



Department of Management  
Master Thesis in Digital Finance

Real estate crowdfunding in Europe: an analysis of the Italian  
Spanish and French market and the main elements of success in a  
crowdfunding campaign

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## ***INTRODUCTION***

Crowdfunding is a useful and powerful instrument to raise funds for a project that has been frequently used in the last [century] and is now facing a deep innovation thanks to the modern technologies. In recent years, socio-economic instability due to the 2008 crisis and technological innovation have brought crowdfunding, an alternative finance solution born out of the increased contraction of traditional funding channels, to the fore. Through a web-based financial tool, the "crowd" can contribute economically to realizing projects in various sectors: social, productive, creative.

This thesis will deal with the financial phenomenon of crowdfunding from its origins, analyzing all the different crowdfunding models and types of platforms, with a focus on the real estate market. The first chapter will examine the crowdfunding models: Equity-based, Debt-based, Reward-based, Invoice trading and Donation base with a particular focus on Equity crowdfunding and most relevant factors in determining the success of a crowdfunding campaign.

Crowdfunding experienced considerable success in the real estate market, growing gradually year over year; therefore, the second chapter will focus on the analysis of this market and its characteristics, such as the non-standardization of buildings, the low liquidity of the market and the low number of buyers and sellers that make the real estate market unique. Subsequently, real estate crowdfunding will be analyzed, focusing on the different models and the risks and opportunities of crowdfunding compared to other financing methods.

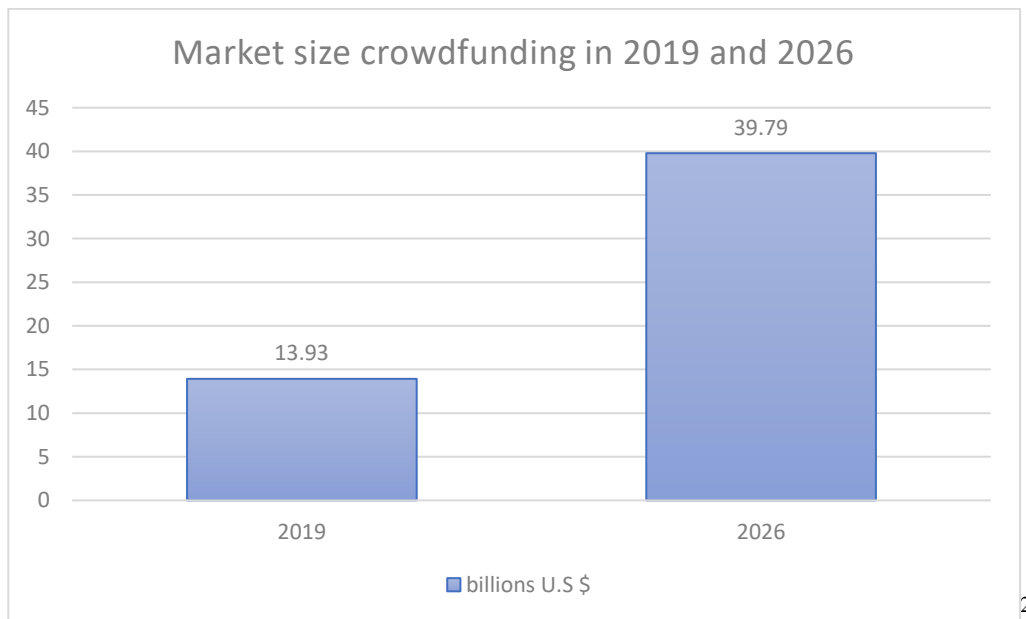
To better understand crowdfunding and its potential, on the one hand, the third chapter will give an exhaustive overview of the European market by analyzing the report of the University of Cambridge (The Global Alternative Finance Market Benchmarking Report); on the other hand, for a more detailed analysis of the Italian, Spanish and French market the fifth and the sixth Italian report on crowd investing by the Politecnico di Milano, the annual report of the Universidad Complutense de Madrid, the report carried out by Mazars and the association

Financement Participatif France (FPF) and finally the report by Fundimmo for RE crowdfunding were examined .

The last two chapters aim at being almost a handbook for an effective crowdfunding campaign, starting from a survey that have been conducted with managers of Italian, Spanish and French real estate crowdfunding platforms. The survey is bases on 7 questions which identify the characteristics of a successful crowdfunding campaign and the contents that such campaign must be provide in order to attract the investors and increase the participation in the campaign. Once this background has been provided, a description of a successful crowdfunding campaign and its planning, highlighting its phases and the actors will be examined.

## CHAPTER 1 CROWDFUNDING

Crowdfunding is a new method of financing obtaining funds from the “crowd”, meaning a vast audience of subjects, via the Internet. This phenomenon started as a sporadic and independent fundraising initiative evolving to considerable numbers of specific platforms that connect fundraisers and funders. Crowdfunding is becoming more and more popular and is expected to grow considerably within the next few years<sup>1</sup>.



One of the reasons that led to crowdfunding development is that many entrepreneurs, in particular venture entrepreneurs, could not fund themselves with traditional finance such as banks, loans, or equity capital. Instead of asking specialized investors for finance, this incentive the impresario asks the "crowd." The goal is to collect money using a social network or a specialized platform, raising money from a large audience in which each individual invests a small amount of money<sup>3</sup>.

The concept of seeking finance from the crowd is nothing new; therefore, the concrete innovation is in the advanced digitalization. Crowdfunding business finds its roots in the

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<sup>1</sup>Rotem Shneor, Liang Zhao, Bjørn-Tore Flåten, *Advances in Crowdfunding Research and Practice*, (2020) 1

<sup>2</sup> Figure 1: <https://www.statista.com/statistics/1078273/global-crowdfunding-market-size/>

<sup>3</sup> Paul Belleflamme, Thomas Lambert, Armin Schwienbacher, *Crowdfunding: Tapping the right crowd*, Journal of Business Venturing, 29(2014) 586

"forefather of microcredits", Jonathan Swift, the Irish Loan Fund's funder in the eighteenth century. One of the first crowdfunding campaigns was for the Statue of Liberty in 1885; the campaign was launched by Joseph Pulitzer, who promised to publish all names of the donors in his magazine. Throughout history, we have many other examples of crowdfunding campaigns from Mozart in the eighteenth century who wanted to perform three piano concertos in Vienna too; Muhammad Yunus, who developed the above mentioned microcredit ideas of Jonathan Swift when founding the Grameen Bank in 1976<sup>4</sup>.

The first example of successful modern crowdfunding occurred in 1997 when the British rock band Marillion financed their reunion with an online donation from their fans. Taking this innovative way of financing as a model, in 2000 the first crowdfunding platform ArtistShare was born, and through such platform fans could finance artists<sup>5</sup>. Afterwards, in 2005, Kiva was founded, a US non-governmental organization that promotes microcredit actions to disadvantaged countries through fundraising via the Internet, inspired by the experience of Grameen Bank<sup>6</sup>. The term crowdfunding was coined by Michael Sullivan, who, in 2006, created the Fundavlog platform. The goal was to create an incubator for projects and events related to the video blog and create a means to collect donations online. However, this attempt failed<sup>7</sup>. Then, in 2008, Indiegogo was founded: a US crowdfunding platform enabling people to donate funds without the need for middle men<sup>8</sup>. The success of ArtistShare and Kiva attracted other players to the market, and in 2009 Kickstarter, a crowdfunding platform for creative finance projects was founded<sup>9</sup>. In 2012 Fundable<sup>10</sup> was launched, in conjunction with the JOBS Act<sup>11</sup>. Fundable is the first equity crowdfunding platform whose purpose is to regulate and legalize

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<sup>4</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 221-223

<sup>5</sup> <https://www.fundable.com/crowdfunding101/history-of-crowdfunding#:~:text=The%20first%20recorded%20successful%20instance,dedicated%20crowdfunding%20platform%20in%202000.>

<sup>6</sup> <https://www.kiva.org/>

<sup>7</sup> Dan Marom, *Crowdfuture, The Future of Crowdfunding*, (2013), p. 15

<sup>8</sup> <https://www.indiegogo.com/about/our-story>

<sup>9</sup> <https://www.kickstarter.com/about?ref=global-footer>

<sup>10</sup> It is a crowdfunding platform focused on helping startup entrepreneurs find funding.

<sup>11</sup> The Jumpstart Our Business Startups Act is a law aimed at promoting the financing of small businesses, signed by Barack Obama on April 5, 2012. More specifically, the provisions regarding crowdfunding allow companies to sell securities as long as the limits of crowdfunding in dollars are adjusted for inflation every five years.

equity-crowdfunding with the aim of protecting investors and entrepreneurs <sup>12</sup>. The JOBS Act, therefore, among other things, establishes some rules of primary importance for equity crowdfunding. First of all, it imposes a maximum collection limit, equal to one million dollars over a period of 12 months, for companies that offer part of their equity through equity crowdfunding portals. Second, each investor can invest no more than \$2,000 per year or no more than 5% of his income if he has incomes less than \$100,000 or no more than 10% if he has an income higher than \$100,000. In these cases, it is the investor himself who self-certifies his situation. Third, over 12 months, the maximum amount of securities that can be subscribed by a single investor across all crowdfunding offers cannot exceed \$100,000. In general, then, the securities purchased through equity crowdfunding are not resalable until after one year<sup>13</sup>. Between 2009 and 2011 crowdfunding became a more popular way for entrepreneurs to get finance and the crowdfunding revenues tripled from \$530 million to \$1.5 billion. One of the main reasons for this huge increase is the US housing market crisis in 2007. The subsequent financial crises caused a lack of trust in the financial market and a stricter regulation thus increasing the regulatory requirements banks had to meet. Banks were no longer able to satisfy entrepreneurs demands for finance, most of the time they only financed business which did not need money and not the ones who needed it, so people started to search for alternative ways of financing. A second element that allowed this massive growth of crowdfunding was the rise of the social web with all the social networks; the web became a way not only of asking for money but also amplifies the power of financing, reaching quickly all the world<sup>14</sup>. The 2008 financial crisis mainly affected the capability of Small and medium-sized enterprises (SMEs) to raise finance, that for historical reasons were mainly dependent on banks financing<sup>15</sup>, in UE the SMEs represent 99% of all business <sup>16</sup>, and this can better explain the rapid growth of alternative lending and crowdfunding.

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<sup>12</sup> <https://www.fundable.com/crowdfunding101/history-of-crowdfunding#:~:text=The%20first%20recorded%20successful%20instance,dedicated%20crowdfunding%20platform%20in%202000.>

<sup>13</sup> R. Shneur, L. Zhao, B. Flåten, *Above*, p. 243

<sup>14</sup> Steven Dresner, *Crowdfunding a guide to rise capital on internet*, (2014) 9-10

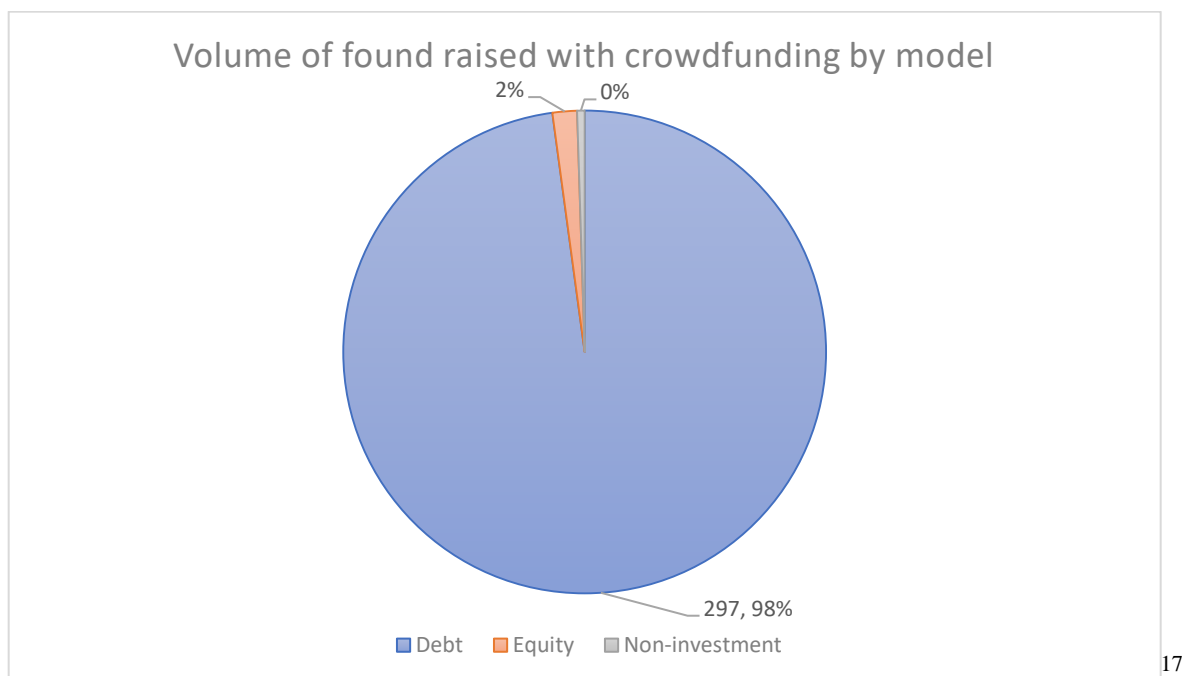
<sup>15</sup> R. Shneur, L. Zhao, B. Flåten, *Above*, p. 225

<sup>16</sup> [https://ec.europa.eu/growth/smes/sme-definition\\_en](https://ec.europa.eu/growth/smes/sme-definition_en)

## 1.1 Different models of crowdfunding

Over the last decades, we have seen a proliferation of new crowdfunding platforms. While some of them became giants of the sector and collected initiatives worldwide, the majority corresponds to regional actors that finance local initiatives. Even though the platforms are subject to different legislations worldwide, we can identify a similar pattern as far as the business model is concerned. The fundraiser may choose the model that is most suited to his project among five different crowdfunding models.

Firstly we need to make a distinction between the crowdfunding models: these can be investment and non-investment crowdfunding. Investment crowdfunding can be divided into three main models: lend/debt, invoice trading, and equity; and the non-investment crowdfunding consists of reward and donation-based.



The first model used was adopted in 2005 and it was the so-called “debt-based” model, known also as “peer-to-peer lending”<sup>17</sup>, that consisted in asking the crowd for a fundraiser rather than applying for a loan to the bank.

<sup>17</sup> Figure 2: <https://www.statista.com/statistics/946668/global-crowdfunding-volume-worldwide-by-type/>

<sup>18</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p 21-26

In the second model, the equity model, the investors receive a stake in the form of equity while the entrepreneur prepares an open call for selling shares on the internet, benefiting from the possibility to attract a large audience. From this information, we can define equity crowdfunding as a financing method in which the entrepreneurs sell a specific number of shares to a group of small investors using an internet platform. The equity model diversified into different applications such as real estate crowdfunding, which provides the opportunity for an investor to acquire the ownership of an asset by buying property quotas<sup>19</sup>.

The invoice trading crowdfunding is more recent, and in this model the entrepreneurs can increase their short-term debt by refinancing their invoices through investors.

The reward and donation-based are the most famous forms of crowdfunding through which individuals provide funds without expectation of monetary return<sup>20</sup>. Some platforms also provide the opportunity to mix the models and use hybrid models, which can give benefits to both the investors and the entrepreneurs<sup>21</sup>.

Summing up, crowdfunding can be divided into two types, investment and non-investment models.

A further distinction has to be made regarding platform and fund raising strategies:

- “all or nothing”, wherein investors receive the funds only if the campaign has reached the minimum goals;
- “take it all”, wherein investors receive all the funds collect even if the minimum capital requirement has not been reached<sup>22</sup>;
- “all and more”, which is a recent model used only by a few numbers of platforms; it is not dissimilar to the “take it all” with one difference: the borrower is exempt from

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<sup>19</sup>Gerrit K.C. Ahlers, Douglas Cumming, Christina Gunther ,Denis Schweizer, *Signaling in Equity Crowdfunding*, Sage journals, (2015)

<sup>20</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 26

<sup>21</sup> Kristof De Buysere, Oliver Gajda, Ronald Kleverlaan, Dan Marom, *A Framework for European Crowdfunding*, (2012)

<sup>22</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 27

paying taxes on the funds collected only for that fraction of the capital that exceeds the predetermined amount<sup>23</sup>;

- “step by step”, this is a less used model and is characterized by the fact that there is no single goal, but the project is divided into more goals/steps; the borrowers receive the funds only when each step is reached. This model can be used only when each step can be reached separately from the other<sup>24</sup>;
- “recurring”, this strategy can be used only in donation and reward-based and is designed for a campaign which needs to collect capital for a non-determined period because the project has no expiration; therefore, not even an amount of capital to reach is specified. This model is based on a method of subscription and is especially useful for periodic content creators such as bloggers, freelancers, reporters etcetera<sup>25</sup>.

Backers who invest in a crowdfunding campaign can expect three different returns for their support:

- Financial return: the participant appreciates an idea, but he also tries to make a personal financial gain from it somehow. This interest can be pursued with the acquisition of shares (equity) or through the interest of a loan (lending), or rights on dividends (revenue sharing).
- Material return, linked to having a product or service in exchange for someone's commitment, is the motivation behind the reward-based crowdfunding and, more and more, the pre-sales model.
- The social return characterizes the models in which the funders are satisfied in seeing a project carried out even without receiving a return on their investment. Or rather, there is a return on a participatory and emotional level, but it is always personal and not material<sup>26</sup>.

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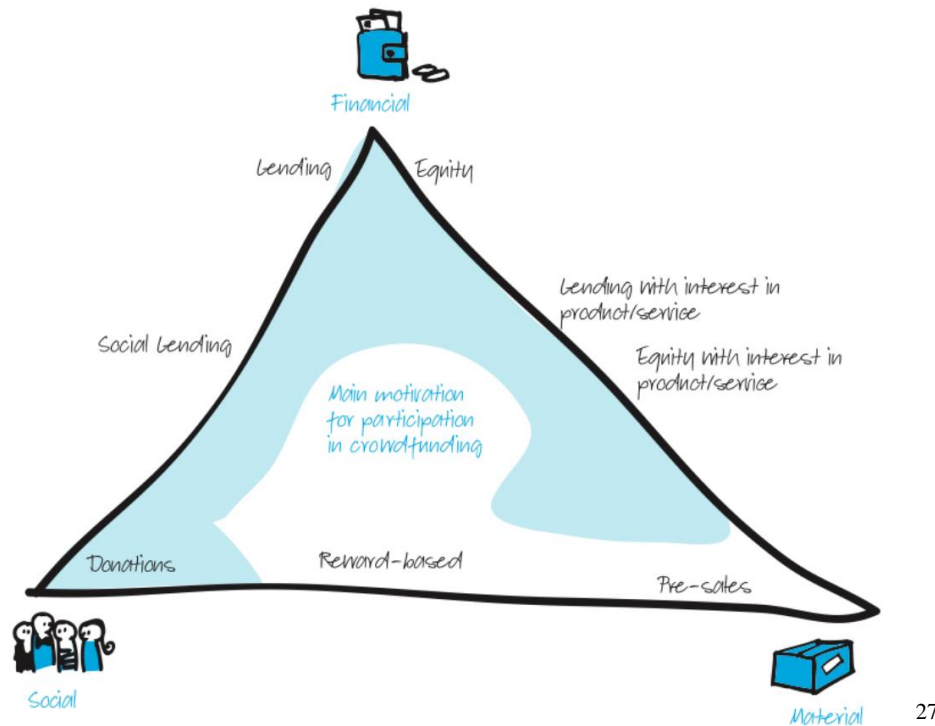
<sup>23</sup> <https://www.crowd-funding.cloud/it/all-and-more-tutto-e-di-piu-499.asp>

<sup>24</sup> <https://www.crowd-funding.cloud/it/step-by-step-passo-dopo-passo-565.asp>

<sup>25</sup> <https://www.crowd-funding.cloud/it/ricorrente-1089.asp>

<sup>26</sup> <https://101fundraising.org/2012/11/charity-crowdfunding-whats-in-it-for-you/crowdfunding-return-on-involvement/>





This triangle summarizes the returns expected by the backers with the model of crowdfunding in which they invest.

## 1.2 Lending-based crowdfunding

Crowdlending originated in 2005 with the launch of the P2P platform Zopa<sup>28</sup> established in UK, followed in 2006 by the US platform Prosper<sup>29</sup> and then worldwide. The Bank for International Settlements gives a definition to crowdlending and defines it as “all the credit activities facilitated by platforms that match borrowers with investors including activities like P2P lending, loan base crowdfunding or marketplace lending, also including platforms that use their balance sheet to intermediate”. The birth of this type of crowdfunding derives from the

<sup>27</sup> Figure 3: Kristof De Buysere Oliver Gajda Ronald Kleverlaan Dan Marom, *A Framework for European Crowdfunding*, (2012), p. 12

<sup>28</sup> Zopa is the oldest P2P lending company globally and the largest in Europe; over the years it has had solid and steady growth. In 2016 it announced that it would apply for a banking license to expand the financial products offered. Since May 2017, it is fully regulated by the Financial Conduct Authority since June itself has offered its Individual Savings Account (ISA) products.

<sup>29</sup> Prosper is the first American P2P lending company; initially from 2006 to 2009, it operated with a variable rate model similar to eBay auctions however since December 2010, it has filed a new prospectus with the SEC modifying its business model and using rates determined internally based on an assessment of the borrower's risk. In 2016 Prosper Marketplace introduced Prosper Daily, a mobile app.

evolution of what is called social lending or P2P. This reached its maximum maturity with the development of the internet, and was subsequently integrated into the crowdfunding landscape, where not only single interests are financed but also business ideas, and we no longer speak exclusively of P2P, but the notion of P2B (peer to Business) and P2P property lending (loan is issued and is backed by collateral such as property) are also introduced<sup>30</sup>.

In the P2P lending we have 3 main actors:

1. Lenders: they are private or institutional investors who lend money through the P2P platform; therefore, to lend money to other subjects, it is necessary to register on a platform.
2. Borrowers: they consist of private citizens or companies that requested peer-to-peer loans through a Social Lending platform via a two-step process. In the first place the borrowers upload their data to the system and, if the platform validates the applicant's financial strength, it proposes the loan to investors. In general, individuals can apply for a peer-to-peer loan of up to € 50,000, while companies can even reach € 3 million. The duration of the loans is very variable, from just one day to several years.
3. Lending platforms: these are online platforms<sup>31</sup>, that put the lenders in contact with the borrowers<sup>32</sup>. Lending platforms usually provide three different services: I) Origination: it consists of finding the borrowers and checking their creditworthiness, thus excluding those that are too risky. II) Loan servicing: it consists of the payment management and the loan performance monitoring. III) Recovery: it consists, in case of default, of debt recovery<sup>33</sup>.

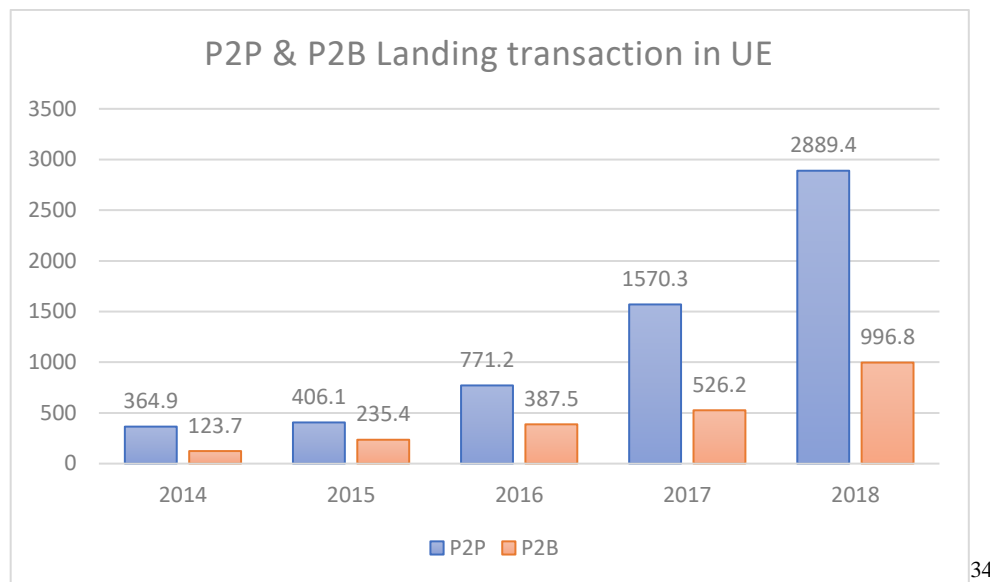
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<sup>30</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 63-68

<sup>31</sup> Currently in EU, there are more than 350 specialized P2P platforms

<sup>32</sup> <https://italiancrowdfunding.it/p2p-lending-cose-come-funziona-e-come-investire/>

<sup>33</sup> <https://p2pmarketdata.com/balance-sheet-lending/>



The so called balance sheet lending is a second type of lending model, and the main characteristic is that the loan is provided by the platform and is written in its balance sheet. The main difference between these two models can be found in the risk: in the first model, the lenders bear the risk, in the second the platform bears all the risk and is liable for any losses (there are different forms of balance sheet lending, but in all of them the platform assumes the risk). This model is similar to traditional bank lending; usually, the platform has a bank license and bears the risk but has two primary forms of income: its fee structure and the interest from loans. Looking at the balance sheet model, note that the main cost is the cost of capital, which represents the cost of taking the funds to provide loans, so the profit is made by the difference between interest requests from the borrowers and capital cost. Comparing these two models, we can see that usually, P2P lending is more transparent and if the investors can manage and diversify the risk, it offers a higher yield<sup>35</sup>. Lending on P2P in the last years gives a higher return in comparison to investing money with conventional banks because platforms match borrowers and lenders without asking for interest, but at the same time, P2P is riskier, with a higher default rate, in fact P2P usually offers credit to individuals who have no access to traditional finance<sup>36</sup>. So platforms are trying to reduce that risk first through diversification, for

<sup>34</sup> Figure 4: <https://www.statista.com/statistics/412400/europe-alternative-finance-transaction-value-p2p-lending/>

<sup>35</sup> Alistair Milne, Paul Parboteeah, *The Business Models and Economics of Peer-to-Peer Lending*, European Credit Research Institute, (2016)

<sup>36</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p 81

example, advice on a minimum investment of \$2,000 is to spread it across 20 different loans to reduce the risk of default. To avoid that risk, platforms sometimes offer provision funds.<sup>37</sup> In recent years, many studies have analyzed the primary determinant of default, in particular, those conducted in 2015 by Serrano-Cinca C, Gutiérrez-Nieto B, López-Palacios, which analyzed the relationship between the grade of a loan, the interest rate that should be higher for a lower grade and the default. The grade is chosen considering the loan's purposes and the characteristics of the borrower such as his income, indebtedness, and credit history. The results of the studies show that there is an evident relationship between the grade assigned by the platform and the default rate: the best grade A were reimbursed 94.4% of the time, gradually decreasing until the worst grade G reimbursed the 61.8% of time, the interest rate respects the grade of the loans. The studies also show that the purpose of the loan is a determinant of default, wedding loans are statically less risky, and the small business are the riskiest<sup>38</sup>.

