writing that they have not, and will not invest more than 10% of their net assets in a twelve month period" (Gabison, 2014)

South African Securities Law

The two main concerns over the securities policy mix are; finding a healthy balance between protecting investors when it comes to strong information asymmetry and potential fraud, and helping to facilitate the raising of capital by entrepreneurs and business start-ups alike.

According to De Beer (2013) regulators follow an investor-orientated approach strongly informed by the main economic theories on efficient capital markets. In order to keep the veracity of the markets intact requires strict governance and regulation by local authorities.

De Beer (2013) goes on to suggest that the contentious issue for South Africa in securities law is whether the interest being offered on a crowdfunding platform could be considered a security. If the interest being offered is in the form of equity or debt (which in CRE crowdfunding it could be both), then the trading of those securities will be subjected to various regulatory legal requirements.

The South African securities domain is not a simple one and they have numerous players within the regulatory space depending on type of security issued. The main bodies concerned are: (1) The Collective Investment Schemes Controls Act; (2) the Financial Markets Act; (3) and the "new" Companies Act.

(1) The Collective Investment Schemes Control Act, Act 45 of 2002

Part IV of the Act, a collective investment scheme is defined as "a scheme the portfolio of which consists, subject to this Act, mainly of securities" (Gazette 2008)

Investment crowdfunding concerns the solicitation of funding from the crowd on a crowdfunding platform for certain business projects. This is not necessarily a portfolio investment as the investor can choose which investment projects he/she would like to fund. As for CRE investments, individual property projects are being offered to the crowd, are not being bundled together and the investor is not necessarily building a portfolio under a single entity. On the other hand, CRE crowdfunding is very similar in nature to property syndication which is governed by this Act.

The Act also requires that a manager acts on behalf of the facilitator to administer the investors' interests. Although the crowdfunding platform is a facilitator between the fund raiser and the investor, that relationship ceases to exist once the funds have been raised. It then becomes a relationship between the venture and the investor. This is somewhat of a contentious point, as in a CRE crowdfunded investment, the platform may play the role of the facilitator on an on-going basis.

(2) The Financial Markets Act, Act 19 of 2012

This purpose of this Act is to regulate aspects of financial markets that cluster around exchanges, defined in s1 of the Act as follows: "person who constitutes, maintains and provides an infrastructure (a) *for bringing together buyers and sellers of securities; (b) for matching bids and offers for securities of multiple buyers and sellers; and (c) whereby a matched bid and offer for securities constitutes a transaction…"* (Gazette 2012). Based on this definition, the crowdfunding platform and the facilitation of funding do not match the definition of an exchange.

The issue here is that in a crowdfunding investment scenario, there are multiple buyers and only one "seller". Therefore the platform and the facilitation of the investments "cannot be deemed an exchange for the purposes of the Act, and its rules and regulations do not apply" (De Beer, 2013).

(3) The Companies Act, Act 71 of 2008

In the revised Companies Act, a new definition was included for "securities". This is stated in s 1 of the Act: "…*any shares, debentures or other instruments,* *irrespective of their form or title, issued or authorised to be issued by a profit company*" (Gazette, 2008).

For an interest to be classified as a security, certain elements must hold true: (1) securities are always packages of rights. The decisive factor here is how the interest is structured and recorded; (2) Reason for being structured: a common feature of securities is that widely traded and are traded in high volumes and at a fast pace. This essentially means that securities are structured in such a way that they are conducive to trading; (3) Securities have no intrinsic value. In order to create value, a secondary vehicle is used, namely a share certificate; (4) Securities have the characteristic of being fungible which means that holding a security is considered economically equivalent to holding another of the same type. This links closely to the idea that securities must be favourable to trading.

The key issue presented is that securities are flexible in nature and take on many different forms and interpretations. This presents a challenge for crowdfunding investments such as commercial real estate.

This research proposes the relevant South African governing bodies take heed of current equity-based crowdfunding policies and regulations in the US and UK, and apply what is being implemented overseas, in South Africa in the interest of stimulating economic growth and providing a much needed alternate method for entrepreneurs and start-ups to raise capital.

An in-depth interview with a financial services and legal expert will be conducted to try and gain clarity as to where CRE crowdfunding will fit in to the bigger picture of securities trading and regulation.

2.5 Conclusion of the literature review

The literature review gave a brief overview of the crowdfunding market, its various models employed and the potential impact of equity-based crowdfunding in the South African context. This was followed by a review of the CRE market in South Africa and the various methods employed for investing in commercial real estate.

The final section spoke of the regulatory environment, both for equity-based crowdfunding and commercial property investment. The literature review ends off with the challenges facing an investment crowdfunding model in South Africa.

Based on the literature review, the research proposes the following:

Portfolio diversification can be achieved by a CRE crowdfunding platform, allowing investors to pick and choose which assets they would like to own in their individual portfolio.

A commercial real estate crowdfunding platform would allow smaller, lower net-wealth individuals, an opportunity in owning a stake in a sizeable commercial property investment without the complexities of putting down a large deposit or signing suretyships.

There are certain key attributes required by both the CRE crowdfunding platform and the deal sponsor to gain favour among the investing crowd which will lead to the ultimate success in any given project.

The relevant South African governing bodies must take heed of current equity-based crowdfunding policies and regulations in the US and UK, and apply what is being implemented overseas, in South Africa, in the hope of stimulating economic growth and providing a much needed alternate method for entrepreneurs and start-ups to raise capital, thereby eliminating the so-called funding gap.

CHAPTER 3. RESEARCH METHODOLOGY

The research methodology section will address the research propositions sought out in the previous chapter. The methodology chosen for this research is a mixed methods approach, using both qualitative and quantitative research methods.

This chapter will begin with outlining the research methodology used in conducting the research followed by the research design that will be employed in conducting the research. The third section will discuss the population, sample and sampling methods used in the study followed by the research instrument and procedure for collecting the data. After outlining the procedure for data collection, I will look at various ways of analysing and interpreting the collected data. The final section analyses the limitations to the study and the validity and reliability of the data and the instruments employed.

3.1 Research methodology / paradigm

There are three approaches to research methodology: (1) Quantitative; (2) Qualitative and (3) Mixed methods.

A quantitative approach is where the researcher uses post positivist claims for developing knowledge, such as cause and effect thinking, while utilizing strategies of enquiry such as a survey to collect the data and the various instruments sued to decipher the data. (Creswell, 2003).

A qualitative approach is a research strategy that usually emphasises words rather than quantification in the collection and analysis of the data (Bryman 2012). This is typified by the use of structured or semi-structured in-depth interviews.

The mixed method approach focuses on gathering and evaluating both quantitative and qualitative data in a single study, usually to expand an understanding from one method to another (Creswell, 2003)

The research methodology applied for this research is quantitative in nature with the aim of developing knowledge surrounding the new phenomenon of commercial real estate crowdfunding with the aid of a detailed questionnaire, in the context of South Africa.

3.2 Research Design

The methodological approach to the research design will be in the form of a web-based, self-administered survey, more commonly referred to as a cross-sectional design. The reason for this choice of design is that data gathered from the survey is quantifiable in nature and will provide the researcher with a consistent benchmark (Bryman, 2012).

This quantitative approach will be complimented with comments from an interview with an industry expert in the field of finance and South African securities laws and regulations. This industry expert will provide valuable insight by answering key questions pertaining to regulating an equity-based crowdfunding model in South Africa.

A web-based survey is favourable for this research as it allows the researcher to access a broader sample size very quickly as opposed to laborious interviews which can take weeks, if not months to complete. Based on the fact that the selected sample population will have access to computers and the internet, it is highly convenient for the respondents completing the survey as it can be done relatively quickly and in the privacy of their own offices. It also means that it directly targets those who are most likely to have access to the necessary information and tools to partake in crowdfunding.

A web-based survey also alleviates time for the researcher as he/she will not have to drive around and meet each recipient individually. This non-confrontational approach will also lessen bias by respondents thinking they may have to answer certain questions differently in order to 'impress' the researcher. Financial information is always guarded with extreme privacy and caution and many people will be vague or lie in response to direct questioning. This respondent bias could be evident when completing financial related questions in front of the researcher. An example could be a question relating to how much money he/she would invest in a given CRE crowdfunded transaction.

A web-based survey is an ideal approach for this study. Many would assume that most people in the commercial property workplace have some degree of computer literacy and would know how to access a link in an email that would direct them to the web page with the survey to then be completed. The negative effect of the web-based survey is that if recipients are not aware that the survey link is coming through to their inbox, it may be regarded as 'junk-mail' and be instantly deleted.

Another possible negative to a web based survey is that it eliminates portions of the population without internet access, however in this case this is delineating the correct target group for such research.

According to Creswell (2003) a quantitative analysis technique reduces the turnaround time for results to be generated. Other benefits to using an online survey include, fast turn-around times; flexibility in answering the survey by respondents (on their own time); and it is completely unobtrusive.

3.3 Population and sample

Population

A population is defined as the universe of units from which a sample is to be selected (Bryman 2012). The population for the purpose of this study is professional commercial property investors; commercial property developers and owners of CRE investments in South Africa.

No delimitations were placed on age, race or gender but the main criteria is that each recipient must be experienced in his or her field of commercial real estate. Experience for the purposes of this research is five years or more.

Sample and sampling method

The cross-sectional design will aim for a minimum sample size of 30 respondents who will be a representation of the population mentioned above.

Due the impossibility and impractical nature to compile a list of the essentials constituting the population, a cluster sampling method is employed (Babbie, 2001) A multi-stage clustering procedure will be employed in this study. The multi-stage clustering procedure first samples various groups (investors, developers and sellers or CRE), obtains names of individuals within groups, and the samples within the clusters (Creswell, 2003)

Although not always favourable, the sample will be a convenience sample due to the limited amount of CRE specialists within each group in South Africa. Surveying a sample size of 30 CRE professionals in South Africa will give a reasonable representation of the entire CRE population in South Africa. The researcher, coming from a CRE auction background, has access to various CRE specialists throughout South Africa. The researcher's network is wide and strong enough to gain valuable data from the chosen sample.

One financial and securities specialist will be interviewed to gain insight into the securities trading regulatory environment in South Africa. The interviewee is a director at JAVA Capital and has agreed to meet with the researcher.

Table 1: Profile of respondents

Description of respondent	Number to be sampled
1. CRE Developers	10
2. CRE Investors & owners of CRE property	20
3. Financial and securities expert	1

3.4 The research instrument

The research instrument used for this study is an online, web-based survey. The survey is adapted from an existing, developed survey which was used by Burgett and McDonald (2013) in their research paper on "*Democratizing Commercial Real Estate Investing: the Impact of the JOBS Act and Crowdfunding on the Commercial Real Estate Market*". The objective of their survey was "crafted with the intent of (1) measuring respondents' level of familiarity with online real estate tools and crowdfunding; (2) assessing the level of need for new methods of raising capital in the real estate market; (3) gauging the respondents' interest level in using crowdfunding for real estate; and (4) capturing respondents' demographics to assess any effects on the responses" (Burgett & McDonald, 2013).

Although the researchers sample size is far larger than the one our researcher intends sampling (purely due to the vast size of the United States as compared to South Africa), the research instrument provides both validity and reliability based on positive scores received for both measures. Certain questions have been adapted in order to fit into a South African context.

The first 3 questions in the survey are intended to gauge the impact of the internet on respondents' current business and to assess their familiarity with social media and other online property portals. The next question addresses the respondents' confidence in transacting online for commercial real estate investments. The following two questions assess the respondents' asset preference and most important attributes when make a CRE purchase. Questions 7-10 speak to the potential funding gap problems, respondents' use of equity partners, difficulty in sourcing new investors and their potential willingness to source equity via the "crowd". The following two questions address the most important qualities needed for CRE platforms and then raises the question that if the CRE crowdfunding platform was proven to be credible and legitimate, what would the respondents' willingness be to raise equity via the platform. The final questions relate to general business operations and job title to help further identify the respondents' business line and activity.

The questions in the survey use both categorical and Likert scales.

3.5 Procedure for data collection

According to Creswell (2003) for a mailed survey, the researcher must identify certain steps for administering the survey and for following up to ensure a high response rate.

The researcher intends using his immediate network of CRE investors and developers as respondents. The researcher will also use various social media platforms such as Linkedin and Facebook to source additional CRE developers and investors.

First, an introductory email will be sent out to all respondents from the sample informing them of the research that will be conducted. This will be followed by the actual survey being emailed out for completion one week later. For non-respondents, a follow-up email will be sent in the third week to encourage participation in the survey. Lastly, a phone-call will be made in the fourth week to all outstanding respondents urging them to complete the survey and explaining the potential benefits of completing the survey.

3.6 Data analysis and interpretation

All information used in the data analysis will be derived from the questionnaire data. The study will use univariate analysis which "refers to the analysis of one variable at a time" (Bryman, 2012). The univariate analysis will employ (1) frequency tables; (2) diagrams; (3) measures of central tendency; and (4) measures of dispersion.

Frequency tables

"A frequency table provides the number of people and the percentage belonging to each of the categories for the variable in question" (Bryman, 2012). The researcher must be careful when analysing interval variables so that certain numbers do not overlap.

Diagrams

This is the most common depiction of data analysis as the diagrams are often easy to interpret and understand (Bryman, 2012). Diagrams will be in the form of bar graphs; pie charts; and histograms.

Measures of central tendency

“Measure of central tendency encapsulate in one figure a value that is typical for a distribution of values” (Bryman, 2012). Three different forms of the average will be analysed: (1) the mean; (2) the median; and (3) the mode.

Measures of dispersion

Measures of dispersion make it possible for the researcher to “draw contrasts between comparable distributions of values” (Bryman 2012). The two ways of measuring dispersion and that will be employed in this study are: (1) range; and (2) standard deviation, which is “essentially the average amount of variation around the mean” (Bryman 2012).

3.7 Limitations of the study

Although the sample is meant to be a generalization to the entire South African CRE population, certain respondent’s answers, based in different geographic locations within South Africa, may differ substantially.

Certain respondents completing the questionnaire may not have sufficient knowledge about the company they represent or may not be in a position of power to make certain calls about particular questions pertaining to financials, purchase behaviour or long-term views on equity crowdfunding.

With regards to the methodology, there is a chance that some respondents may fill out the survey with no real intent and leave out valuable questions. Therefore, the data generated may lack substance and credibility.

3.8 Validity and reliability

The terms validity and reliability are associated with quantitative research and are "primarily issues relating to the quality of the measures that are employed to tap the concepts in which the researcher is interested" (Bryman, 2012). Validity is not concerned with what was measured, but rather how it was measured. Validity and reliability are fundamental elements when conducting a research study as they provide the overall credibility of the researcher's findings.

3.8.1 *External validity*

This research study will meet the criteria for external validity as the findings will be generalizable to other contexts.

Although this study is aimed at assessing the likelihood of CRE professionals utilizing a crowdfunding platform for the purpose of raising capital or providing equity for CRE investments, the research finding will benefit other sectors.

Equity crowdfunding is a broad sector and includes the raising of capital for start-ups and entrepreneurs alike.

Equity crowdfunding is already taking shape in the US and Europe, but the findings of this research may benefit other African countries researching equity crowdfunding for real estate transactions.

3.8.2 *Internal validity*

This research aims to have strong internal validity which represents realistic outcomes based on the findings.

Internal validity will be maximized by choosing a sample of experts in the field of commercial real estate. The respondents will provide a realistic view of the entire commercial real estate market in South Africa.

3.8.3 *Reliability*

"Reliability is concerned with the question of whether the results of a study are repeatable" (Bryman, 2012).

The adapted survey for this research study has been tried and tested in the United States. This should provide strong reliability for the current study in a South African context.

CHAPTER 4. PRESENTATION OF RESULTS

4.1 Introduction

The purpose of this chapter is to present the results obtained from the survey and the interview. The research questionnaire was completed by thirty respondents, broken up into twenty commercial property owners/investors and ten commercial property developers. Questions completed in the survey will help us to understand and clarify each sub-problem and the research proposition relating to that sub-problem. The results from the survey will be presented in graphs and tables. The results attained from the interview will be discussed in relation to the final sub-problem and related research proposition.

4.2 Results pertaining to Proposition 1

Familiarity with Crowdfunding

The question was asked to assess if the respondents had heard of the concept of crowdfunding. Being a relatively new concept, it is important to know if investors and developers of CRE in South Africa are in touch with new technologies and concepts from around the world.

