



10 things to know about legal for real estate syndicators

Amy Wan Esq.

Bootstrap Legal

Bootstraplegal.com | Jobsactlawyer.com



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Amy Wan, Esq.

- **Founder, Bootstrap Legal**
- **Partner, Sosnow & Associates**
- **Formerly:**
 - GC, real estate crowdfunding platform
 - US government, regulatory affairs
 - Founder, Legal Hackers
- **Accolades:**
 - Author, Lexis Nexus Private Equity practice
 - 1 of 10 women to watch in legal tech by ABA
 - Law.com, Millennials changing legaltech
 - Finalist, Corporate Counsel of the Year
 - USC Law, London School of Economics





#1 – What is a syndication

Syndication just means “group investment”, but a “group investment is literally the definition of a “security”



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#2 – Definition of a “Security” or investment contract

The Howey Test

- an investment of money due to
- an expectation of profits arising from a
- common enterprise which
- depends solely on the efforts of a promoter or third party.



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#3 – The
more
freedom you
have the raise
capital, the
more the SEC
is going to
ask of you



"Well what a coincidence! I'm a financial regulator too!"



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#4 – 506(b)
is the most
popular
exemption
to raise
capital

- Raise as much as you want
- No advance permission needed (fast)
- Up to 35 non-accredited investors, unlimited accredited investors
- Accredited = rich
- Self-certification
- Need pre-existing relationship
- No general solicitation



#5 – 506 (c)
is newer,
and for
people
who want
to openly
advertise

- Raise as much as you want
- No advance permission needed (fast)
- accredited investors only
- You must verify
- General solicitation is okay



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#5 – RegAisa mini-IPO

- Raise up to \$50 Million (soon, \$75M)
- Non-accredited investors okay
- General solicitation is okay
- Requires SEC qualification (minimum 4 month and \$50K process)
- On-going disclosure requirements

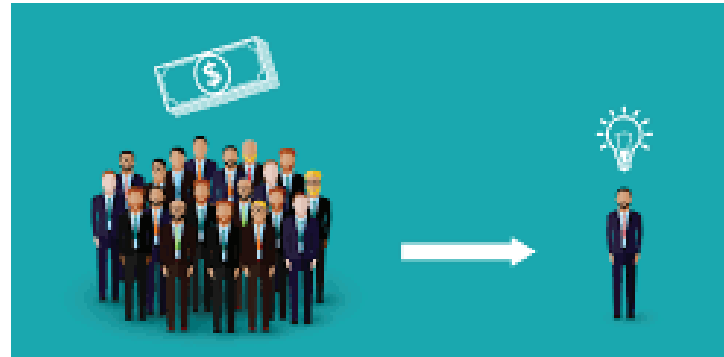


#6– RegCFis for smaller deals

- Raise up to \$1.07 Million (soon, \$5M)
- Non-accredited investors okay
- Limited general solicitation is okay
- Requires Form C filing with SEC
- Must be done through a funding portal



#7 –
Syndication
is the
‘what’,
crowdfundi
ng is the
‘how’



- Syndication is the type of funding relationship between the funded and funders
- Crowdfunding is a method of finding funders who are generally unknown or outside one's personal network
- Notes on when to crowdfund, and crowdfunding platforms



A close-up photograph of a person in a dark suit, blue shirt, and red tie, holding a gold pen and writing on a white document. The image is partially obscured by a vertical orange bar on the left side.

#8 – What you typically need

- PPM
- Governance Documents (Bylaws or Operating Agreement)
- Subscription Agreement
- Marketing Materials



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#9 – Consequences of non-compliance

- Parties:
- Federal regulators (SEC)
- State regulators
- Plaintiff's bar (investor lawsuits)
- Consequences:
- Disgorgement
- Fines
- Bad Actor Status
- Criminal and Civil charges



#10 – 1031s & Syndications

- Complex, oftentimes not worth it unless someone is bringing the majority of capital into the deal
- Requires DST or TICs