### **1.3 Invoice-trading crowdfunding**

Invoice-trading crowdfunding consists of selling a commercial invoice through an Internet portal that selects the opportunities and replaces the traditional "discount" of banks' invoices to support working capital. Investors advance the invoice amount, net of the required remuneration. The investor buys prior to maturity with a discount rate that can vary based on various factors, such as the cost of the supplier and company capital and the latter's creditworthiness. Invoice trading platforms select the due invoices to offer a high-quality sample. In Italy, the typical profile of financed companies is that of SMEs that has have been refused traditional finance so that the yield could be not necessarily competitive compared to that practiced by the banking circuit. The main advantage is that the entrepreneur can obtain finance without offering collateral; another advantage is that the sale does not require reporting to the Central Credit Register of the banking circuit. These are usually institutional investors who invest for a higher return and without the possibility to diversify in different transactions, except a subsequent securitization. There has been a vast development of invoice-trading in the last years, but it is expected that growth continues over the following years. It is essential to

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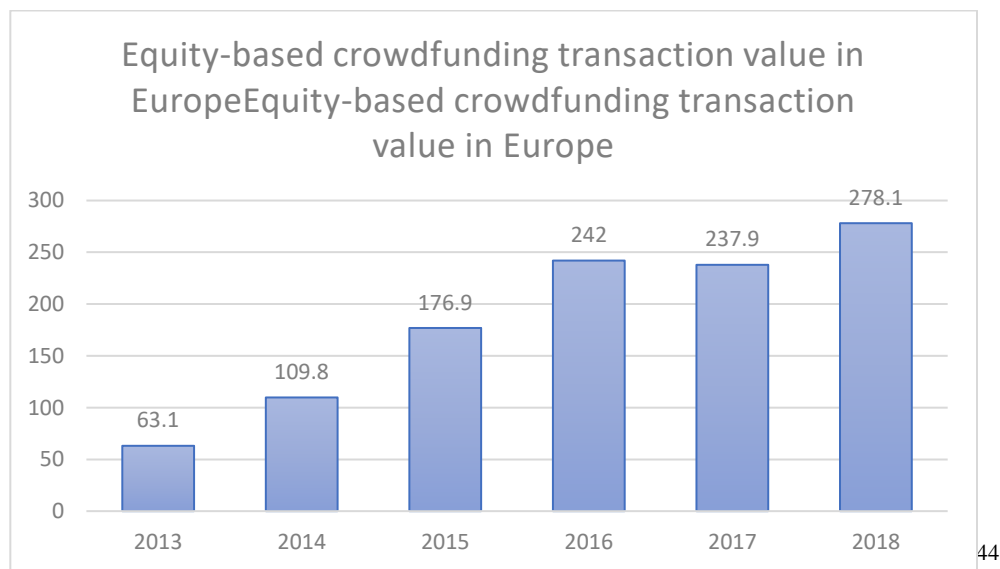
<sup>37</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p 81

<sup>38</sup> Serrano-Cinca C, Gutiérrez-Nieto B, López-Palacios L, Determinants of Default in P2P Lending, Plos One, (2015)

underline that this particular model of crowdfunding is not based on the "crowd", the investments are determined by the individual invoices and are therefore relatively high, and the 'collective' dimension of the investment is missing as each invoice typically corresponds to a single investor<sup>39</sup>.

## 1.4 Equity-based crowdfunding

Equity crowdfunding can be defined as a new method of financing in which the entrepreneur sells a predefined amount of equity or bonds to a group of small investors through internet platforms<sup>40</sup>. It became a promising method of financing for SMEs to overcome the so-called "equity gap"<sup>41</sup> which happen when a company requires equity but is not attractive for investors<sup>42</sup>. Initial contact between company and platforms is mostly made by the former, but it could also happen the opposite way round. Through careful due diligence, the platforms select the most exciting initiatives; once a venture is selected, it can start to prepare the campaign<sup>43</sup>.



<sup>39</sup> Politecnico di Milano 1863 School of Management, *2° Report italiano sul Crowdfunding*, (2017) p. 51-56

<sup>40</sup> Kazem Mochkabad Khoramchahi, *Equity Crowdfunding Essays about the Scientific Development and the Investor Perspective*, (2020) p.3

<sup>41</sup> Dennis Brüntje, Oliver Gajda, *Crowdfunding in Europe State of the Art in Theory and Practice*, (2016) p.81

<sup>42</sup> Sarah Rigos, *The UK equity gap: Why is there no Facebook or Google in the UK?*

<sup>43</sup> R. Shneur, L. Zhao, B. Flåten, *Above*, p. 94-95

<sup>44</sup> Figure 5: <https://www.statista.com/statistics/412460/europe-alternative-finance-transaction-value-equity-crowdfunding/>

The process of Equity crowdfunding develops across 7 different phases:

- 1) Application: the venture makes an application to the platform.
- 2) Screening and selection: the platforms carry out all the activity of due diligence, analyzing the credit ratings, business plan and maybe also a personal test.
- 3) Contracting: during the negotiation phase, the financial and managerial conditions are decided; it is fundamental to decide the most appropriate submission method. There are three main types: mezzanine capital, equity, and incentives.
- 4) Roadshow: here, the platforms give the investors the information about the ventures, describe their activities, their business plan, but it is essential to underline that the platform does not undertake any advisory activity, so it is the investor that has to evaluate the risk and the ventures, but sometimes the platforms give the possibility to the investors to interact each other and with the issuer.
- 5) Subscription: if an investor wants to invest in the business, they can subscribe in a predetermined period of time, the length can vary between platforms. There are two different subscription methods: the pre-action method, in which the investors determine the value of the share and the simple subscription method which follows the principle of first-come, first-serve. The most crucial difference between these two methods is that in the first, the investor's contract is with the platforms and then the platforms with the start-up; this method is easier for the start-up because it only makes a contract with the platforms, then in the second method, the start-up will draw up a contract with all small investors.
- 6) Holding: it can variate between platforms and projects, and the start-up has to provide information regarding the day-to-day activity to all the investors and any unexpected events. At the end of the holding period, the investors can decide whether to exit from the investment or prolong it.
- 7) Exit: The exit of equity crowdfunding happens at the end of the holding period if there is no self-executing prolongation mechanism<sup>45</sup>.

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<sup>45</sup> D. Brüntje, O. Gajda, *Above* p. 84-92

Equity-based crowdfunding has several sub-categories that are important to investigate. The most important are: “Collection of subscriptions”, “Club Model” and “Holding Model”.

- Collection of subscription is the model used in the USA and Italy and is considered less risky for the investors. The lender, after the project has been adequately presented and guaranteed with adequate means, subscribes the offered “shares or quotas” becoming a 100% shareholder.
- In the Club model lenders belong to a private club that is formed to make investments. In this case, the shares of the various projects are offered only to the relevant members.
- In the Holding Model, lenders are associated with a holding company. Those will be the one to invest and no longer the individual investor<sup>46</sup>.

### 1.4.1 Equity crowdfunding peculiarities

#### *Investors characteristics*

Investors in equity crowdfunding are a vast group of individuals with different education and backgrounds, most of them are not institutional investors, but platforms used to attract also institutional investor like venture capital or business angels aiming at diversifying their investments<sup>47</sup>. Studies also show that there is gender diversity in investment; usually, men compared to women are more risk-friendly, and most investors in equity crowdfunding are male<sup>48</sup>. Part of the investment in crowdfunding comes from families and friends; studies have shown that only the 4% of the investment come from this group, so the importance of marketing activities made by the platforms stands out for attracting investors. The activity of due diligence made by the platforms is also crucial because investors usually spend less than 1 hour in due diligence; differently the equity crowdfunding platforms spend a relevant amount of time in evaluating the company before advertising the investment opportunity<sup>49</sup>. Crowdfunding investors are particularly influenced by local bias; investors invest more in

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<sup>46</sup> <https://www.campagnacrowdfunding.com/equity-crowdfunding/>

<sup>47</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 96

<sup>48</sup> Ali Mohammadi, Kourosh Shafi, *Gender differences in the contribution patterns of equity-crowdfunding investors*, (2017) p.277

<sup>49</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 97-98

companies close to them for a different reason: it could be easier to access information, monitor the company, and there is no risk of a different legal framework. However, local bias has a weaker effect on more educated investors<sup>50</sup>.

### *Equity crowdfunding and IPO*

Another peculiarity of equity crowdfunding is that differently from IPO platforms, it gives the opportunity to all the possible investors to observe how the campaign is going: if it is collecting funds or not, in particular, a later investor can be influenced by the behavior of previous investors, thus a campaign with a large number of early investors is more likely to be successful. Conversely, earlier investors can also have a negative effect on the campaign if there are not investments in its first part<sup>51</sup>.

#### **1.4.2 What are the most relevant factors in determining the success of an equity crowdfunding campaign?**

A considerable amount of literature has analyzed what is fundamental in determining the success of a campaign with different indications:

- The reduction of the information asymmetry is a factor that underlines quality and credibility in a campaign; more in detail, the information that is seen as a sign of quality are: the element of risk, the business plan, size of the business, education and the management. On the other side, there are some elements like an alliance or patent that have no impact<sup>52</sup>.
- Social network studies on the lending platforms have shown a positive correlation between the social network relations of the founders and the capital raised<sup>53</sup>.
- Project update can have a positive impact, detailed information on new financing sources, the development of the business and new marketing campaign<sup>54</sup>.

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<sup>50</sup> Lars Hornus, Matthias Schmitt, Eliza Stenzhorn, *Does a Local Bias Exist in Equity Crowdfunding?*, (2020)

<sup>51</sup> Silvio Vismara, *Sustainability in equity crowdfunding*, (2019) p.98-116

<sup>52</sup> Gerrit K.C. Ahlers, Douglas Cumming, Christina Günther, Denis Schweizer, *Above*, (2015)

<sup>53</sup> Silvio Vismara, *Equity retention and social network theory in equity crowdfunding*, (2016) p. 583

<sup>54</sup> Jörn Block, Lars Hornuf, Alexandra Moritz, *Which updates during an equity crowdfunding campaign increase crowd participation?*, *Small Business Economics*, (2017)



- Human capital, education and experience also have a positive impact on campaigns and particularly the past managerial experience of the entrepreneur. On the other hand, the characteristics of the business seems to have no influence<sup>55</sup>.
- Also third party signals like project awards, intellectual property, and partner investor have a positive impact<sup>56</sup>.
- If during the first week of the campaign there are large numbers of investors and a large amount of capital is raised there is a stronger attractive effect for new investors. On the other hand, if the funding goal is incredibly high it can be a deterrent for investments<sup>57</sup>.

## 1.5 Reward-based crowdfunding

Reward-based crowdfunding is the model that allows the campaigners to receive a reward based on the amount invested; the backer contributes to the campaign without any monetary returns, usually they can expect to receive a product. Sometimes it is also called pre-selling crowdfunding, and differently from real pre-selling, investors are very involved in determining the characteristics of the asset. It can also be of help to understand if there is a demand for the goods because usually, in reward-based crowdfunding, the price of the good or the services is considerably lower<sup>58</sup>. Each campaign is built to offer its financiers a sort of reward in exchange for their commitment. Each project, in each portal, provides various rewards, which vary according to the nature of the product and increase in value as the offer granted increases: higher payments correspond to a higher value or more exclusive prizes. This reward value scale is defined by the promoters of the project who, before launching it, create steps to each of which a different type of reward is associated. The support offered to the campaign can also be of a minimum amount, usually symbolically fixed at \$1. Donations of this type do not usually provide tangible rewards and what backers can expect in return is a simple “thanks”. However,

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<sup>55</sup> Evila Piva, Cristina Rossi-Lamastra, *Human capital signals and entrepreneurs' success in equity crowdfunding*, Small Business Economics 51, (2018)

<sup>56</sup> Aleksandrina Ralcheva, Peter Roosenboom, *Forecasting success in equity crowdfunding*, Small Business Economics 55, (2020)

<sup>57</sup> Anna Lukkarinen, Jeffrey E. Teich, Hannele Wallenius, Jyrki Wallenius, *Success drivers of online equity crowdfunding campaigns*, (2016) p. 26-38

<sup>58</sup> <https://www.money.it/Crowdfunding-reward-based-cos-e-come-funziona>

increasing investment in shares, the reward levels come to offer essential and unique rewards, even if these often remain of significantly lower value than to the payment made, to ensure that the money offered not only serves to cover the costs of the prizes but goes to finance the realization of the project. The “classic” rewards provide, as mentioned, an entry-level that offers acknowledgment, which can then be explained in different forms. Usually, we then move on to gadgets linked to the project or to the activities of the promoters. The next step, which is usually also the most interesting for backers, involves what a sort of presale is: what is offered is the product or service that is the subject of the campaign, the threshold is usually about 25-50% of the final price<sup>59</sup>. It is essentially a pre-order: backers can have the product or a prototype before the actual marketing and at a lower price than what will be fixed in the future on the final market. This system suits both parties: the lenders have what they want, and the designers, in addition to raising money, can test the reactions of potential customers by replacing expensive market research and obtaining an essential validation of the application. Increasing the money offered, backers will find the highest rewards, which usually focus on exclusivity, uniqueness, and participation: these are the prizes in which the lender is invited to the official presentation events of the product, to exclusive dinners, to personal meetings with the creators, or in which the product/service is offered with extras and customizations, up to direct collaboration in the creation and realization of the project itself. This type of rewards is always restricted to a limited number of supporters<sup>60</sup>.

So the reward that is offered can be divide into 3 categories:

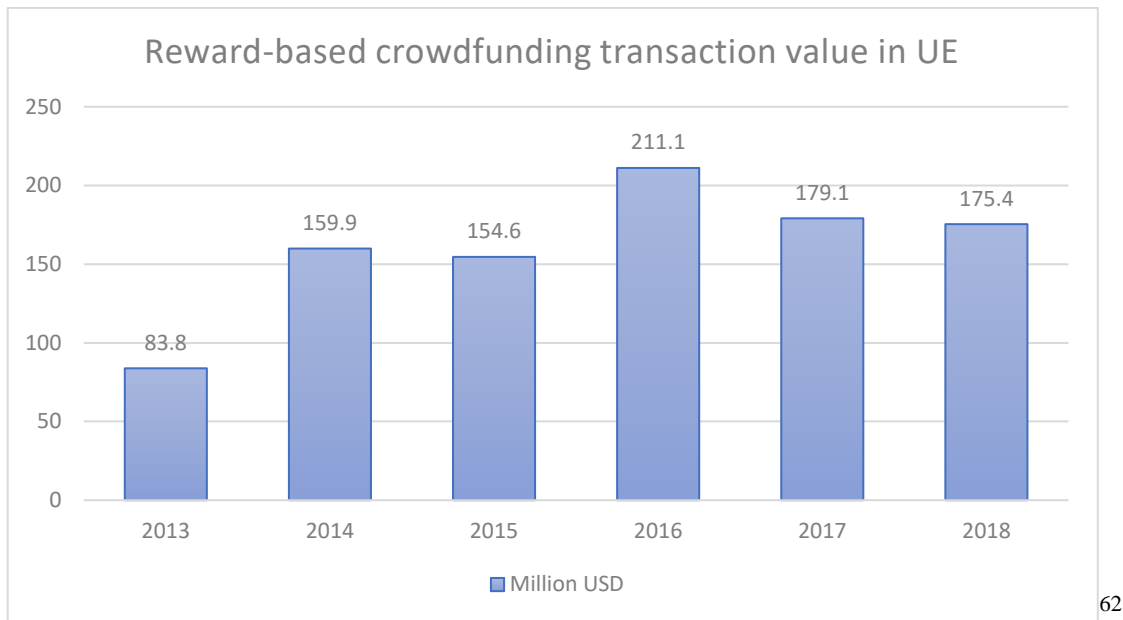
- Pre-order: can be very useful because backers can review the product and advise on how the product can better satisfy their needs.
- Services: can be private performance and screenings or commercial services during a phase of development.

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<sup>59</sup> Norbert Steigenberger, *Why supporters contribute to reward-based crowdfunding*, (2016) p.337

<sup>60</sup> GladysTuoa, Yi Fenga, Solomon Sarpong, *A configurational model of reward-based crowdfunding project characteristics and operational approaches to delivery performance*, Decision Support Systems, (2019)

- Recognition: an immaterial compensation which could also be a thank-you letter and is usually made for supporters that donate a low amount of money<sup>61</sup>.



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In reward-based crowdfunding, the supporters are not interested in financial returns; they are driven by different motivations and these can be summarized in three main points:

- Consumption: most reward-based campaigns offer the possibility of pre-order, so this is one of the primary purposes of donation, even if the objective value of the product is lower than the donation the subjective value can be higher, this is because it can allow product customizations that would not be available otherwise, backers can also give advice on the product and in some cases they can influence the final product.
- Altruism: reward-based crowdfunding finds its root in altruism and charity; acting for the good is psychologically rewarding, mainly if there are no material benefits.
- Social belonging: charity literature recognizes that engaging in a charity project for the benefit of the community by making the donors' names public allows them to gain social prestige<sup>63</sup>.

<sup>61</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 120-121

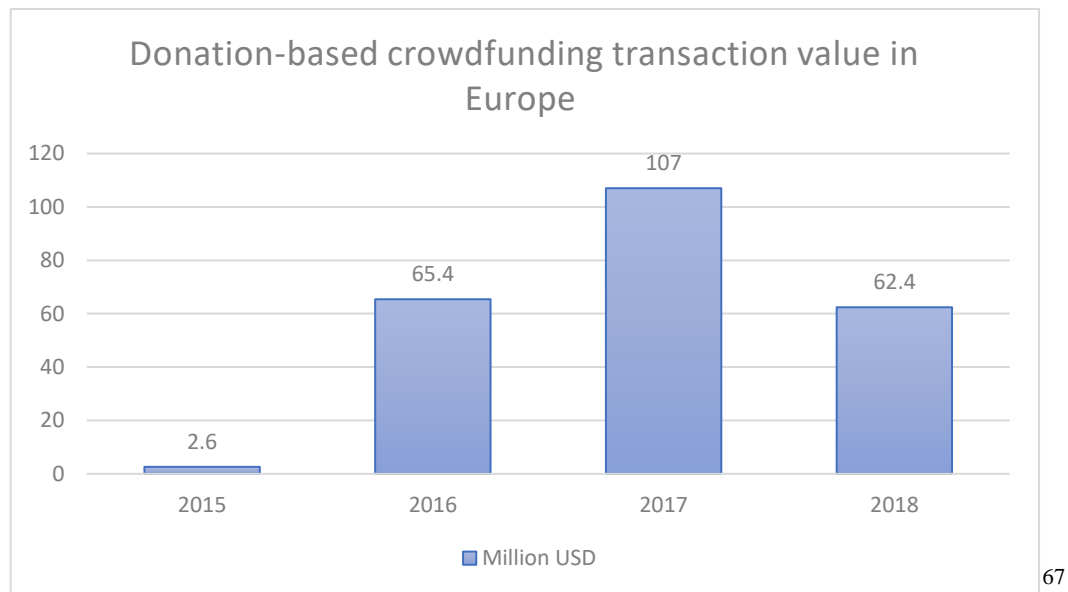
<sup>62</sup> Figure 6: <https://www.statista.com/statistics/412439/europe-alternative-finance-transaction-value-reward-crowdfunding/>

<sup>63</sup> N. Steigenberger, *Above*, p. 337-338

There are many studies in literature that analyze the distinguishing factor of successful reward-based crowdfunding, as in the other model the quality of the information about the project is crucial as is the business plan, the educational background of the promoter, information on project progress, investor participation in early project stages; creators and contributor networks act as crucial influencers. However, reward-based crowdfunding has some additional success elements, which are given by the reward and social well-being of the initiative; internal social capital developed inside a crowdfunding community can trigger a mechanism to strengthen the project. Finally, the attribute of the campaign is important, it is not by chance no-profit campaign is more successful than the other<sup>64</sup>.

## 1.6 Donation-based crowdfunding

Donation-based crowdfunding is the first model of crowdfunding in which money is selflessly donated to a specific cause, not receiving any reward in return, or at most an exclusively symbolic reward<sup>65</sup>. It is the first crowdfunding model to be developed, however compared with the other model, it is by far the least used and with smaller volumes<sup>66</sup>.



<sup>64</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 132-133

<sup>65</sup> Umberto Piattelli, *Il crowdfunding in Italia. Una regolamentazione all'avanguardia o un'occasione mancata?*, (2013)

<sup>66</sup> R. Shneor, L. Zhao, B. Flåten, *Above*, p. 146

<sup>67</sup> Figure 7: <https://www.statista.com/statistics/412463/europe-alternative-finance-transaction-value-donation-crowdfunding/>

This lower volume is linked to the fact that this model does not offer any financial return to the backers, who may be motivated by different interests such as relation with the fundraiser, altruism, peer recognition, respect, or esteem<sup>68</sup>. This model became a new channel for philanthropic initiative and, like the other models, is always characterized by three main elements: initiators, backers, and the platforms. Donation-based crowdfunding takes advantage of the internet to collect funds reducing the coordination and transaction costs associated with donation and having easy access to a considerable number of possible backers<sup>69</sup>. Also in this model, literature has identified some characteristic elements of success:

- positive correlation between target sum and success: a higher monetary goal is associated with higher public benefits, so if a charitable initiative has a high monetary goal, it is more likely to be successful;
- including a video to sponsor the campaign has a positive effect;
- donors react positively to campaigns close to them geographically or ideologically, so the founder must arouse a sense of closeness with the donors;
- campaigns created by woman are more likely to be successful;
- there is a positive correlation between the size of the association and the campaign: the more significant the association or the network, more compelling is the share capital, and the possibility that the campaign has success is higher.
- campaigns aiming at educational projects are more likely to receive donations;
- maturity and size of the platform: if a campaign is published in a mature platform is more likely to be successful than on a smaller one<sup>70</sup>.

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<sup>68</sup> Yochai Benkler, *The Penguin and the Leviathan how cooperation triumphs over self interest*, (2011)

<sup>69</sup> Katherine Choy and Daniel Schlagwein, *Crowdsourcing for a better world On the relation between IT affordances and donor motivations in charitable crowdfunding*, (2015), p. 221-224

<sup>70</sup> Rotem Shneur, Amy Ann Vik, *Crowdfunding Success: A Systematic Literature Review 2010-2017*, *Baltic Journal of Management* 15, (2020), p.26-27

## ***CHAPTER 2 REAL ESTATE MARKET***

### **2.1 Real estate market's characteristics and flaws**

The policy in competitive markets has the objective of encouraging companies to behave reasonably by encouraging the entrepreneurial spirit and efficiency, bringing various benefits to different market players<sup>71</sup>. Competitive markets have four main characteristics: (i) a large number of buyers and sellers; (ii) homogeneous goods, that means that consumers perceive products that are identical or very similar to each other; (iii) perfect information on prices and products and (iv) equal access, i.e. all companies operating in the market and potential new entrants have access to the same resources and technologies<sup>72</sup>.

The real estate market has some imperfections, therefore it does not fulfill all the above listed competitive market characteristics. Among those imperfections, the most relevant is the fact that the numbers of buyers are lower than those of other markets, entailing less liquidity and less transparency. Another great imperfection is the heterogeneity of the property, the non-standardization of each specific building with its peculiarities causes an uneven means for comparison. Among the other flaws, the lack of transparency leads to difficulties in obtaining relevant information regarding the price of the property and puts the buyer in a position of uncertainty and disadvantage. The characteristics of the supply bring another element of inefficiency to the table: the price is not determined by several transactions but from different property trades with different characteristics. Therefore, if we want to classify the real estate market according to the power that subjects have to influence the market, we should place it between monopolistic competition and oligopoly.

Real estate crowdfunding aims at minimizing some of these imperfections<sup>73</sup>. The real estate market can be defined as the aggregation of different submarkets; therefore, we can segment it

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<sup>71</sup>[https://ec.europa.eu/competition/consumers/why\\_it.html#:~:text=In%20un%20mercato%20concorrenziale%20i,all'economia%20nel%20suo%20insieme](https://ec.europa.eu/competition/consumers/why_it.html#:~:text=In%20un%20mercato%20concorrenziale%20i,all'economia%20nel%20suo%20insieme).

<sup>72</sup> David A. Besanko, Ronald R. Braeutigam, *Microeconomics*, Graw Hill Education, (2014), p. 251-252

<sup>73</sup> Benedetto Manganeli, *Real Estate Investing Market Analysis, Valuation Techniques, and Risk Management*, (2015), p.1-9

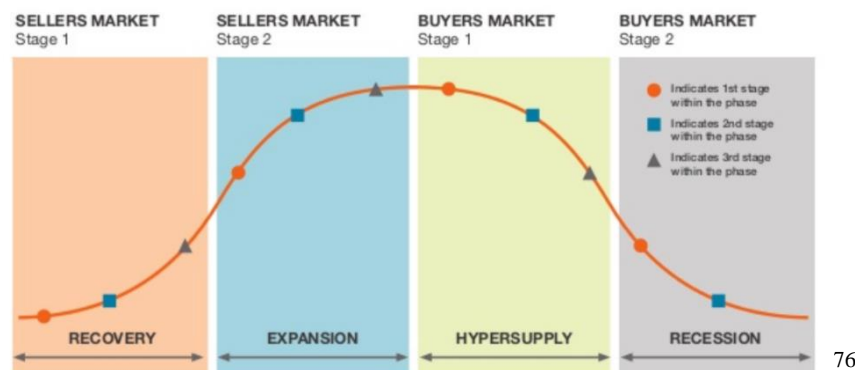
as shown in the following table<sup>74</sup> containing the most relevant factors of real estate segmentation:

Location	Where the building is located, the infrastructure, services, environmental characteristic, social context and geographic area.
Destination of the property	Residential, industrial, commercial, office and hotel business market.
Typology of building	The objective characteristics of the building, as shape, size, architecture and if it needs renovation.
Construction quality	Elegant, luxury, cheap, popular, energy efficiency, etc.
Tenure status	Is important to differentiate the real estate market from the leased real estate market.

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### 2.1.2 Real estate market cycle of life

The RE market and in particular the housing market moves in a continuing economic cycle made up of four phases: recovery, expansion, hyper supply and recession phase.



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1. The recovery phase is usually at the lowest point of the cycle, where there is an increase of the occupancy rate that is near to the lowest point, the demand for new construction is

<sup>74</sup> B. Manganelli, , Above, p. 11

<sup>75</sup> Figure 8: B. Manganelli, , Above, p. 11

<sup>76</sup> Figure 9: <https://www.carealtytraining.com/real-estate-market-life-cycle/>

absent or with weak growth and it is very difficult to identify the start of the recovery phase due to feeling of recession by the market.

