Crowdinvesting as an Alternative Way to Invest in Real Estate

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Abstract. In the context of the aggravated economic crisis in many countries, including Russia, there has been a sharp decline in investment activity in the real estate market in recent years. In conditions of economic crisis, invariably there is a drop of supply and demand in the property market on the one hand due to the decline in real incomes, on the other hand the growth of prices for construction materials which in turn leads to increased property values. The increase in inflation also provokes a reduction in investment activity. Accordingly, all this leads to the fact that Russian investors began to refrain from real estate development projects. Construction of capital commercial real estate objects in Russia currently has a low profitability and a high risk of loss, as the price of objects decreases while the cost of materials and labor increases. Against the general background, the share of the transactions in the secondary market of both residential and commercial real estate is growing, this is primarily due to the increase in profitability from renting out real estate.

1. Introduction

In the conditions of further development of the real estate market, the question of alternative sources of investment, mechanisms for involving private, unused, capital not only in technological projects but also in project financing transactions, especially after the entry into force of changes to the legislation on shared construction in Russia in July 2019.

Crowdinvesting («people’s investment») is a way to attract money to a small company from a large number of investors in exchange for a stake in that company. In most cases, this process of attracting alternative financing is carried out through specialized online platforms.

Crowdinvesting is a subspecies of crowdfunding. Basically, the startups and the small businesses are funded through crowdfunding platforms. Crowdinvesting differs from classical crowdfunding in that it is focused on increasing the investor’s capital and because it is a financial tool for attracting capital from a wide range of the micro-investors.

As a separate industry, crowdinvesting has developed only in the United States, the United Kingdom and China, active development is also taking place in other countries. As for Russia, the alternative investment market has not yet been formed and requires regulatory regulation and other forms of support from the state.
Today, crowdinvesting is the most convenient mechanism for attracting investments in the real estate market not only in the developed countries but also in Russia, since alternative models for obtaining financing (project financing, escrow accounts) require large time and financial resources and to close a transaction requires approvals and complex operations with the documents.

From the point of view of economic content, crowdinvesting gives an opportunity to finance innovative projects, not only for venture companies, but also for individuals. The financing scheme is quite simple – a company that needs investment places information about its activities on a special platform and uses a public offer to attract funds from investors if it finds a high level of interest in the project among them. [8].

2. Materials and methods

Until 2019, crowdinvesting in Russia was not regulated separately at the legislative level and market participants had to use legal norms created for traditional lending or acquiring a share in the business. On January 1, 2020, Law No. 259 (dated August 2, 2019) «On attracting investments using investment platforms» came into force in Russia, which is popularly known as the «crowdinvesting Law». The Law refers to support for the development of crowdinvesting financing, as well as the implementation of the investments by citizens through investment platforms that do not require state registration. [1]

Given the fact that from 1 July 2019 Russia entered escrow account, suggesting the actual «freezing» of money holders to the input of the object of construction into operation, many construction companies will be forced to take expensive credit target, which in turn will lead to additional load, which developers are successfully passed on to buyers which in turn would lead, according to experts of the company Activo, to 10% growth cost per square meter. [4]

Analyzing the real estate market as a whole, you can say about its prospects in general, but given the general situation on the market, most likely Russian builders will shift their interest to the construction of commercial real estate, not housing. Already, according to experts, the share of retail real estate in the market is 44%, the share of the office segment accounts for 38% of the total investment [6].

3. Results

Crowdinvesting is the most preferred tool for high-tech startups, venture projects and businesses that can’t afford a high load of bank lending because they have unstable cash income. However, this tool has its pitfalls, consider the advantages and disadvantages of investing.
Table 1. Advantages and disadvantages of crowdinvesting for the investor and the project.

| Disadvantages                      | Advantages                                                                 |
|------------------------------------|-----------------------------------------------------------------------------|
| Low liquidity and longer life of the company | Low entry threshold for the investors and a strong marketing tool for the project |
| Possible failure of the company, theft of the new ideas | High return and low cost of raising capital |
| Loss of time, restrictions in the search for capital | High level of diversification, more capital in a short time |
| Possible fraud, the limitations in the management of Imperfect legislation | The flexible transaction formats |
| Imperfect legislation | The tax benefits |

The first crowdinvesting platform in Russia was Smartmarket, announced in 2012, which was supposed to be a locomotive, but did not show results and was closed in 2013. Nevertheless, the Russian founders of crowdinvesting platforms give positive assessments to the Russian market.