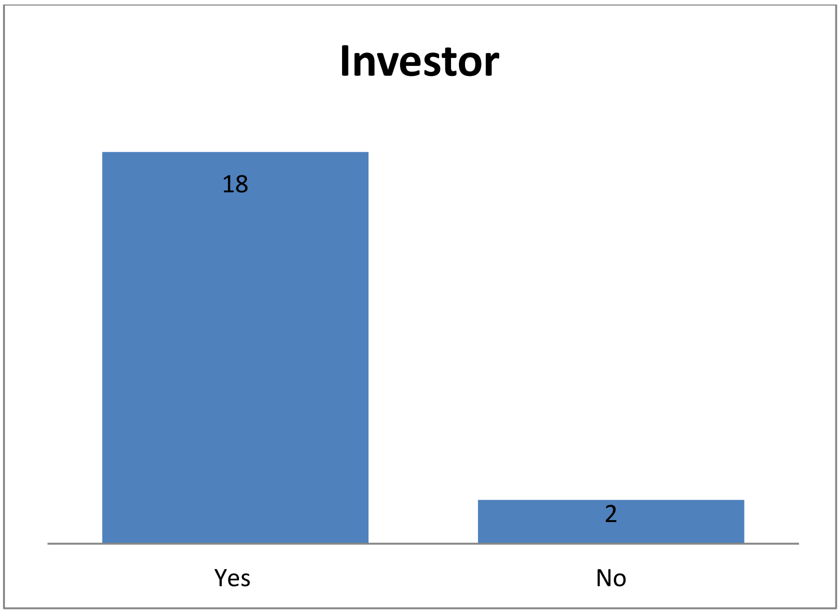


Figure 4: Investor familiarity with crowdfunding

90% of the investor respondents are familiar with the term crowdfunding.

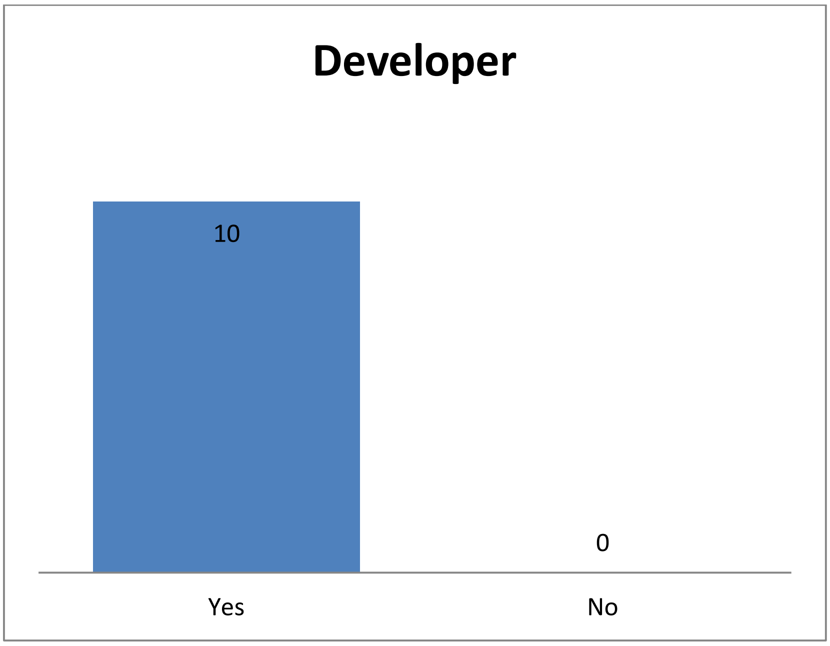


Figure 5: Developer familiarity with crowdfunding

100% of the developer repsondents are familiar with the term crowdfunding.

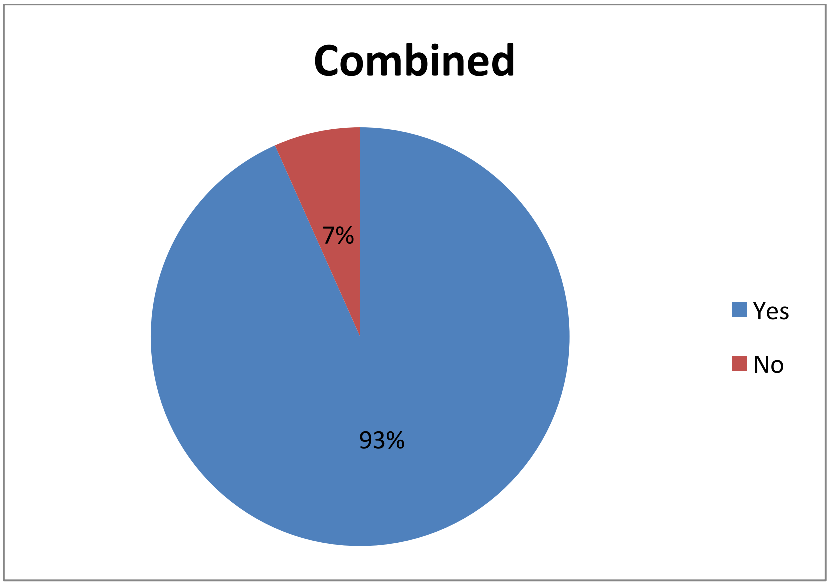


Figure 6: Combined familiarity with crowdfunding

93% of the combined responses are familiar with the term crowdfunding.

Online and Social Media Sites used for Business

It is important to know which online and social media sites, if any, respondents utilize for business purposes. Four prominent property listing and property news sites were selected as well as three popular social media sites. General internet search was another option for respondents to choose.

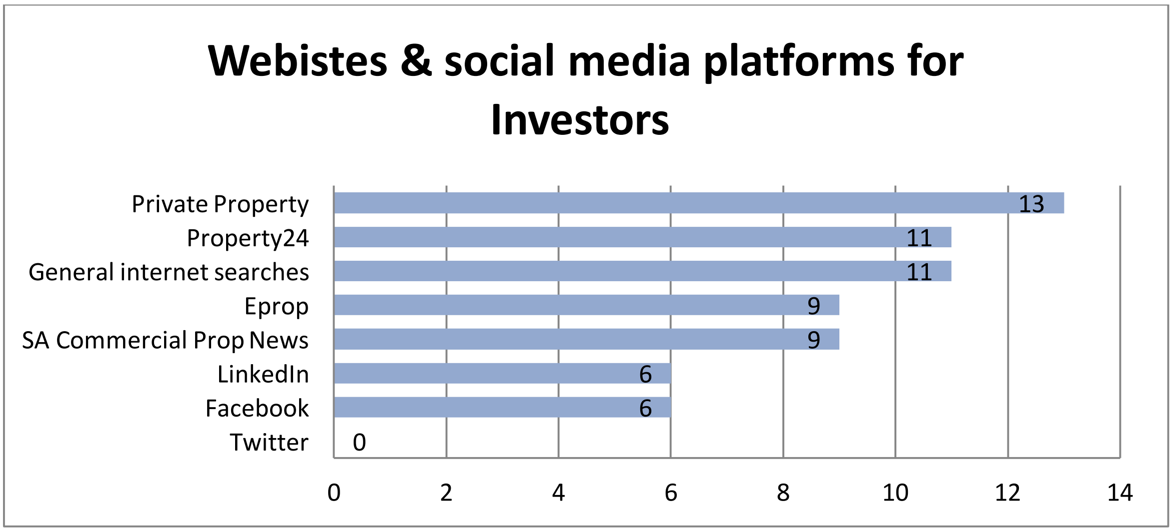


Figure 7: Websites & Social Media Platforms for Investors

55% of investor respondents uses Private Property for business, 55% use Property24 and General internet searches, 45% use Eprop and SA Commercial Prop News; 30% use LinkedIn and Facebook. No investor respondents use Twitter for business.

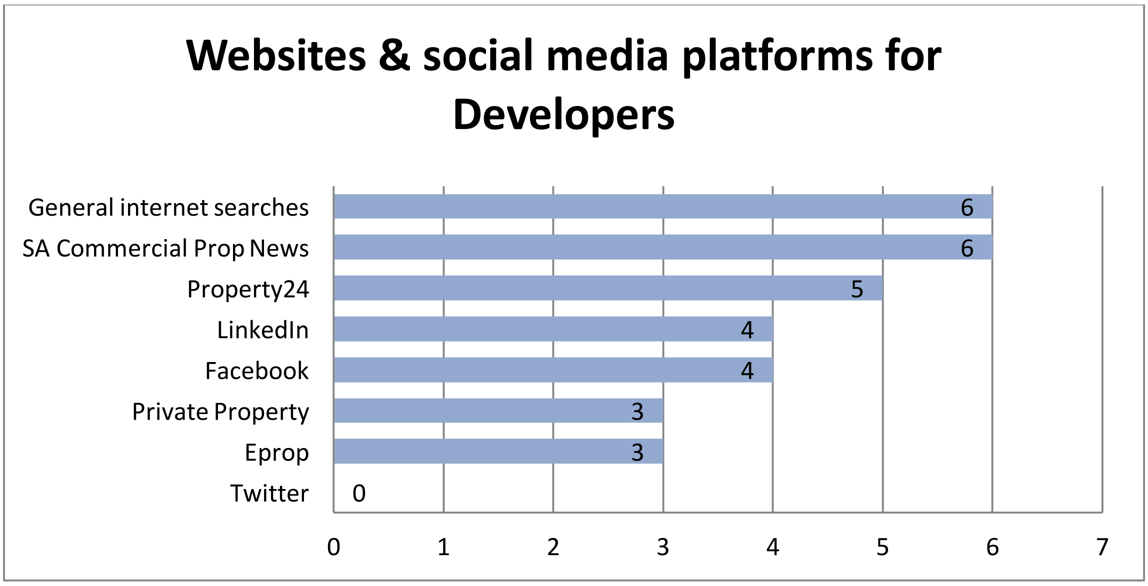


Figure 8: Websites & Social Media Platforms for Developers

60% of developer respondents uses General internet searches and SA commercial Prop News for business, 50% use Property24, 40% use Facebook and LinkendIn, 30% use Private Property and Eprop. No developer respondents use Twitter for business.

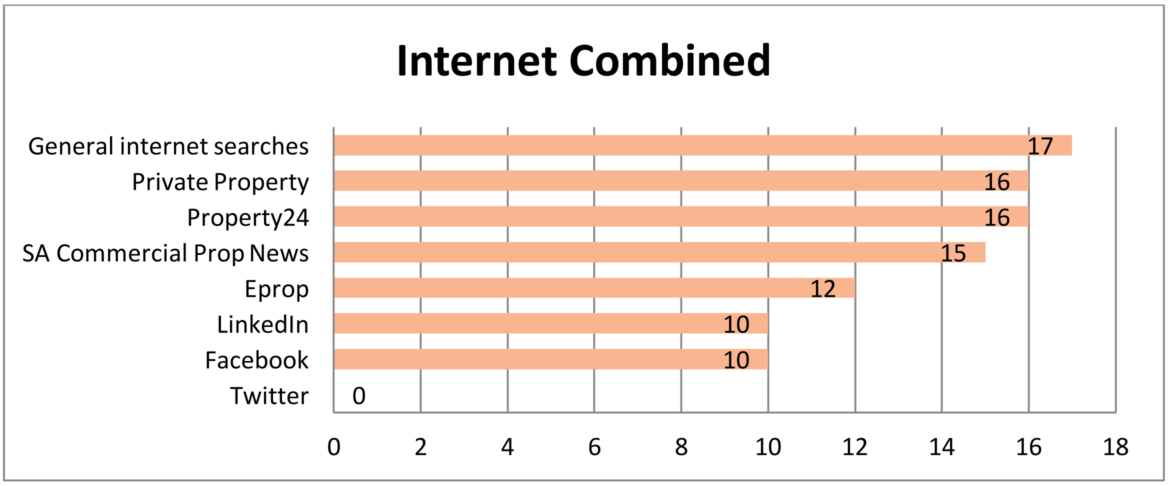


Figure 9: Combined Websites & Social Media Platforms

57% of combined respondents use general internet searches for business, 53% use Private Property and Property24, 50% use SA Commercial Prop News, 40% use Eprop, 33% use Facebook and LinkedIn.

Importance of Internet in providing business connections and information used for real estate investment purposes

The question was posed to ascertain the level of importance the internet holds for investors and developers of CRE. Importance was ranked from not important to crucial.

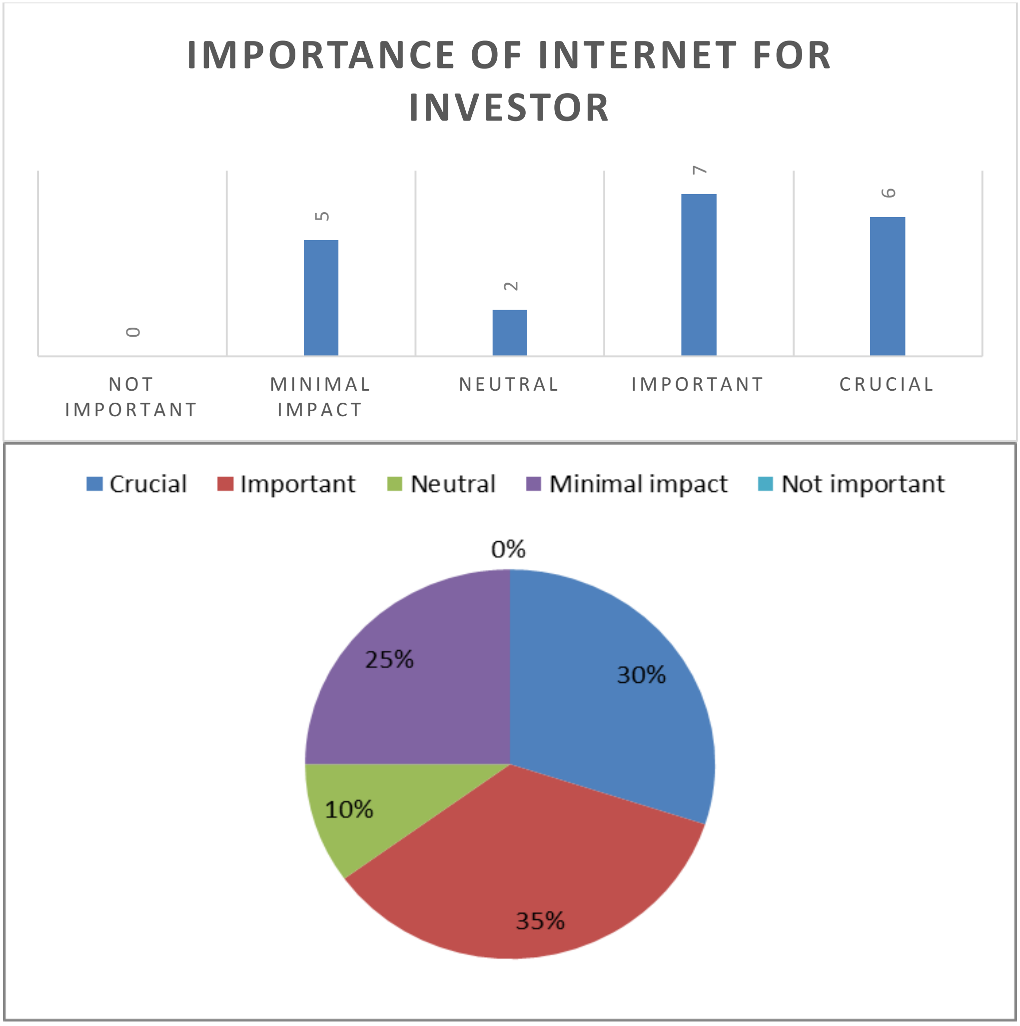


Figure 10: Importance of internet for investor

30% of the investor respondents believe the internet is crucial in providing business connections and information used for real estate investment purposes, 35% feel it is important, 10% were neutral and 25% felt the internet provides minimal impact for business and information regarding real estate investment.