		Proposed Finder Safe Harbors		Registered ¹ Brokers
		Tier 1 Finders	Tier 2 Finders	
WHO	Natural person	✓	✓	✓
	Entities (including crowdfunding platforms)			✓
	Associated person of a broker-dealer			✓
\$	Transaction-based compensation	✓	✓	✓
INVESTORS	Accredited investors	✓	✓	✓
	Non-accredited investors			✓
ISSUER	Non-reporting (private) company	✓	✓	✓
	Reporting (public) company			✓
OFFERING	Primary exempt offerings	✓	✓	✓
	Secondary sales			✓
	Registered offerings (e.g., IPOs, follow-on offerings)			✓
PERMITTED ACTIVITIES	Provide investor contact information to issuer	✓	✓	✓
	Identify, screen, and contact potential investors		✓	✓
	Distribute issuer offering materials to investors		✓	✓
	Discuss issuer information included in offering materials		✓	✓
	Arrange or participate in meetings with the issuer and investor		✓	✓
	Structure the transaction or negotiate the terms of the offering			✓
	Engage in general solicitation			✓
	Handle customer funds or securities			✓
	Power to bind the issuer or the investor			✓
	Participate in the preparation of sales materials			✓
	Perform independent analysis of the sale			✓
	Engage in due diligence activities			✓
	Assist or provide financing for investment purchases			✓
	Provide advice as to the valuation or financial advisability of the investment			✓
May participate in more than one capital raising transaction within a 12 month period		✓	✓	
IS DN	Anti-fraud protections apply	✓	✓	✓

Recent updates

- Changes to limits of Reg A, Reg CF
- Changes to the definition of “accredited investor”*
- Adds series 7, series 65, series 82 licensees
- Knowledgeable employees of a private fund
- (clarify) LLCs with \$5M AUM
- SEC proposal regarding capital raisers/unlicensed broker dealers*



2020 US Equity Crowdfunding Statistics – Annual Recap

**\$214.9M raised in 2020 (105% growth from 2019)
from 1035 new companies (91% growth from 2019)**

- (a) Compared to \$104.7M raised in 2019 from 541 companies
- (b) Crowdfund Capital Advisor (CCA) dataset shows over \$225M raised from 1148 companies in 2020, vs. \$137M raised from 713 companies in 2019

Source: <https://crowdwise.org/funding-portals/2020-us-equity-crowdfunding-stats-year-in-review/>



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Statistics of the Global Crowdfunding Market

“Globally, crowdfunding continues to grow in popularity. **The global crowdfunding market size was \$84 billion in 2019 and is expected to reach \$114 billion in 2021.** Real estate accounts for only a fraction of these investments—consumer products and other goods are included in these numbers, as well.

The global real estate crowdfunding market was estimated to have reached \$8.3 billion in 2020. According to a new research study titled “Real Estate Crowdfunding Market by Investors (Individual Investors and Institutional Investors) and by Property Type (Residential and Commercial: Global Industry Perspective, Comprehensive Analysis, and Forecast, 2018-2027,” **North America represented 40 percent of these investments,** followed closely by Europe with 33 percent. The study estimated that the global real estate crowdfunding market will reach \$13.6 billion by 2027, representing a growth rate of roughly 9 percent during this time.”

Source: <https://gowercrowd.com/real-estate-insights/real-estate-crowdfunding-statistics-trends>



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The largest crowdfunding platforms

Wefunder:

“Wefunder states that it is the largest portal for equity crowdfunding both by investment volume and total number of investors. To date, it has raised **over USD 122M for Regulation Crowdfunding campaigns**, USD 36M for Regulation D fundraising, and over USD 9M for Regulation A+ campaigns. These significant figures can be largely attributed to the broad range of startups it attracts, such as an online encyclopedia, a bionic pancreas, and a film production.”

Source: <https://www.crowdfunding.guide/leading-equity-crowdfunding-platforms/>

StartEngine:

“StartEngine Books \$137 Million in Crowdfunding During 2020, an Increase of 215% StartEngine, a leading securities crowdfunding platform, has published annual performance numbers for 2020. According to the platform, issuers raised \$137,940,987 on StartEngine during 2020, an increase of 215% versus the year prior. This brings the total raised since the platform launched to over \$250 million. The company states that its goal is to raise \$10 billion by 2029.”