2. During the expansion phase the market is growing strongly with increasing demand, and vacancy rates are decreasing, rents increase to justify the construction of new buildings; at the top of this phase, there is the point of equilibrium between supply and demand.
3. In the subsequent phase of over hyper-supply, supply exceeds demand. Oversupply can be caused by overbuilding or a pullback in demand caused by a shift in the economy.
4. In the last phase of this cycle, recession phase, there still is an increase of the vacancy rate and a decrease in new construction like in the previous phase, but in this situation the market reaches the bottom allowing the cycle to restart again from the beginning with the first phase, i.e., the recovery phase<sup>77</sup>.

The housing market cycle of life is partly a consequence of the imperfections of the market. It depends on endogenous forces: the time lag between the commission and the delivery of the building, the supply does not adapt to the changing needs of demand and the lack of transparency. It also depends on exogenous forces like the rate of inflation, interest rates, unemployment, regulatory environment, the attitude of the public administration etc.<sup>78</sup>.

## **2.2 Real estate crowdfunding**

The advent of the Internet has brought with it innovation and new technologies, and it was not unexpected that the crises of the real estate market in 2007 and the subsequent financial crisis triggered new ways of financing<sup>79</sup>. One of them is real estate crowdfunding, which is defined as a typology of collective financing involving many investors in the procurement of resources to realize real estate projects. The crisis of 2007/2008 transformed the financial sector for some years; it became less liquid with a higher risk aversion. The result was a financing gap that left

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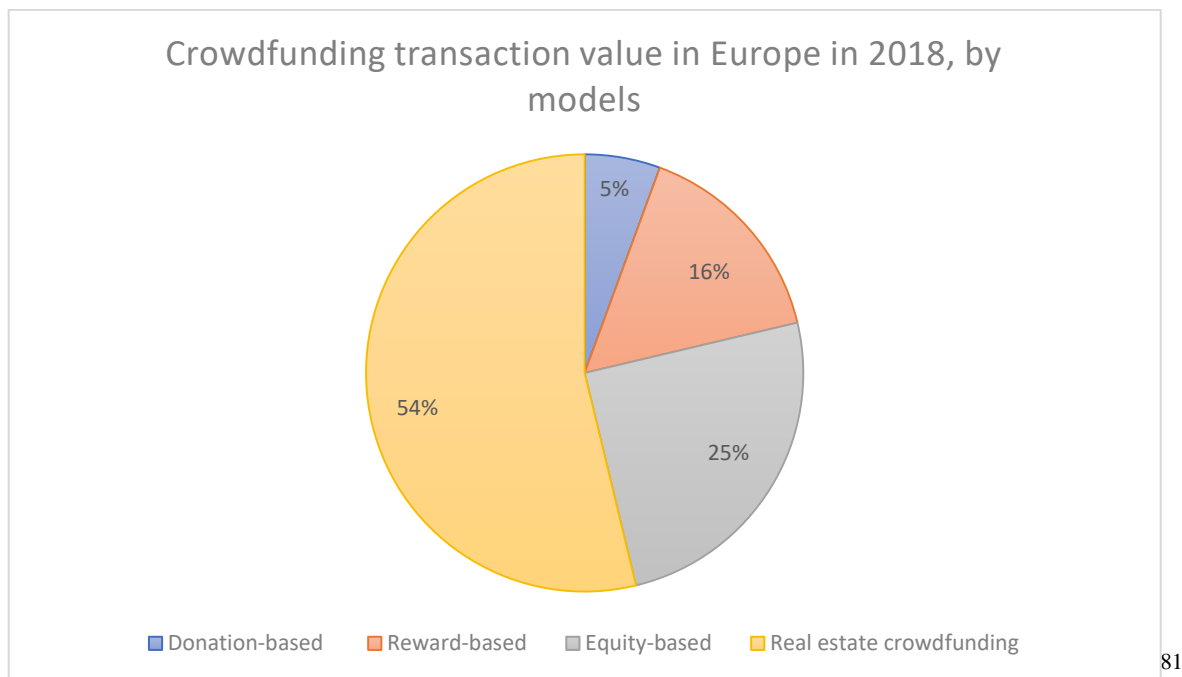
<sup>77</sup> <https://www.crowdstreet.com/resources/investing/real-estate-cycle/>

<sup>78</sup> Gaetano Casertano, *Finanza immobiliare*, (2018)

<sup>79</sup> Verena Schweder, Andreas Mladenow, and Christine Strauss, *From Risks to Opportunities: Real Estate Equity Crowdfunding*, Springer Nature Switzerland, (2020) p.444-446



SMEs of all sectors, including real estate with no financing method. Hence, SMEs were forced to look for new ways of financing<sup>80</sup>.



The reason the RECF is so attractive for investors is that it overcomes many limits of the real estate market, opening it not only to institutional investors but also small ones, offering to the latter group detailed information about the project and the path to make the investment<sup>82</sup>.

### 2.2.1 Models of Real Estate Crowdfunding

There are different models in real estate crowdfunding:

- Equity method model: the crowd, the project promoter and the platform. These are the three main actors in such model. Once the investors have reached the requested amount for the project, an *ad hoc* corporation is created, and investors receive their shares. The company has the single purpose of buying the property, refurbishing it and renting or sell it sharing the profit proportionally among the shareholders<sup>83</sup>.

<sup>80</sup> Nicolle Montgomery, Graham Squires, Iqbal Syed, *Disruptive potential of real estate crowdfunding in the real estate project finance industry*, (2018) p. 597-599

<sup>81</sup> Figure 10: <https://www.statista.com/statistics/412487/europe-alternative-finance-transactions-crowdfunding/>

<sup>82</sup> Manuchehr Shahrokhi, *Crowdfunding in real estate: evolutionary and disruptive*, (2018), p. 785-793

<sup>83</sup> Rosa M. Garcia-Teruel, *A legal approach to real estate crowdfunding platforms*, (2019) p. 1-5

- Lending-based model: the investors act as lenders and, after the sale of the property, the investors will receive the money back, plus the predetermined interest; the main difference is that no guarantee is required if the loan is not repaid<sup>84</sup>. According to data reported by “LendingClub,” one of the biggest P2P platforms in the world, the default rate increased by 86% in the period between 2010 and 2017. This has prompted some platforms to add the possibility to make loans with a guarantee, bringing benefits to both parties on the borrower and lender side. The benefits for borrowers go from easier access and approval to fast loans with lower rates. The advantages for the investors are a safer investment that guarantees a return even in the event of a default, and fixed returns over time, making the loan safer compared to more traditional investments such as shares<sup>85</sup>.
- IREIT (Intelligent REIT) it is a mix between real estate crowdfunding and REIT (Real Estate Investment Trust) and allows investors to make investments in real estate without having to buy any property. REIT purchase commercial properties and distribute the rental income to shareholders as dividends<sup>86</sup>. The REIT can take the form of “iREIT” described as “a digital innovative financial, real estate crowdfunding platform making the REIT accessible and affordable for anybody to invest anywhere and anytime with a promising return from the real estate market, and without taking the risk of the volatile nature of the stock market”<sup>87</sup>. This mechanism makes the investment more secure because it does not depend on a single property.
- Silent partnership: it is a contract regulated by Spanish law by which backers invest in a project without receiving shares, and the profits that they obtain are related to the contract they sign.

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<sup>84</sup> R. M. Garcia-Teruel, Above, p.6

<sup>85</sup> Yang Jiang, Yi-Chun (Chad) Ho, Xiangbin Yan, Yong Tand, *When Online Lending Meets Real Estate: Examining Investment Decisions in Lending-Based Real Estate Crowdfunding*, (2020), p. 715-718

<sup>86</sup> <https://www.investopedia.com/articles/personal-finance/071015/reits-vs-real-estate-crowdfunding-how-they-differ.asp#:~:text=REITs%20purchase%20commercial%20properties%20and,through%20mutual%20funds%20or%20ETFs.>

<sup>87</sup> Shimin Hu, *Intelligent REITs in the information age*, *Procedia Computer Science* Volume 111, (2017), p. 329-334

- Real estate crowdfunding 2.0: it is done through an ICO (i.e., Initial Coin Offering). Through the ICO, the promoter can raise capital using cryptocurrency and the blockchain removing the platforms intermediaries<sup>88</sup>.

The studies made by Cinta Borrero-Dominguez, Encarnación Cordón-Lagares, Roció Hernández-Garrido aim to analyze the factors that influence the success of real estate projects published on the Housers platform by using two variables as a measure of success: the capital reach during the campaign and the numbers of participants. The research shows that the success element changes between different projects. More specifically, investors prefer projects that give monthly returns; a buy-to-sell<sup>89</sup> project that offers all returns (interest plus the amount invested) at the end of the investment statistically, is less likely to succeed compared to those that offer interest monthly and pay back the amount at the end. Furthermore, investors prefer projects that offer a higher yield, and the risk and the duration harm the success of the investment<sup>90</sup>.

### **2.3 Risks and opportunities of real estate equity crowdfunding (REECF)**

Literature divides potential risks and opportunities into three macro-groups: market, execution and agency<sup>91</sup>.

#### **2.3.1 Risks in REECF**

Agency risk arises from lack of transparency and information asymmetry, when the manager has more information than the investors, they can exploit this element to serve their interests rather than those of the shareholders. This information asymmetry is more noticeable for small business.<sup>92</sup> There are three significant agency risks:

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<sup>88</sup> R. M. Garcia-Teruel, Above, p.7

<sup>89</sup> The buy-to-sell consists in three steps; the company buys a property, refurbishes it, and sells it.

<sup>90</sup> Cinta Borrero-Dominguez, Encarnación Cordón-Lagares, Roció Hernández-Garrido, *Sustainability and Real Estate Crowdfunding: Success Factors*, (2020)

<sup>91</sup> V. Schweder, A. Mladenow, C. Strauss, Above, Springer Nature Switzerland, (2020) p. 448

<sup>92</sup> Cécile Carpentier, Jean-Marc Suret, *Angel group members' decision process and rejection criteria: A longitudinal analysis*, Journal of Business Venturing, (2015), p. 810-811

- a) Information asymmetry: the differences in information made available to the entrepreneur and the investors, which can lead to a market failure as, for example a transaction between the two parties is not concluded due to lack of information.
- b) Lack of regulation clarity: the REEF is regulated differently from country to country; there is no cross-jurisdictional harmonization, the laws are often incredibly recent and complex lacking clarity<sup>93</sup>.
- c) Fraud: it is widespread behavior in small companies with little experience; it has been shown that it is easy to use information that can mislead the investor; unlike other online platforms, this incorrect behavior is not discouraged by the need to build a good reputation in the platform (Airbnb, eBay)<sup>94</sup>.

Execution risks are risks that arise internally within the company, such as difficulties in developing products, technologies or even in implementing the business model<sup>95</sup>. The most important are:

- Cost of capital: raising capital with crowdfunding comparing to other forms of financing leads to high costs of capital for different reasons, most relevant are the fees that founders must pay to the platforms usually 10% of the capital raised, in some cases there are additional fees for the due diligence made by the platforms and insurance. It is also necessary to consider all the running costs of the campaign and the effort to inform and maintain good relations with investors<sup>96</sup>.
- Investor management: comparing the REECF to crowdfunding, the number of investors in a single project is lower, however, it remains of fundamental importance to choose the right investors trying to avoid possible conflicts of interest<sup>97</sup>.
- Uncertainty of skills: a fundamental factor for the success of an investment in the REECF are the skills of the entrepreneur, however, the latter often tend to overestimate their abilities, they often do not have the experience to deal with suppliers; in fact

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<sup>93</sup> N. Montgomery, G. Squires, I. A Syed, *Above*, (2018), p. 608-611

<sup>94</sup> V. Schweder, A. Mladenow, C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 450

<sup>95</sup> C. Carpentier, J. Suret, *Above*, Journal of Business Venturing, (2015), p. 811

<sup>96</sup> Michael M. Gierczak, Ulrich Bretschneider, Philipp Haas, Ivo Blohm, Jan Marco Leimeister, *Crowdfunding: Outlining the New Era of Fundraising*, (2015), p. 16

<sup>97</sup> V. Schweder, A. Mladenow, C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 450

venture capital prefer to finance entrepreneurs that have industrial and management skills or even a team of entrepreneurs<sup>98</sup>.

Market risks are risks that arose externally to the business and cannot be controlled by the entrepreneurs and came from the competition such as size growth and the palatability of the market<sup>99</sup>. The most relevant are:

- **Uncertainty of Success:** it has been shown that risks such as the growth trend and market size are two of the main reasons for the refusal of financing by specialized angel investors. The first risk could be that the project is not even accepted by the crowdfunding platform; according to entrepreneurs, they may not raise the required capital. Secondly, investment decisions are often not based on solid financial bases but more on emotional or other prejudices. Lastly, the REECF does not guarantee profits; it is not guaranteed that property once bought and renovated, can be sold at a higher price, it is always necessary to take into account the possible fluctuations of the market.
- **The bankruptcy of the Platform/Company:** the risk of platform defaults is one of the dominant risks of the REECF, negatively impacting both investors, who cannot receive information and investment profits, and entrepreneurs, who cannot reach potential investors. If the company fails, the investors have to recover the credit, this can run into long-term procedures<sup>100</sup>.
- **Lack of Liquidity of Shares:** this is one of the main risks and can happen in all kinds of crowdfunding investments. It occurs when investors acquire non-transferable shares and cannot recover their investment until the predetermined date<sup>101</sup>.
- **Governance of the Company:** REECF investors receive company shares; however they have no managerial rights over the purchased property<sup>102</sup>.

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<sup>98</sup> V. Schweder, A. Mladenow , C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 449

<sup>99</sup> C. Carpentier, J. Suret, *Above*, Journal of Business Venturing, (2015), p. 811

<sup>100</sup> R. M. Garcia-Teruel, *Above*, (2019) p. 8-9

<sup>101</sup> R. M. Garcia-Teruel, *Above*, (2019) p. 8-9

<sup>102</sup> V. Schweder, A. Mladenow , C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 449

### 2.3.2 Opportunities in REECF

Agency opportunities are all the benefits that can arise from the transparency of information between entrepreneur and investor and can bring advantages to both parties<sup>103</sup>. The most important are:

- Greater transparency thanks to the technology of the online crowdfunding platforms, it is possible to find investment information more efficiently and faster. Moreover, REECF platforms usually have data rooms where it is possible to request information and updates on each project<sup>104</sup>. Transparency is one of the greater strengths because historically, the real estate market is characterized by an opacity of information; however, thanks to this technology, the investor can better compare investments and choose the most appropriate for his needs<sup>105</sup>.
- Enhanced Reporting and Accountability: because crowdfunding platforms are concentrated on providing information, it should provide information to investors in a timely and easy-to-understand manner, as with other online platforms, the more crowdfunding volumes increase the easier it should be to exploit economies of scale, offering investors increasingly objective information<sup>106</sup>.

Execution opportunities are internal to the business and concern improvements in the implementation of a project<sup>107</sup>. The most relevant are:

- Lower cost: crowdfunding platforms eliminate financial intermediaries. This leads to a lower cost of capital for the entrepreneur and higher risk-adjusted returns for the investors. The literature highlights that if we compare the fees charged by crowdfunding platforms to brokers or traditional financial advisors, the former are lower<sup>108</sup>. REECF may reduce the cost of capital for two reasons: the platforms can match those individuals who have the highest willingness to pay for equity in their venture,

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<sup>103</sup> V. Schweder, A. Mladenow, C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 452

<sup>104</sup> N. Montgomery, G. Squires, I. A Syed, *Above*, (2018), p. 605

<sup>105</sup> John H. Vogel Jr., Benjamin S. Moll, *Crowdfunding for Real Estate*, Real estate finance journal, (2014), p. 8

<sup>106</sup> J. H. Vogel Jr., B. S. Moll, *Above*, Real estate finance journal, (2014), p. 8

<sup>107</sup> V. Schweder, A. Mladenow, C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 452

<sup>108</sup> N. Montgomery, G. Squires, I. A Syed, *Above*, (2018), p. 605

crowdfunding generates more information, which may increase the willingness to pay to lower the cost of capital<sup>109</sup>.

- Streamlined process: using technology has allowed financing to speed up and improve in a very effective way compared to more traditional forms<sup>110</sup>.
- Intermediary effect: platforms can perform as intermediaries and as principal in investments. Platforms that perform a more significant number of services tend to attract more projects of higher quality and result to be more profitable<sup>111</sup>.
- Enhanced user experience: crowdfunding platforms use technology to offer an experience and a series of advantages in terms of costs and efficiency that the traditional real estate market is unable to offer<sup>112</sup>.

Market opportunities reflect the benefits of introducing a new product or service to the market<sup>113</sup>. The most important are:

- Broader Investor Base: real estate investments are usually financed by investors geographically close to the property however, with the use of the Internet, it is possible to get in touch with investors from different areas, considerably expanding the investor base in the real estate sector<sup>114</sup>.
- Benefits of Local Investors and Social Networks: there are many advantages of having local investors, because they can give sponsors advice on what is or is not acceptable in the community. In case of a need for local permits or approvals, they can leverage their knowledge to facilitate such approval<sup>115</sup>.
- Community Participation: many investors, can be incentivized to participate in a crowdfunding campaign in exchange for recognition of the creator within a community.<sup>116</sup>

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<sup>109</sup> Ajay Agrawal, Christian Catalini, Avi Goldfarb, *Some Simple Economics of Crowdfunding*, (2014), p. 10-11

<sup>110</sup> N. Montgomery, G. Squires, I. A Syed, *Above*, (2018), p. 604-605

<sup>111</sup> V. Schweder, A. Mladenow, C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 451

<sup>112</sup> N. Montgomery, G. Squires, I. A Syed, *Above*, (2018), p. 606

<sup>113</sup> V. Schweder, A. Mladenow, C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 450

<sup>114</sup> V. Schweder, A. Mladenow, C. Strauss, *Above*, Springer Nature Switzerland, (2020) p. 450

<sup>115</sup> J. H. Vogel Jr., B. S. Moll, *Above*, Real estate finance journal, (2014), p. 9

<sup>116</sup> A. Agrawal, C. Catalini, A. Goldfarb, *Above*, (2014), p. 14

- Self-directed Tools: REECF platforms offer efficiency gains because they can provide both entrepreneurs and investors with self-directed tools, simplifying the financing and investment process, eliminating the need for brokers and other professionals and significantly reducing the commissions to be paid. Furthermore, these platforms give to accredited and non-accredited ordinary investors the autonomy to carry out their risk analysis and assessment and to make real estate investments, thus facilitating the flow of new capital within the real estate assets<sup>117</sup>.

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<sup>117</sup> N. Montgomery, G. Squires, I. A Syed, *Above*, (2018), p. 606



## ***CHAPTER 3 THE EUROPEAN MARKET: IN DETAILS ITALY, SPAIN AND FRANCE***

### **3.1 Crowdfunding in Europe**

#### **3.1.1 European alternative lending market overview**

The alternative finance market in Europe is in constant evolution. For the purpose of representing this market in the most precise and detailed way it is useful to refer to the 2020 report of the University of Cambridge (The Global Alternative Finance Market Benchmarking Report)<sup>118</sup> for the years from 2016 to 2018 and to The Second Global Alternative Finance Market Benchmarking Report<sup>119</sup> for the years from 2018 to 2020. In this analysis, we have excluded England because alone it represents 91% of the volume of the entire European alternative finance market.

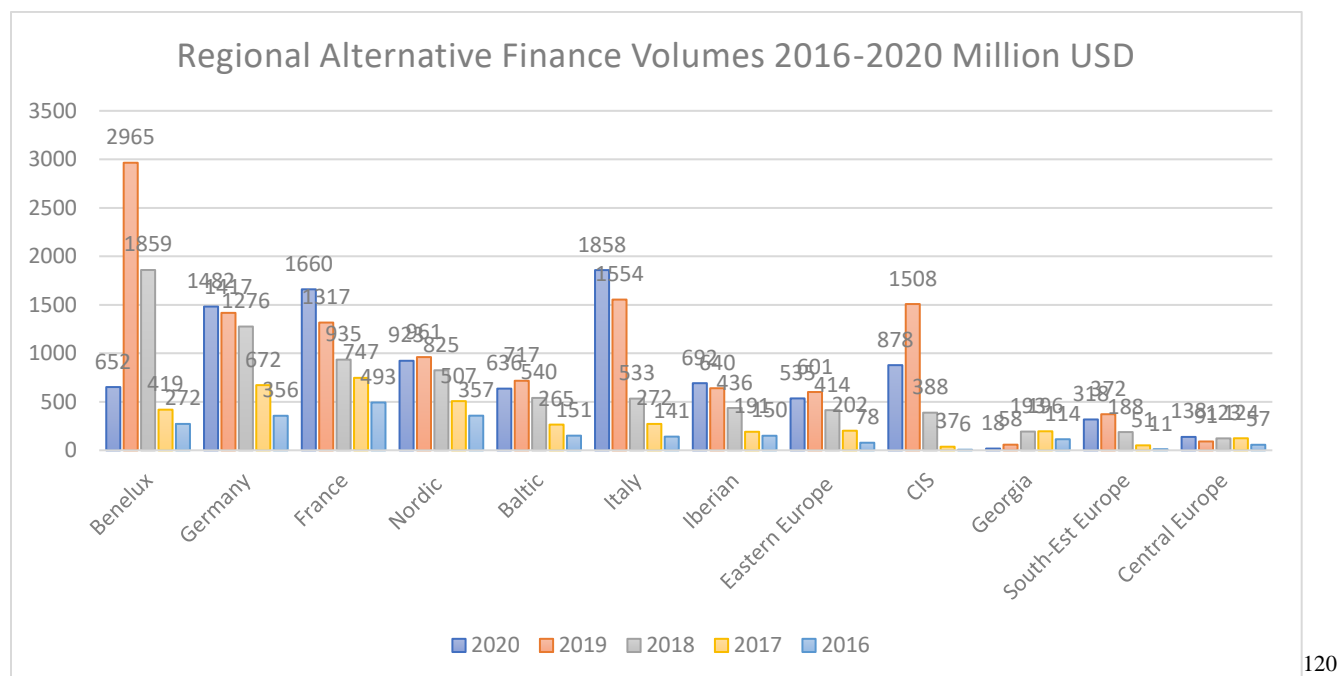
Analyzing following graph, the European trend in 2020, unlike previous years, is downward, except for few countries (Germany, France, and Italy) whose volumes continued to grow in 2020.

Debt-based alternative finance is the model which has suffered the greatest decline in the last two years, despite it has always remained the dominant activity in 2019 and 2020. This decline can be partially attributed to the prohibition by some central European countries to the use of debt models.

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<sup>118</sup> University of Cambridge Judge Business School, *The Global Alternative Finance Market Benchmarking Report*, (2020) The report was carried out in partnership with the University of Agder and with the support of CME Group Foundation, Invesco, IDB Inter-American Development Bank, IDB Invest

<sup>119</sup> University of Cambridge Judge Business School, *The Second Global Alternative Finance Market Benchmarking Report*, (2021) The report was carried out in partnership with the University of Agder and with the support of UK UfA, Invesco, IDB Inter-American Development Bank, IDB Invest



**Benelux** comprises three nations: Belgium, the Netherlands, and Luxembourg, which together, excluding England, represent the leading region by volume of transactions in Europe; this is due to the incredible growth the Debt-based model had in 2018. More specifically, growth over the previous year was 343%. The debt-based models raised \$2.9 billion in 2019 and \$589 million in 2020, significantly outperforming equity-based models, which raised \$25 million in 2019 and \$31 million in 2020. The significant drop in debts is partly due to the non-participation of one of Belgium's major platforms<sup>121</sup>.

**German** transactions volume also grew incredibly, by 85% in 2017 and 90% in 2018. The debt-based models raised \$953 million in 2019 and \$1 billion in 2020 and held the highest market share compared to equity-based models, which raised \$410 million in 2019 and \$375 million in 2020, and non-investment-based models which raised \$54 million in 2019 and \$103 million in 2020. The equity volumes decreased from USD 410 million in 2019 to USD 375 million in 2020. The decline in real estate crowdfunding caused a decrease in equity-based activity from 2019 to 2020. However, this was not due to the impact of COVID-19 but rather to

<sup>120</sup> Figure 11: University of Cambridge Judge Business School, *Above*, (2020)  
University of Cambridge Judge Business School, *Above*, (2021)

<sup>121</sup> 1%Club

changes in German regulation that made it more difficult for developers of real estate projects to obtain co-financing from traditional banks.

**France** represents the third European nation by volume of transactions, and it is the first in non-investment instruments excluding the U.K. In 2017, it was the first country in Europe by volume of transactions despite, in 2018, the growth of debt and equity transactions being much lower compared to the others. The equity market increased from \$302 million in 2019 to \$432 million in 2020.

**The Nordic countries** are Denmark, Iceland, Finland, Norway, and Sweden. The volumes of this group of nations are led by Finland and Sweden, representing 46% and 36% respectively of the total volume of transactions.

Estonia, Latvia, and Lithuania represent the **Baltic states.**, These countries have created an innovative and favourable regulatory framework for the development of start-ups. They also possess an advanced IT infrastructure system that allows companies to grow quickly by lowering costs. These countries combined stand fifth place by volume of transactions thanks to the incredible growth rate of 103% from 2017 to 2018. In 2019 and 2020 the majority of volume was mostly originated by debt base model.

The volume of transactions in **Italy and Malta** is very similar to that of the Baltic countries with a value of 533 million USD in 2018; the main feature is the great prevalence in Italy of debt-based transactions representing 93% of the total transactions.

**The Iberian region** consists of Spain, Portugal, and Andorra; the highest growth occurred between 2017 and 2018, with a growth rate of 127%. In this region, the breakdown of total transactions between debt, equity, and non-investment is similar to Germany, France, and the Nordic countries.

**The Eastern Europe region** includes Hungary, Poland, Czech Republic, and Slovenia. This region also experienced incredible growth first in 2017 at a rate of 153% and then in the following year at a rate of 104%. The prevalence of transactions is represented by debt, followed by non-investment, which represents 6%, while equity transactions represent 1% of the total volume.

**CIS (Commonwealth of Independent States)** consisting of Russia, Belarus, Moldova, Ukraine, and Armenia showed an extraordinary growth rate of 465% from 2016 to 2017 and 949% from 2017 to 2018 from 6 million to 388 million USD in just two years. Growth is due exclusively to the development of the debt model, particularly in Armenia, which alone accounts for 47% of the region's volumes. In the CIS region, debt models currently generate the highest volumes but are declining each year, while non-investment models are increasing.