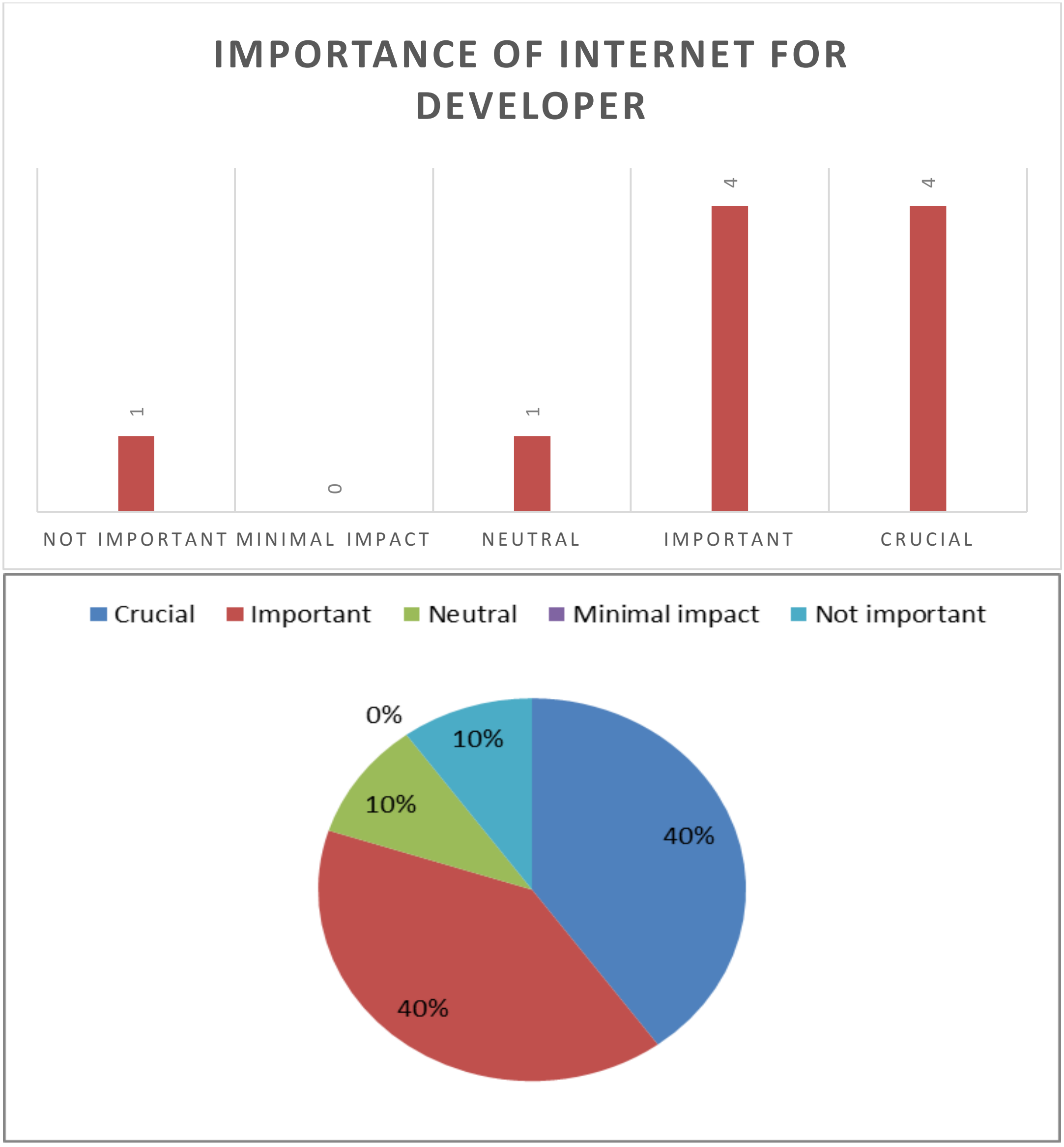


Figure 11: Importance of internet for developer

40% of the developer respondents believe the internet is crucial in providing business connections and information used for real estate investment purposes, 40% feel it is important, 10% were neutral and 10% felt the internet is not important for business and information regarding real estate investment.

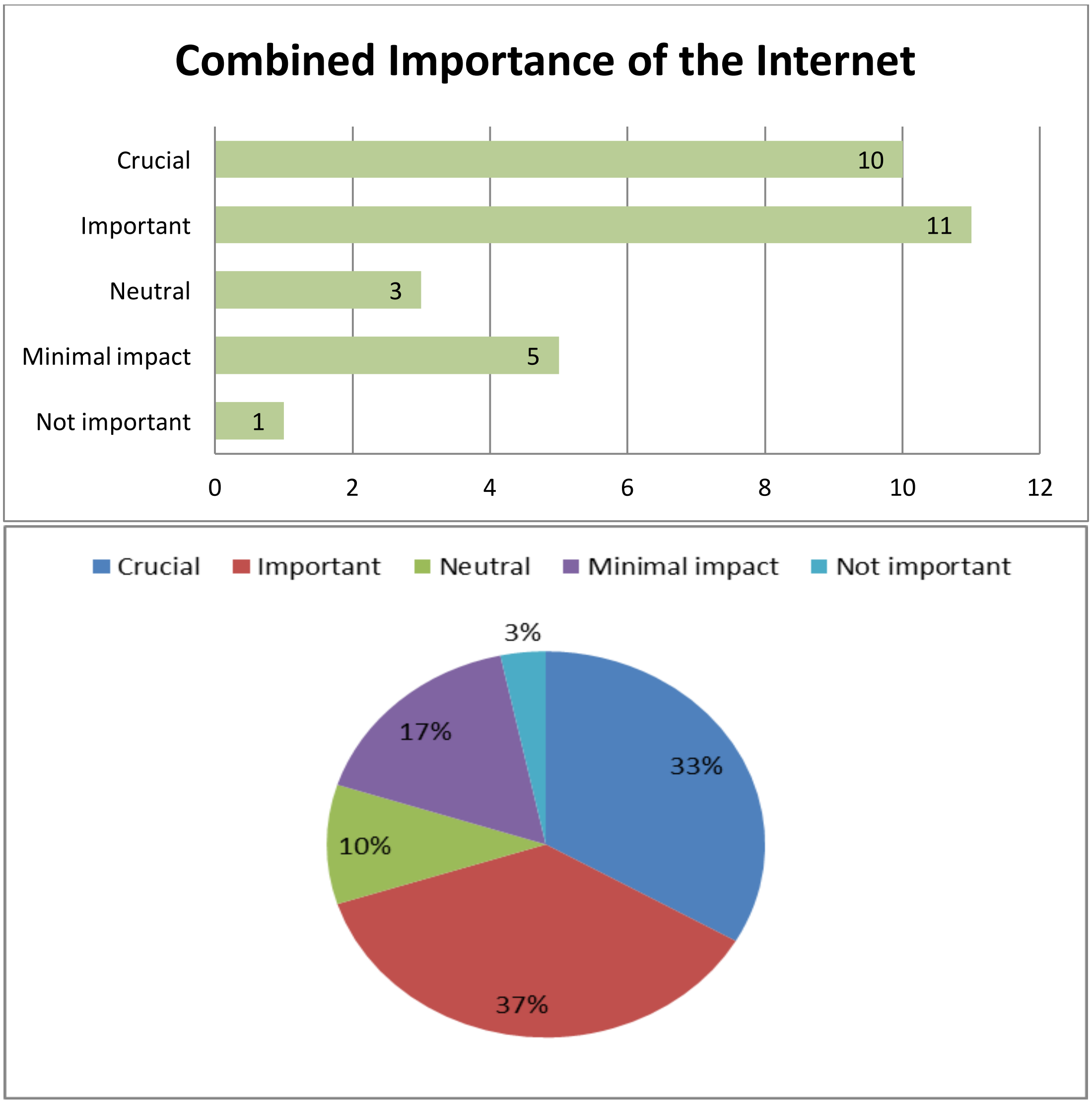


Figure 12: Combined importance of internet

33% of the combined respondents believe the internet is crucial in providing business connections and information used for real estate investment purposes, 37% feel it is important, 10% were neutral, 17% believe there is minimal impact and 3% feel the internet is not important for business and information regarding real estate investment.

Most important online platform qualities/attributes that an investment site should have

Various investment portal attributes were selected to see which attributes are more important to investors and developers of CRE. Eighteen out of the twenty investor respondents completed this question, while 100% of the developer respondents completed the question.

Attributes are ranked from 1, being least important, to 5, being most important.

Deal sponsor background check (criminal and credit only)	4	1	1	3	6	3
Online project due diligence for investors	0	3	2	5	3	5
Deal sponsor track record and resume'	2	0	4	2	5	5
Ability to receive money and manage investors online	2	5	5	5	0	1
On-going project and sponsor monitoring by website	1	6	5	3	2	1
Ease of investing electronically	9	3	1	0	2	3
Total	18	18	18	18	18	18

Statistic	Deal sponsor background check (criminal and credit only)	Online project due diligence for investors	Deal sponsor track record and resume'	Ability to receive money and manage investors online	On-going project and sponsor monitoring by website	Ease of investing electronically
Min Value	1	2	1	1	1	1
Max Value	6	6	6	6	6	6
Mean	3.83	4.28	4.28	2.94	3.11	2.56
Variance	3.44	2.09	2.68	1.58	1.75	4.14
Standard Deviation	1.86	1.45	1.64	1.26	1.32	2.04
Total Responses	18	18	18	18	18	18

Figure 13: Most important online attributes for an investor

Online project due diligence and deal sponsor track record were ranked the highest, both with a mean of 4.28. Ease of investing electronically was ranked as the least important attribute required by an investor for an investment platform.

Deal sponsor background check (criminal and credit only)	2	0	2	1	3	2
Online project due diligence for investors	0	2	2	1	2	3
Deal sponsor track record and resume'	0	2	3	2	1	2
Ability to receive money and manage investors online	0	3	1	3	1	2
On-going project and sponsor monitoring by website	3	2	1	3	0	1
Ease of investing electronically	5	1	1	0	3	0
Total	10	10	10	10	10	10

Statistic	Deal sponsor background check (criminal and credit only)	Online project due diligence for investors	Deal sponsor track record and resume'	Ability to receive money and manage investors online	On-going project and sponsor monitoring by website	Ease of investing electronically
Min Value	1	2	2	2	1	1
Max Value	6	6	6	6	6	5
Mean	3.9	4.2	3.8	3.8	2.8	2.5
Variance	3.43	2.62	2.18	2.4	2.84	3.39
Standard Deviation	1.85	1.62	1.48	1.55	1.69	1.84
Total Responses	10	10	10	10	10	10

Figure 14: Most important online attributes for a developer

Online project due diligence was ranked as the most important attribute for an online investment platform, followed very closely deal sponsor background check. The least important attribute for a developer, with a mean of 2.5, is the ease of investing electronically.

4.3 Results pertaining to Proposition 2

Level of Confidence in transacting an online CRE investment

The question was posed as to how confident the respondents are in transacting an online CRE investment.

Sixteen out of the twenty investor respondents, and nine out of ten of the developer respondents answered this survey question. The answer to the question is ranked from 1, being not confident, to 5, being very confident.

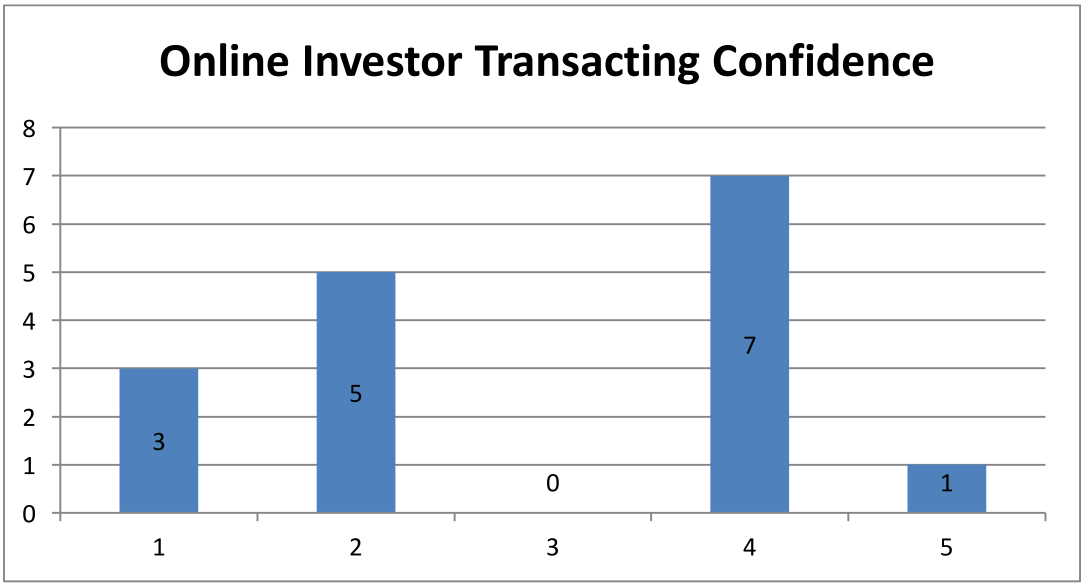


Figure 15: Investor confidence in transacting an online CRE investment

From the above graph, close to 19% of investors have no confidence in transacting an online CRE investment, while just over 6% of the investor respondents are very confident in transacting an online CRE investment.

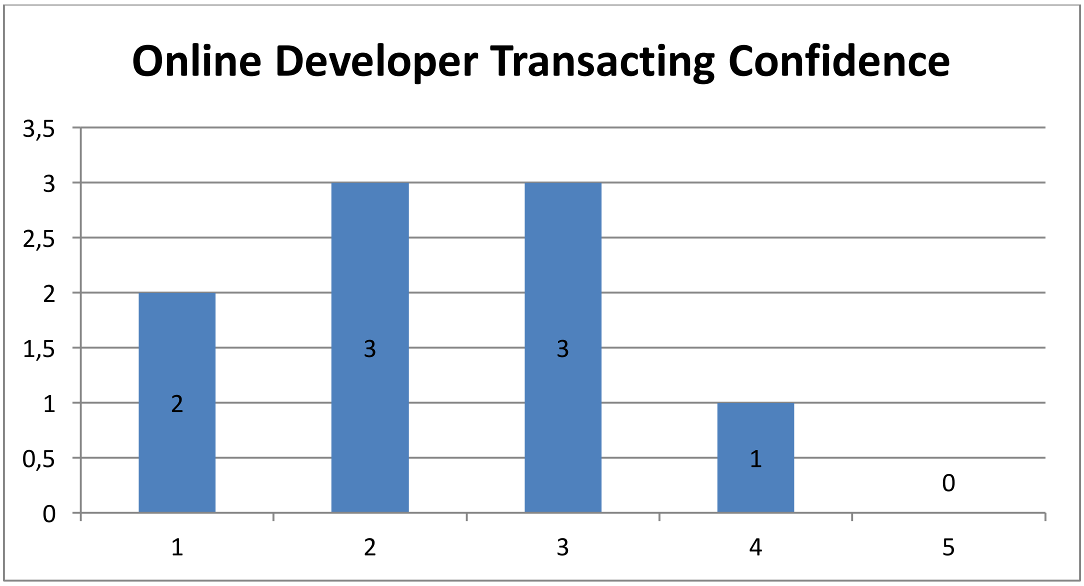


Figure 16: Developer confidence in transacting an online CRE investment

From the above graph, 22% of developers have no confidence in transacting an online CRE investment, 33% are on the fence and there was not one developer respondent who is very confident to transact an online CRE investment.

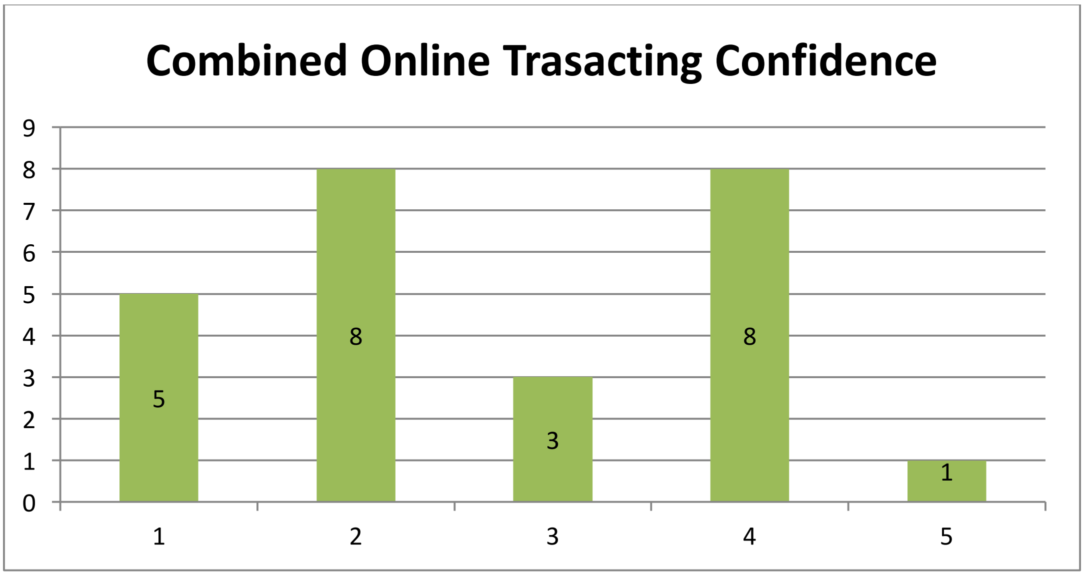


Figure 17: Combined confidence in transacting an online CRE investment

When combining the respondents, 52% show little confidence in transacting an online CRE investment, while another 36% feel they would be quite comfortable in doing so.

Properties of Preference

The question was posed to both sets of respondents to ascertain which property types are preferred over others. Property types are ranked in order of preference, with 1 being least preferred and 10 being most preferred.

Property Type	1 *Least preferred*	2	3	4	5	6	7	8	9	10 *Most preferred*	Total
Retail & Apartment block		2	2				4	3	2	7	20
Hotel	6	4	5	1		1		2		1	20
Office	1	2	3	1	5	2	3		1	2	20
Shopping centre			2	3	1	2	1	3	3	5	20
Strip mall	1		1	2	2	3	2	4	4	1	20
Warehouse	2	1		2	1	4	3	2	3	2	20
Commercial land	2	3	1	3	4	1	5		1		20
Industrial Land	2	4	3	2	2	3		4			20
Filling station	5	2	1	4	1	1	1	1	3	1	20
Mixed Use Office & Retail		2	2	2	3	3	2	1	3	2	20

Figure 18: Investor property preference

It is evident from the above table that the most preferred property for an investor is a retail and apartment block, followed closely by shopping centres and strip malls. The least preferred property for an investor respondent is a hotel.

