PAS QUICKNOTES

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Investment Crowdfunding

Since 2016, investment crowdfunding (ICF) has been revolutionizing how places get developed and companies find financing. Sometimes referred to as the "democratization of capital," ICF is the practice of raising funding through the "crowd" on web-based platforms. In return for their financial contribution to a business or real estate, investors receive a financial stake and financial return on investment.

Planners should keep a close eye on the practice of ICF because it represents an unprecedented channel for plan implementation. It holds the potential to bring the general public into the process as partners, not just participants, in the development and community revitalization process, and helps a "sense of ownership" evolve into actual ownership.

In ICF, a development team posts their project on a qualified platform as an investment opportunity. Local residents—or any interested person anywhere in the country—can view the opportunity and make a financial investment online. The projects and investments can be small or large, with different terms depending on the deal the developer has structured. Once their investments are received and the ICF campaign closes, the investors have a legally binding financial stake in that development.

Investment crowdfunding brings community members into the development process as financial partners, not just participants.

BACKGROUND

It is important to make the distinction between investment crowdfunding and reward-based crowdfunding. Reward-based crowdfunding platforms such as Kickstarter offer the "investor" a reward such as token of appreciation, recognition, or prototype of a product. They do not offer a financial interest or return.

Investment crowdfunding (ICF) is a product of the 2012 federal Jumpstart Our Business Startups (JOBS) Act, which allows businesses and real estate developers to raise capital using online platforms. Prior to this legislation, only publicly traded companies could receive investment online through the stock market, and privately owned companies could only receive investment online from "accredited investors"—individuals with net worth exceeding $1 million or incomes exceeding $200,000, which is approximately 10 percent of the U.S. population. Now, "non-accredited investors," or almost everyone over 18 years of age, can make financial investments in businesses or development projects online for a financial stake. (It is important to note that investments are not guaranteed to provide a financial return, and investors can lose their capital.)

More than half of U.S. states have also passed legislation allowing for this activity to operate under state rather than federal rules. Whether under federal or state structures, members of the public can now participate in development in a way they were unable to before—as investors who can receive financial returns and as decision makers who make projects possible.

WHY ICF CAN BE IMPORTANT

This new tool can play a role in overcoming shortcomings in the planning and development process. Community revitalization efforts and local growth often result in socially and economically inequitable outcomes, and many factors can limit the implementation of projects and plans.

For instance, a lack of funding often results in good ideas getting stalled or being shelved. This is especially true for projects with smaller footprints, such as infill, missing-middle housing, community-scale commercial, adaptive reuse, affordable and workforce housing, and projects in emerging markets. Traditional sources of financing and development teams prefer larger projects that bring larger returns on investment. This leaves smaller development teams or aspiring developers struggling for financing, leaving potential unrealized.

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When development does take place, residents are often left out of the decision-making process about what gets built and what does not. Further, the direct benefit of that development is often not realized by local residents, giving rise to the dynamics of inequity and exclusion.

Used with intention, ICF can help overcome these factors to enable plan implementation and result in more equitable development. It has the potential to elevate community members' roles in decision making by placing them in the role of financing, which often determines what gets built and what does not. By placing their investments in development projects they support, they are no longer bystanders or even simply participants—they essentially become the decision makers.

THE BENEFITS OF ICF

To help solve these problems, projects using ICF keep the benefits of development local, and they direct those benefits to those who don't traditionally receive them. From the investors' perspective, this effectively elevates their role as residents in decision making, enabling them to use their collective capital to bring projects to life.

From the perspective of a small, aspiring developer, capital raised this way helps overcome the obstacles traditional financing can pose. This is also true for purpose-driven developers, such as affordable or workforce housing developers, as well as land trust models. Even traditional developers can benefit from using ICF when courting community support. By inviting the public to be partners, they are demonstrating their commitment to the community.

IMPLEMENTING ICF IN PLANNING PRACTICE

There are several ways in which planners can use ICF to implement plans and leverage equitable development. The options start with educating stakeholders in the planning process and can evolve into resource allocation and policy in implementation.

Planners can introduce this concept to the development community, residents, local organizations, and businesses during the public engagement processes for plans or projects. ICF can also be made a component of a plan's implementation. The options are as open as the entrepreneurial thinking planners are known for, but they might include the following:

- Creating incentive packages for projects that include investment crowdfunding
- Awarding points or making investment crowdfunding from the local community a requirement of public property disposition through the RFP process
- Providing rent guarantees for a portion of a project that includes investment crowdfunding for smaller or emerging developers so they more easily secure additional financing

Examples of development projects using ICF can be found on ICF platforms, such as Fundrise and Small Change.

CONCLUSIONS

The story of investment crowdfunding's application by the planning community is just beginning to be told, but its potential is becoming clear. As a new source of financing it can potentially bridge gaps in traditional sources that prevent plans from being realized and places from realizing their full potential. As added depth to public engagement it has the potential to put everyday people in a position previously considered exclusive to banks and the wealthy.

By serving as the source of financing, citizen investors can give life to projects other funding didn't enable. This moves them from being impacted by development decisions to making them. ICF can serve as the glue between public, private, and community-based interests, providing mutual benefit. This will only happen, however, if this tool is used with intention by professionals who work with all three interests—planners.

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FURTHER READING

Fundrise. n.d. How It Works.

National Coalition for Community Capital. n.d. Welcome to the National Coalition for Community Capital (NC3).

Small Change. n.d. About Small Change.

U.S. Securities Exchange Commission. n.d. "Regulation Crowdfunding." Investor.gov.