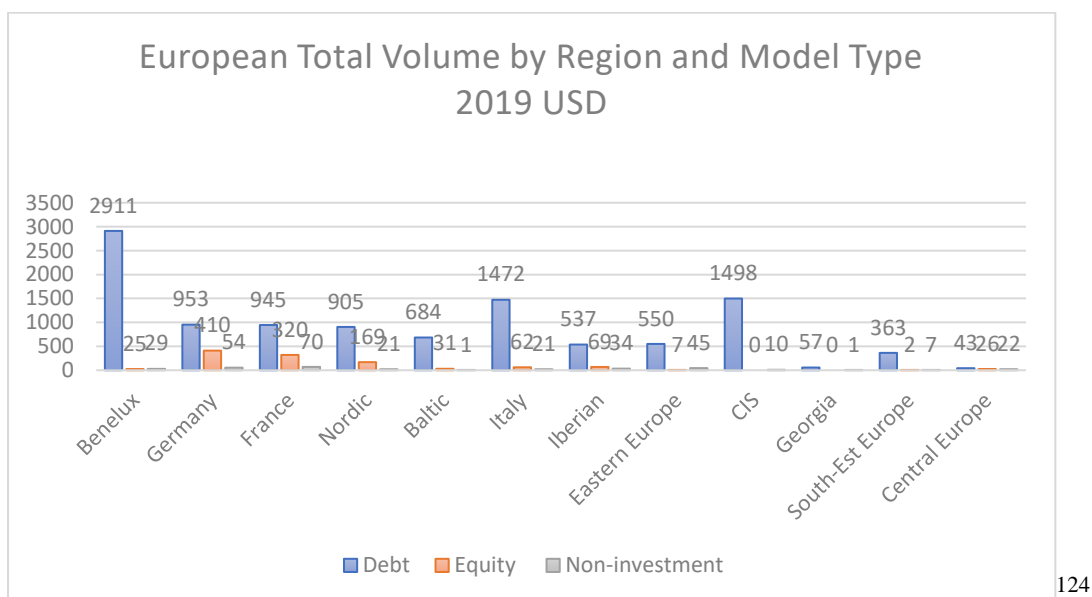
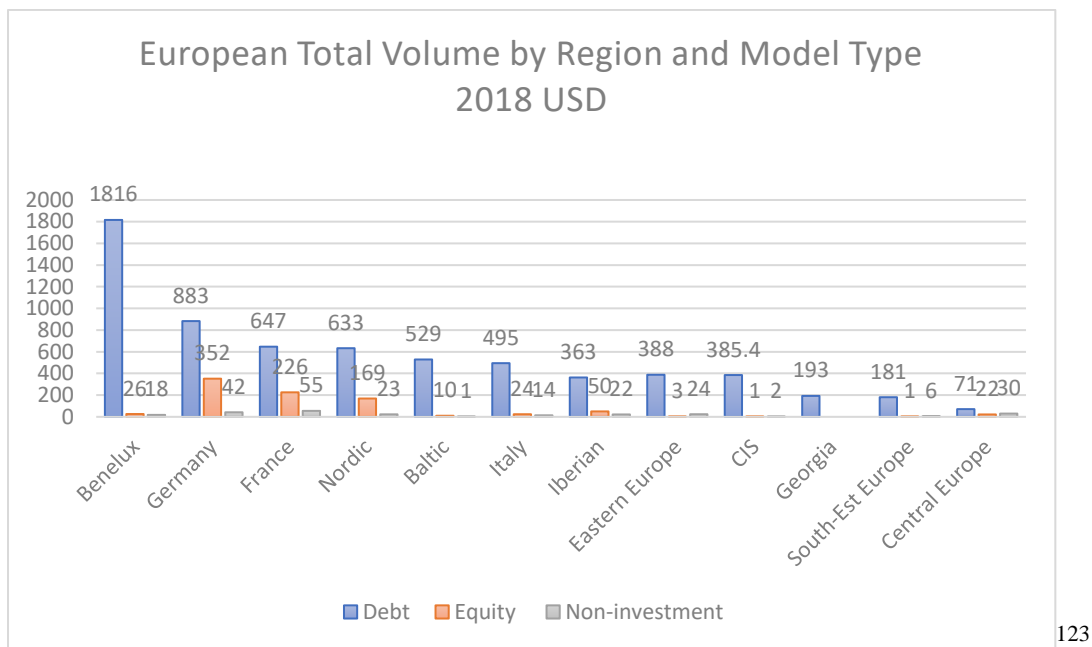
**Georgia** must be analysed separately because it left the CIS in 2008; comparing it to the other regions analysed so far, the growth has been lower, as between 2017 and 2018 there was a decrease of 1.4%.

**South-Eastern Europe** is composed by Romania, Bulgaria, Greece, Turkey, Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Albania, Cyprus and Kosovo; the volumes of this region are relatively low although the growth rate in the last two years has been very high. The debt model is almost exclusively used, and the volumes of this region are mainly driven by Cyprus, Bulgaria, and Slovenia, which represent 34%, 21%, and 19% respectively. At the opposite end is Greece where transaction volumes are steadily declining. The **Central Europe** region is the lowest volume region represented by Austria, Switzerland, and Liechtenstein; however, it is essential to note that many Swiss companies refused to participate in the report conducted by Cambridge University.

The following charts represents the total transaction volume in Europe in 2018, 2019 and 2020 divided by region and model<sup>122</sup>

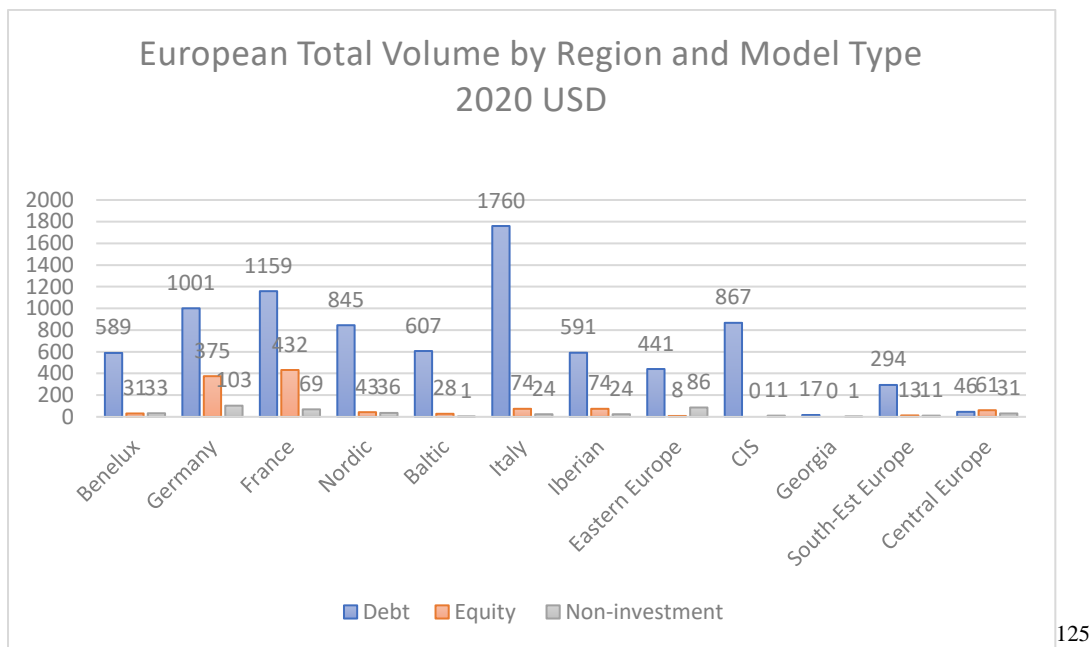
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<sup>122</sup> University of Cambridge Judge Business School, *Above*, (2020)  
University of Cambridge Judge Business School, *Above*, (2021)



<sup>123</sup> Figure 12: University of Cambridge Judge Business School, *Above*, (2020)

<sup>124</sup> Figure 13: University of Cambridge Judge Business School, *Above*, (2021)



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In 2018 the most utilized model in Europe was the debt model, more specifically P2P lending with a volume of 2.8 million USD while, the second was balance sheet property lending with a volume of 1.3 million USD. This model has undergone vast and unexpected growth. This growth is also due to factoring in new leading platforms that had not participated in previous reports. Furthermore, in previous years there tended to be a minor distinction between the various debt sub-models. P2B lending, like the other models, grew tremendously, almost doubling its volumes from 2017 to 2018 reaching at total of 996 million USD. The invoice trading-model is the fourth largest model in terms of volume. It has grown enormously in recent years, but unlike previous models, the increase is attributable to significant growth of a handful of platforms rather than new entrants as in previous years. Balance sheet business lending increased its volumes from 24 million to 80 million USD between 2017 and 2018.

<sup>125</sup> Figure 14: University of Cambridge Judge Business School, *Above*, (2021)

The following table summarizes alternative financing methods in Europe<sup>126</sup>.

	2020	2019	2018	2017	2016	2015
P2P	\$ 2,901	\$ 4,183	\$ 2,889	\$ 1,570	\$ 771	\$ 406
Invoice Trading	\$ 2,016	\$ 1,809	\$ 803	\$ 604	\$ 279	\$ 89
P2B	\$ 1,844	\$ 1,481	\$ 997	\$ 526	\$ 388	\$ 235
RECF	\$ 822	\$ 733	\$ 600	\$ 292	\$ 121	\$ 30
BS Consumer Lending	\$ 657	\$ 608	\$ 100	\$ 3	\$ 19	\$ -
P2P M Property lending	\$ 500	\$ 375	\$ 145	\$ 75	\$ 105	\$ -
Donation-based CF	\$ 296	\$ 112	\$ 62	\$ 107	\$ 65	\$ 3
Equity-based CF	\$ 280	\$ 224	\$ 278	\$ 238	\$ 242	\$ 177
Reward-based CF	\$ 262	\$ 195	\$ 175	\$ 179	\$ 211	\$ 155
Debt-based securities	\$ 130	\$ 112	\$ 168	\$ 85	\$ 25	\$ 12
BS Business Lending	\$ 105	\$ 33	\$ 81	\$ 24	\$ -	\$ -
CPF/ BNPL	\$ 57	\$ 80	\$ -	\$ -	\$ -	\$ -
Revenues / Profit sharing	\$ 26	\$ 11	\$ 4	\$ 2	\$ 9	\$ 1
Crowd-led Microfinance	\$ 18	\$ 22	\$ -	\$ -	\$ -	\$ -
Mini Bonds	\$ 14	\$ 6	\$ 43	\$ 60	\$ 36	\$ 24
BS Property Lending	\$ 10	\$ 2,250	\$ 1,378	\$ -	\$ -	\$ -
Other	\$ 3,00	\$ -	\$ 6,00	\$ 33.00	\$ 11.00	\$ -
Community Share	\$ -	\$ -	\$ 2,00	\$ -	\$ -	\$ -
Tot	\$ 9,941.00	\$12,233.00	\$7,731.00	\$3,799.00	\$2,283.00	\$1,132.00

127

As the graphs show, P2P remains the most widely used model in Europe. P2P/Marketplace Consumer Lending was the most relevant model for volume reach in Europe, with \$2,901 million derived from this model in 2020. Invoice Trading, raising \$2,016 million, was the second, followed by P2P/Marketplace Business Lending, representing \$1,844 million, and then Real Estate Crowdfunding, which raised \$822 million.

Balance Sheet Business Lending outperformed Consumer Purchase Finance/BNPL in 2020 with \$105 million versus \$57 million. Balance Sheet Property Lending is the segment that showed the largest decline in market volume, dropping from \$2,250 million to \$10 million. Almost all models showed an increase in market volume except for P2P/Marketplace

<sup>126</sup> Figure 15: University of Cambridge Judge Business School, *Above*, (2021)

All values are in millions of USD

<sup>127</sup> CPF(Consumer Purchase Finance)

Consumer Lending, Consumer Purchase Finance/ BNPL, Balance Sheet Property Lending and Crowled Microfinance.

P2P/Marketplace Consumer Lending, despite outperforming the other models also in 2020, showed a significant drop in market volume from USD 4,183 million to USD 2,901 million. This could reflect the reduced supply of consumer credit as a result of the uncertainties associated with the COVID pandemic. Models showing the most remarkable growth between 2019 and 2020 include Balance Sheet Business Lending by 216% and Donation Crowdfunding by 164%. Both may represent a parallel growing demand for both credit and social care funds through donation due to COVID. The real estate crowdfunding sector (hereinafter “RECF”) has recorded impressive increases reaching triple-digit growth to become the fourth model in Europe for alternative finance volumes. RECF is one of the models that have undergone the most remarkable growth and most importantly, it shows no sign of stopping. The combination of some macro factors such as a late real estate cycle, rising interest rates, and geopolitical uncertainty, has pushed investors to look for a secure income in the long term, and this has led to an increase in real estate investments. However, the growth rates of Real Estate Equity Crowdfunding are always positive, even if lower than RECF’s growth.

### **3.1.2 European legislation**

In order to achieve the objectives outlined in the treaties, the European Union may use different legislative acts. Some apply to all European countries, others are limited to certain countries, some are binding, and others are not. The main legislative acts are:<sup>128</sup>

- Regulations are applied to all member countries of the European Union and are binding.
- A directive is an objective to be achieved by all countries of the European Union; it is up to the different national countries to define how to achieve these objectives.
- The decisions are binding and are addressed only to certain countries or companies within the European Union.
- The recommendations are addressed to all member countries of the European Union. They are not binding and can be defined as guidelines or advice on specific topics.

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<sup>128</sup> [https://europa.eu/european-union/law/legal-acts\\_it](https://europa.eu/european-union/law/legal-acts_it)



- The opinion may be issued by the leading European institutions such as the Parliament, the Commission, or the Council. They are not binding but allow the European institutions to express their position.

Crowdfunding in Europe is regulated by “REGULATION (EU) 2020/1503 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 7 October 2020” amending the former Regulation (EU) 2017/1129 and Directive (EU) 2019/1937.

In these articles, this regulation establishes the uniform requirements necessary for the provision of crowdfunding services, emphasizes the importance and characteristics of prudent management, and defines prudential requirements. However, the various member states of the union introduced specific national regulations on crowdfunding, which differ from one another to adapt to the different national markets. The regulatory differences hinder the cross-border provision of crowdfunding services so determining a predominantly national development of crowdfunding services. Therefore, one of the objectives of this new legislation is to create a European passport for all equity and lending crowdfunding platforms to facilitate the development of platforms and businesses funds in all countries above local regulations.<sup>129</sup>

The new legislation brings with it several changes:<sup>130</sup>

- A cap of €5 million is imposed over 12 months, raising the threshold from 1 to €5 million per project.
- Investor protection is strengthened, especially for non-institutional investors, by providing for the supply of a key investment information sheet (KIIS), containing precise information on the risks and costs of the investment.
- In order to operate, equity crowdfunding platforms will need authorization from the competent national authorities, and subsequently, through a notification process, they can receive approval to operate in other member states of the European Union.

In addition to the regulation just described, crowdfunding in Europe is also subject to some regulations and directives:<sup>131</sup>

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<sup>129</sup> REGULATION (EU) 2020/1503 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 7 October 2020

<sup>130</sup> <https://www.crowdfundingbuzz.it/approvato-il-nuovo-regolamento-europeo-sul-crowdfunding/>

- Directive 2000/31/EC which regulates e-commerce in the European market,
- Directive 2006/114/EC which aims at harmonizing the different rules in order to combat misleading advertising,
- Directive 2005/29/EC which deals with unfair commercial practices and is fundamental to crowdfunding regulation because it protects consumers from misleading and aggressive crowdfunding practices,
- Directive 93/13/EEC which deals with unfair terms in contracts with consumers by protecting them from any contractual clauses or terms and conditions of crowdfunding platforms,
- Directive 2011/61/EU on Alternative Investment Fund Managers AIFMD,
- Directive 2004/39/EC, better known as Markets in Financial Instruments Directive (MiFID), regulating financial markets and instruments and subsequently updated with the MiFID2 directive,
- Directives 2007/64/EC and 2015/2366/EU known as Payment Services Directive 1 and 2 regulating payment systems,
- Directive 2006/112/EC which regulates VAT in all European countries,
- Directive (EU) 2015/849 which aims at preventing the financial market from being used to launder money,
- Regulation (EU) 2016/679, known as the General Data Protection Regulation (GDPR), which protects consumers by protecting their data and regulating the free movement of data.

There are exclusive European regulations and directives for equity-based crowdfunding and social lending:<sup>132</sup>

- a) Directive 2003/71/EC which deals with the prospectus to be presented for the admission to trading of securities or public offerings.
- b) Directive 2007/64/EC which deals with payment services in the European market.

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<sup>131</sup> <https://www.crowd-funding.cloud/it/le-direttive-europee-applicabili-al-crowdfunding-560.asp>

<sup>132</sup> <https://www.crowd-funding.cloud/it/le-direttive-europee-applicabili-al-crowdfunding-560.asp>

- c) Directive 2013/36/EC which regulates the prudential supervision to be carried out by credit institutions and their access to the market.
- d) Directive 2011/61/EC which concerns alternative investment fund managers.
- e) Directive 2008/48/EC which deals with consumer credit agreements.
- f) Directive 2002/65/EC which regulates the distance marketing of consumer financial services.
- g) Regulation (EU) No. 575/2013 which defines the prudential requirements for investment firms and credit institutions.
- h) Regulation (EU) No 345/2013 which deals with European venture capital funds.
- i) Regulation (EU) n. 346/2013 which relates to European funds for social entrepreneurship.

## **3.2 Crowdfunding in Italy**

### **3.2.1 Italian market overview**

For a better understanding of the Italian market, it is worth analysing the fifth and the sixth Italian report on crowd investing by the Politecnico di Milano.<sup>133</sup>

The last 12 months confirmed and reinforced the strong growth of the industry. Consob-authorized portals generated a flow of € 127.6 million from equity placements (of which € 34.3 million from RE portals) plus € 22.3 million from minibond placements. Lending portals contributed € 43.2 million in loans to individuals and € 310.6 million in loans to corporates (of which

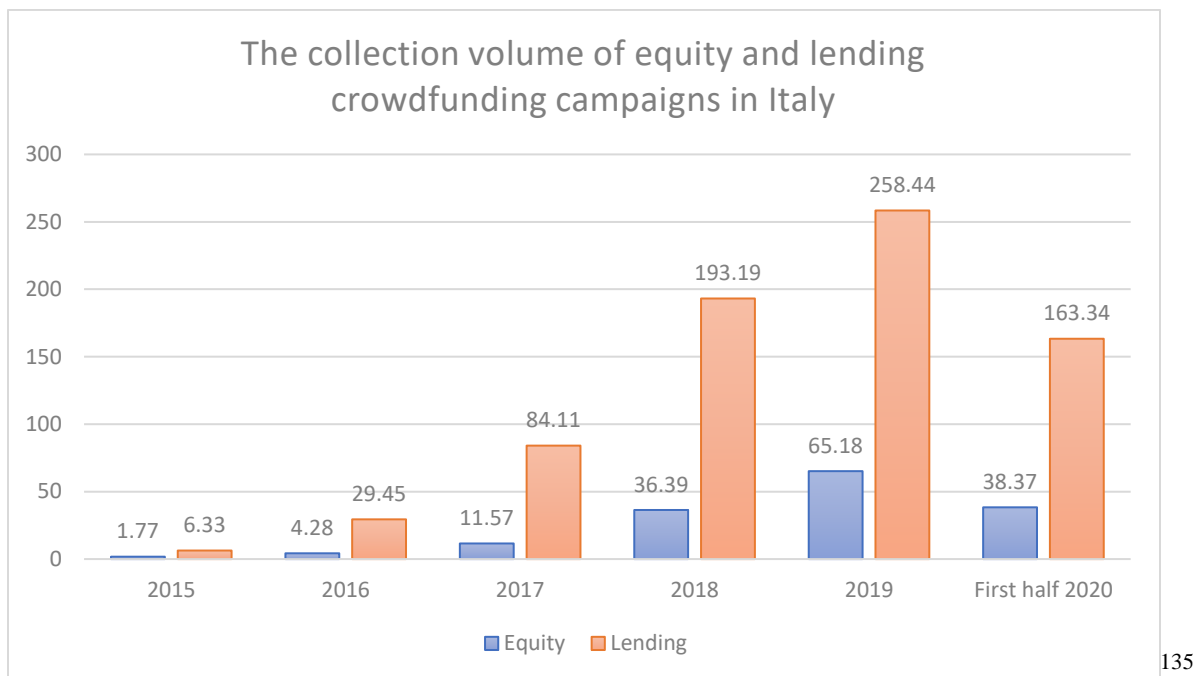
50.9 million from specialized RE portals). Therefore, total industry capital raised over the last year amounted to €503.7 million, up 172% on the previous 12 months<sup>134</sup>.

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<sup>133</sup> Politecnico di Milano 1863 School of Management, *5° Report italiano sul CrowdInvesting*, (2020)

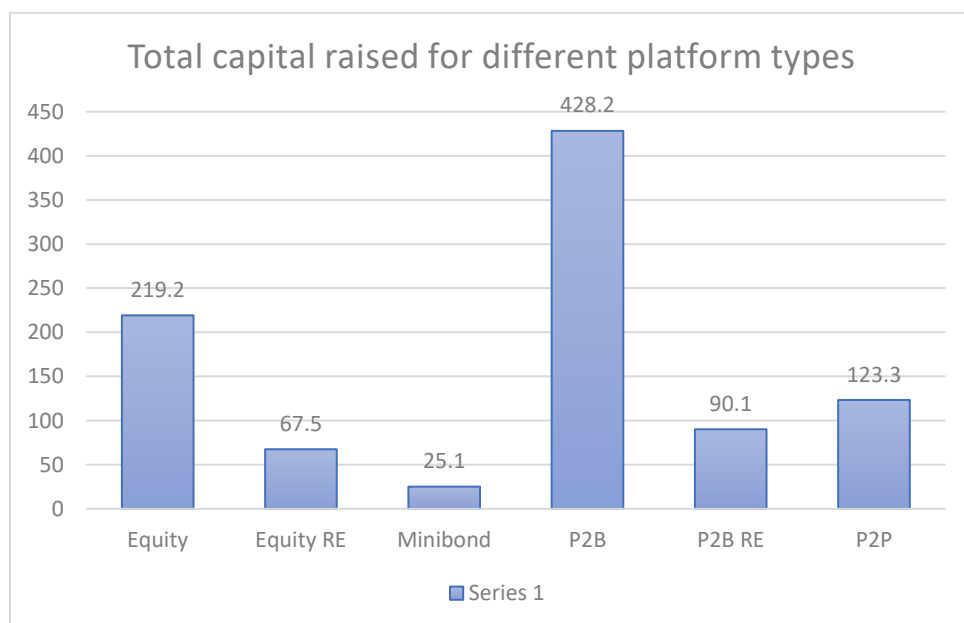
Politecnico di Milano 1863 School of Management, *6° Report italiano sul CrowdInvesting*, (2021)

<sup>134</sup> Politecnico di Milano 1863 School of Management, *6° Report italiano sul CrowdInvesting*, (2021)



As evidenced by the graph, over the years, crowdfunding in Italy has grown enormously.

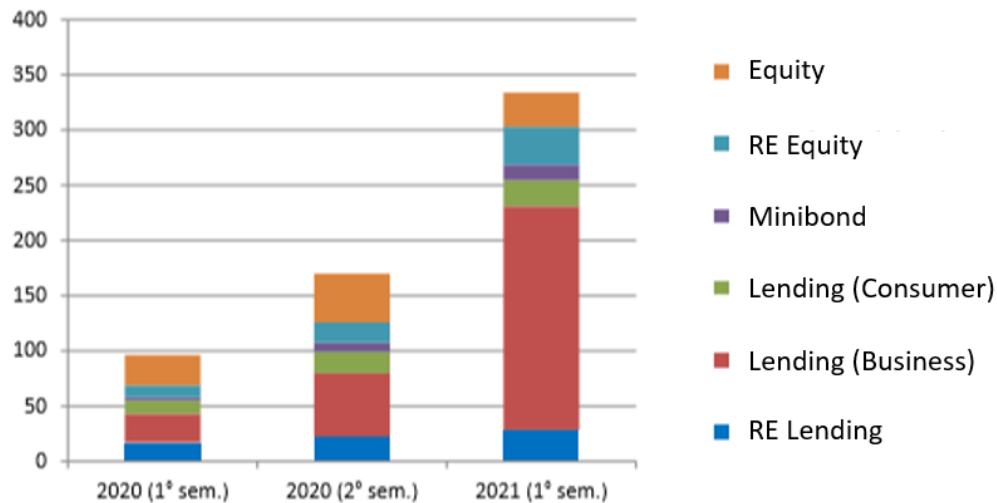
The following chart summarizes the total capital raised over the past year broken down by the various crowdfunding models<sup>136</sup>.



<sup>135</sup> Figure 16: Politecnico di Milano 1863 School of Management, *Above*, (2020). All data are in millions of euros, 2020 data are only for the first half of the year.

<sup>136</sup> Figure 17: Politecnico di Milano 1863 School of Management, *Above*, (2021). All data are in millions of euros

The following chart summarizes the capital raised in the last three semester<sup>137</sup>:



Equity crowdfunding by non-real estate platforms generated capital inflows of €93.3 million in recent months, up 63% on the previous period. Specialized RE platforms raised € 34.3 million, up 76%. Platforms authorized to place minibonds also raised €22.3 million and it is essential to note that this segment did not exist until the first half of 2020. P2P flows also continued to grow at double-digit rates, with €43.2 million disbursed in the last year, up 75%. Finally, the greatest growth was recorded in the flow from P2B platforms in the first half of 2021, which brings the flow of the last 12 months to € 259.7 million, up almost 500% compared to the previous period. The flow of loans on real estate portals also grew significantly by € 51 million, up 75%<sup>138</sup>.

Although platforms are fundamental element in crowdfunding, the Italian market is also characterized by other subjects that provide services to make the process more efficient. First, the structure of the platforms is usually developed and designed by external outsourcers. Above all, the payment system for backers is entrusted exclusively to gateway systems such as PayPal, credit card or bank transfer. Another category of essential parties is legal advisors, who offer legal advice for crowdfunding campaigns to explain the risks of litigation and civil liability to the proposer. A second type of consultancy is carried out on the development of the project, the

<sup>137</sup> Figure 18: Politecnico di Milano 1863 School of Management, Above, (2021).

<sup>138</sup> Politecnico di Milano 1863 School of Management, Above, (2021).

business plan, and the marketing campaign; this consultancy is usually done either by platforms or by specialized firms known to the proponent. There are specialized figures called “*CrowdAdvisors*”.

With the Consob Regulation, aimed at protecting and possibly insuring investors for damages caused to the client as the result of professional activity, insurance companies have also become part of the crowdfunding ecosystem. Platforms usually rely on authorized rating agencies to determine default risk.

In October 2020, Regulation (EU) 2020/1503 on European crowdfunding service providers (ECSP) - was published in the Official Journal of the European Union, introducing essential innovations both in terms of the authorization regime for platforms and in terms of the rules of conduct allowing cross-border operation of platforms in other European countries, under a European 'passporting' regime. The Regulation will come into force from November 2021 and will introduce a common framework for equity crowdfunding and social lending. The prospect of finally having a single regulatory framework for equity and lending in Italy, which will allow platforms to offer the full range of possible investments and the opportunity to reduce cross-border barriers is well received in Italy.

It is now up to the competent national authorities to implement the Regulation and harmonize it with national rules, amending them where necessary. Several relevant points still need to be resolved, in particular on how to divide the competencies on authorization and supervision between the Bank of Italy and Consob<sup>139</sup>.