Property Type	1 *Least preferred*	2	3	4	5	6	7	8	9	10 *Most preferred*	Total
Retail & Apartment block		1						1	2	6	10
Hotel	7			1	1		1				10
Office		2	1	2	2	1	1	1			10
Shopping centre			1		1	1	2	1	2	2	10
Strip mall	1	1		1	1	1	2	2	1		10
Warehouse			2	1	2	2	2		1		10
Commercial land		2	3			3		1		1	10
Industrial Land	1	2		4	1			1	1		10
Filling station	1	2	3	1	2				1		10
Mixed use Office & Retail						2	2	3	2	1	10

Figure 19: Developer property preference

From the above table we can deduce that retail and apartment block is the most preferred property while a hotel is the least preferred property amongst the developer respondents.

Most important attributes considered when purchasing/developing commercial real estate

There are key attributes that both investors and developers of CRE take into account before transacting a deal.

Attributes are ranked on a scale from 1-6, with 1 being the least important, and 6 being the most important. Nineteen of the twenty investor respondents answered this question while all developer respondents answered the question.

Attribute	1 ***(least important)***	2	3	4	5	6 ***(most important)***
Due diligence	6	2	3	3	3	2
Location	5	5	3	2	2	2
Upside	4	2	2	2	2	7
Yield	2	3	4	5	2	3
Quality of the tenant	2	4	3	6	2	2
Length of lease	0	3	4	1	8	3
Total	**19**	**19**	**19**	**19**	**19**	**19**

Statistic	**Due diligence**	**Location**	**Upside**	**Yield**	**Quality of the tenant**	**Length of lease**
Min Value	1	1	1	1	1	2
Max Value	6	6	6	6	6	6
Mean	3.05	2.84	3.89	3.58	3.42	4.21
Variance	3.27	2.92	4.21	2.48	2.26	1.95
Standard Deviation	1.81	1.71	2.05	1.57	1.5	1.4
Total Responses	19	19	19	19	19	19

Figure 20: Most important attributes considered by an investor

Length of lease is the most important attribute assessed by an investor before making a decision to transact. This is followed by potential upside, yield and quality of the tenant. The least important attribute for an investor the location of the property.

Attribute	1 *(least important)*	2	3	4	5	6 *(most important)*
Due diligence	1	1	1	2	2	3
Location	3	4	0	2	0	1
Upside	4	1	1	0	1	3
Yield	1	2	1	2	4	0
Quality of the tenant	0	1	4	3	2	0
Length of lease	1	1	3	1	1	3
Total	**10**	**10**	**10**	**10**	**10**	**10**

Statistic	Due diligence	Location	Upside	Yield	Quality of the tenant	Length of lease
Min Value	1	1	1	1	2	1
Max Value	6	6	6	5	5	6
Mean	4.2	2.5	3.2	3.6	3.6	3.9
Variance	3.07	2.72	5.29	2.27	0.93	3.21
Standard Deviation	1.75	1.65	2.3	1.51	0.97	1.79
Total Responses	10	10	10	10	10	10

Figure 21: Most important attributes considered by a developer

The due diligence process is the most important attribute taken into consideration by a developer of CRE before transacting. Length of lease is the next most important attribute, followed by quality of the tenant and yield on the investment. Location is the least important attribute for a developer of CRE.

4.4 Results pertaining to Proposition 3

Deals lost due to funding gap or hurdle to raise money

The question is asked to gain insight into how many CRE transactions are being lost by investors and developers due to a funding gap or hurdle to raise money. The time period is over the past five years.

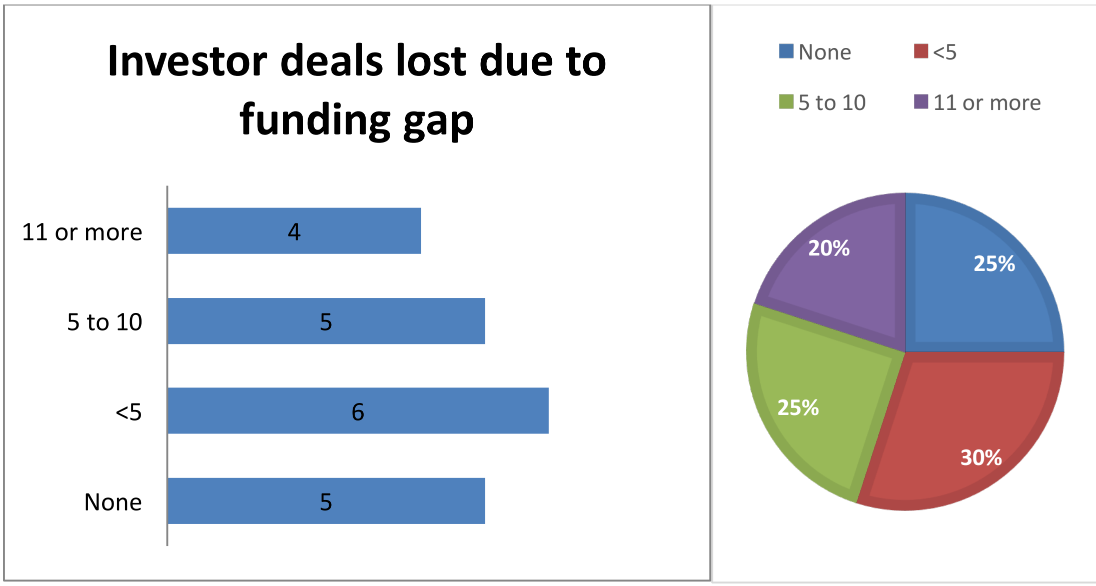


Figure 22: Investor deals lost due to a funding gap over the past five years

20% of investors have lost 11 or more deals due to a funding gap, 25% have lost 5-10 deals, 30% have lost less than 5 deals, and 20% haven't lost any deals due to a funding gap or hurdle to raise money.

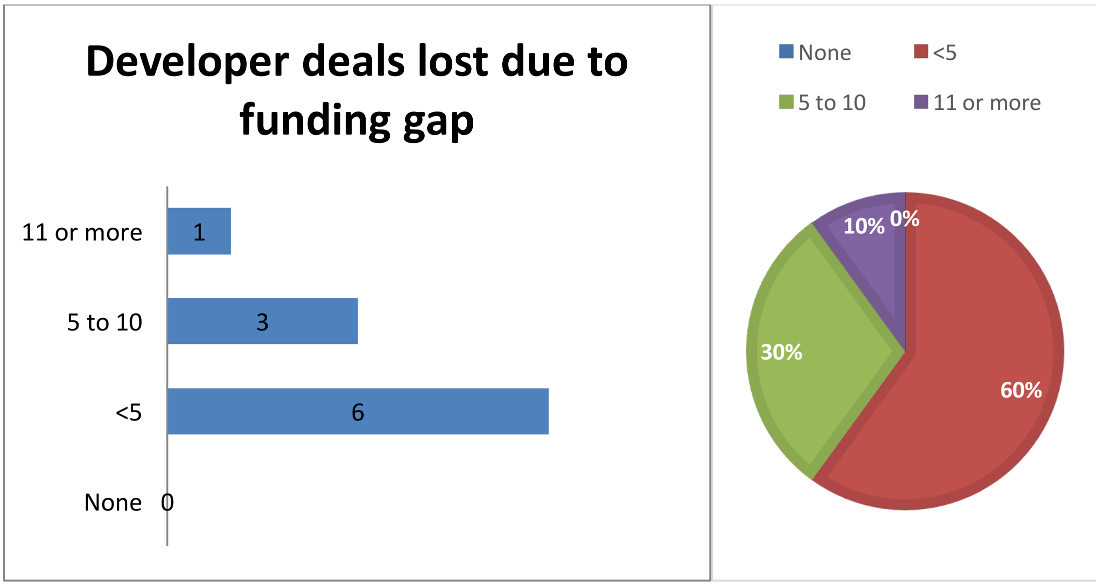


Figure 23: Developer deals lost due to a funding gap over past five years

10% of developers have lost 11 or more deals due to a funding gap or hurdle to raise money over the last five years; 30% have lost 5-10 deals, 60% have lost less than 5 deals.

Use of a third party to raise equity in last five years

Third parties are used by both investors and developers to raise equity for CRE transactions. Third parties are used to bridge a funding gap or to partner with like-minded people with complimentary skillsets.

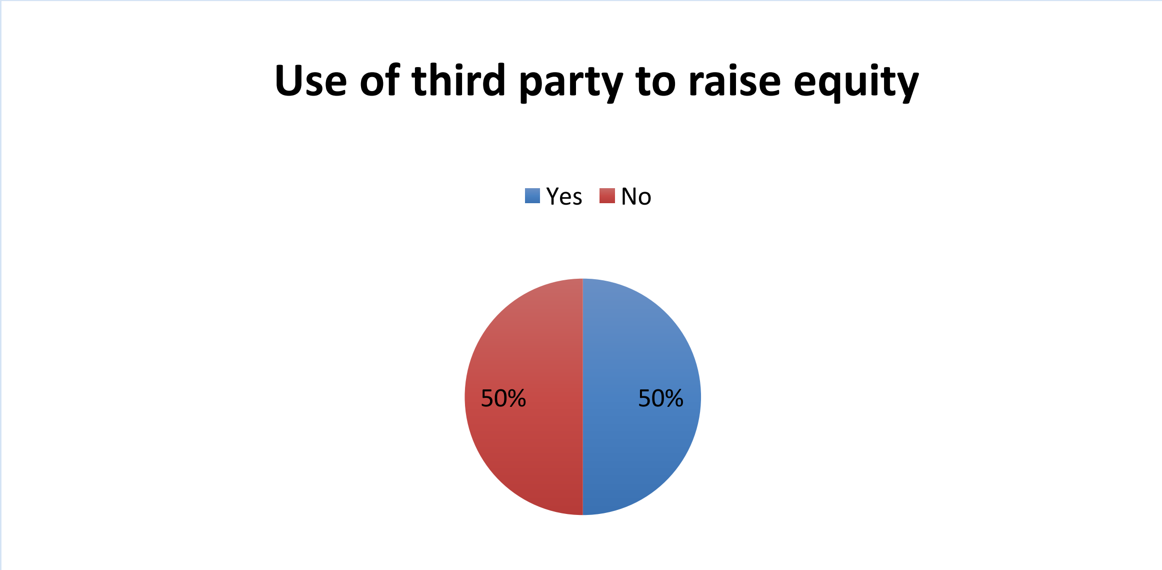


Figure 24: Investor's use of a third party to raise equity

Half the investor respondents have used a third party to raise equity and half have not used a third party to raise equity over the past five years.

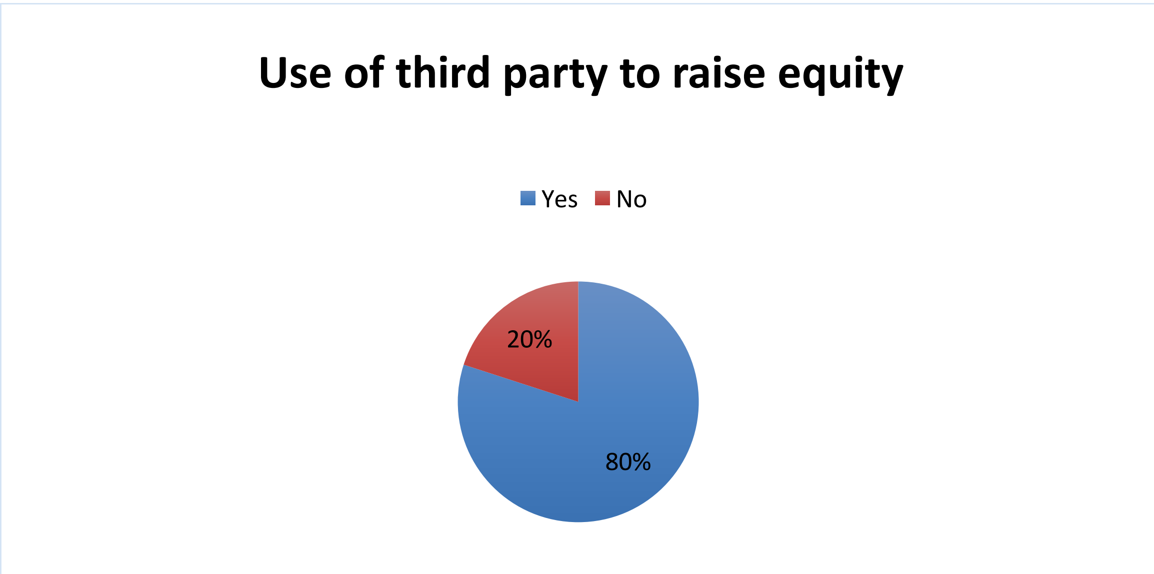


Figure 25: Developer's use of a third party to raise equity

80% of the developer respondents have used a third party to raise equity for a property transaction in the last five years.

Level of difficulty in sourcing NEW, qualified investors for CRE deals

For certain CRE transactions, investors/developers will look at partnering with third party investors to come in on the deal with them. The question was asked to the respondents as to how difficult it is to find qualified investors for CRE Deals. Seventeen out of the twenty investor respondents answered this question while seven out of the 10 developers answered the question. This was a ranking question, with 1 being very difficult and 5 being very easy for investors/developers to find qualified buyers.

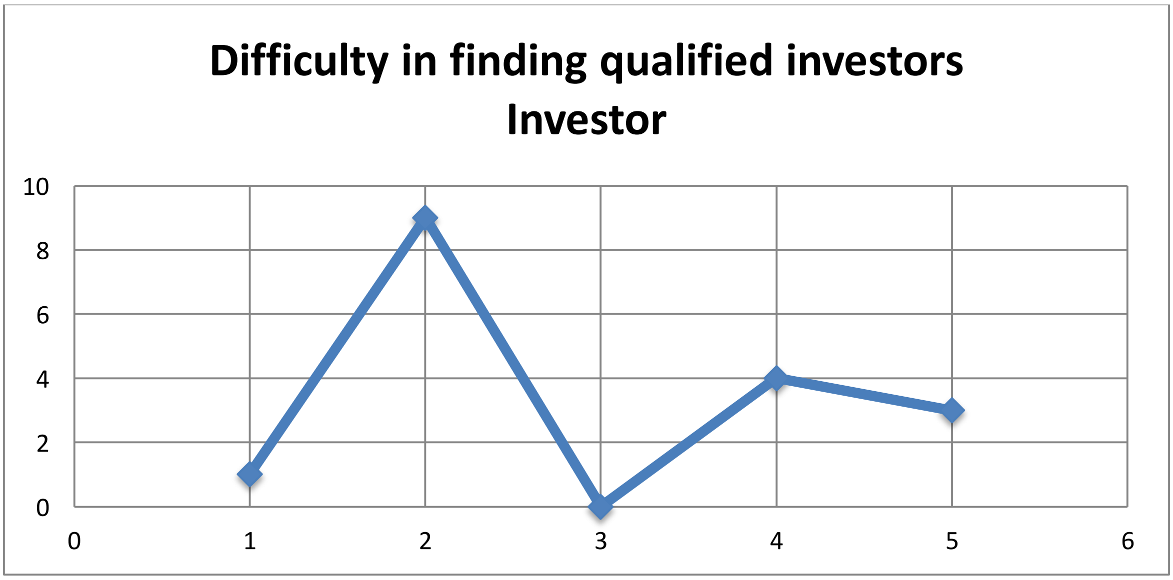


Figure 26: Investor difficulty in sourcing new, qualified investors

56% of investor respondents find it quite difficult to find qualified investors and only 18% of the respondents find it very easy to find qualified investors.