Crowdinvesting is suitable for the investors with different income levels and those who are ready to invest the minimum amount (300 000 rubles), and those who are ready to invest a couple of hundred million rubles. For the first, collective investment is an alternative to conservative methods of obtaining passive income with more attractive conditions, for the second, crowdinvesting is interesting because low-risk investment and money work without your participation.

This alternative investment model is currently considered a promising tool for the companies that need the financial injections, as well as for the investors who do not have access to other forms, including alternative ones.

In 2017, the total amount of crowdinvesting fees was 2.96 billion dollars and at the end of 2018, the figure rose to 3.74 billion dollars. According to experts, the trend of growth in demand for this type of alternative investment will continue and the volume of the investor funds will increase (according to preliminary estimates, other things being equal) to 7.2 billion dollars [14].

Crowdinvesting in real estate involves joint investment of the resources, and the investors become owners of a share of the real estate object. Such an investment tool in Russia has long been a real tool for financing developers. This pooling of capital is primarily due to the fact that it solves the problem of the companies with low levels of investment. [6]

The risk of an investor in the Russian economy is that another crisis may lead to a collapse in the prices on the real estate market but since investment takes place for a long time – 5-10 years, the guarantee of price growth is quite real. In addition, many investors buy property not only for the purpose of simple resale but also for the purpose of renting out which also brings passive income.

The most investors in Russia are attracted to premises whose anchor tenants are grocery supermarkets and hypermarkets today. Through the crowdinvesting mechanism, large premises of such supermarkets as «Pyaterochka», «Victoria», «Magnit» and trading houses in Moscow and the Moscow region were purchased during the period 2014-2017. The large companies such as «Dodo Pizza» and «Lavka Lavka » are also actively using crowdinvesting in the development of their business through the registration of a cooperative or fundraising through the social networks. [4]

First of all, the main difficulty is to attract a mass audience to participate in the equity business. The solution to this problem is associated with an increase in the level of financial literacy, the growth of the financial technologies and an increase in the level of income.

Secondly, the success of this mechanism is more promising in the segment of small, liquid assets that are less represented on the market.

The third problem follows from the first because of the low level of financial literacy, the population prefers not to invest money in highly liquid mechanisms but to invest their short - and
medium-term consumption while in the United States, more than 60,000 citizens invested in American real estate (development projects).

The fourth problem is related to the peculiarities of Russian legislation which is not suitable for effective management of projects related to crowdinvesting in real estate.

The mechanisms of crowdfunding and crowdinvesting are currently legalized in 20 countries of the world. This investment tool found legal support officially in Russia only in 2020. The Federal Law regulates the relations for attracting investments by legal entities or individual entrepreneurs through the investment platforms, defining the legal basis for the activities of platform operators for organizing financing (crowdfunding).

With the adoption of the bill a new class of assets appears in Russian legislation – utilitarian digital rights, their owner gets the right to demand the transfer of anything, exclusive rights to the result of intellectual property or a license for them, performance of works or provision of services.

The Law makes it possible to legally attract investments by implementing utilitarian digital rights on specialized platforms, including for things and results that will be created in the future. The only drawback, according to a number of experts, is the fact that only Russian rubles can be invested within the new type, that is, the possibility of investing via cryptocurrency is not provided. Such restrictions will significantly reduce the liquidity of tokens received in exchange for investing in startups which will reduce the interest of investors.

4. Conclusion
In conclusion, the crowdinvesting is a popular investment in the world which today can be used by both corporate and private investors. The turnover of the platforms in this industry is increasing every year. Since 2017, the startups and the real estate transactions in Russia have been financed with the help of the crowdinvesting platforms in the amount of more than 11 billion rubles. [6]

Even if there are certain disadvantages and the risk of fraud, the investor can expect to increase capital at a relatively minimal cost. Within the framework of legislative regulation, this mechanism can serve as an effective tool in stimulating investment in the Russian economy from both Russian and the foreign investors, and not only in the high-tech sector but also in the commercial and, eventually, residential real estate sector.

Today, it is difficult to say whether Russia will be able to repeat the American experience or at least come close to the level of investment invested in the United States at the stage of the birth of this mechanism, to expand the range of activities to other real estate operations, especially since this is necessary. Nevertheless, the start is given and the chance for successful development is quite real. [15]

One of the reasons why alternative investments can grow in Russia is the Central Bank’s policy of lowering the key rate which affected the decline in the yield of the ruble deposits and led to an outflow of depositors from the banks.

In general, it should be noted that crowdinvesting is gaining popularity in Russia but already showed and proved himself as a promising tool for investing in medium-sized projects but with higher levels of financial literacy and technology into the business and catch up with larger assets which means regulation by the state will change to empower financial investments.

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