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<sup>139</sup> Politecnico di Milano 1863 School of Management, *Above*, (2021).

### 3.2.2 Equity crowdfunding

#### 3.2.2.1 The regulation of equity crowdfunding

The following table summarizes the main legislative measures in equity crowdfunding that we will analyse in the next section.

Decree	Main innovations
Sviluppo-Bis	<ul style="list-style-type: none"><li>➤ innovative start-ups can raise capital through platforms authorized by Consob.</li><li>➤ Consob develops a specific regulation.</li></ul>
Decreto Investment Compact	<ul style="list-style-type: none"><li>➤ the discipline is also extended to SMEs and instruments specialized in innovative start-ups and SMEs.</li><li>➤ the option of dematerializing capital shares is introduced.</li></ul>
Legge di Stabilità 2017	<ul style="list-style-type: none"><li>➤ by using the EU definition of SMEs, the discipline is extended to all SMEs.</li></ul>
Legge di Bilancio 2019	<ul style="list-style-type: none"><li>➤ The prospect of placing mini-bonds is opened to crowdfunding platforms in a special section.</li></ul>
ESPC 2020	<ul style="list-style-type: none"><li>➤ Same regulation for equity and lending crowdfunding.</li><li>➤ European passport.</li></ul>

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Equity crowdfunding in Italy was introduced in 2012 by the Legislative Decree 179/2012 "*Decreto Sviluppo-bis*" converted into Law 221/2012. The decree aims to introduce significant innovations such as the concept of an innovative start-up and to encourage their development by raising venture capital via the internet.

Based on the decree, an innovative start-up is "*a joint-stock company, also established in the form of a cooperative, governed by Italian law or a Societas Europea, resident in Italy according to article 73 of Presidential Decree no. 917 of 22 December 1986, whose shares or quotas representing the share capital are not listed on a regulated market or a multilateral trading system*".<sup>141</sup> If companies meet the prerequisites laid down by law, they will be able to access the special section of the register of companies and take advantage of facilities and

<sup>140</sup> Figure 19: Politecnico di Milano 1863 School of Management, Above, (2020)

<sup>141</sup> <https://www.pmi.it/impresa/normativa/articolo/60842/start-up-innovativa-i-nuovi-requisiti-nel-dl-sviluppo-bis.html>

benefits within the first five years of incorporation. After this time, the start-up has the opportunity to continue to take advantage of the benefits by turning itself into an innovative SME.<sup>142</sup>The “*Decreto Sviluppo bis*” amended art. 30 of the Testo Unico della Finanza (TUF) by setting out certain specifics for equity crowdfunding:<sup>143</sup>

- 1) The raising of capital must be carried out through internet platforms managed by authorized banks and investment firms.
- 2) Innovative start-ups must carry out the campaign.
- 3) The loan application was not to exceed 8 million euros; however, this limit was modified in 2018 by “*Regolamento Emittenti*” Consob no. 11971/99.

Furthermore, the decree has delegated the task of regulating certain specific aspects to Consob to create a market that ensures trust and protects investors.

The Consob Regulation no. 18592 was published in June 2013 and determines some fundamental principles:<sup>144</sup>

- a) The requirements that platform operators must meet.
- b) The authorization process and penalties.
- c) The contact rules that must be respected by platform operators and the minimum information and risks that must be communicated to investors.
- d) A minimum quota of 5% of the total investment must be made by professional investors to provide small investors with a confirmation of quality of the investment.
- e) The obligation for the issuers to include tag-along clauses in the memorandum of association to guarantee the investor a way out if there is a change of control in the company.
- f) Investors can revoke their order within seven days if new facts occur during the purchase period.

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<sup>142</sup> <https://www.mise.gov.it/index.php/it/component/content/article?id=2025079>

<sup>143</sup> Politecnico di Milano 1863 School of Management, *Above*, (2020)

<sup>144</sup> Politecnico di Milano 1863 School of Management, *Above*, (2020)



Subsequently, in 2015, the law mentioned above was amended and expanded by Law Decree 3/2015 “*Investment Compact Decree*”, extending its scope beyond innovative start-ups to innovative SMEs, collective investment bodies of savings and joint-stock companies that invest predominantly in innovative start-ups and, finally, to tourism start-ups. Following this extension, obviously, Consob has seen fit to amend the pre-existing regulation by publishing new legislation in 2016. The main changes are:

- 1) The extension of the list of professional investors to facilitate the achievement of the 5% threshold, to include investors who regularly invest in crowdfunding and have developed a specific experience (business angels) or, for example, individuals with expertise in the administration of SMEs or start-ups.
- 2) An obligation is introduced for platforms to commence operations within six months of obtaining a license; failure to do so entails forfeiture of the license.
- 3) The platform is allowed to verify that the investor has the knowledge and skills to be aware of the risks involved in the investment for each order received.

In 2017, Law 232/2016, known as “*Legge di Stabilità*”, extended the possibility of financing through equity crowdfunding to all SMEs. It was the subsequent of D.L. 50/2017 known as “*Decreto correttivo*”. The abovementioned decree extended to all SMEs in the form of limited liability companies some of the regulatory provisions originally provided for innovative start-ups, which were then also provided for innovative SMEs, allowing all SMEs to offer shares to the public through equity crowdfunding portals.

The Legislative Decree 129/2017 also modified some rules of the TUF defining what is meant by SME and extended the list of managers to SGRs, SICAVs, and SICAFs.

After this legislative change, Consob had to update the regulation through Resolution No. 20264 of 17/1/2018; the main changes are:

- 1) The definition of the minimum requirements for the coverage that the platform must have at the overall and single investment level is added.
- 2) The platform can surrender its authorization to operate in the market voluntarily.

- 3) Conflict of interest rules are strengthened for managers who wish to raise capital on their platform.
- 4) The reduction of the threshold of capital raised from qualified investors from 5% to 3% for SMEs by taking possession of the certification of the financial statements and any consolidated financial statements relating to the two years before the offer.
- 5) The definition of whistleblowing policies.
- 6) The extension to all SMEs of the rules that were previously reserved exclusively for innovative SMEs.

Law 145/2018, known as “*Legge di bilancio per il 2019*”, allows equity crowdfunding platforms to place SME bonds; paragraph 238 of Article 1 of the abovementioned Law introduced a new paragraph 1-ter to Article 100-ter of TUF, providing that these bonds can only be offered to professional investors and special categories of investors identified by Consob. The bond offered by the platforms must be placed in a special section of the online platform different from the venture capital section. As has happened with all the laws mentioned so far, their implementation is the responsibility of Consob, which has updated the existing Regulations with Resolution 21110. With this new amendment to the regulation, Consob has specified that only SpA bonds can be placed by equity crowdfunding platforms, and only those that are part of the following categories can invest:

- a) Non-professional investors with a portfolio of financial instruments, including cash deposits of € 250,000 euros certified by a bank or broker.
- b) Non-professional investors who invest at least €100,000 in an offering and declare in an additional document that they are aware of the risks.
- c) Non-professional investors in the provision of portfolio management or investment advisory services.

However, this change to the regulation has created a disparity between equity crowdfunding platforms and debt crowdfunding platforms, which can also host debt collection campaigns but do not have to comply with the restrictions listed above.

It should be noted that with D.L. 34/2020 known as “*Decreto Rilancio*”, in response to the crisis triggered by the Covid-19, the rate for tax deductions is raised to 50% for individuals who invest in innovative start-ups and SMEs to a maximum of €100,000 if they will maintain the investment for at least three years.

### **3.2.2.2 The equity crowdfunding platforms**

According to the fifth report on crowdfunding in Italy by Politecnico di Milano<sup>145</sup>, as of June 30, 2021, there were 51 platforms authorized by Consob. The number of portals authorized by Consob in Italy continues to grow. In 2021, there were 9 more than in the previous year. Over the last year, 12 new authorisations have been granted and 3 companies have withdrawn from the register.

However, the number of platforms is relatively high compared to the size of the market and other European markets.

Platforms can be divided into different groups with different evaluation methods:

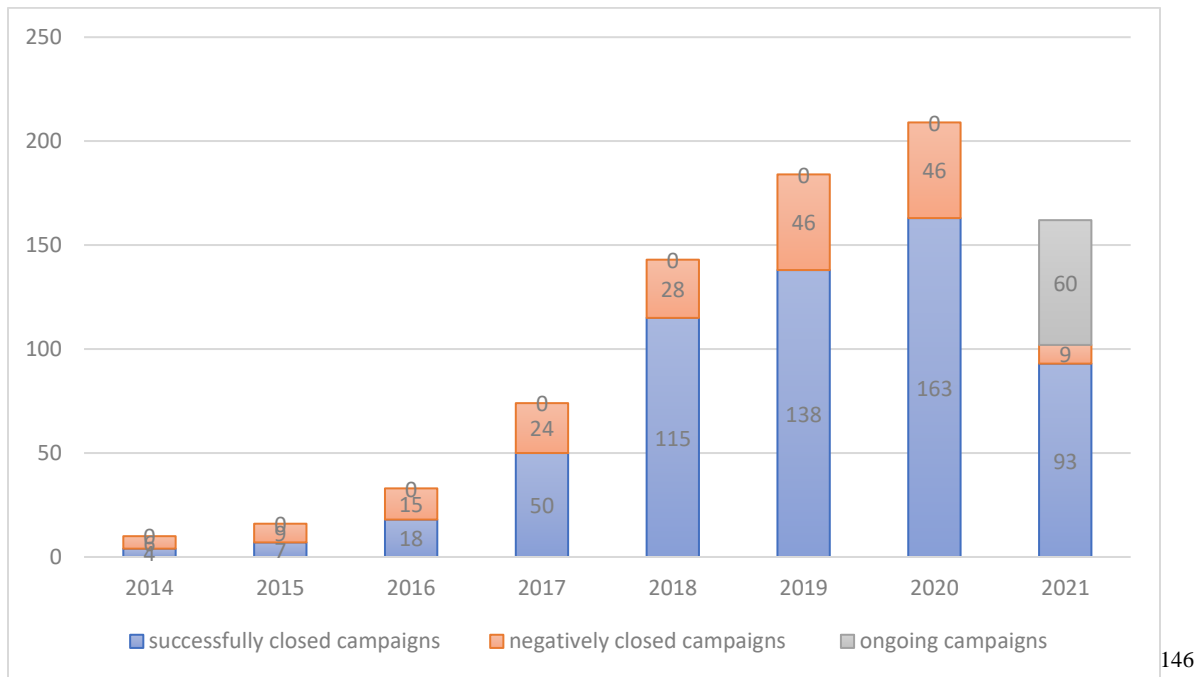
- The first distinction is defined by the sector in which the platforms operate; some platforms are generalist platforms and others specialize in specific sectors. The primary sectors are: real estate, life sciences, energy, and impact finance.
- The second element of distinction can be defined by the type of investors they address; almost all platforms aim at all investors. However, there are two platforms *Clubdealonline.com* that only allows a closed group of investors, who pay an annual fee, to invest, and *Doorway* whose campaigns are visible to all, but only selected investors can access the information necessary to invest (business plan, evaluation, and target collection).

In 2020 the target goal was reached by 78% of the campaigns, and the campaign closed successfully. The number of campaigns is constantly growing, as is the number of platforms; however, most campaigns are carried out on a small number of platforms, the six largest platforms absorb 74% of new campaigns. The success rate of the campaigns is a confirmation

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<sup>145</sup> Politecnico di Milano 1863 School of Management, *Above*, (2020)

of the continuous growth and maturation of the market: from 2014 when it was less than 50%, it has improved progressively in 2018 it was around 80%, and in 2019/2020 82%.



The target of capital to be raised is defined by the company, which decides the minimum threshold below which the campaign is unsuccessful and the maximum threshold, so the actual capital raised can be between the minimum and maximum thresholds. In analysing the target, a distinction is made between real estate projects and non-real estate projects. This is because real estate projects usually tend to have higher raising targets. In the first half of 2020, the average target for real estate projects was €1,340,625, while the average target for non-real estate projects was €190,840.

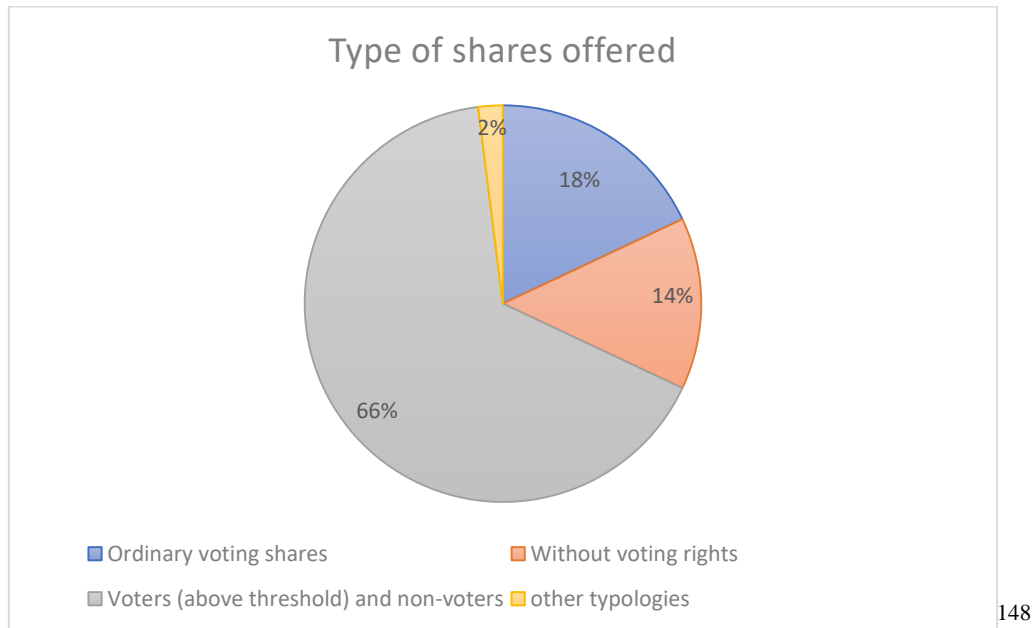
Amount of capital offered	Average	Median	Minimum	Maximum
From 2014 to 2021	9.23%	5.41%	0.05%	99.56%

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<sup>146</sup> Figure 20: Politecnico di Milano 1863 School of Management, *Above*, (2021)  
2021 campaigns are just the first half of the year, the success rate was about 92%

<sup>147</sup> Figure 21: Politecnico di Milano 1863 School of Management, *Above*, (2021)

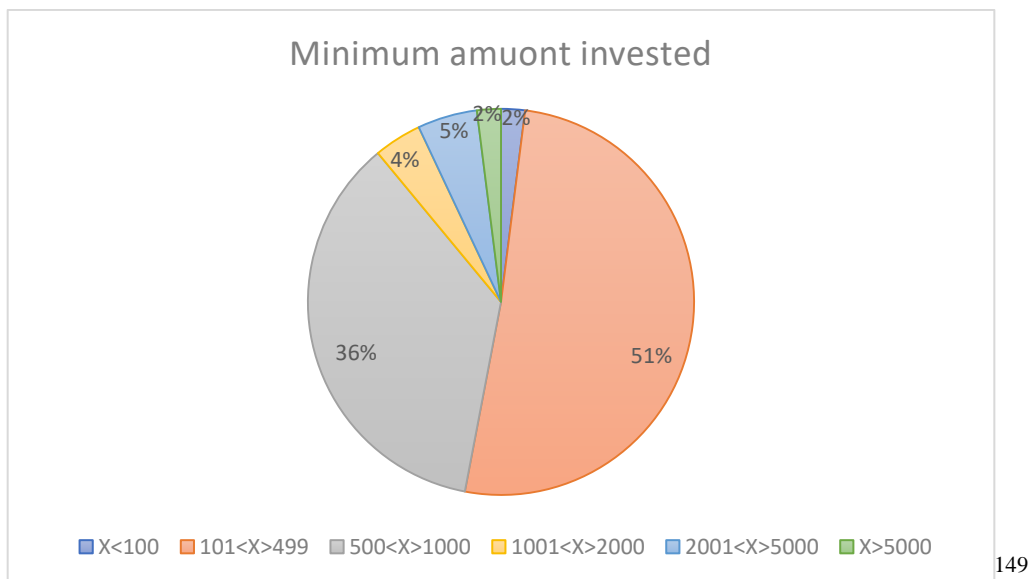
Regarding the share of capital offered, the variance is very high from 0.05% to 99.56% of capital offered; it is important to underline the fact that the percentage of capital provided may be different from what is reported in the statistics because the share of the money raised may be lower or higher than the target.



Regarding the type of capital offered in the 66% section, these shares do not provide voting rights if the investor invests small amounts while offering them to those who invest more. Only in 18% of cases were ordinary shares provided and 14% for units without voting rights.

The data on the minimum amount invested in the campaigns vary from less than €100 euros to even more than €5000 euros; however, it is between €100 and €1000 euros in most cases.

<sup>148</sup> Figure 22: Politecnico di Milano 1863 School of Management, *Above*, (2021)



### 3.2.2.3 Data and information on companies that have carried out an equity crowdfunding campaign

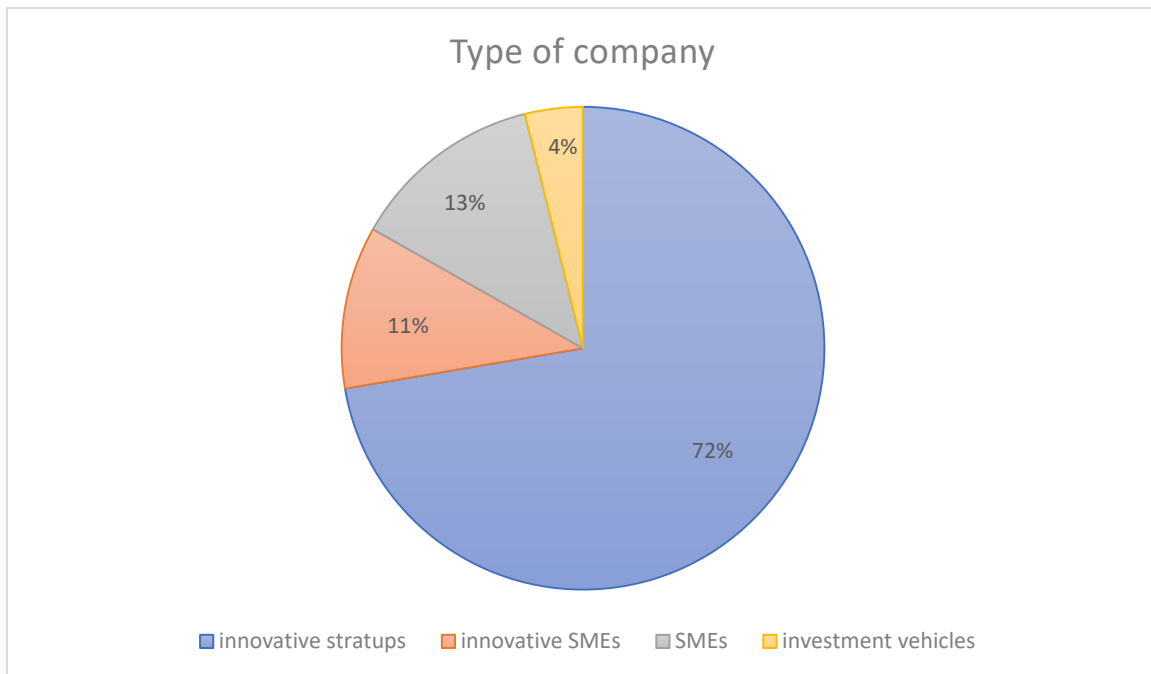
Previously we said that the campaigns conducted since 2014 were 831; however, the companies that have carried out the campaigns were 742 because some companies have conducted more than one campaign at different points in time and on different platforms. These companies can be divided into innovative start-ups, innovative SMEs, SMEs, and investment vehicles. In the last 12 months, innovative start-ups have always dominated the market representing 57%, but the other types of companies are progressively gaining space; innovative SMEs represent 14%, SMEs 17%, and investment vehicles 12%.

The following graph illustrates the different types of companies from 2014 to the first half of 2020<sup>150</sup>.

<sup>149</sup> Figure 23: Politecnico di Milano 1863 School of Management, *Above*, (2020)

X represents the minimum capital invested

<sup>150</sup> Figure 24: Politecnico di Milano 1863 School of Management, *Above*, (2020)



The companies that have carried out an equity crowdfunding campaign number 742 and analysing the outcome of the campaign and what has happened at its conclusion, we can divide them into three groups:

- 1) The companies that have been successful with the first equity crowdfunding campaign are 511: 4 have registered the exit through the stock exchange listing, 6 have increased their capital reserve, 5 campaigns have been crowned with success thought an M&A transaction, 14 liquidated real estate project, 53 have closed a second real estate campaign successfully, 407 companies are still active, 5 have their second campaign still running, 3 have closed the second campaign without success; only 14 companies have been put into liquidation.
- 2) Companies that have not yet completed their equity crowdfunding campaign as of 30/6/2021 are 53.
- 3) The companies that have unsuccessfully closed their first equity crowdfunding campaign are 178, however 4 of these were able to close a second campaign successfully; 133 are still active; 1 had the second campaign closed with no success and 40 are in liquidation.

Regarding the turnover data of the companies one year before, the same year and the year after the campaign, it is possible to divide companies into two groups: a first group that fails to generate revenues and a second group that starts to generate a series of increasing revenues from the campaign.

Analysing the different profitability indicators illustrates the following:

- Earnings Before Interest Taxes Depreciation and Amortization (EBITDA): we have two different groups of companies, on the one hand, those that increase their margins from the first year and, on the other hand, companies that continue to have very high costs and consume cash.
- Revenues from turnover: the previous distinction between two categories of companies is confirmed: the first group shows increasing turnover volumes and the second group continues to have zero revenues.
- Net profit: the number of profitable companies remains unchanged; all this lack of growth can be attributed to the significant investments made by developing companies.

However, the worst figure is represented by the turnover forecasts contained in the business plan of the campaign compared to the turnover achieved in the following years. Of the 151 companies set up between 2014 and 2018, only a small part succeeds managed to achieve success, while most failed to achieve their goals and meet expectations.

### **3.2.3 Lending crowdfunding**

#### **3.2.3.1 The regulation of lending crowdfunding**

The Bank of Italy authorized the first lending crowdfunding operators to operate as financial intermediaries. However, with the entry into force of Legislative Decree 11/2010, which implemented the Payment Services Directive and allowed the Bank of Italy to construct a better regulatory framework in which lending crowdfunding platforms operate, the aim was to create a new type of operator, not necessarily from the financial sector, active in the execution of payment orders defined as “*Payment Institutions*”. Payment institutions must comply with specific provisions set out in the Civil Code, the Consolidated Banking Act (TUB), Resolution 1058 of 19/7/2005 of the CICR, and the prudential supervision provisions issued by the Bank



of Italy for payment institutions. In Italy, there is no ad hoc legislation for those involved in lending-based crowdfunding. However, actors have to comply with regulating the different fields of activity, including the collection of savings from the public, banking, the provision of loans to the public, credit mediation and the provision of payment services. Therefore, in Italy, all companies managing lending-based crowdfunding platforms are in most cases authorized to operate as payment institutions, thus ensuring a clear separation between the assets of the company and those of the investors. The decision not to draw up an ad hoc regulation for this type of activity depends, in most cases, on the assumption that the size of the market is not such as to justify it and that it could constitute an excessive burden for the companies operating the platforms, jeopardizing the ability of the lending-based crowdfunding platforms to manage in the long term. Platform companies, thus compromising their growth potential. In those countries that have chosen to draw up a specific regulation, it has been considered that this will contain more effectively the risks peculiar to Lending-based crowdfunding and encourage the development of these activities by providing platforms with a specific regulatory framework<sup>151</sup>. The supervisory body is the Bank of Italy.

In 2016, the Bank of Italy published Resolution 584/2016 introduced the first piece of legislation governing peer-to-peer lending or social lending or lending-based crowdfunding. The resolution mentioned above defines social lending as "an instrument through which a plurality of subjects can request from a plurality of potential lenders, through online platforms, funds that can be reimbursed for personal use or to finance a project". Lenders and borrowers can be either natural or legal persons.

Regarding loans, these are usually fixed-rate loans, which provide for the payment of installments consisting of a capital share and an interest share. The maximum amount payable is not specified in the resolution. The duration of the loan usually varies from 1 to 60 months. The interest rate recognized on loans is established in different ways:

the parties define the economic conditions amount, duration, and interest, then the platform composes the loan with the present offers and the borrower decides whether to accept it or not;

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<sup>151</sup> Marcello Bofondi, *Il lending-based crowdfunding: opportunità e rischi*, Banca d'Italia, (2017)

the platform assesses the borrower's creditworthiness and assigns a rating; the interest rate is set based on the rating. The intermediary plays a different role than in traditional systems. In the latter, the intermediary collects funds and decides how to commit them based on ratings. In the case of peer-to-peer lending, on the other hand, we see a sort of disintermediation of the lending process: the role of the platform is only to put borrowers and lenders in contact with each other, and it is then the latter who decide autonomously on the allocation of resources. However, over time, there has been a shift in the platform's role, moving more towards traditional intermediation at the expense of peer-to-peer character. Article 11(2) of the Consolidated Law on Banking prohibits the activity of collecting savings from the public for entities other than banks, subject to the exceptions provided for in the same Article. As regards platform operators, it does not constitute a collection of savings from the public: the receipt of funds to be placed in payment accounts used exclusively for the provision of payment services by the managers themselves, if they are authorized to operate as payment institutions, electronic money institutions, or financial intermediaries according to Article 106 of the Consolidated Banking Act authorized to provide payment services under Article 114-novies, paragraph 4 of the Consolidated Banking Act. Therefore, managers will be subject, among other things, to the authorization and prudential supervision rules applicable to the category of regulated entities to which they belong.

On the other hand, as far as borrowers are concerned, it does not constitute the collection of savings from the public: the acquisition of funds on the basis of personalised negotiations with individual lenders. Negotiations can be considered personalized when borrowers and lenders can influence by their own will the determination of the terms of the contract concluded between them and the portal operator merely performs a support activity. In the context of contractual arrangements, it should be noted that an essential element for the crediting and redemption of funds transferred between lenders and borrowers is the opening of a payment account. This means that the conclusion of a peer-to-peer lending contract involves the formulation of a complex contractual situation. In fact, alongside the loan contract between

borrower and lender, we have a payment services contract that the platform operator signs with borrowers and lenders<sup>152</sup>.

In addition, Law 205/2017, known as the “*2018 Budget Law*”, brought interest from peer-to-peer lending investments back into the category of capital income, and as such, subject to a 26% withholding tax, removing it from a marginal personal income tax regime of 23% to 43%. Previously, this income was subject to IRPEF taxation according to the taxpayer's marginal rate depending on his income. However, this withholding tax may only be levied by registered financial intermediaries or by a payment institution, whereas portal operators acting as agents for another third-party payment institutions are excluded.