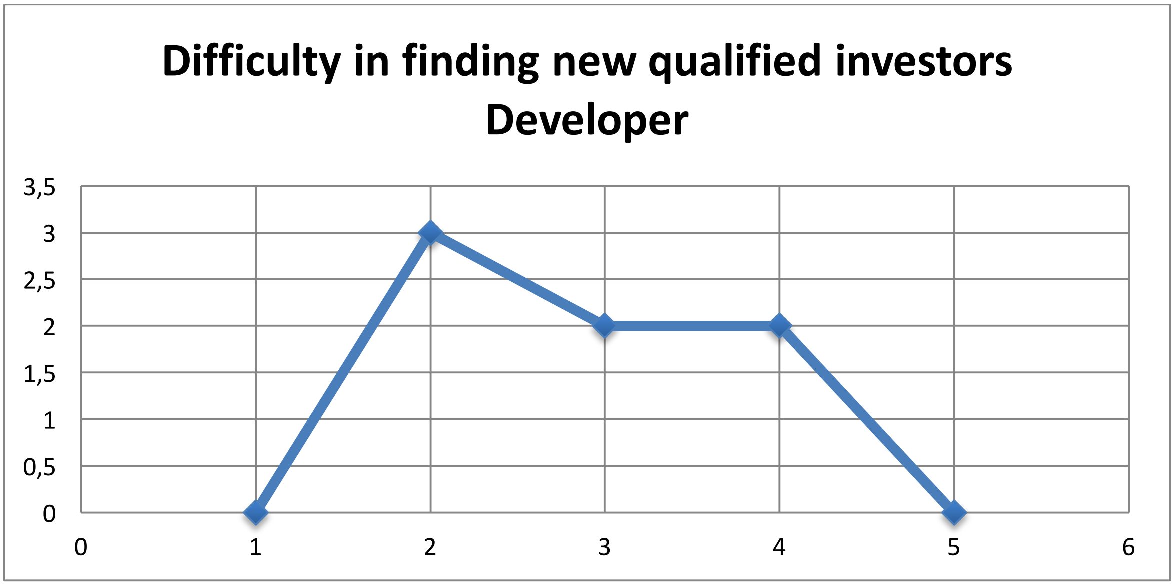


Figure 27: Developer difficulty in sourcing new, qualified investors

30% of developer respondents find it difficult in sourcing new, qualified investors. No developer respondent finds it easy to source new, qualified investors for CRE transactions.

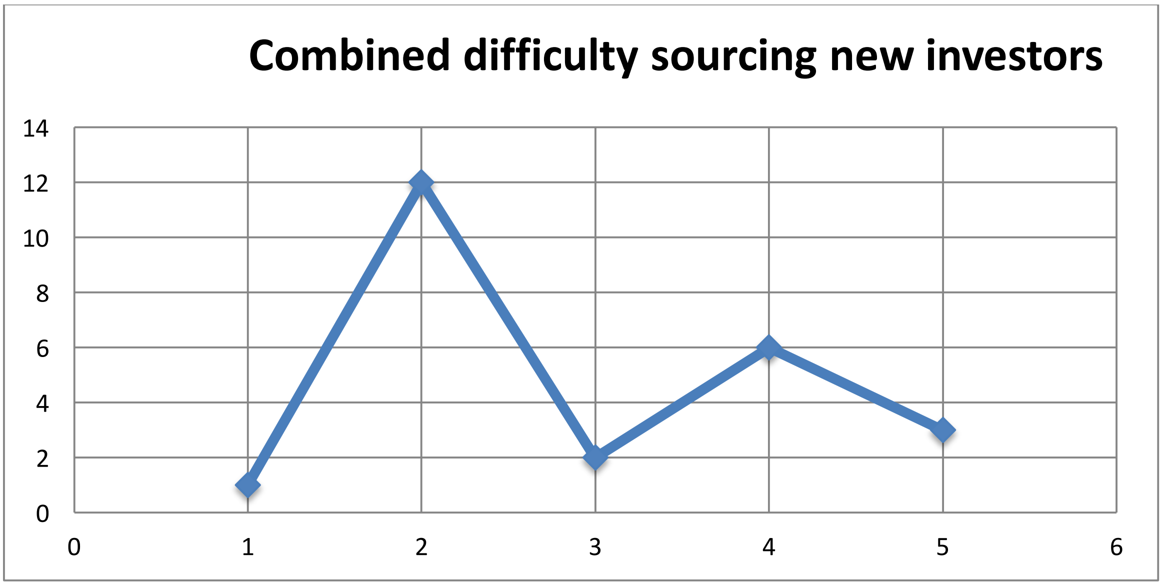
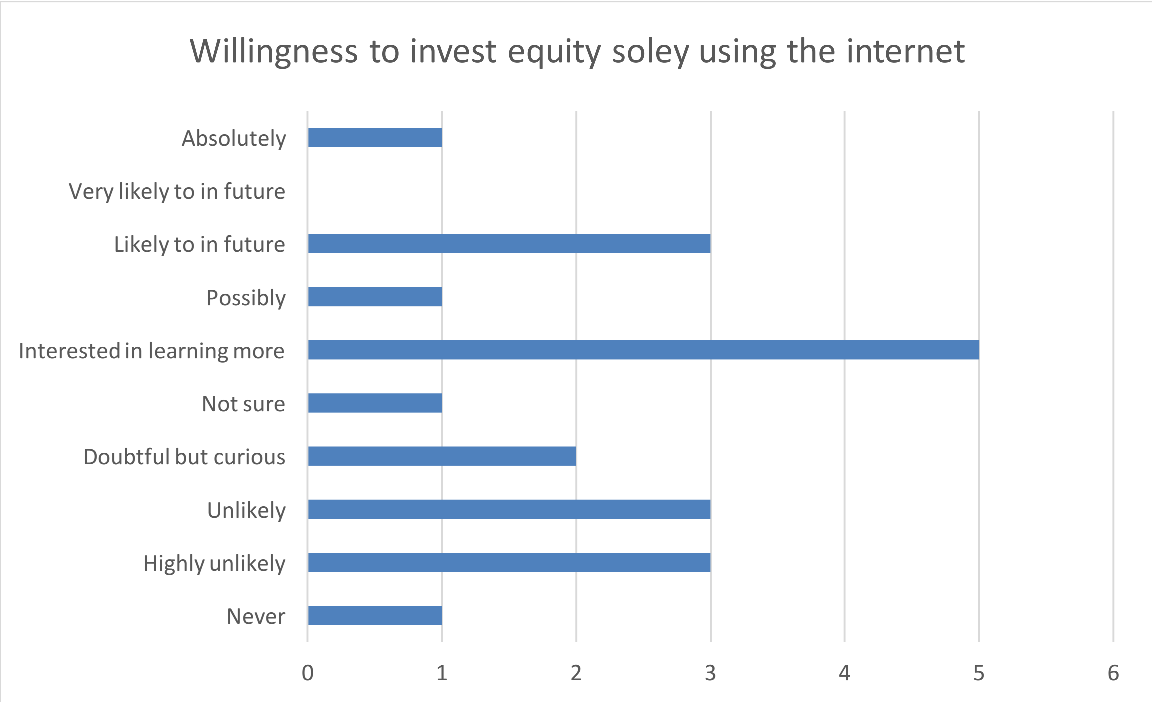


Figure 28: Combined difficulty in sourcing new, qualified investors

50% of the combined respondents find it difficult in sourcing new, qualified investors for CRE transactions.

Willingness to invest/raise equity solely online

This survey question provides insight into my respondent's willingness to invest/raise equity solely using the internet. An investor will invest equity for an equal equity stake in the CRE project and a developer will raise equity by offering shares to investors to invest in the CRE project.



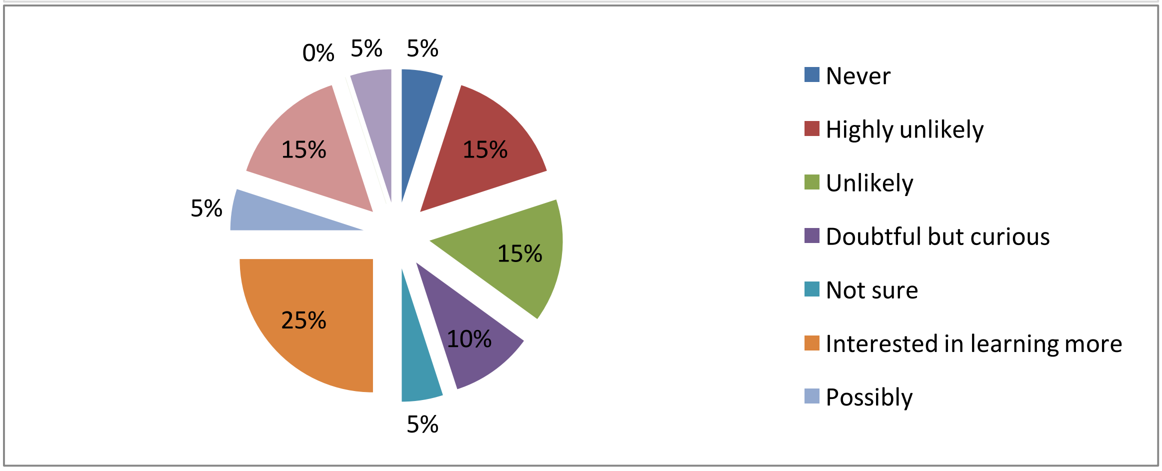


Figure 29: Willingness to invest equity solely online

25% of the investor respondents are interested in learning more about investing equity solely online.

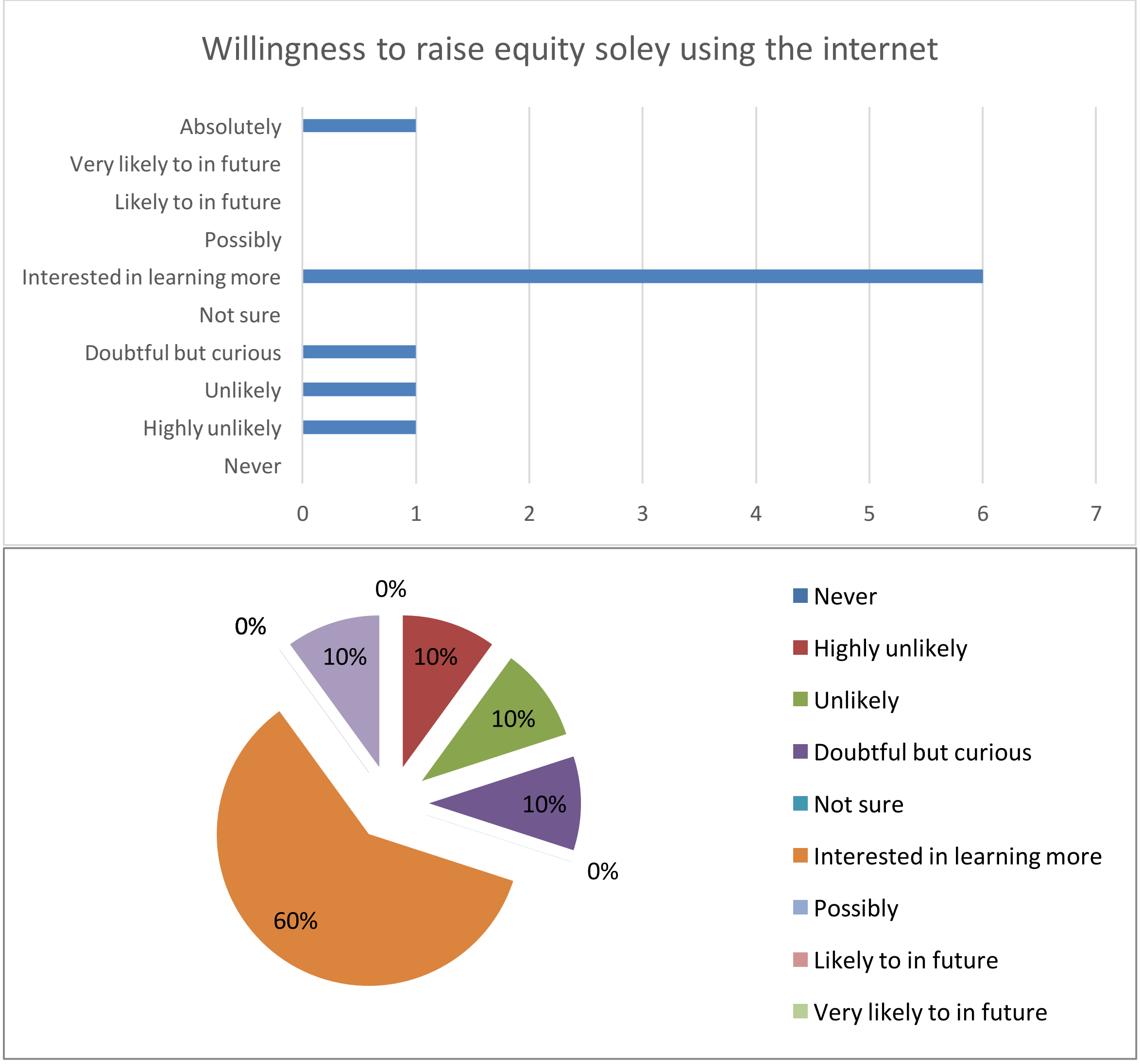


Figure 30: Willingness to raise equity solely online

60% of the developer respondents are interested in learning more about raising equity solely online.

Willingness to invest/raise equity online if the platform was legitimate

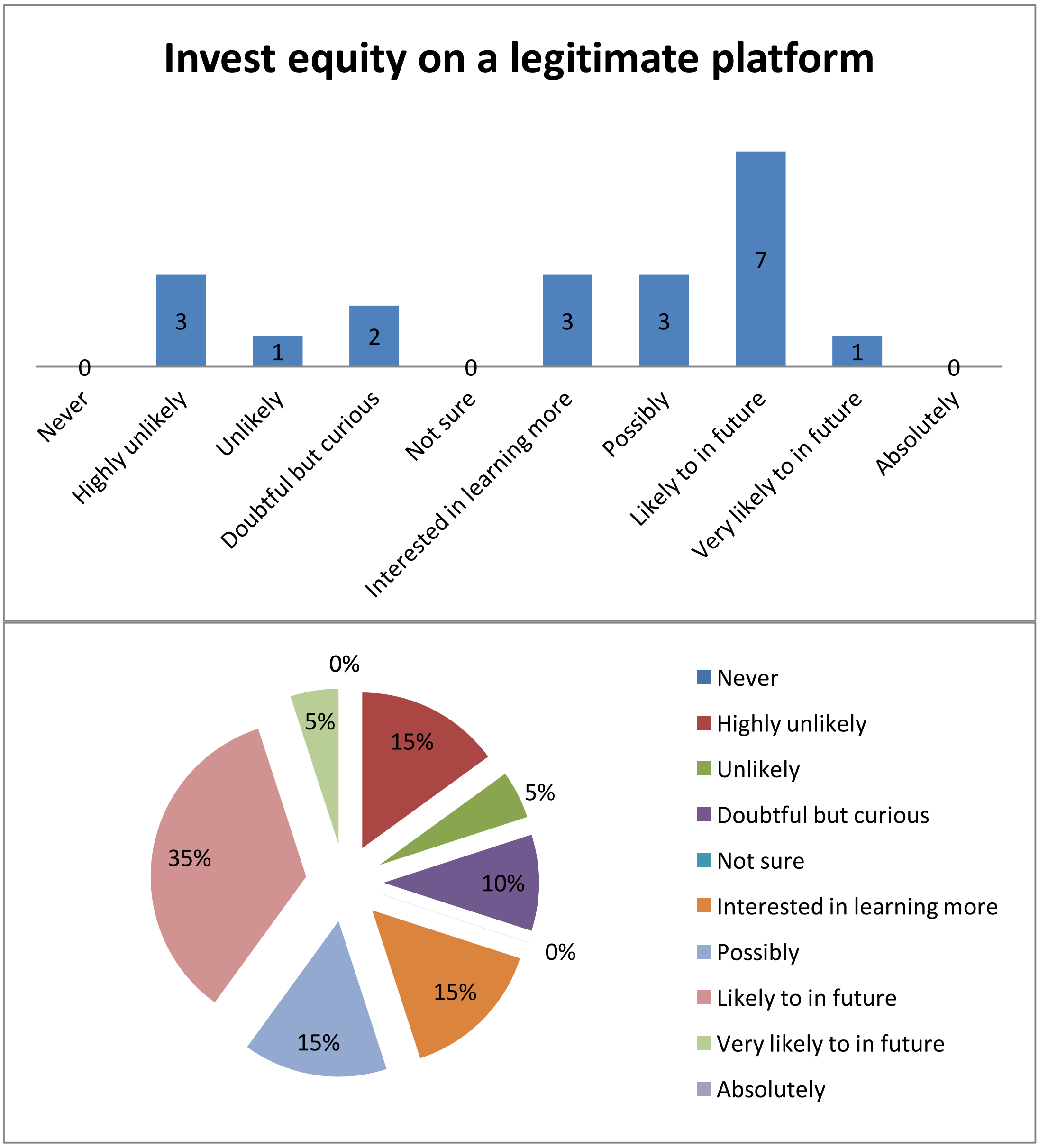


Figure 31: Willingness to *INVEST* equity if platform was legitimate; vetted all deals and deal sponsors, and provided deal sponsor services such as investor funding management

35% of investor respondents would most likely invest equity on the platform in the future if the platform was legitimate, vetted all deals and deal sponsors, and provided deal sponsor services such as investor funding management.