Source: <https://www.crowfundinsider.com/2020/12/170478-startengine-books-137-million-in-crowdfunding-during-2020-an-increase-of-215/>



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2021 National Multifamily Housing Council (NMHC) Top 10 Syndicators

RANK + COMPANY	HEADQUARTERS	CORPORATE OFFICER	UNITS SYNDICATED 2021/2020	RANK 2020
1. Boston Financial Investment Management, LP	Boston, MA	Marie Reynolds	186,785/94,576	8
2. Raymond James Tax Credit Funds, Inc.	St. Petersburg, FL	Steve Kropf	132,268/125,192	2
3. PNC Real Estate	Portland, OR	Todd Crow	125,287/132,179	1
4. National Equity Fund, Inc.	Chicago, IL	Matthew Reilein	115,667/110,949	3
5. Enterprise Community Investment	Columbia, MD	Charles R. Werhane	110,466/108,043	4
6. Alliant Capital	Woodland Hills, CA	Brian Goldberg	105,590/102,855	7
7. The Richman Group Affordable Housing Corporation	Greenwich, CT	Richard Paul Richman	104,393/107,374	6
8. AIG Affordable Housing Partners	Los Angeles, CA	Thomas Musante	87,238/91,667	9
9. Hunt Capital Partners	Encino, CA	Jeff Weiss	75,550/78,271	10
10. WNC & Associates	Irvine, CA	Wilfred N. Cooper, Jr.	58,755/56,992	

Source: https://www.multifamilyexecutive.com/business-finance/top-50/2021-nmhc-top-10-syndicators_o



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The Future Trends Of Real Estate Crowdfunding

The Future Of Crowdfunding Real Estate

“Recent real estate crowdfunding statistics source reports that crowdfunding real estate investment will grow by \$196.36 billion from 2021 to 2025. With the increasing presence of crowdfunding campaigns on social media platforms, crowdfunding becomes more accessible and more convenient for raising funds.”

Source: <https://www.thepinnaclelist.com/articles/future-of-crowdfunding-real-estate/>

Real Estate And Crowdfunding: A Duo With Staying Power

“The conventional approach to investing in a rental property requires an average of \$100,000 starting capital. This high investment threshold has made traditional real estate investing difficult for young people who often cannot afford it. Fortunately, new investment concepts like property technology (proptech) startups and crowdfunding have started appearing on the market, making property investment more accessible.”

Source: <https://www.forbes.com/sites/forbesbusinesscouncil/2022/02/01/real-estate-and-crowdfunding-a-duo-with-staying-power/?sh=ff0a7237b364>



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The Future Trends Of Real Estate Crowdfunding

Global Real Estate Crowdfunding Market Outlook 2021: Market is Expected to Grow at a USD 1362.21 billion to 2030

PHILADELPHIA, UNITED STATES, January 17, 2022 /EINPresswire.com/ -- Fatpos Global has released a report titled “Real Estate Crowdfunding Market - Analysis of Market Size, Share & Trends for 2019 – 2020 and Forecasts to 2030” which is anticipated to reach USD 1362.21 billion by 2030. According to a study by Fatpos Global, the market is anticipated to portray a CAGR of 24.67% between 2020 and 2030. According to the report, increasing global industrialization, which is propelling commercial real estate operations, as well as favorable real estate crowdfunding regulations by the governments of several economies around the world, are some of the main factors expected to drive market growth over the forecast period.

Source: https://www.einnews.com/pr_news/560815117/global-real-estate-crowdfunding-market-outlook-2021-market-is-expected-to-grow-at-a-usd-1362-21-billion-to-2030



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The Future Trends Of Real Estate Crowdfunding

Real Estate and Crowdfunding: A New Path for Investors

- Real estate crowdfunding allows developers to solicit a wide array of potential investors, leveraging those social networks on technology platforms.
- New changes to regulations stemming from the 2012 JOBS Act affords greater access to real estate crowdfunding, allowing individuals greater access to the extensive U.S. real estate market.
- One of the biggest advantages of investing in crowdfunding for real estate is that investors can commit far lower amounts of capital toward any single property, sometimes as low as \$500 or \$1,000.
- One downside to investing with crowdfunding is that for most of these projects, you have to be an accredited investor

Source: <https://www.investopedia.com/articles/investing/072514/real-estate-and-crowdfunding-new-path-investors.asp>



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