The development of this new type of access to credit can bring benefits to both fund-seekers and lenders. As far as the former is concerned, it allows a reduction in financing costs and waiting times for the granting of credit through online processing and the complete digitalization of services. It also provides access to finance for smaller amounts, which traditional lenders may not be willing to grant because of high fixed costs and allows businesses to broaden and diversify their sources of finance. As far as lenders are concerned, again, reduced operating and financing costs lead to higher returns. It also gives investors access to a market such as a consumer credit and SME credit, offering an alternative to traditional asset classes and portfolio diversification.

The most significant risk is, of course, the possibility of default by borrowers. Platforms do not usually participate in investments with their capital, so they do not bear the default risk of borrowers. In this case, the platforms provide a debt collection program that can be paid by both the lender and the borrower, depending on the platform's rules. To reduce the risks, some platforms allow selling the credit against payment by creating a secondary market<sup>153</sup>.

### **3.2.3.2 The lending crowdfunding platforms**

As of 30 June 2021, 28 platforms were operating in Italy, 6 P2P and 22 P2B. It is interesting to note that the number of P2P platforms has remained unchanged since 2020 while the number of

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<sup>152</sup> <https://www.iusinitinere.it/peer-to-peer-lending-una-nuova-frontiera-per-il-credito-11261>

<sup>153</sup> <https://www.iusinitinere.it/peer-to-peer-lending-una-nuova-frontiera-per-il-credito-11261>

P2B platforms has doubled.<sup>154</sup> One of the most innovative platforms is *Italy Crowd Srl*, which has announced the opening of a real estate crowdlending portal using blockchain technology.

In lending crowdfunding, unlike equity crowdfunding, lenders do not necessarily choose to whom they lend money; in some cases, it is the platform that selects the lender based on the investor's preferences. Therefore, in lending crowdfunding, there are two business models: "widespread" and "direct".

In the widespread model, there is the active participation of the platform, which decides where to allocate the money; the investor provides a given amount of money by providing information about the expected interest rate, the amount to be invested, and his attitude to risk. Once this information is acquired, the platform will choose and invest in the projects that meet the investor's requirements. Once the platform has selected the projects and lent out the investor's money, the investor can request all the information. The repayments of capital that are not expressly requested by the investor are reinvested in new projects, always following the investor's specifications.

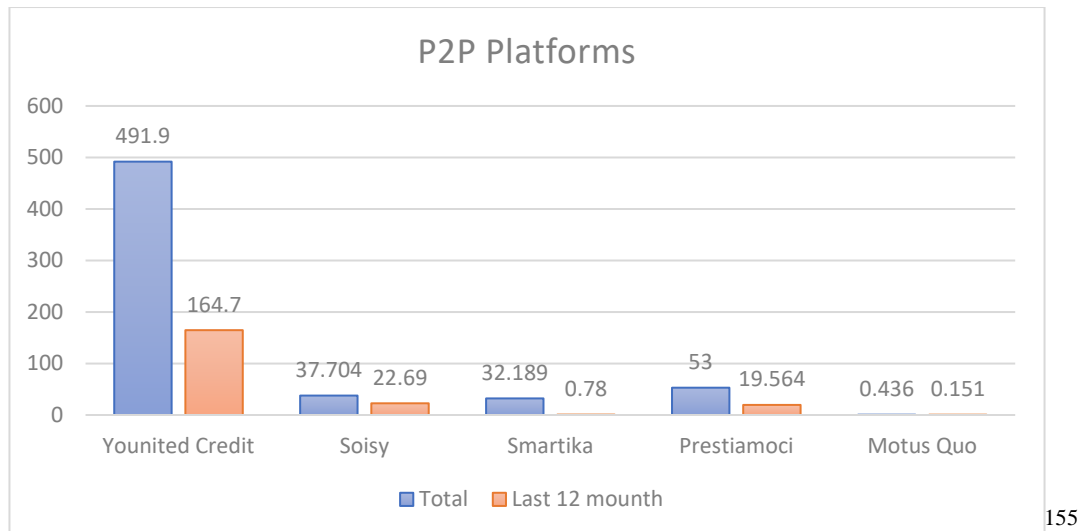
On the other hand, in the direct model, the investor immediately has all the information about the applicant and the various projects. This model exposes the investor to a greater risk of insolvency because the diversification effect of the portfolio made by the individual investor compared to that made by the platform is very time-consuming for the lender and not automatic. In this model, the platform carries out the activity of pre-selecting projects.

As far as P2P platforms are concerned, the minimum and maximum investment thresholds are similar. Concerning the duration of the investment, depending on the platform, it can vary from a minimum of 3 months to a maximum of 84 months. In addition, some platforms have created an investor protection fund, which is paid for by the investors and therefore increases the cost of capital, but also makes the investment safer. The characteristics of those who can be financed are: (i) age between 18 and 75 years, (ii) a verifiable income and (iii) must not have previous defaults.

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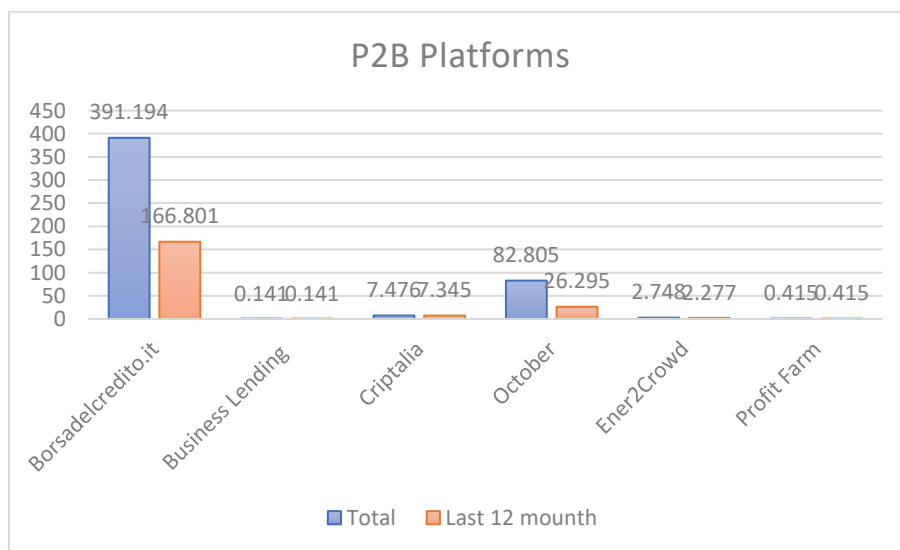
<sup>154</sup> Politecnico di Milano 1863 School of Management, *Above*, (2021)

The following graph shows the funding streams provided by P2P platforms in Italy.



Due to the large number of RE platforms, it is appropriate to divide P2B platforms into RE platforms and non-RE platform.

The following graph describes the volumes of all non-RE platforms<sup>156</sup>.



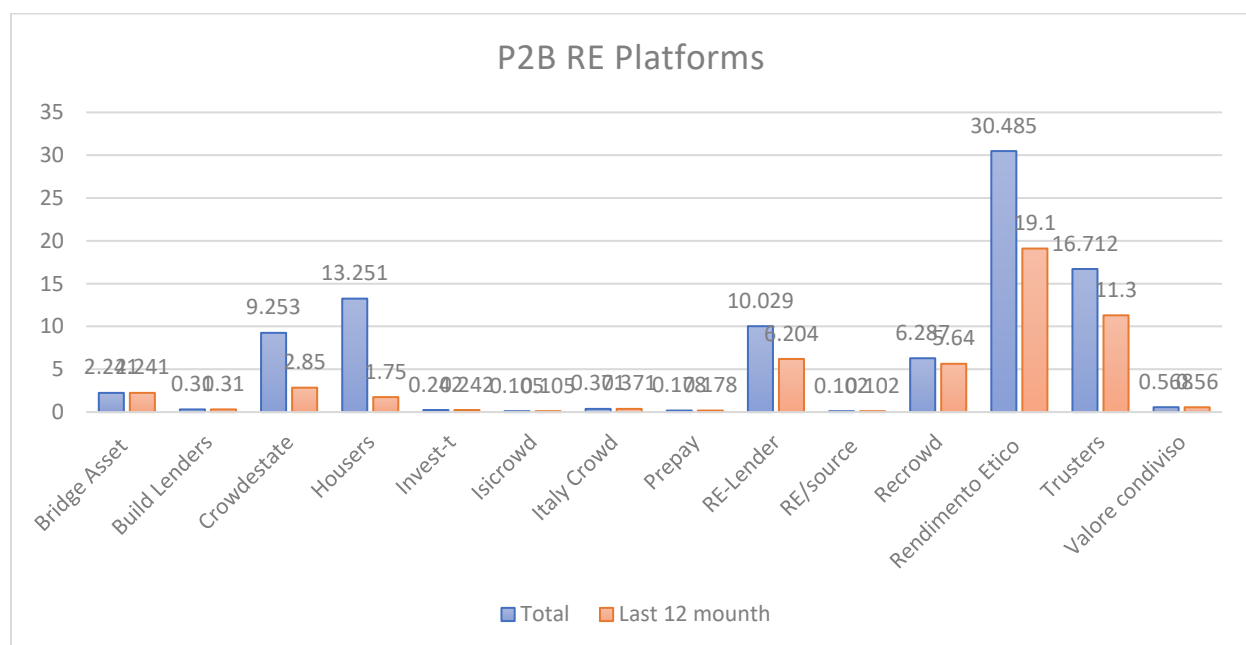
<sup>155</sup> Figure 25: Politecnico di Milano 1863 School of Management, *Above*, (2020)  
All data are in millions of euros

<sup>156</sup> Figure 26: Politecnico di Milano 1863 School of Management, *Above*, (2021)

The total accumulated value is € 428.2 million, with a contribution of € 259.7 million in the last year. On a like-for-like basis with the previous year, funding was € 52.1 million; therefore, there has been strong flow growth (+398%).

The market leader is *BorsadelCredito.it* with a cumulative figure of € 391.2 million and a flow of € 166.8 million in the last year. *October* follows with a total of € 82.8 million; however, the figure relates only to Italian companies, and € 26.3 million was disbursed in the last year.

While the following graph describes the statistics of the RE platforms<sup>157</sup>.



The total accumulated value of loans is € 90.1 million, of which € 51.0 million in the last year. There was a flow of € 29.2 million in the previous period, so the increase is 75%.

The leading platform is *Rendimento Etico*, with € 30.5 million in assets, of which € 19.1 million was accumulated in the last year, followed by Trusters. Several platforms have only been operational for a few months, so their metrics are still limited.

### 3.2.4 The real estate crowdfunding platforms

There are three types of platforms in the real estate sector equity, lending, and hybrids, the latter being little used.

<sup>157</sup> Figure 27: Politecnico di Milano 1863 School of Management, *Above*, (2021)

### 3.2.4.1 The real estate equity crowdfunding platforms

As of 30 June 2021, the date of the report, there were 4 real estate equity crowdfunding platforms operating in Italy: *Build Around*, *Concrete Investing*, *House4Crowd*, and *Walliance*. The total capital raised by these platforms was € 34.32 million. While the cumulative total is € 67.48 million, it is essential to note that more generalist platforms also submitted real estate projects.

	Build Around	Concrete Investing	House4Crowd	Walliance
campaigns published	4	12	1	30
€ average capital target	500,000	1,782,500	550,000	1,450,00
€ total capital raised	2,000,000	21,390,000	550.000	43,500,000
Project location	Milan, Florence	Milan, Bergamo	Milan	Lombardy, Sardinia, Tuscany, Trentino-Alto Adige, Veneto, USA
campaign success rate	100%	100%	100%	100%
realized exits	2	4	-	6

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*Build Around* has only published four campaigns: the first in December 2019. Two projects have already been completed with a gross return generated for investors of 11% in one case and 14% in the other. The management team is composed of Luigi Orlando (CEO), Stefano Angelini (CFO), Marco Ravetta, Leopoldo Orlando, and Matteo Pedroni.

*Concrete Investing* published its first campaign in December 2018; by 30 June 2021, it had completed 12 campaigns, raising €21.39 million. The minimum amount of participation in campaigns is higher than other platforms and is €5000, with the exception of one campaign where the minimum investment was 10,000. Four exits were registered with an IRR between 8.7% and 11.9%.

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<sup>158</sup> Figure 28: Politecnico di Milano 1863 School of Management, *Above*, (2020)

*House4Crowd* the Management is entrusted to *4Crowd SpA*, an innovative start-up with the participation of professional investors. At the date of the report, it had only concluded one campaign, raising €550,000.

*Walliance* was the first Italian real estate equity crowdfunding platform authorized by CONSOB and was founded in 2017. It is a family-owned holding company. As of the day of the report, it had completed 17 campaigns raising €43.5 million. In the 6 projects completed as of 30 July 2021, they have reported an ROI between 7.33% and 14.37%. *Walliance* is the only Italian platform to expand into foreign markets (France).

### **3.2.4.2 The real estate lending crowdfunding platforms**

At the date of the report, 14 lending crowdfunding platforms were operating in Italy: *Bridge Asset*, *Build Lenders*, *Invest-t*, *Isicrowd*, *Italy Crowd*, *Prepay*, *Recrowd*, *Re-Lender*, *Rendimento Etico*, *Trusters*, *Re/Source*, *Valore Condiviso* and the foreigners *Housers* e *Crowdestate*.

*Bridge Asset* was founded by Alberto Dente and has been operational since 2020. The minimum investment amount is € 500. As of 30/6/2021, the portal had carried out 8 campaigns, all in Lombardy, raising € 2.24 million.

*Build Lenders* was founded by Oreste D'Ambrosio, Alessandro Bortolani and Fabio Francesco Franco. It relies on the payment institution Lemon Way<sup>159</sup>. The minimum investment amount is €300. It has become operational in 2021 and it has financed 2 projects, raising €310,000.

*Invest-t* was designed by Francesco Perino, Teddy Corso and Michele Bonacina. The minimum investment to get started is € 500. This portal has also been operational for a few months and has concluded 4 campaigns, raising € 241,500. One of these has already been fully repaid.

*Isicrowd* focuses on projects in southern Italy in tourist contexts and has a meager minimum initial investment for investors of €50. The portal is managed by the innovative startup

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<sup>159</sup> Lemon Way is an authorized payment institute created to simplify even the most complex payment transactions, explicitly designed for marketplaces (B2B, B2C and C2C) and crowdfunding platforms: it integrates multiple payment methods. It enables its partners to receive payments from anywhere in the world.



Easycrowd Srl was founded by Antonio Ottaiano. It has so far proposed a project in Naples, raising € 105,000.

*Italy Crowd* is decidedly focused on technology and proposes itself as a 'native blockchain' platform, also thanks to the partnership with the Swiss company Swiss Crowd SA<sup>160</sup>, which is present in the capital of the managing company and that will be the protagonist of an equity crowdfunding campaign on the *Opstart* portal in 2020. All transactions submitted on the platform are entered in a decentralized and unalterable register. The registry data of the operations and the lending conditions are freely available in a special section of the portal in a simple and freeway. *Italy Crowd* operates with an original model that allows only 20 investors to join a real estate project. Until 30<sup>th</sup> June 2021, it has raised 5 projects with assets of € 371,000.

*Prepay* is a leading crowdfunding platform founded by Antonio Fasanella and Pierluigi Benemerito, which operates in Italy as a MangoPay<sup>161</sup> Electronic Money Institute distributor. The first three projects proposed concern energy redevelopment projects on properties located in Lombardy and Calabria; the collection amounted to € 177,750.

*Recrowd* operates as an agent for the payment institution Lemon Way. The company was founded by Gianluca De Simone, Simone Putignano and Massimo Traversi. The company also conducted an equity crowdfunding round on the *Opstart* portal, raising € 418,880, with a pre-money valuation of over € 3 million. Up to 30 June 2021, it raised € 6.29 million from 34 projects related to urban renovations. The basic annual interest rate of the loans is between 7% and 15%.

*Re-Lender* is a platform specializing in industrial, ecological, real estate and technological conversion. Its projects are in different categories:

- RE-Urban, urban reconversions
- RE-Green, Ecological Conversions

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<sup>160</sup> Swiss Crowd is a company specialising in Fintech, Blockchain and Cryptocurrencies.

<sup>161</sup> aims to simplify payments in different currencies and with different payment methods by automating all payment flows and commissions

- RE-Start, Corporate Financing to SMEs
- RE-Convert, Industrial Conversions
- RE-Build, Real Estate Conversions.

In total, it has launched 20 projects in 6 different regions. Eighteen projects provide for full loan amortization at maturity (bullet), and three have already been repaid.

*Rendimento Etico* is managed by *Rendimento Etico Srl*, a 100% subsidiary of *Case Italia Srl*. As can be seen from the name, the platform also has the ethical purpose of providing support to those experiencing financial difficulties, restructuring mortgage debts contracted by individuals and businesses that have difficulty honouring their commitments, and therefore risk foreclosure. *Case Italia Srl* conducts negotiations before the property is put up for auction. At the end of the negotiation, *Case Italia Srl* buys the property and takes over the residual debt without recourse or security over wages or pensions. Therefore, the objective is to pay the debts by restructuring and selling the property, allowing people who have experienced a moment of difficulty to start afresh. In some cases, it intervenes in the judicial auction of property projects still to be completed, completing them, and awarding a bonus to any construction companies damaged by the builder's failure.

As of 30 June, 2021, *Rendimento Etico* had raised € 30,484,850 from 77 projects and was the real estate lending platform that issued the most loans in the last 12 months, € 19.1 million in 35 projects. There are 15,601 active investors.

*Re/Source* is one of the latest platforms on the market; it is an agent for the payment institution Lemon Way. It has currently closed a project located in Tortoreto (TE), raising € 102,000.

*Trusters* is the first Italian platform in terms of size operating in the lender segment since December 2018. Its main feature is the short duration of the loans, ranging from a minimum of 6 months to a maximum of one year. The first funded projects are located in Milan, but it has subsequently expanded to all neighbouring provinces. It allows investors to have data stored and tracked with blockchain technology in the portfolio. The minimum investment is €100 and enables the loan to be personalized. As of 30 June 2021, the platform had raised € 16.7 million

from 139 projects, of which 88 were completed in the last 12 months the sum of € 10.3 million. In addition, 56 projects have been repaid in full.

*Valore Condiviso* project was conceived and realized by Alberto Papa. The platform takes a close look at the impaired loans market and proposes solutions to lenders that aim to restore value to foreclosed properties and resolve the debtors' financial situation sustainably. The minimum investment required is € 500. By June 30, 2021, the platform had raised € 568,000 from 5 campaigns located in Milan and Monza.

*Housers* is the first foreign lending crowdfunding platform in Italy in terms of volume. It started as a hybrid platform offering both lending and equity investments, but since 2017 it has only provided lending investments. It is a Spanish platform that initially only offered projects located in Barcelona and Madrid, but then, it has expanded its offering across Europe. In 2017, it entered both the Italian and Portuguese markets. At the European level, from its foundation to the first half of 2021, it has financed projects worth € 125 million. It offers 3 different types of investment for Italian projects:

- "Savings" with a long-term objective and projects lasting 5 to 10 years with agreed and compound interest. The total return is composed of rents plus the sale of the property, which can generate an upside.
- "Investment" with a short-term objective: projects are financed with a duration of 12 to 24 months for the renovation or construction of buildings and their subsequent sale. There is no monthly interest, so the profit comes from the capital gain made from the sale, so the investor shares the project's risks.
- "Fixed rate" are short-term loans of 12 to 36 months for new constructions with a fixed monthly return.

All three models give the investor the possibility to sell their share of the investment before maturity in a secondary market within the platform.

*Crowdestate* is the second foreign lending crowdfunding platform in Italy in terms of volume; it was born in Estonia in 2014 as a hybrid platform that later focused exclusively on the lending

sector. In 2018 it funded the first project in Italy, in Lombardy, and after that in other Italian regions. It is the only platform operating in Italy in which investors can invest in a fully automated way. The investor selects the parameters and his investment preferences, and the platform will choose among the various projects those that meet the investor's preferences and creates a diversified portfolio to reduce the risk. Like *Housers*, it provides a secondary market for the purchase and sale of credits between investors. The money raised by the platform amounted to € 9.2 million and was used to fund 43 completed projects in Italy until 30/6/2021. In the last 12 months, 18 projects were financed for an amount of € 2.85 million.

### 3.3 Crowdfunding in Spain

#### 3.3.1 Spanish market overview

To learn about the Spanish crowdfunding market, it is worth analysing the annual report of the Universidad Complutense de Madrid in collaboration with the Universidad de la Republica Uruguay, “*Financiación Participativa (Crowdfunding) en España 2019*”<sup>162</sup> and the “*Financiación Participativa (Crowdfunding) en España 2020*”<sup>163</sup>.

In 2019 crowdfunding in Spain has raised € 200 million for the first time, showing a steady growth of around € 50 million every year from € 98,503,084 raised in 2017 to € 159,691,767 (62.12%) in 2018, and € 200,827,059 (25.8%.) in 2019. This means that the market continues to grow, but the momentum is less. Although the 2019 growth of 25% is a remarkable increase compared to other European countries, the volumes are much lower. However, in 2020, the total collection amounted to €167,029,927, showing a drop of -16.85%, a very significant decline that raises some doubts about the profitability of the sector as a whole. The most significant fall was in the lending platforms with a decrease of -40.40%, from €82,480,570 in 2019 to €49,158,300 in 2020 followed by real estate platforms which fell by -26.31% from €39,788,885 to €29,319,570 and investment platforms which fell by -6.29% from €47,538,500 to €44,548,631. The sharp and widespread decline in economic activity due to prolonged

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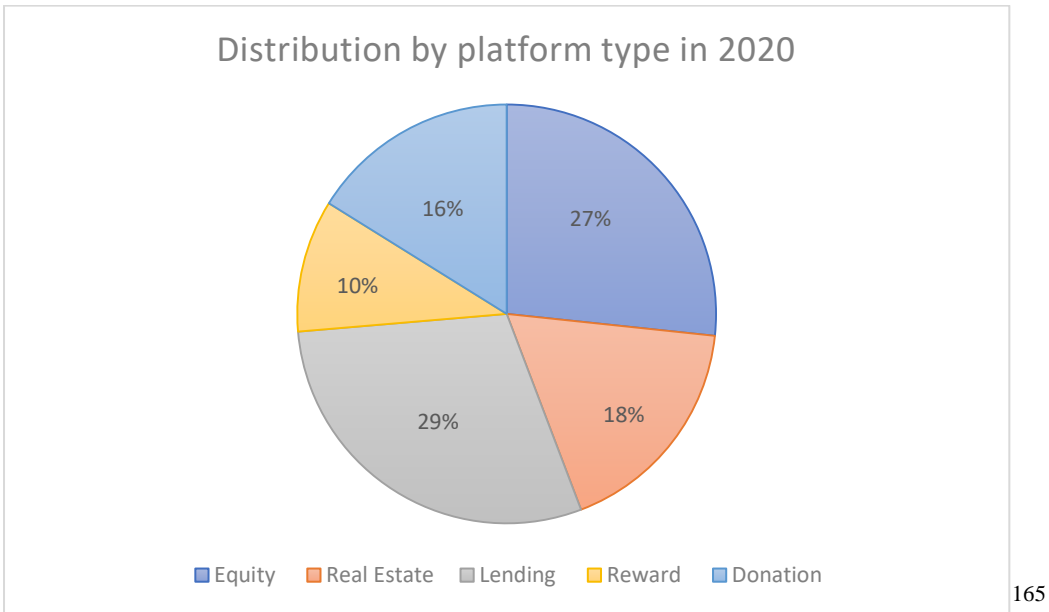
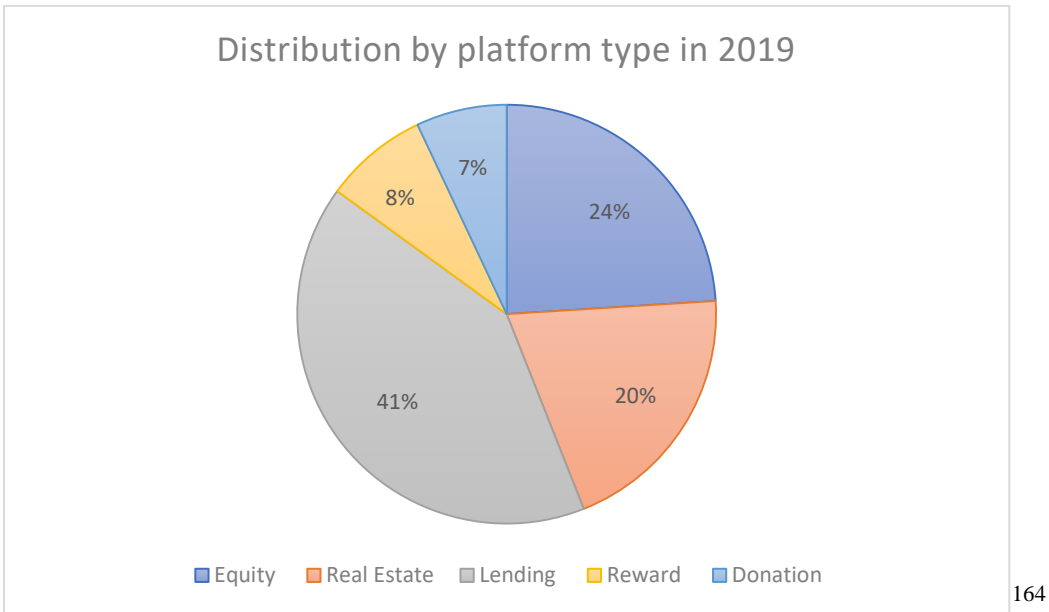
<sup>162</sup> Ángel González, Javier Ramos, *Financiación Participativa (Crowdfunding) en España*, (2019)

The report was carried out in partnership with the Universidad Complutense de Madrid, Universidad de la República de Uruguay and with the support Universo Crowdfunding, Crowdants, Coavanza

<sup>163</sup> Ángel González, Javier Ramos, *Financiación Participativa (Crowdfunding) en España*, (2020)

The report was carried out in partnership with the Universidad Complutense de Madrid, Universidad de la República de Uruguay and with the support Universo Crowdfunding, Crowdants, UJA

confinement has meant that more entrepreneurs need financing to launch or preserve their businesses, while fewer investors/lenders are willing to finance them.



<sup>164</sup> Figure 29: Á. González, J. Ramos, *Above*, (2019)

<sup>165</sup> Figure 30: Á. González, J. Ramos, *Above*, (2020)

Despite the drop in revenue, both investment and lending are still leading sectors. This is important because, after several years of growth and consolidation in these sub-sectors, the 2020 downturn has failed to take away their leadership.

Both donations and reward platforms are growing, the former by an astonishing 78.30% from €15,119,265 in 2019 to €26,957,162 in 2020 and the latter by 7.21% from €15,899,839 to €17,046,264. Undoubtedly, the pandemic has generated many contributions through donations, reactivating a sector that had lost importance over the last five years.