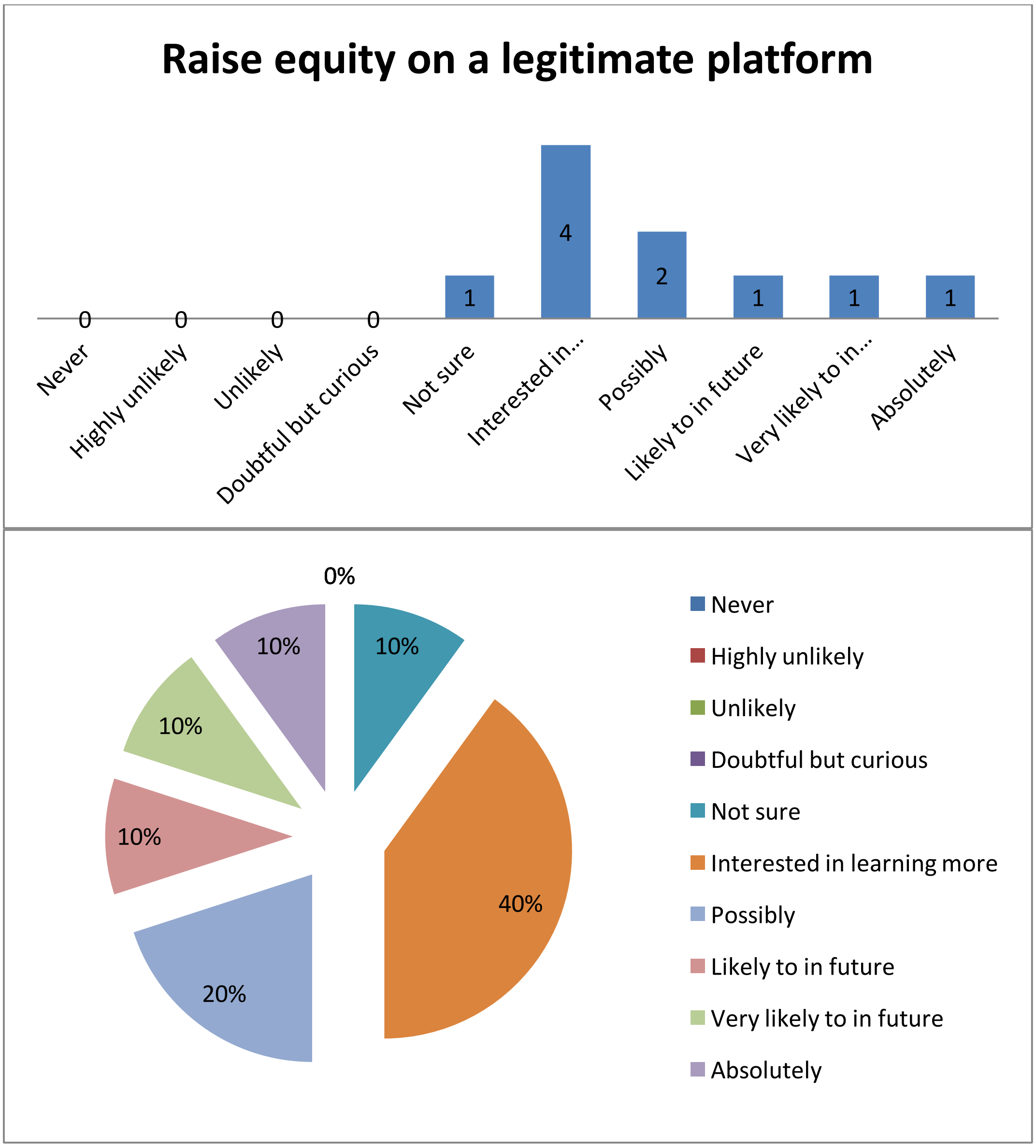


Figure 32: Willingness to *RAISE* equity if platform was legitimate; vetted all deals and deal sponsors and provided deal sponsor services such as investor funding management

40% of developer respondents are interested in learning more, while 20% suggest they would raise equity on the platform if the platform was legitimate, vetted all deals and deal sponsors, and provided deal sponsor services such as investor funding management.

Job Titles of respondents

Employees in senior positions at CRE investment and development firms were chosen to complete the survey.

Table 2: Investor job titles

MD
Director
Director and Founder
Development Entrepreneur
CEO
Director, owner
Property investor
Business Manager
Financial director
Acquisitions
Acquisitions and Disposals Manager
Owner
Broker
Operations Compliance Manager finance
Managing Director
Sales manager
Portfolio Manager
MD
Commercial manager

Table 3: Developer job titles

Development Manager
Development Manager
Principal
Business Owner
CEO
Finance Director
Owner
Chairman
Development Manager
Director

Volume of CRE transactions over last five years

#	Answer	Response	%
1	R0-R10m	6	30%
2	R10m-R50m	2	10%
3	R50m-R100m	3	15%
4	R100m-R200m	1	5%
5	R200m+	8	40%
	Total	20	100%

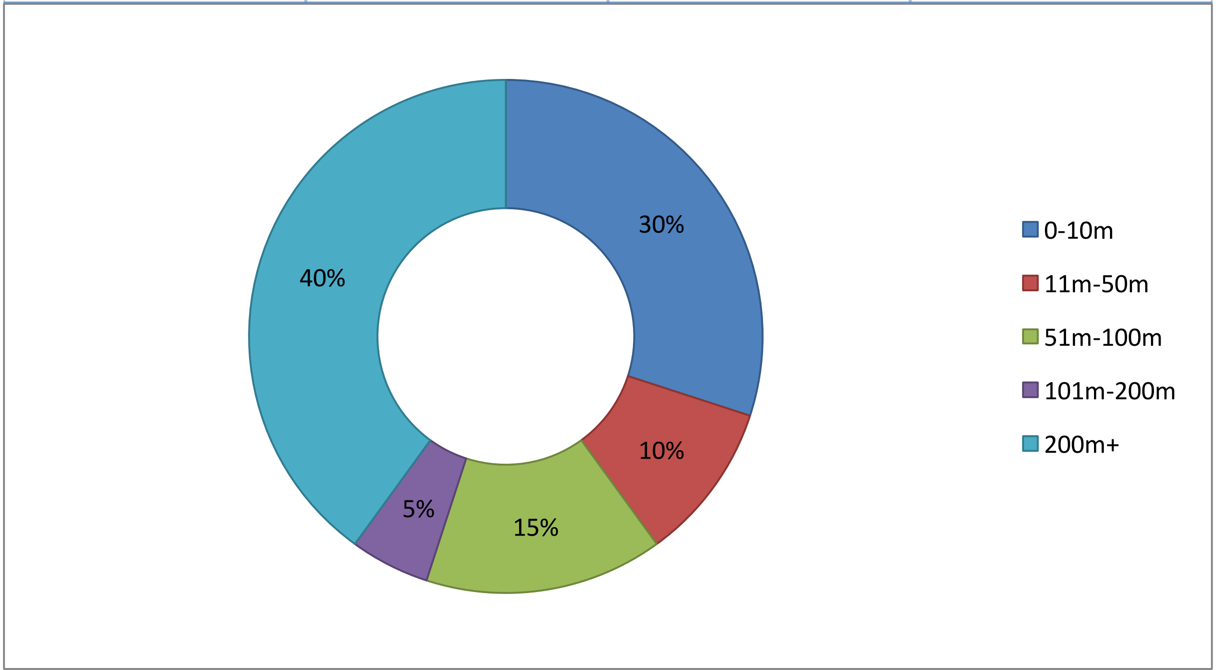


Figure 33: Volume of CRE transactions for investor

40% of investor respondents have invested in more than R200m worth of CRE transactions over the past five years.

#	Answer	Response	%
1	R0-R10m	0	0%
2	R10m-R50m	2	20%
3	R50m-R100m	2	20%
4	R100m-R200m	1	10%
5	R200m+	5	50%
	Total	10	100%

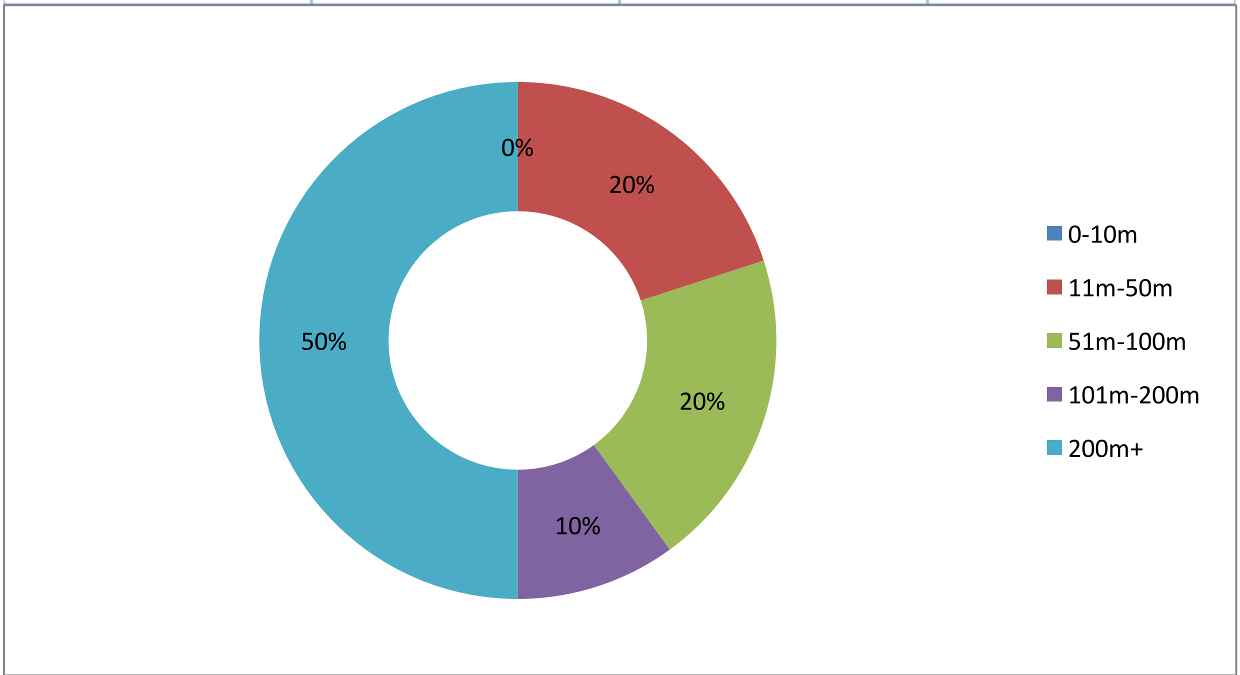


Figure 34: Volume of CRE transactions for developers

50% of the developer respondents have concluded more than R200m in developing CRE projects over the past five years.

4.5 Results pertaining to Proposition 4

Java Capital is a specialist corporate finance and merger and acquisitions company that provides a complete range of financial, commercial and legal advisory and transaction execution services.

An interview was conducted with Warren Lawler, a corporate finance executive and director of Java Capital; to help gain insight where commercial real estate crowdfunding would fit in from a regulatory and legislative perspective in South Africa.

After explaining to Mr Lawler the various elements of an equity-based crowdfunding platform, the main points raised by the respondent is the concern with investor protection and the offering of securities to the public. Both these two elements will require governance by the FSB.

When analysing an equity-based crowdfunding platform, it will be important to understand the definitions of the South African Financial Acts governing the exchange of securities.

Two financial Acts will be of relevance to equity-based crowdfunding: The Companies Act 71 of 2008 and the Collective Investment Schemes Control Act 45 of 2002. If equity-based crowdfunding falls into the former, the key criterion is going to be the offering of securities. The respondent suggested that it would be ideal to fall out of the prospectus requirements as a prospectus is generally time-consuming and expensive.

The respondent advises that The Collective Investment Schemes Control Act appears to be the most relevant and connected act which would govern a commercial real estate crowdfunding platform as real estate crowdfunding is very similar in nature to property syndication. "Property syndication is not a permanent capital vehicle like that of companies which are governed by the Companies Act". The responded goes on to say that in order for a property syndication model to work, the leaders of the syndicate need to prepare a business plan and only once the business plan is complete, they can go to market to try and raise the money for the proposed property deal. This method does not have great success due to the time it takes to raise the money, and by that point, the deal could be lost. They key is to get sufficient traction because sellers of commercial real estate will not want to do business with someone that has not raised the money.

The next issue discussed by the respondent is the cost of capital. The cost of capital in a collective investment scheme (property syndication) is much higher than the cost of capital in a permanent capital vehicle that a listed company utilizes. This is due to the fact that shares are liquid and highly tradable in a listed company.

According to the respondent, it is very difficult to raise private equity in South Africa and therefore he believes that commercial real estate crowdfunding will only work with properties that have value add potential, giving an investor a greater return on his/her investment than he/she can get from a listed property company.

Another challenge for CRE crowdfunding will be to attract an uneducated market that does not understand returns as well as a seasoned investor.

The interview concluded that any investment vehicle targeting the public would have to be controlled under the auspices of the FSB and therefore it is crucial to perform a due diligence on each and every deal. In order to gain traction for a CRE crowdfunding portal in South Africa, its ultimate success would be in creating a tangible sense of ownership for the portals investors.

In the event the CRE crowdfunded investment vehicle gains traction in South Africa, it will most likely fit into the broad rules set out in the Collective Investment Schemes Act which govern alternative investments.

The FSB is aware of recent overseas regulation and legislation with regard to equity-based crowdfunding but is yet to implement any regulation or legislation to equity-based crowdfunding in South Africa. Until such time, the equity-based CRE crowdfunding portal should follow the broad set of regulations set out in the Collective Investment Schemes Control Act 45 of 2003 which govern alternative investments such as Hedge funds, as a benchmark.

Over time and after trial by error scenarios, the South African government, together with the FSB need to put policies in place to regulate this nascent industry in order to aid entrepreneurs and start-ups with gaining access to much needed capital aids in stimulating the economy and creating jobs for a country in dire need.

CHAPTER 5. Discussion of the results

5.1 Introduction

This chapter will discuss and explain, in great detail, the results of the online survey that was completed by commercial real estate investors/owners of CRE and developers of CRE, as well as the interview that was conducted with Warren Lawler from Java Capital.

Results obtained from the survey and the interview will be analysed against each of the research propositions, and conclusions will be drawn in relation to similarities, differences or alternatives from the literature compared to my research findings.

5.2 Demographic profile of respondents

Two groups were selected for the gathering of the data: (1) CRE investors/owner of CRE properties and (2) Developers of CRE property. This was done in order to segment the broader population. CRE investors and owners or CRE were combined to give a total of 20 respondents and developers of CRE property comprise of 10 respondents.

It was of vital importance that the chosen respondents for each sub group had the relevant authority and position in their company to answer all of the survey questions. This is important for the research as it provides validity, reliability and credibility to the findings of the research.

As can be seen from the responses in Table X and Y, close to 97% of the combined respondents are in positions of authority. These respondents have intimate knowledge of their company's investment and development decisions when it comes to acquiring or developing CRE property.

5.3 Discussion pertaining to Proposition 1

Familiarity with crowdfunding

It is of no surprise that 93% of the total combined respondents were familiar with the term "crowdfunding". Although crowdfunding is in its infancy in South Africa, most respondents have heard of crowdfunding. This could be due to the fact that crowdfunding is growing rapidly in the United States with the likes of many successful projects on *Kickstarter* that have been funded and very well publicised in the media.

In order to analyse the effectiveness of a (real estate) crowdfunding platform, one first needs to assess the level of importance that the internet plays in procuring new business and new business connections, as well as various online sites and social media platforms used by investors and developers to procure new business.

Online and Social Media Sites used for business

The combined results in figure 6 suggest that the internet (general searches) and most social media sites play an important role for respondents when it comes to sourcing new business opportunities and connections. Mainstream South African property websites (Private Property; Property24 and SA Commercial Property news) favour both investors and developers for business use because these sites provide insight into what properties are currently on the market and at what values. SA Commercial Prop news provides the latest, up-to-date commercial property news and information in South Africa and Africa, and therefore is no surprise that this online platform is utilized by both sets of respondents.

Social media sites such as Facebook and LinkedIn are less important to developers and investors of CRE in South Africa, but having a social network for business is prevalent and should not be ignored. Based on research conducted by Gabison (2014), one of the key drivers for success on a crowdfunding platform is where the fundraiser has a large social network base. This is in order for the project to spread wide and far.

I anticipate that when equity-based crowdfunding takes form in South Africa, social media platforms will play a far greater role in making sure a CRE project is funded.

Importance of internet for real estate investment purposes

Analysing figure 9, twenty-one out of the thirty respondents (70%) of investors and developers of CRE, rank the importance of the internet between *crucial* and *important* when it comes to providing business connections and information used for real estate investment purposes.

With the exponential growth of the internet, its users and social media platforms, the internet, and its online platforms will continue to be a main source of information and purchasing destination for consumers. Burgett and McDonald (2013) reiterate that the intrinsic efficiencies of the internet have the ability to enhance transparency and aid in matching a buyer and seller of CRE.

As regulations ease to accommodate disruptive technologies, the nature in the way real estate transactions are done will rapidly change.

Most essential online investment platform attributes

To gain favour amongst an investing crowd, there are certain key elements required by investors in order for a project to be funded (Mollick, 2014). When the public is going to be investing money online, certain attributes of a deal sponsor and the crowdfunding platform will be more important than others.