The crisis has increased the precariousness and poverty of many people and vulnerable groups, with them the demand for social support programs and other forms of solidarity, which explains why donation platforms are growing considerably.

In this sense, confinement has increased the need to shop online, which has undoubtedly benefited many campaigns on reward platforms in their pre-sale version.

One of the most significant trends is the sharp slowdown in real estate crowdfunding, which has remained practically unchanged, in contrast to previous years where this sector stood out for its strong growth.

A sizable 63% increase in donations occurred in 2019, an area that has consistently underperformed compared to other types of crowdfunding, and it is expected that in the future, more and more projects will turn to these types of platforms.

In the Spanish equity finance world, the code of good practice is increasingly popular and established among entrepreneurs, investors, and savers. The market is still characterized by non-compliance and fraud.

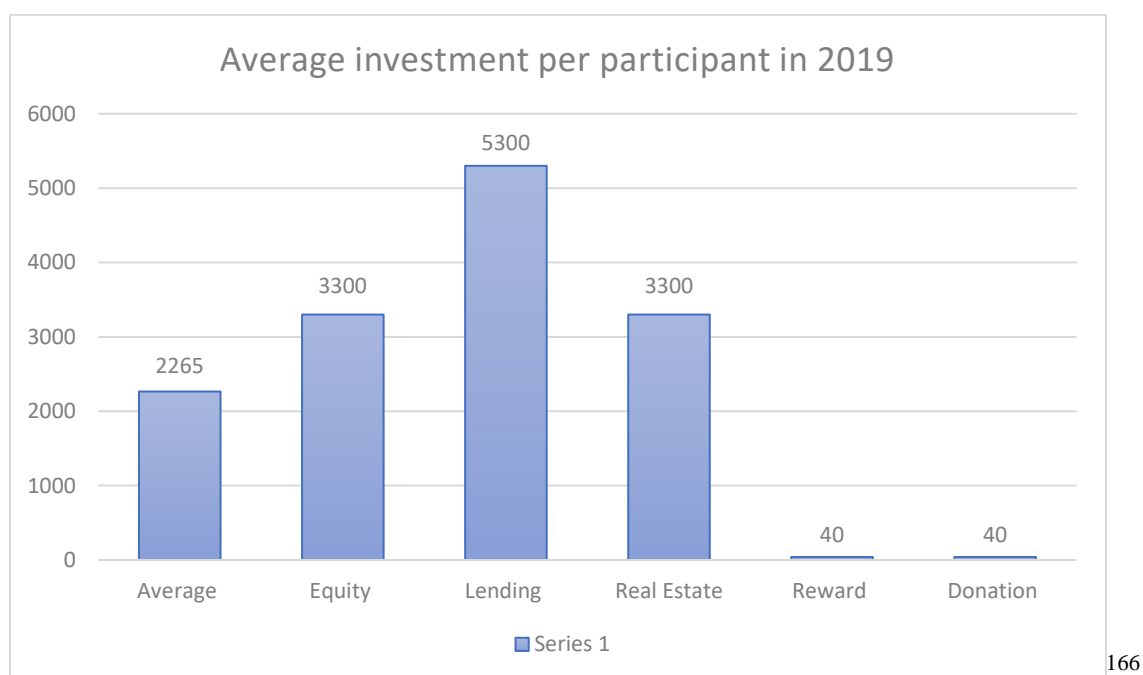
In recent years, vertical platforms have continued to establish themselves as a new form of participatory financing with great potential. Vertical platforms are those customized platforms that concentrate their performance in one sector or are very localized

The number of campaigns is a very idiosyncratic figure because, since 2017, it has been in constant decline from 21,534 to 18,715 in 2019. However, the average volume of capital raised

in campaigns increased from €4,574 to €10,731 over the same years, so the total volume continues to increase because the growth in average capital raised is greater than the decrease in the number of campaigns. This combination of fewer campaigns and more money raised, on average, per campaign is a consequence of the increasing professionalization of the sector. More and more platforms, promoters, and several types of investors are focusing on more realistic validations of the feasibility of each project and the collection targets for each campaign. However, this trend was interrupted last year as a consequence of the pandemic. The number of campaigns went up again 21,329. In contrast, the number of average collections dropped significantly €7,831, partially reversing the process of professionalization that had been consolidated in Spain during recent years.

This drop in average collections is very significant, going from €10,731 in 2019 to €7,831 in 2020, which brings us back to the average levels of 2018, thus reinforcing the message that the pandemic has caused us to lose two years of progress of consolidating and professionalizing the sector in this country.

The average participation per borrower varies between sectors:



<sup>166</sup> Figure 31: Á. González, J. Ramos, *Above*, (2019)

- The success rate of the campaigns is low at 17.28%, which means that less than one project in five manages to raise the required capital.
- This low success rate can be attributed to two factors: (1) the flow of contributions is too low to meet the demand and (2) only 9% of the investors are accredited investors.

### **3.3.2 The crowdfunding regulation in Spain**

Crowdfunding in Spain is regulated by Law 5/2015 of 27 April 2015, on the promotion of business financing. Spanish companies have always been dependent on the banking system for funding of new investments and current assets. However, with the crisis of 2009, access to credit through traditional methods of financing became more complicated and more expensive. Therefore, it was necessary to reform Spanish law with a twofold objective: to make access to traditional means of financing easier for SMEs and to lay the essential legislative foundations for the development and strengthening of alternative financing methods.<sup>167</sup>

Law 5/2015 consists of 6 titles, and we will mainly focus on the fifth one:

- I. Title 1 aims to promote bank financing for SMEs.
- II. Title 2 contains the new legal regime for financial credit institutions.
- III. Title 3 contains the reform of the securitization regime.
- IV. Title 4 facilitates companies' access to capital markets.
- V. Title 5 establishes for the first time a legal regime for crowdfunding platforms.
- VI. Title 6 amends the powers of the National Securities Market Commission to deepen its functional independence and strengthen its supervisory authorities.

There are different types of crowdfunding; however, title 5 aims to regulate only those in which the financial component prevails, and the investor expects to receive a monetary remuneration (equity and lending crowdfunding). Therefore, donation and reward-based crowdfunding are not regulated.

Crowdfunding is approached from three different angles:

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<sup>167</sup> <https://www.boe.es/buscar/doc.php?id=BOE-A-2015-4607>



- the legal regime under which platforms operate is established;
- the activity is only regulated by and reserved for authorized bodies, in attempt to encourage the development of the sector while at the same time safeguarding financial stability;
- the rules applicable to agents using this new funding channel are defined.

Authorization and registration requirements are established by the National Securities Market Commission and vary according to the legal regime of the funding platforms. The regulation prohibits platforms from offering financial advisory services and aims to ensure the neutrality of platforms between promoters and investors. The standard, considering the risk involved in these specific investments, provides some tools to mitigate and manage the risks. It establishes some limits such as limits to the volume that each project can attract through a crowdfunding platform, limits to the maximum investment that a non-accredited investor can make, obligation to inform by providing the necessary information and to motivate the investment decision. Equity and lending crowdfunding platforms must be in the form of a corporation (limited liability company or joint-stock company) in order to operate. To operate, they must obtain the authorization of the C.N.M.V. In addition, lending crowdfunding companies require additional authorization from the Banco de España. The regulation aims to make crowdfunding professional and to minimize the risk of fraud. However, all the financial risks involved in this type of investment remain such as the risk of default of the investment project or the platform itself or the risk of illiquidity caused by the impossibility of a secondary market in which to sell one's investment<sup>168</sup>.

Donations and reward crowdfunding platforms have the legal form of a foundation, i.e., a non-profit organization, governed by law 50/2002 on foundations and by law 5/2011, which regulates social economy organizations in Spain. Regardless of the platform model, they are supported by commissions on the capital raised for projects.<sup>169</sup>

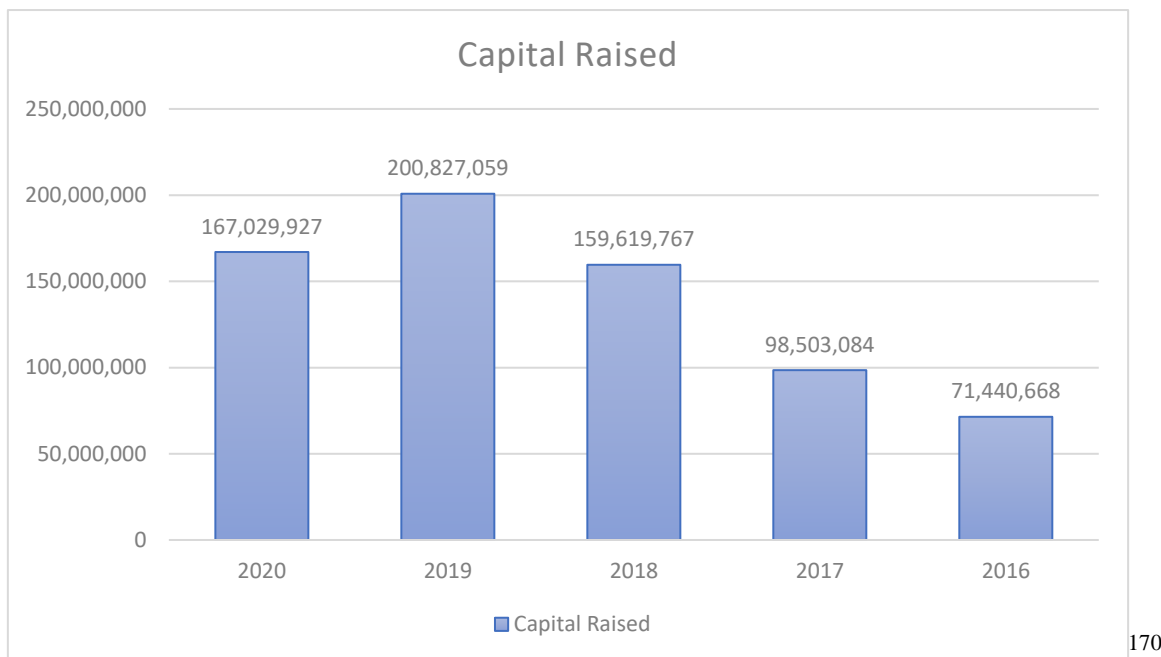
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<sup>168</sup> Gracia Rubio Martín, *Análisis del crowdfunding en España: una nueva herramienta social para fomentar la sostenibilidad*, REVESCO. Revista de Estudios Cooperativos, (2020)

<sup>169</sup> G. Rubio Martín, *Above*, REVESCO. Revista de Estudios Cooperativos, (2020)

### 3.3.3 Crowdfunding capital raising

Even though, as mentioned above, equity and lending crowdfunding models are the ones that raise the most capital, together representing 84.48% of the total amount of the money raised via crowdfunding, the report does not consider the capital raised in secondary markets, which is currently not considered a form of participatory financing by the CNMV; including this the figure would be closer to €450 million.



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The following table summarises the capital raised by platform type from 2017 to 2020.

Capital Raised	2020	% var	2019	% var	2018	% var	2017
Equity	€44,548,631	-6.29%	€47,538,500	85.38%	€25,644,370	10.55%	€23,196,229
RE	€29,319,570	-26.31%	€39,788,885	1.97%	€39,018,875	95.09%	€20,000,000
Lend	€49,158,300	-40.40%	€82,480,570	19.22%	€69,182,539	92.62%	€35,916,516
Reward	€17,046,264	7.21%	€16,581,702	43.17%	€11,581,603	-7.43%	€12,510,684
Donation	€26,957,162	78.30%	€9,264,281	18.64%	€7,808,736	86.93%	€4,177,304
<b>Total</b>	<b>€167,029,927</b>	<b>-16.83%</b>	<b>€159,691,767</b>	<b>62.12%</b>	<b>€98,503,084</b>	<b>37.88%</b>	<b>€71,440,668</b>

171

<sup>170</sup> Figure 32: Á. González, J. Ramos, *Above*, (2020)

Since 2013, crowdfunding has raised €786,035,532, an amount that continues to grow until 2019. This growth no longer highlights the future potential of this sector but its present reality.

In order to better understand the crowdfunding market in Spain, it is necessary to analyse the number of campaigns carried out each year and the average collection per campaign, and their evolution in recent years.

	2020	2019	2018	2017
No. of campaigns	21,329	18,715	20,751	21,534
total collection	€ 167,029,927	€ 200.827,059	€ 159,691,767	€ 98,503,084
average collection per campaign	€ 7,831	€ 10,731	€ 7,696	€ 4,574

172

As can be seen from the table, the total number of campaigns has decreased, but the collection is increasing because the average collection per campaign rose until 2019. The fact that fewer but more effective campaigns are being carried out shows that the market is maturing thanks to greater knowledge of how the sector works and the increased professionalism of entrepreneurs, platforms, and investors. The reversal of this trend in 2020 suggests that this process of professionalization has slowed down. However, that year's specific socio-economic circumstances partly qualify this reversal and leave the door open to a rapid resumption of this professionalization process that we observed in previous years.

Average investment by platform type: the platforms that collect the most significant investments are the RE platforms, followed by the lending sector, equity, and last, collecting much smaller investments, the reward and donation platforms.

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<sup>171</sup> Figure 33: Á. González, J. Ramos, *Above*, (2020)

<sup>172</sup> Figure 34: Á. González, J. Ramos, *Above*, (2020)

Average collection per investment	€ 2.263
RE	€ 5.300
Lending based	€ 3.595
Equity based	€ 3.365
Reward based	€ 40
Donation based	€ 30
Collection success rate	17,28%

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Despite low volumes, reward-based and donation-based platforms are essential for the development and growth of the whole sector. Firstly, many investors start their investment activity by supporting reward based or donation-based projects before moving into equity, lending, or RE. Once they see how the market works through smaller investments, their propensity to invest in the other crowdfunding models increases.

Despite the significant growth that this market has undergone in recent years, the success rate of campaigns is shallow. Only 1 campaign in 5 manages to raise the set capital, which means that the Spanish market needs even more professionalism and more widespread use of alternative financing methods.

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<sup>173</sup> Figure 35: Á. González, J. Ramos, *Above*, (2019)

### 3.3.4 Active platforms

The number of active platforms in Spain in 2020 was 59, increasing compared to previous years.

No. of active platforms	2020	2019	2018	2017
RE	13	7	6	8
Equity	10	12	11	10
Lending	11	10	12	11
Reward	14	12	12	13
Donation	11	9	9	9
Total	59	50	50	51

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This growth of platforms in a context of declining revenues, , qualifies the true extent of the crisis, as for many platform operators and investors, the sector remains attractive to the extent that new platforms are created. However, the sustainability of these platforms, especially smaller and less experienced ones, is questionable.

This is because the large platforms in the industry take most of the revenues, leaving very little to be shared among others. If we consider that each platform takes 5-6% of the proceeds of each campaign, the numbers are still too small to speak of a very profitable sector for platforms.

The consolidation experienced in previous years will be broken in 2020. It is not known if this will be a trend or if, once the crisis is over, the market will adjust again to the equilibrium figure we have observed of around 50 platforms.

However, it could be that the crisis will encourage more creators and investors to use these platforms for their businesses and investments. This is the big question we face and will be

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<sup>174</sup> Figure 36: Á. González, J. Ramos, *Above*, (2019)

resolved as Covid19 disappears and we see how the economy in general and the Participatory Finance sector in particular evolves.

### 3.3.4.1 Real Estate platforms

The Spanish platforms operating in the real estate sector are: *MytripleA*, *Inveslar*, *Civislend*, *Housers*, *StockCrowd IN*, *Urbanitae*, *Icrowd House*, *Bricks&People*, *Brickstarter*, *Ethich Investors*<sup>175</sup>.

*MytripleA* is a lending-based platform founded in 2013; it is one of the leading platforms in the Spanish market. The platform requires a minimum investment of €50 and offers up to 7% return to investors. While from businesses, it requires a 2% funding fee. It offers two primary services of lending and factoring. The activity carried out by the platform is divided into several stages; first, the requests for financing are analysed, once the proposals are accepted, the interest rate that the company will have to pay, and the relative rate of return that the entrepreneur will receive is established<sup>176</sup>.

*Inveslar* is a real estate lending platform; it aims to democratize real estate investments and make the market accessible to all. After a detailed analysis, it only selects properties that result in a strategic investment in a quality asset and therefore offer excellent returns. Currently, 4,440 investors are investing a total of €4,349,707, financing 82 projects, and €1,791,592 have been returned. The minimum investment required is €50<sup>177</sup>.

*Civislend* is a platform that operates in both lending and equity-based sectors. It currently has 1879 active users and has raised €15,481,246 in funds. The first real estate investment platform in Spain is authorized by the CNMV in all its forms, including securities, participation, and loans. The platform offers a return to between 6% and 12% of investors while charging companies a 1% tax on the capital collected<sup>178</sup>.

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<sup>175</sup> <https://thecrowdspace.com/real-estate-crowdfunding-platforms-in-spain/>

<sup>176</sup> <https://www.mytriplea.com/>

<sup>177</sup> <https://inveslar.com/>

<sup>178</sup> <https://www.civislend.com/>

*Housers* is a leading real estate platform operating in Spain, Italy, and Portugal, in the lending and buy-to-let<sup>179</sup> sectors. 120,018 users have registered with the platform, raising a total of €124,966,836 of which €56,797,160 have already been repaid on 03/07/2021 to investors with an IRR of 8.38%. The minimum investment is €50. From 29 March 2021, to guarantee a higher return to its investors, investments made in the projects published on the platform will no longer have any commission in favour of Housers for the repartition of interest or benefits; previously, the commission was 10%<sup>180</sup>.

*StockCrowd IN* operates in the lending sector, financing € 13,825,023, of which € 8,300,131 has already been repaid. It has financed a total of 54 projects with an IRR of 7.52%. The platform's objective is to connect investors with the most established real estate companies in the sector. The minimum investment required is € 50<sup>181</sup>.

*Urbanitae* is an equity platform. It allows investment in different segments of the real estate market: residential, commercial, and industrial. The minimum investment amount is €500. The average rate of return is 10%<sup>182</sup>.

*Icrowd house* is an equity crowdfunding platform, the minimum investment is 500. There are two types of projects: capital gains from sales or income from rent<sup>183</sup>.

*Bricks&People* It only operates in the equity-based real estate market. Unlike the other platforms discussed above, the company's tax is not on the capital raised but on the profits it will generate (10%). It offers investors an average return of 25%, and the minimum investment capital is €50<sup>184</sup>.

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<sup>179</sup> buying a property to rent out

<sup>180</sup> <https://www.housers.com/it>

<sup>181</sup> <https://www.stockcrowdin.com/in/>

<sup>182</sup> <https://urbanitae.com/>

<sup>183</sup> <https://www.icrowdhouse.com/>

<sup>184</sup> <https://www.bricksandpeople.com/>

*Brickstarter* is an equity-based platform specializing in vacation rental properties and offers investors a return of 5% APR until the project becomes fully funded. Minimum investment capital is €50<sup>185</sup>.

*Ethich Investors* is a platform that offers returns through the purchase and subsequent sale of a property in the country. They operate in the lending and equity-based sector. The distinctive elements of this platform are ethics because they guarantee complete transparency regarding all information about the investment and the company requesting the financing and trust since the platform itself invests in all the projects it proposes. The minimum investment is €50<sup>186</sup>.

### **3.4 Crowdfunding in France**

#### **3.4.1 French market overview**

The French market, like other European markets, is constantly growing. According to the Mazars and Participatory Financing France (FPF) barometer, more than one billion euros were raised through crowdfunding platforms in France in 2020. This is the first time that the sector has exceeded one billion euros since its conception. Record also in terms of growth, as the volumes raised increased by 62% between 2019 and 2020 (+ 56% between 2018 and 2019). In the period between 2015 and 2020, the total collection increased six fold. The ecosystem as a whole proved to be robust and agile despite the crisis caused by COVID-19<sup>187</sup>.

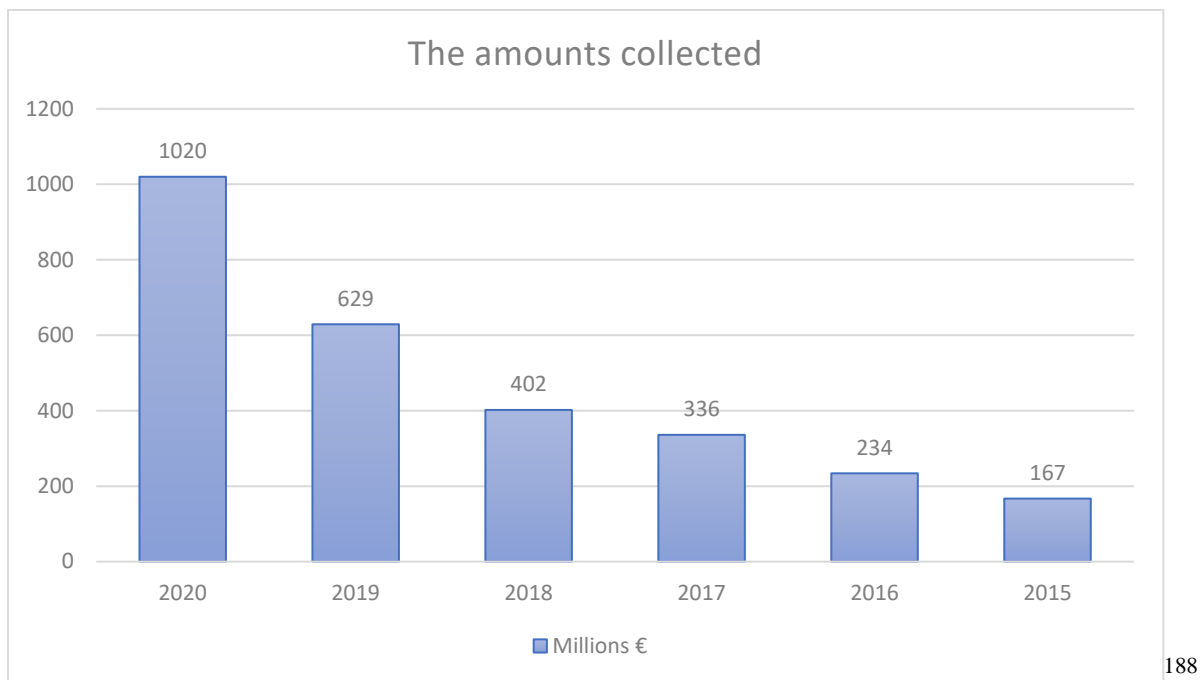
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<sup>185</sup> <https://brickstarter.com/en/how-does-it-work>

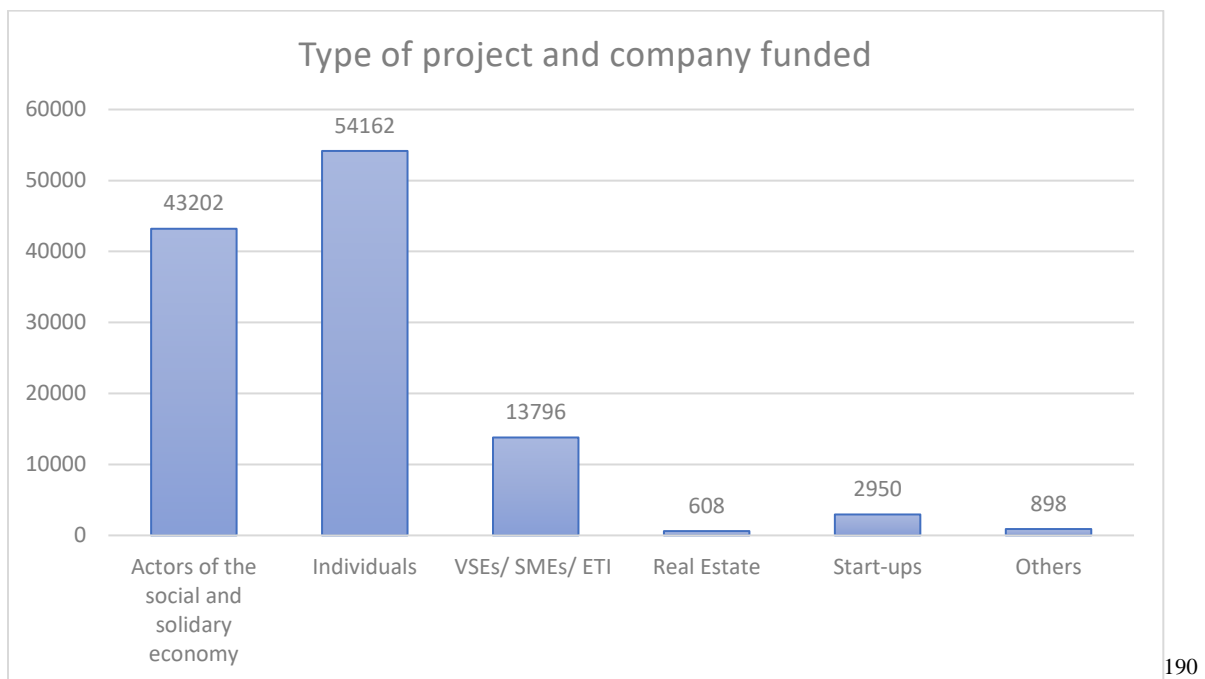
<sup>186</sup> <https://ethicinvestors.com/>

<sup>187</sup> <https://www.journaldunet.com/economie/finance/1196225-crowdfunding-definition-plateformes-francaises-immobilier-juin-2021/>





During the crisis, crowdfunding platforms mobilized to meet the needs of economic actors, with 115,616 projects and companies funded<sup>189</sup>:



<sup>188</sup> Figure 37: <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

<sup>189</sup> Figure 38: <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

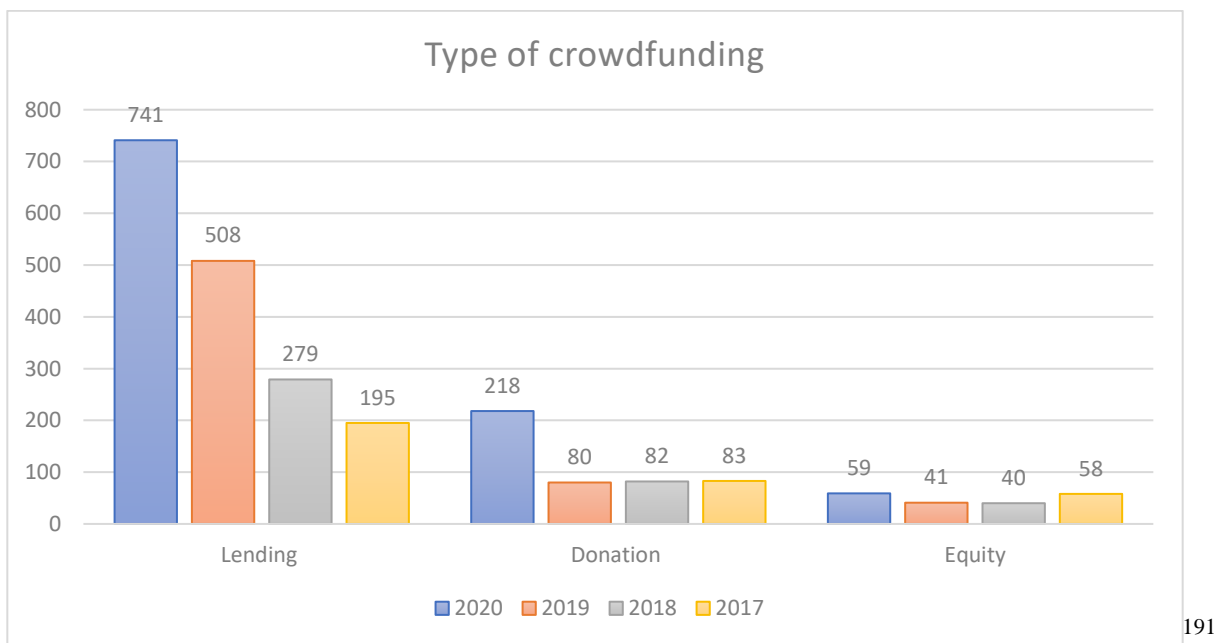
<sup>190</sup> Figure 39: <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

As can be seen from the graph, most of the campaigns were carried out either by individuals (46.8%) or for social purposes (37.4%). However, this only refers to the number of campaigns carried out and not to the capital raised, how is highlighted in the following paragraphs sectors such as RE have only carried out 608 campaigns but have very high collection volumes.