From the data gathered in my research, the most important attribute for both an investor and a developer is the online project due diligence, followed very closely by the deal sponsor's track record and resume' and the deal sponsor's background check. The due diligence ranked highest in both respondent groups. This makes sense as the investor/developer would want comprehensive information regarding the CRE project; to make sure that he/she knows exactly what are the inherent pro's and risks associated to each deal; if the project is viable, and if the projected returns make financial sense.

Ease of investing electronically is ranked as the least important attribute in both respondent groups. This is perhaps due to the fact that it is a given that if a platform is offering a service for consumers to invest money in exchange for equity, then this process should be seamless. Also, with the advancement of the internet, its functionality and infinite payment gateways, investing online should be an easy task.

Both from my research and research conducted by others, it would suggest that a crowdfunding platform can be effective and successful if the correct measures are put in place by the platform and the deal sponsor.

For the platform to be successful, all elements of the projects due diligence need to be presented in a clear and transparent way, allowing an investor to make an informed decision to invest. All deal sponsors must be screened and vetted to make sure the deal sponsors have no criminal records or bad debts, and that the deal sponsors have a proven track record in their field of expertise. For the deal sponsors to be successful, they must continuously grow their online presence and expand their social networks. This will aid in spreading word-of-mouth to make sure the project is seen wide and far and will garner support for the deal sponsors and their projects.

5.4 Discussion pertaining to Proposition 2

Level of confidence in transacting CRE online

The level of confidence in transacting an online CRE investment leans more to the side of a general lack in confidence, with a combined 52% of respondents having very little confidence in transacting a CRE deal online. 36% of the combined respondents are confident in transacting an online CRE deal, and the remaining 12% sit on the fence.

The reason for the major lack in confidence could be due to the fact that no substantial online CRE transacting exists in South Africa. The only online transacting that takes place for CRE deals is in the property auction market with a company known as *i-Bidder*. This company is still in its infancy in South Africa and based on my knowledge and experience in the property auction industry, very few of the commercial property auction houses have utilized *i-Bidder's* platform to transact CRE. This is in stark contrast to an online property bidding portal in the United States with *Auction.com.* According to Burgett and McDonald (2013), Auction.com has sold more than $20billion in assets since 2007, and sold $3.6billion of commercial real estate in 2012 alone.

Given the fact that size of the property market in the United States dwarfs that of the property market in South Africa, and combined with the fact that South Africa is typically a late adopter of technology, it is of no surprise that investors and developers of CRE in South Africa would have little confidence in transacting a CRE deal online.

Properties of preference

What is evident from figures 18 and 19 is that there are certain asset classes that are more preferred by both investors and developers – these include income producing properties such as retail and apartment blocks, mixed use buildings, shopping centres and strip malls.

For both groups of respondents, retail & apartment blocks stand out as the most preferred asset class with 80%-90% of respondents ranging with a score between 7 and 10.

This makes sense as both investors and developers are looking for a stable return on their investments, which includes monthly cash-flows from occupying tenants. The risk of owning or developing this asset class is spread among many tenants and therefore if one or two of the apartments or retail spaces become vacant, there is still rental income from the other tenants. This alleviates the stress of having all your eggs in one basket, where if your tenant vacates the premises, the landlord will be left with no income and the risk of waiting a long time to occupy the property.

This can be seen in the corollary, that the least preferred asset class among both group of respondents, is a hotel property. A hotel property generally will consist of one tenant – if that hotel group fails to make it a success, the extremely expensive hotel property will become vacant and leave the landlord in much distress and burdened with enormous fixed overheads.

From the information above, it is evident that both sets of respondents would benefit from a CRE crowdfunding portal whereby they could pick and choose which CRE projects they would like to incorporate into their personal portfolios.

Attributes considered when purchasing/developing CRE

Various attributes were considered and ranked in order of importance for both groups of respondents in figures 20 and 21.

Investors' most important attribute considered is length of the lease followed by potential upside. This reiterates my findings that investors are looking for a solid return on money invested, and naturally, a property with long leases and potential upside will attract the investor market. The longer the lease on a property, the greater the return on investment will be for the investor. The landlord will benefit from annual rental escalations and capital appreciation.

Developers' most important attribute when deciding to purchase a CRE is the due diligence of the underlying asset. Developers of CRE will be far more cautious to develop a property as the cost of developing is extremely capital intensive. A feasibility study and market analysis will be done before any development gets the green light.

Interestingly, the length of the lease closely follows due diligence, and the same argument from the above investor analysis applies. A developer today would not develop a property on risk given the inherent enormous capital outlays. A developer would rather build to spec for a particular tenant (or tenants) based on the tenant(s) signing a long term lease. The purchasing or development of a CRE deal becomes more attractive when risk is minimised.

It is clear from my research findings that both investors and developers have a wide variety of properties that they would like to invest in and there are certain asset classes that both groups will shy away from. Sebehela (2007) on property portfolio diversification said that “the challenge is to construct a portfolio that suits investors ‘risk and utility levels and at the same time to have assets that are independent of each other”.

The answer to this challenge is that property portfolio diversification can be achieved by a CRE crowdfunding platform which will allow investors and developers to pick and choose which assets they would like to own in their individual portfolios.

5.5 Results pertaining to Proposition 3

Deals lost due to a funding gap or hurdle to raise money

Investor respondents: 20% of respondents have lost 11 or more deals due to a funding gap or hurdle to raise money; 25% have lost 5-10 deals; 30% have lost less than 5 deals; 25% haven’t lost any deals.

Developer respondents: 10% of the respondents have lost 11 or more deals due to a funding gap or hurdle to raise money; 30% have lost between 5 and 10 deals; 60% have lost less than 5 deals

What is notable from these findings is that enough deals are being lost due to a funding gap that would warrant a need for an alternate funding vehicle to help investors and developers overcome this hurdle. The main issues in raising bank finance for smaller, non-listed property investment companies is the difficulty in obtaining sufficient bank finance and the large deposits that are required by the banks in order to grant a commercial property loan. These findings agree with Geltner, Miller et al. (2013) who found in their research that it is generally not probable for small individuals, who are not wealthy, to own whole commercial properties directly.

Use of a third party to raise equity

50% of investor respondents have used a third party to raise equity in the last five years, while 80% of developer respondents have used a third party to raise equity in the last five years. These findings are important as both groups of respondents face hurdles to raise money from the banks as seen from the previous question, and therefore they resort to a third party to raise the balance of the equity to secure a deal.

CRE developer's costs are far more substantial when developing a commercial property as opposed to a CRE investor investing equity for a return, and therefore will more often rely on a third party to raise equity.

This is evidence for the need of an equity-based crowdfunding platform in South Africa. As Gabison (2014) points out, equity crowdfunding is a limited initial public offering (IPO) conducted via an internet intermediary, often called a funding portal, and during the internet based IPO, companies seeking funds give campaign contributors stakes into their ventures. This is typically in the form of shares. A CRE crowdfunding platform will afford deal sponsors a greater opportunity to raise equity from a large network of CRE investors.

Level of difficulty in sourcing NEW, qualified investors

50% of the combined respondents have very little difficulty in sourcing new, qualified investors for CRE deals. However, 37% of the combined respondents find it very difficult to source new, qualified investors for CRE deals.

This data would suggest a need for certain firms to utilise a crowdfunding platform that would give deal sponsors access to a broader network of new, qualified CRE investors.

Volume of CRE transactions over the last five years

Looking at figure 33, 60% of investors have concluded R50m to more than R200m worth of CRE transactions over the last five years.

Figure 34 indicates that 50% of developers have concluded more than R200m in CRE transactions over the past five years.

This information is relevant due to the size of the companies of majority of the respondents. Twenty-nine out of thirty respondents belong to private companies with fairly small staff compliments.

It can be assumed that their growth is stifled due to the above factors of (1) hurdles to raise money, (2) Difficulty in finding new, qualified investors and (3) their use of third parties in raising equity finance.

As was the findings of Burgett and McDonald (2013), funding gaps and the use of third parties to assist in raising capital would seem to imply a need for some firms to use CRE crowdfunding.

In summation a commercial real estate crowdfunding platform would allow smaller, lower net-wealth individuals, an opportunity in owning a sizeable commercial property investment without the complexities of putting down a large deposit or signing suretyships.

Having a CRE crowdfunding platform would alleviate the need for bank financing, reduce the funding gap for larger CRE deals and ultimately will provide a deal sponsor with a source of new and qualified investors.

5.6 Results pertaining to Proposition 4

The major concern with equity-based crowdfunding is the offering of securities to the public. Whenever a public offering is made, the FSB make it their business to protect investors from potential fraud and corruption. This is in line with research by De Beer (2013) who found in his research that regulators follow an investor-orientated approach and in order to keep the accuracy of the markets intact, requires strict governance and regulation by local authorities.

As mentioned in Chapter 4, CRE crowdfunding could fall under the governance of the Companies Act 71 of 2008 and/or the Collective Investment Schemes Control Act 45 of 2002.

Companies Act 71 of 2008

The key criterion under this act is the offering of securities. The respondent to the interview suggested that it would be ideal to fall out of the prospectus requirements due to time-consuming delays and expensive overheads in preparing a prospectus document. One way to be exempt from the prospectus requirements set out in this Act is if the investor(s) contribute a minimum of one million rand. Any offer below a million rand per investor would result in the CRE crowdfunding platform having to put out a prospectus on every deal it takes to market.

Another issue utilizing this Act as a trading mechanism for CRE transactions is that shares should be widely traded, at high volume and at a fast pace. Due to the nascent nature of the CRE crowdfunding platform, initially there will be no secondary market for trading existing shares.

Crowdfunding works on the basis of raising small amounts of capital, from a large network of investors. Therefore the Companies Act would not be a good fit for CRE crowdfunding.

Collective Investment Scheme Control Act 45 of 2002

Based on the interviewed respondent's advice, the above Act appears to be the most relevant and connected Act which would govern a CRE crowdfunding platform. This is due to the fact that CRE crowdfunding is similar in nature to property syndication. Warren Lawler states that "property syndication is not a permanent capital vehicle like that of companies which is governed by the

Companies Act". This is due to the fact that property syndication works on a deal by deal basis and a permanent capital vehicle will not work under property syndication because capital raising for large CRE transactions is too high.

For a property syndication model to be successful, the leaders of the syndicate need to prepare a business plan, and only once the business plan is complete and approved by the FSB, can they go to market and try and raise the money for the proposed property deal. This method is not very successful due to the time it takes to raise the money, and by that point, the deal could be lost. The key is to get sufficient traction because sellers/sponsors of CRE will not want to do business with someone that has yet raised the necessary funds. CRE crowdfunding can solve this lengthy time delay for the funds to be raised if the CRE crowdfunding platform has a large enough investor network. The business plan for the proposed deal will be online and the necessary due diligence done, making it very easy for an investor to make a quick and informed decision to invest.

The next issue discussed by the respondent is the cost of capital. The cost of capital in a collective investment scheme (property syndication) will always be much higher than the cost of capital in a permanent vehicle utilized by a listed property company. For the latter, shares are liquid and highly tradeable and therefore a listed property fund will be able to pay more for any given property investment. Therefore, investors will demand a higher rate of return for a CRE crowdfunded transaction to entice them to invest in the CRE property as opposed to buying shares in a listed property company.

In theory, if crowdfunding could close the gap on time spent trying to raise money and enhance the platforms credibility; more capital will become available more quickly, making the CRE crowdfunding platform a very exciting offer.

Value-add potential

According to the respondent it is very difficult to raise private equity in South Africa and therefore he believes that CRE crowdfunding will only work in South Africa with properties that have value-add potential, giving an investor a greater return on his/her investment than he/she can get from a listed property company.

An example of this value-add is given by the respondent. “An office block was purchased on Alice Lane in the Sandton CBD. The original property size was 1,000m². The purchaser of the property then applied to council to rezone the property and eventually received the rights to build up to a maximum of 20,000m², therefore making the purchase of the land very cheap. So although the property purchase was very expensive, the developer was able to develop a massive, multi-storey office block with a sizeable return”.

This is the kind of value-add potential that attracts property syndication proposals and therefore is the kind of value-add that the CRE crowdfunding project should be able to give to its investors.

Educated vs uneducated investors

The respondent highlights another challenge for CRE crowdfunding and that is how to attract an uneducated market that does not understand returns as well as seasoned investors. In order to gain traction for a CRE crowdfunding portal, the portal needs a massive network of property investors. Due to the fact that the CRE investor market is extremely limited in South Africa, the portal needs to attract a more ‘’uneducated market’’ to fil this gap.

Lawler goes on to talk about the Sharemax property syndication model (discussed in the literature review in Chapter 3) where the “uneducated investors”, consisting of farmers; widowers & orphans, were conned out of their pension fund/retirement monies by money-hungry insurance brokers who were paid large commissions by the Sharemax syndicate leaders to convince their clients to invest in the Sharemax property scheme.

Billions of ZAR was raised by this distribution channel and it was so successful because of the clients’ unquestionable trust in their insurance brokers.

Woker (2013) states that "consumers generally do not have the expertise to judge the validity and risk of many investment opportunities and therefore have to trust that there is a system in place which is designed to protect their interests". A CRE crowdfunding platform has the potential to be a more legitimate way of building a solid distribution channel. Having the FSB on board, with its tight control and regulation over the Collective Investment Schemes Control Act, coupled with credible and trusted commercial property experts running the CRE crowdfunding portal, could be a recipe for a new and innovative way for the uneducated investor market to participate and benefit from CRE investments in South Africa.

Tangible sense of ownership

Although not on the topic of regulation, Lawler believes that the core to the success of CRE crowdfunding will be in creating a tangible sense of ownership for the portals investors. This means that people want to feel invested in a given project and that "they own a piece of a story". This is not the case when an individual invests into a listed property company's extremely diversified portfolio.

A CRE crowdfunding portal allows an individual to create his/her own portfolio by selectively choosing which CRE deals he/she wants to be invested in.

In summation, crowdfunding, and in particular CRE crowdfunding is a concept not yet regulated by the FSB. Having said that, the FSB's job is providing investor protection, and when an open call for funding is made to the public to invest in a property scheme, the FSB is there to govern these schemes.

In all likelihood, to setup a CRE crowdfunding platform in South Africa, the portal would follow the broad rules and regulations set out in the Collective Investment Scheme Controls Act 45 of 2002 which governs alternative investments. This would mean, at the very minimum, preparing a business plan and due diligence pack for each and every deal placed on the portal, to be vetted by the FSB before the investment can be marketed to the public.

Unlike in the UK and USA, the FSB does not make a distinction between “sophisticated” and “unsophisticated” investors, and therefore poses an opportunity for a CRE crowdfunding portal in South Africa to target the entire investing population who have access to disposable income to invest in CRE deals via a crowdfunding platform.

The FSB is aware of recent overseas regulation and legislation with regard to equity-based crowdfunding but is yet to implement any regulation or legislation to equity-based crowdfunding in South Africa. Until such time, the equity-based CRE crowdfunding portal should follow the broad set of regulations set out in the Collective Investment Schemes Control Act 45 of 2003 which govern alternative investments such as Hedge funds, as a benchmark.

Over time and after trial by error scenarios, the South African government, together with the FSB will need to put policies in place to regulate this nascent industry which will aid entrepreneurs and start-ups gain access to much needed capital which will aid in stimulating the economy and creating jobs for a country in dire need.

5.7 Conclusion

This chapter discussed the results obtained from the online survey which was completed by two sets of respondents, namely, CRE investors and developers of CRE, as well as the explanation of the interview which was conducted with Warren Lawler from Java Capital.

It is evident from my research that the internet, together with online property listing and information sites and certain social media sites, play an important role for both CRE investors and developers when sourcing new business opportunities in South Africa.

The effectiveness and eventual success for a CRE crowdfunding portal, and for the deal sponsor, is three-fold:

(1) The crowdfunding portal's investor network needs to be large and relevant to the needs of its investors

(2) The deal sponsors social network is important in spreading word of mouth for the CRE project. The deal sponsor must work at continuously growing their social network so that the project is spread wide and far, and they must have the ability to market the project to that network

(3) All elements of the CRE projects due diligence and deal sponsor's track record and resume' need to be presented in a clear and transparent way, allowing an investor to make an informed decision before investing.

Based on the investor and developer respondent's responses to the survey, there is a clear preference for certain property types, and other property types that investors and developers have no interest in investing in. My research proposition states that portfolio diversification can be achieved by a CRE crowdfunding platform, allowing investors to pick and choose which assets they would like to own in their portfolio. A CRE crowdfunded transaction differs to buying shares in a listed property company in that the CRE crowdfunded deal presents a tangible sense of ownership for those investing.

Additional evidence from the survey suggests that there are certain smaller investment and development firms that would benefit greatly from CRE crowdfunded deals. These include firms that have lost substantial property deals due to a funding gap or a hurdle to raise money with financial institutions or difficulties experienced in finding new, qualified investors for CRE projects. Therefore, a CRE crowdfunding platform would allow smaller, lower net-wealth individuals/firms an opportunity in owning a sizeable commercial property without the complexities of putting down large deposits or signing suretyships.

The final concern with CRE crowdfunding in South Africa is the lack of legislation and regulation with the nascent crowdfunding industry.

Whenever a public offering is made for securities, the FSB make it their business to protect investors' interests. Evidence from my interview with Warren Lawler from Java Capital suggest that CRE crowdfunding is very similar in nature to property syndication and therefore would be governed by the rules and regulations set out in the Collective Investment Schemes Control Act 45 of 2002 that control alternative investments, and would fall under the auspices of the FSB. Falling under this Act would mean putting a business plan together and a full due diligence report on each and every deal brought to market by the platform. The challenge for CRE crowdfunding in South Africa would be to gain trust from its investors. This is a difficult task as property syndication has a negative stigma in South Africa due to the many cases of fraud and corruption by syndicate leaders who deceived and conned a massive, uneducated investor market of pensioners and widowers out of billions of ZAR of life savings. A CRE crowdfunding platform has the potential to be a more legitimate, credible and transparent way of building a solid distribution channel if it has the backing from the FSB and expert CRE property professionals at the helm of the investing portal.

Over time and by trial and error, government, together with the FSB should adapt current legislation to fit equity-based crowdfunding. The benefits of equity-based crowdfunding are enormous. These include aiding entrepreneurs with access to capital thus eliminating funding gaps, stimulating the economy and creating much needed jobs for our country.

CHAPTER 6. Conclusion

6.1 Introduction

Crowdfunding is a method used by entrepreneurs to raise money, from a large pool of investors, via an online platform, in order to fund a particular project, product or business. Various forms of crowdfunding exist in the market. They include: Donation-based; reward-based; lending-based & equity-based crowdfunding. Internationally, crowdfunding is a new phenomenon that is completely revolutionising the way entrepreneurs and business start-ups are able to gain access to funding for various projects. Crowdfunding is causing a major disruption to the financial sector as the crowdfunding model provides an alternate means for raising capital. As crowdfunding moves from donation-based crowdfunding through to equity-based investing, the level of complexity and uncertainty increases due to the nascent nature of the crowdfunding industry and intervention by government and regulatory bodies who aim to protect the interests of would-be investors.

Equity-based crowdfunding has given rise to CRE crowdfunding, whereby a large group of investors will invest small amounts of equity in return for an equal stake of equity in a given commercial real estate transaction. CRE crowdfunding does not yet exist in the South African market place.

This chapter will conclude my research on the viability of a crowdfunding platform in the commercial real estate market in South Africa, summarise the key findings of the research, provide recommendations to the various stakeholders involved and will end off with suggestions for further research to be conducted in the field of crowdfunding.

6.2 Conclusion of the study

Crowdfunding is an opportunity in the South African commercial real estate market. As the internet becomes more integral to the lives of consumers, CRE investors and property developers will eventually look to new, alternate avenues for investing and raising equity in commercial property ventures.

Commercial property will always be a sort after asset class due to its intrinsic nature of capital appreciation and rental income return. Although most investors would like to own a lucrative, highly desirable, income producing property and although many CRE developers would like to develop the next prime retail complex, many times, these deals will be lost due to funding gaps or difficulties experienced in raising the capital. CRE crowdfunding has the ability to solve these problems, by connecting investors to the portal's network, whereby; smaller amounts of capital can be pooled together, in exchange for equity ultimately getting the CRE project off the ground.

CRE crowdfunding differs to investing in listed property companies as it allows an investor/developer of CRE to construct their very own portfolio of commercial properties. It is evident from my research that both investors and developers of CRE have different tastes in commercial properties. Constructing your own portfolio also creates a sense of tangibility to the asset – the very bricks and mortar that make up the property, is now partially owned by the investor/developer.

My research agrees with other research papers that the success of a CRE crowdfunding platform relies on a few factors: (1) for the <u>platform</u> to be successful, all deal sponsors need to be screened and vetted (this includes background and credit checks as well a proven track record in his/her field of expertise); all projects listed on the platform must go through a rigorous business plan and due diligence process – this must be done in order to comply with regulations set out in the Collective Investment Schemes Control Act and will need approval from the FSB before being taken to the investor market for fundraising; finally, the platform's success will rely on being a legitimate platform which is governed under the auspices of the FSB and led by a team of trustworthy CRE property professionals – this will give the investor public peace of mind in knowing that their investments are being managed and regulated by credible parties. (2) For the deal sponsors to be successful, it is imperative to grow their social and business networks so when the time comes to market the CRE project, the deal sponsor is able to spread the project far and wide to garner support for the venture.

As CRE crowdfunding gains more traction in overseas markets, it will be a matter of time before South African governing bodies will adapt current regulation and legislation to meet the demands of this nascent industry.

6.3 Recommendations

This study benefits commercial real estate investors, commercial property developers and owners of CRE investments.

Commercial property investors will benefit from the creation of an investment platform, allowing an investor to invest relatively small amounts of money for an equivalent equity stake in the property. Unlike owning shares in a listed property fund, the investor will actually own a portion of a fixed asset and will benefit from annual rental escalations as well as capital growth when the asset is eventually sold.

One of the main reasons why most financial institutions decline financing of commercial property is due to the imbalance of income versus expenditure of commercial property investors – a commercial real estate crowdfunding platform will eliminate this imbalance.

Property developers, who often struggle to raise finance on the back of a proposed development scheme, will benefit from the crowd who could find favour and immense value for the proposed development scheme. In today's current market, South African banks are extremely reluctant to finance development schemes without substantial equity and surety's provided by the developer. A CRE crowdfunding platform will eliminate these challenges

Owners of CRE investments have very few avenues for disposing of their assets or raising equity to finance a project, and a crowdfunding platform will provide access to a relatively large database of CRE investors to purchase or invest in the underlying asset.

6.4 Suggestions for further research

Crowdfunding as a topic has enormous scope and because so little research has been done in the field, particularly in South Africa, there is room for other academics to explore further research in the following areas:

Benefits of equity-based crowdfunding for business start-ups and entrepreneurs in the South Africa landscape

Benefits of equity-based crowdfunding to the South African economy and for job creation

Crowdfunding as an instrument for social impact investing in South Africa

Viability of crowdfunding in the South African residential real estate market

Donation-based versus reward-based crowdfunding, an empirical study

Utilizing a crowdfunding model for Peer-to-Peer lending (P2P) in South Africa

REFERENCES

Ahlers, G. K., et al. (2015). "Signaling in equity crowdfunding." Entrepreneurship Theory and Practice.

Babbie, E. (2001). The practice of social research, Cengage Learning.

Barnett, C. (2015). "SEC Democratizes Equity Crowdfunding With JOBS Act Title IV." from http://www.forbes.com/sites/chancebarnett/2015/03/26/infographic-sec-democratizes-equity-crowdfunding-with-jobs-act-title-iv/.

Belleflamme, P., et al. (2015). "The Economics of Crowdfunding Platforms." Available at SSRN 2585611.

BORELLO, G., et al. (2015). "The Funding Gap and The Role of Financial Return Crowdfunding: Some Evidence From European Platforms." Journal of Internet Banking and Commerce **20**(1).

Boshoff, D. G. (2012). "Evidence of Shareholder Activism and Information Deficiency in the Listed Property Sector in South Africa." Proceedings in ARSA-Advanced Research in Scientific Areas(1).

Boshoff, D. G. B. and E. Bredell (2013). "Introduction of REITs in South Africa."

Briddell, E. T. (2010). "A Guide to Global Real Estate Investment Options." BNY MELLON asset management.

BROLL (2015). The Broll Report, Broll Database and Broll Research Division.

Bryman, A. (2012). Social research methods, Oxford university press.

Burgett, B. L. and J. R. McDonald (2013). Democratizing commercial real estate investing: the impact of the JOBS Act and crowdfunding on the commercial real estate market, Massachusetts Institute of Technology.

Cokayne, R. (2014). "Sars applies to liquidate Sharemax." from http://citizenalertzablogspotcom-tango.blogspot.com/2014/09/sars-applies-to-liquidate-sharemax.html.

Creswell, J. W. (2003). Research design: Qualitative, quantitative, and mixed methods approaches, Sage publications.

De Beer, P. (2013). "Law of Crowdfunding: Challenges to the South African Securities Law-A Comparative Perspective, The." Penn Undergraduate LJ **1**: 19.

Doppegieter, J. and E. Rode (2002). Capitalisation rates and property yields: an analysis of the South African commercial property market, Citeseer.

EAAB (2013). "PROPERTY CONTRIBUTES R191,4 BILLION TO THE NATIONAL ECONOMY." from http://www.eaab.org.za/property_sector_charter_council.

FCA (2014). The FCA's regulatory approach to crowdfunding over the internet, and the promotion of non-readily realisable securities by other media

Feedback to CP13/13 and final rules.

Gabison, G. A. (2014). "Equity Crowdfunding: All Regulated But Not Equal."

Gazette, G. (2008). The Companies Act, Act 71 of 2008. Cape Town.

Gazette, G. (2012). The Financial Markets Act, Act 19 of 2012. Cape Town. **572**.

Geltner, D., et al. (2013). "Commercial real estate analysis and investments."

Gorman, M. and W. A. Sahlman (1989). "What do venture capitalists do?" Journal of Business Venturing **4**(4): 231-248.

Government, S. A. (2007). "Bus Rapid Transit System (BRT)." from http://www.gov.za/about-government/bus-rapid-transit-system-brt.

Harrison, R. (2013). "Crowdfunding and the revitalisation of the early stage risk capital market: catalyst or chimera?" Venture Capital **15**(4): 283-287.

Hemer, J. (2011). A snapshot on crowdfunding, The Open Access Publication Server of the ZBW – Leibniz Information Centre for Economics.

JSE (2013). "Real Estate Investment Trusts." from https://www.jse.co.za/content/JSEPresentationItems/REITs.pdf.

Ley, A. and S. Weaven (2011). "Exploring agency dynamics of crowdfunding in start-up capital financing." Academy of Entrepreneurship Journal **17**(1): 85.

Mollick, E. (2014). "The dynamics of crowdfunding: An exploratory study." Journal of Business Venturing **29**(1): 1-16.

Patrick, W. and Z. Ralf (2003). "Isolating important driving forces in indirect real estate markets." Journal of Real Estate Portfolio Management **9**(3): 205-218.

Portmann, D. and C. Mlambo (2013). "Private equity and venture capital in South Africa: a comparison of project financing decisions." South African Journal of Economic and Management Sciences= Suid-Afrikaanse Tydskrif vir Ekonomiese en Bestuurswetenskappe **16**(3): 258-278.

SAREIT (2013). "What is SA REIT." from http://www.sareit.com/101_WhatIsReits.php.

Sebehela, T. (2007). An investigation into the impact of listed property (property unit trusts) in a diversified investment portfolio in South Africa, University of the Witwatersrand.

SEC (2015). SEC Adopts Rules to Facilitate Smaller Companies' Access to Capital.

Shane, S. (2012). "The importance of angel investing in financing the growth of entrepreneurial ventures." The Quarterly Journal of Finance **2**(02): 1250009.

Valančienė and Jegelevičiūtė (2013). "Valuation of crowdfunding: benefits and drawbacks." Economics and Management **18**(1): 39-48.

Valančienė and Jegelevičiūtė (2014). "Crowdfunding for Creating Value: Stakeholder Approach." Procedia-Social and Behavioral Sciences **156**: 599-604.

Wilson, K. E. and F. Silva (2013). Policies for Seed and Early Stage Finance: Findings from the 2012 OECD Financing Questionnaire, OECD Publishing.

Wilson, K. E. and M. Testoni (2014). "Improving the role of equity crowdfunding in Europe's capital markets." Available at SSRN 2502280.

Woker, T. (2013). "Property-syndication investment v property scam: who decides? A critical examination of the regulation of public-property syndication schemes in South Africa." Obiter **34**(2): 233-251.

APPENDIX A

Covering Letter:

Dear Respondent,

My name is Elan Zwick, ID number 8209135052081.

I am currently in my second year of a part-time, two year MBA course at Wits Business School.

As part of my degree, I have to submit a research report which meets the university's standards.

I am conducting a feasibility study for a commercial real estate crowdfunding platform in South Africa.

The purpose of this research is to ascertain whether South African real estate investors, property developers and owners of commercial real estate will adapt to a highly innovative and technology-driven crowdsourcing platform as an alternate means of raising capital for viable property investments or investing capital in exchange for equity in commercial property investments.

The study aims to benefit commercial real estate investors, commercial property developers and owners of CRE investments

I. ***Commercial property investors*** will benefit from the study due to the creation of a new platform for investing relatively small amounts of money for an equivalent equity stake in the property. Unlike owning shares in a listed property fund, the investor will actually own a portion of a fixed asset and should benefit from annual rental escalations as well as capital growth when the asset is eventually sold.
II. ***Property developers***, who often struggle to raise finance on the back of a proposed development scheme, will benefit from the crowd who could find favour and immense value for the proposed development
III. ***Owners of CRE investments*** have very few avenues for disposing of their assets or raising equity to finance a project, and a crowdfunding platform will provide access to a relatively large database of commercial real estate investors to purchase or invest in the underlying asset.

The results of this survey will be collected anonymously and will be kept strictly confidential.

Your taking part in the survey could potentially unlock a whole new market in the South African commercial real estate sector and ultimately benefit the industry enormously.

If you have any questions or concerns, you can contact me directly:

Mobile number: 082 945 7499

Email: elan@auctioninc.co.za

I look forward to receiving your valuable input.

Kind regards

Elan Zwick

Survey Questionnaire

Adapted from a study conducted by (Burgett and McDonald 2013):

Survey questions will be adapted to investors and developers

1. Were you familiar with the term "Crowdfunding" before receiving this survey?

Yes No Unsure

2. Which social media outlets (and online property listing sites) do you actively use for business purposes (ie. Finding real estate development deals or firms for investment)?

Facebook LinkedIn Twitter General Internet searches

Private Property Property24 Epop SACommercial Prop News

3. Rate how important the internet is to providing business connections and information used for real estate investment purposes?

Not important Minimal impact Neutral Important Crucial

4. Level of confidence in transacting an online commercial real estate investment (1 being not confident and 5 being very confident)

1	2	3	4	5

5. Rank these investment properties in order of your preference (1 being least preferred; 10 being most preferred:

	1	2	3	4	5	6	7	8	9	10
Retail & Apartment Block										
Hotel										
Office Building										
Shopping Centre >5,000m2										
Strip Mall >5000m2										
Industrial Warehouse/Factory										
Commercially zoned land										
Industrial zoned land										
Petrol Station										
Mixed Use building – Office and Retail										

6. Rank these attributes from most to least important when deciding to purchase a commercial real estate investment (1 being least important and 6 being most important)

	1	2	3	4	5	6
Due Diligence						
Location						
Potential Upside						
Yield						
Quality of the tenant						
Length of lease						

7. Estimate how many real estate deals you or your firm have lost due to a **funding gap** or **hurdle** to raise money in the last five years?

- None
- Less than 5 deals in last 5 years
- 5 to 10 deals in last 5 years
- 10 or more deals in the last 5 years

8. Have you used a third party to raise EQUITY in the last five years?

- Yes
- No

9. Rate how difficult it is to find NEW, qualified investors for commercial real estate deals (1 being very difficult and 5 being very easy):

1	2	3	4	5

10. Rate your willingness to raise equity (invest equity) solely using the internet

Never	Highly unlikely	Unlikely	Doubtful, but curious	Not sure	Interested in learning more	Possibly	Likely to in future	Very likely to in the future	Absolutely

11. Rank the importance of these online platform qualities and/or attributes that an internet based investment site should have: (1 being least important and 6 being most important)

- Deal sponsor background check (criminal and credit only)
- Online project due diligence for investors
- Deal sponsor track record and resume'
- Ability to receive money and manage investors online
- On-going project and sponsor monitoring by website
- Ease of investing electronically

12. Rate your willingness to raise equity (or invest equity) on the internet if the site was a legitimate platform that vetted all deals and sponsors and provided deal sponsor services such as investor funding management.

Never	Highly unlikely	Unlikely	Doubtful, but curious	Not sure	Interested in learning more	Possibly	Likely to in future	Very likely to in the future	Absolutely
○	○	○	○	○	○	○	○	○	○

13. What is the job title for your current position?

14. Is your company public or private?

- ○ Public
- ○ Private

15. About how many employees work at your company?

- ○ 0-5
- ○ 6-10
- ○ 11-25
- ○ 26-50
- ○ 51-100
- ○ 101-200
- ○ 201-500
- ○ 501+

16. Which best describes the volume of development or commercial real estate acquisitions your company has made over the last 5 years?

- ○ R0-10m
- ○ R11m-R50m
- ○ R51m-R100m
- ○ R101m-R200m
- ○ R201m+