Crowdlending is the most important segment. Lending platforms raised €741m, up 46% in 2019. The debt continues to drive the lending sector as it covers 90.5% of volumes. Of the €741m, 75% is related to real estate projects and 13% in renewable energy.

However, the segment that has grown the most over the past year is donation, with +175% in one year to reach €218.5m raised. This amount is mainly supported by uncompensated donations (€146 million), thanks to funds allocated to nurses or companies in need.

After two years of stagnation, investments have returned to growth (+43% in 2020), with a total of €59.2 million raised in capital or royalties.



<sup>191</sup> Figure 40: <https://www.journaldunet.com/economie/finance/1196225-crowdfunding-definition-plateformes-francaises-immobilier-juin-2021/>

This continuous growth can be explained by several reasons, in particular:

- the increase in campaigns for unpaid donations to charities or people in difficulty due to COVID-19;
- the growing success of the real estate sector among investors: a sector that is doing very well, despite construction delays;
- the support for businesses in difficulty including the ability of crowdfunding intermediaries to provide loans guaranteed by the government of up to 90%;
- the provision of capital through capital investment platforms to renewable energy developers and companies heavily indebted due to the crisis.

The average amounts raised for projects vary according to the type of crowdfunding<sup>192</sup>.

Donation with reward	Donation without reward	Equity	Royalties	Unpaid loans	Loans	Debt	Minibond
7,144	1,479	109,419	58,333	572	14,658	403,466	131,107

As for the geographical distribution of the funds raised, Ile-de-France remains the region that raised the most funds, with 32% of the total amount. It is followed by Auvergne Rhône-Alpes with 11.71%, and the PACA region with 8.75%. Overseas territories accounted for 1.25% of the funds raised<sup>193</sup>.

### 3.4.2 The crowdfunding regulation in France

In France, in order to foster the development of crowdfunding in a safe environment for contributors, the regulators adapted specific rules by issuing Ordinance 2014-559 of 30 May 2014.

The new provisions came into force on 1 October 2014. Certification has also been created to identify platforms that comply with the new rules of Ordinance 2014-559 of 30 May 2014 and Implementing Decree 2014-1053 of 16 September 2014.

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<sup>192</sup> Figure 41: <https://www.journaldunet.com/economie/finance/1196225-crowdfunding-definition-plateformes-francaises-immobilier-juin-2021/>

<sup>193</sup> <https://www.journaldunet.com/economie/finance/1196225-crowdfunding-definition-plateformes-francaises-immobilier-juin-2021/>

Depending on the nature of the proposed funding, crowdfunding platforms may or may not need a regulated status to carry out their activities.

An equity crowdfunding platform with securities issued by an unlisted company must be registered in the ORIAS register as a crowdfunding advisor (CIP); such a platform may also opt for the status of an investment service provider (ISP) providing advisory services, and, in this case, it must be authorized by the Autorité de contrôle prudentiel et de résolution (ACPR). CIP platforms are only regulated by the Autorité des marchés financiers (AMF), but in the case of ISPs they must be authorised jointly by the AMF and the ACPR.

If the website proposes to finance projects in the form of a loan with or without interest, the platform must be registered in the ORIAS register as a crowdfunding intermediary and is subject to inspection by the ACPR at any time.

If the website only offers to fund donations, the platform is not required to register with ORIAS. However, it can choose to register as a crowdfunding intermediary. In this case, it must comply with all the rules applicable to crowdfunding intermediaries.

If the platform raises funds on behalf of a third party as part of crowdfunding campaigns, it must be authorized as a payment institution by the ACPR or registered as an agent of a payment service provider.

The legislation currently in force<sup>194</sup>:

- Ordinance 2014-559 of 30 May 2014 on crowdfunding
- Decree 2014-1053 of 16 September 2014 on crowdfunding
- Ordinance of 22 September 2014 attesting to the amendments to the general regulation on crowdfunding
- Decree of 30 September 2014 on the professional competence of crowdfunding intermediaries

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<sup>194</sup> <https://acpr.banque-france.fr/en/autorisation/crowdfunding>

- Order of 24 September 2014 certifying the memorandum of association of the body in charge of maintaining the single register of insurance, banking and financial intermediaries
- Ordinance of 24 September 2014 amending the Ordinance of 20 December 2012 fixing the amount of the annual registration fees for the single register of intermediaries referred to in Article L.546-1 of the Monetary and Financial Code

### **3.4.3 The equity crowdfunding**

With €59.2 million collected in capital or royalties, investment has grown by almost 43% compared to 2019<sup>195</sup>.

It should be noted that investment via crowdfunding platforms is often co-invested with institutional players. Thus, €107.6 million was co-invested in start-ups and companies<sup>196</sup>.

The average investor contribution decreased from €4,555 in 2019 to €3,419 in 2020, for a total fundraising amount of €109,419 in capital. For royalty financing, the average contribution increased from €867 in 2019 to €1,823 in 2020 with an average fundraising amount of €58,333 for a project<sup>197</sup>.

In first place was the environment and renewable energy sector, with €17.7 million raised, followed by trade and services, and health and scientific research with €10.3 million each<sup>198</sup>.

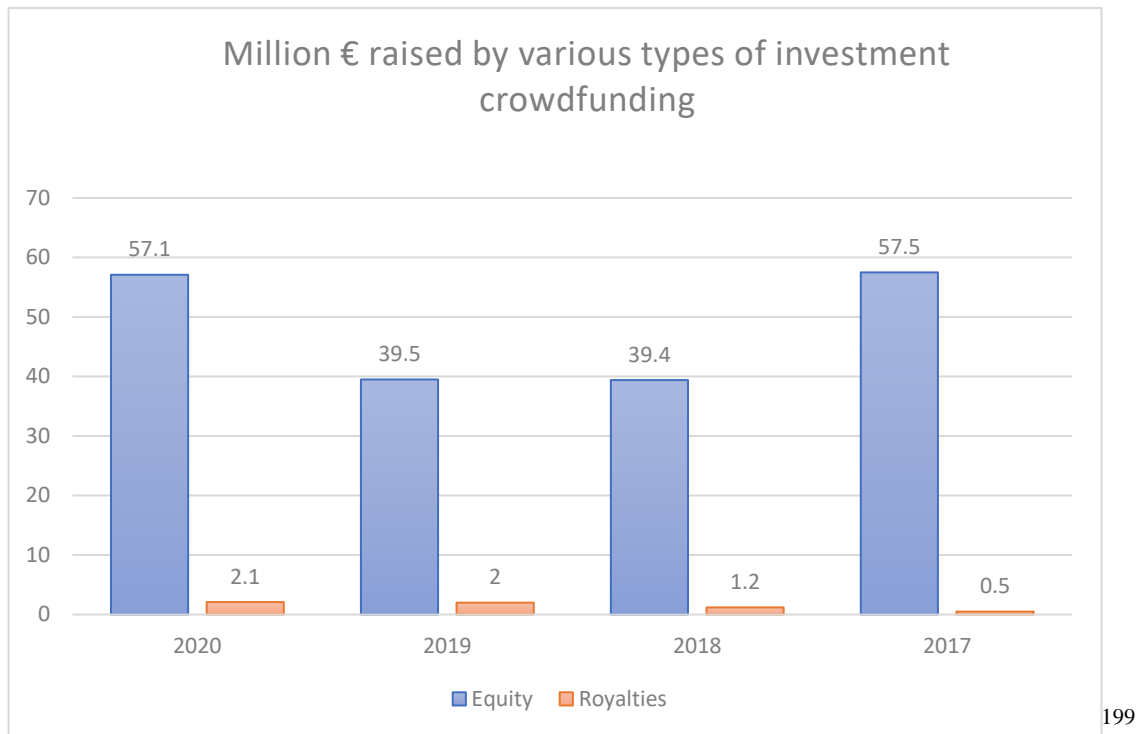
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<sup>195</sup> <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

<sup>196</sup> <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

<sup>197</sup> <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

<sup>198</sup> <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>



#### 3.4.4 The lending crowdfunding

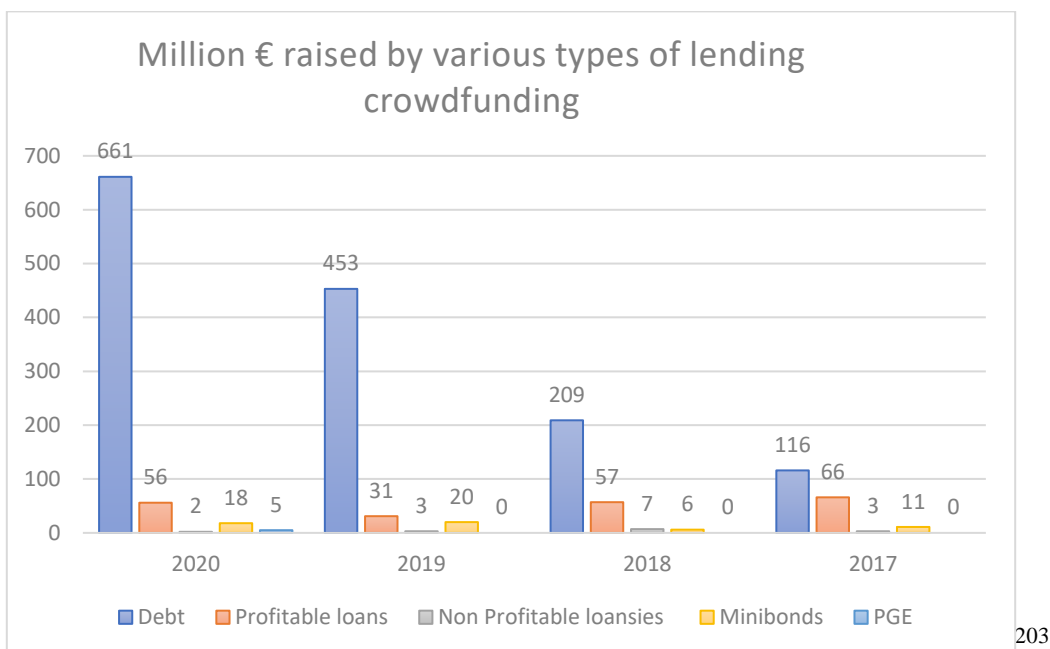
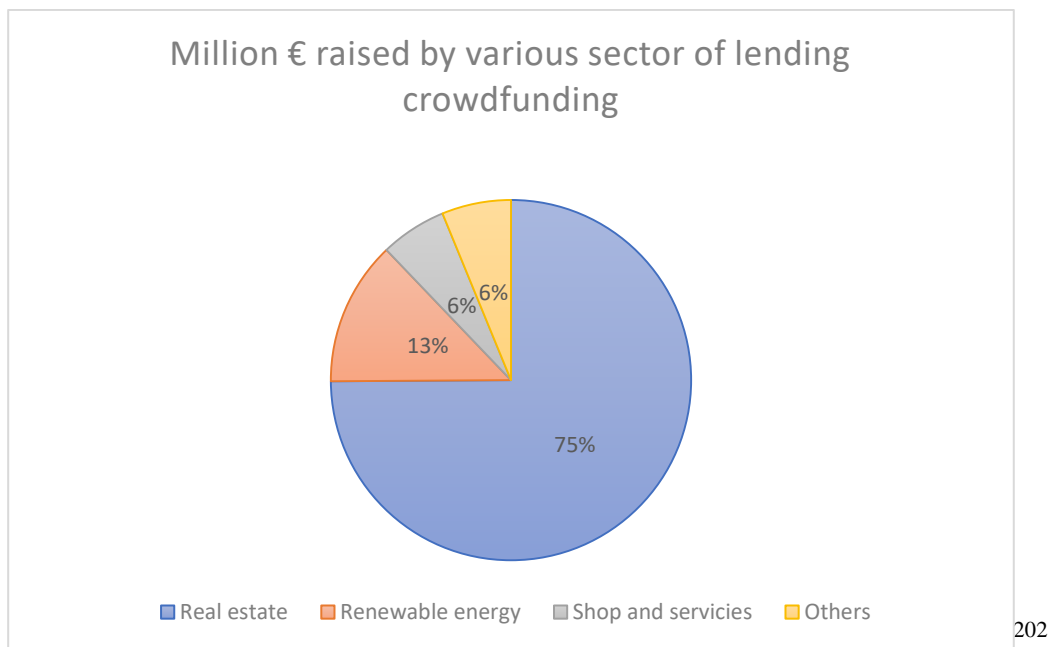
More than € 741 million was collected on lending platforms in 2020, compared to € 508 million in 2019<sup>200</sup>.

The leading sector is real estate, representing €555 million, or 75% of loan inflows. The 2nd sector is environment and renewable energy with €96m collected, followed by shops and services with €44m<sup>201</sup>.

<sup>199</sup> Figure 42: <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

<sup>200</sup> <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

<sup>201</sup> <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>



The debt attracts the lending segment as it accounts for 90.5% of the collected volumes, with an average collection amount of €403,466. It is worth noting that in addition to the €56m raised in remunerated loans, €111m supplement (Not present in the chart) inflows on some platforms through loan funds.

<sup>202</sup> Figure 43: <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

<sup>203</sup> Figure 44: <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

In 2020, a new type of loan emerged: loans guaranteed by the state. Three IFP platforms granted € 4.8 million in SMEs to 94 companies in difficulty due to the crisis, a sum supplemented by € 7.3 million via loan funds<sup>204</sup>.

In 2020, the default rate on loans overdue by more than six months on the lending platforms was 3.25%, while the ultimate loss rate is 2.33%. The internal rate of return varies from an average of 5.66% for minibonds to 7.14% for bonds.

### **3.4.5 Real estate crowdfunding**

Real estate crowdfunding raised and redeemed record amounts in 2020.

In 2020, €505 million were raised compared to €373 million in 2019<sup>205</sup>, a new record for the market despite the economic crisis caused by COVID-19, a testament to the strength of the model and the resilience of the real estate market.

The number of projects financed increased by 8%: 589 transactions in 2020 compared to 544 in 2019, a moderate increase caused by the lockdowns that limited the number of projects. More funded projects can therefore explain the overall rise in fundraising over last year<sup>206</sup>.

The amounts reimbursed also increased sharply: €180 million in 2020 compared to €103 million in 2019, i.e., an increase of 75%, although this growth is directly linked to the annual growth in fundraising in previous years and testifies to the solidity of the crowdfunding model real estate. The number of reimbursed projects increased from 220 in 2019 to 310 in 2020, +41%<sup>207</sup>.

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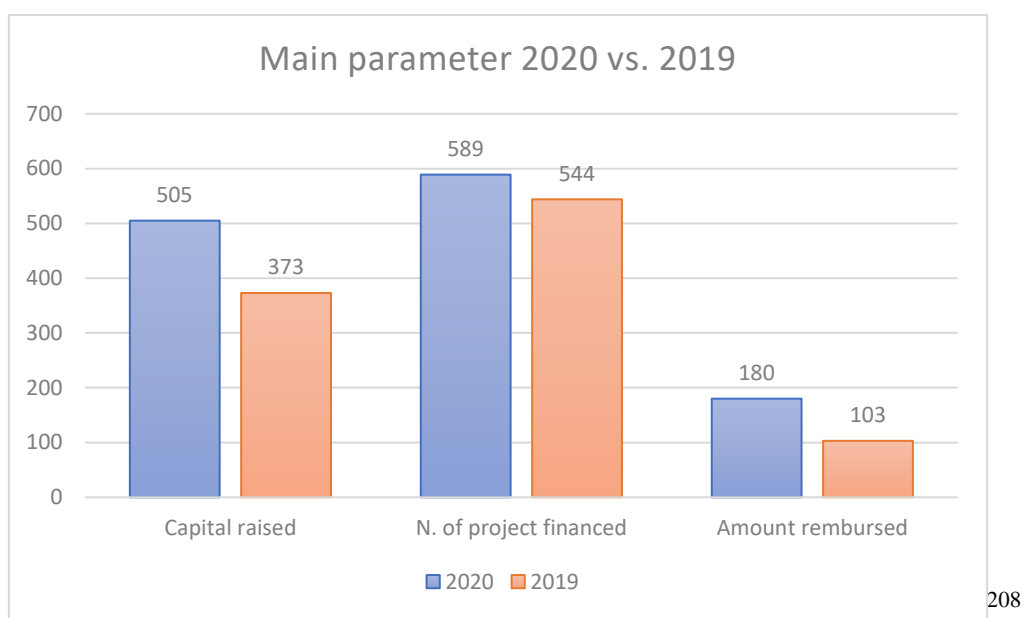
<sup>204</sup> <https://financeparticipative.org/le-crowdfunding-depasse-le-milliard-en-2020/>

<sup>205</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-s1-2021>

<sup>206</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-s1-2021>

<sup>207</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-2020>





The average amount funded per project in 2020 was €857,329, up from €689,150 in 2019. This increase of 24% reflects the ability of platforms to attract large operators and large volumes of investors per project. It is undoubtedly linked to the Pacte law raising the collection ceiling to €8 million compared to €2.5 million before October 2019, thus allowing more significant real estate transactions to be financed. The Pacte law has had a tangible impact on the surge in amounts collected; in 2020, around 15% of fundraising was for projects between €5 and €8 million. The placement period reduced slightly: 21 months compared to 21.3 months in 2019<sup>209</sup>.

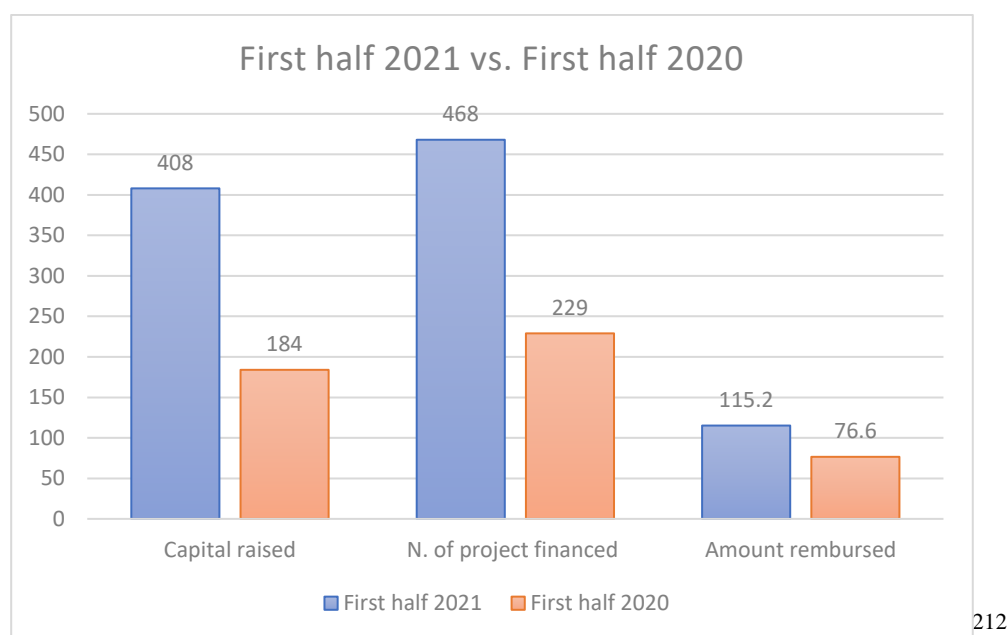
In the first half of 2021, growth continued uninterrupted: €408.1 million raised in the first 6 months of 2021, more than double the amount invested in real estate crowdfunding compared to the that of the previous year: €184 million<sup>210</sup>. This record figure illustrates the sector's dynamism during the first half of the year, not least the growth in the number of real estate transactions financed, 468 in total, up to + 104%<sup>211</sup>.

<sup>208</sup> Figure 45: The capital raised and the amount reimbursed are in million

<sup>209</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-s1-2021>

<sup>210</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-s1-2021>

<sup>211</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-s1-2021>



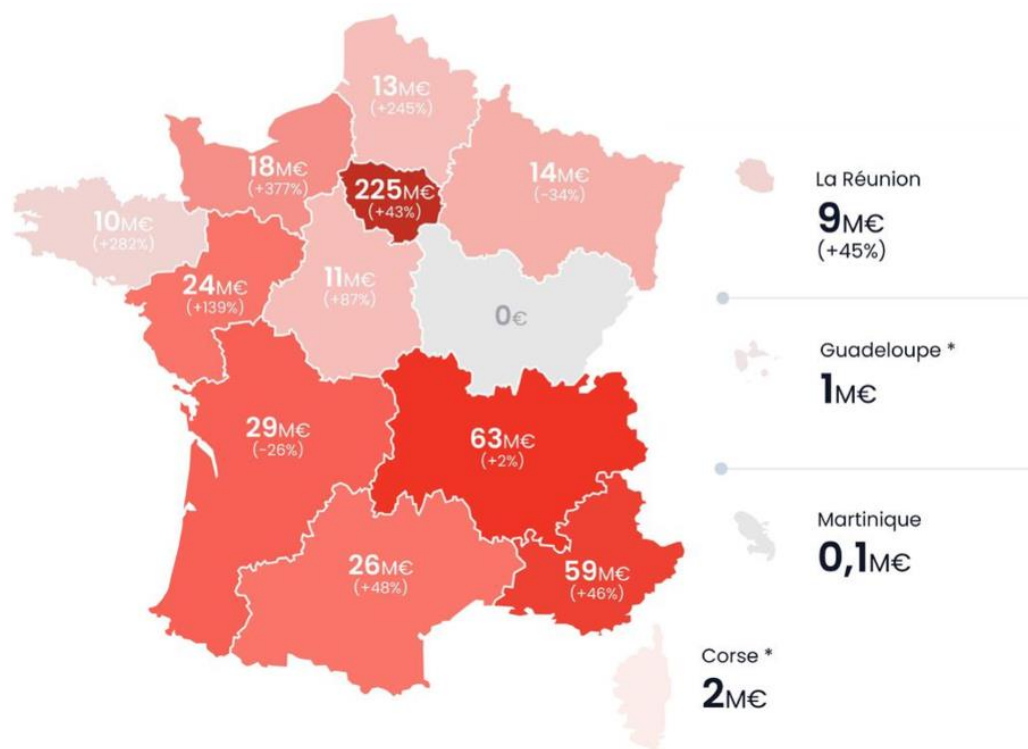
The amounts reimbursed are also on the increase: €115.2m in the first half of 2021 compared to €76.6m in the first half of 2020, a 50% increase. The number of reimbursed projects also increased, from 139 in the first half of 2020 to 188 in the first half of 2021, an increase of 35%.

The report used for the analysis of the RE crowdfunding in France is made by Fundimmo and based on the data published by 28 platforms, representing 100% of total market fundraising, the average number of investors per project is 177, with an average investment of €4,711, much higher than the €1,581 in 2019 i.e., close to 198% increase.

The average rate of return slightly increased, 9.3% per year compared to 9.2% per year in 2019.

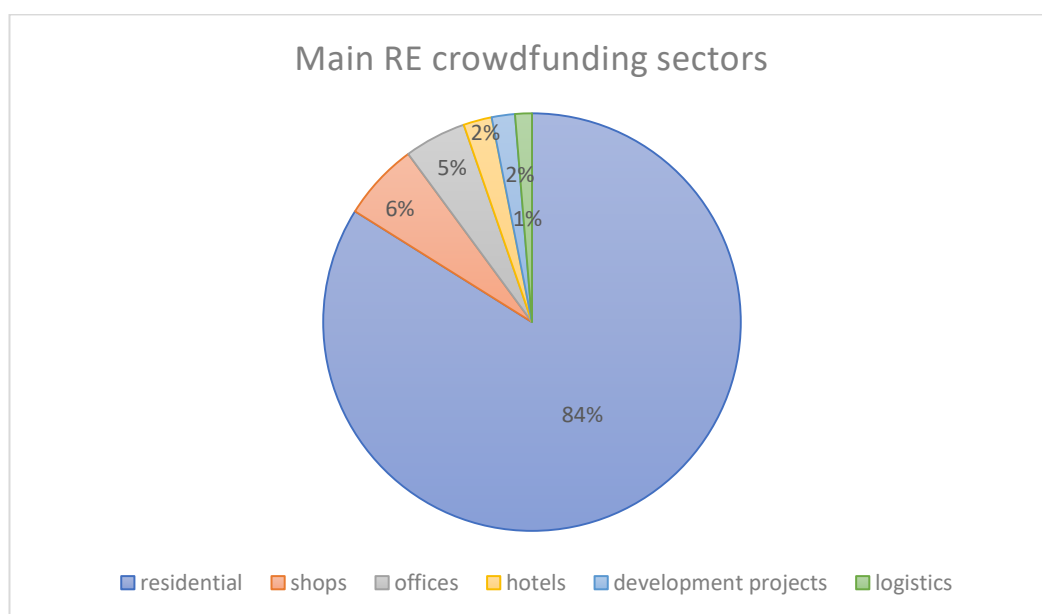
In terms of geographic distribution in continuity with the previous year, Île-de-France remains the most significant region with inflows of €225 million, + 43% compared to last year, ahead of Auvergne-Rhône-Alpes €63 million, with + 2% compared to 2019 and the South Region with inflows of €59 million, gaining momentum +49% compared to 2019 thanks to the growth in inflows for luxury goods businesses, especially on the French Riviera. These three regions alone account for almost 70% of total market collections in 2020. It is also important to underline the strong increases in collections in Normandy + 377%, Brittany + 282%, in Hauts-de-France + 245% and also in the Pays de la Loire + 139%.

<sup>212</sup> Figure 46: The capital raised and the amount reimbursed are in million



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Among the 578 projects financed in 2020, 79.2 % are residential projects, shops 6 %, offices 4.8 %, residences for the elderly and students 4.7 %, hotels 2.2 %, development projects 1.8 %, and logistics 1.3 %.



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<sup>213</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-2020>

The share of shops and offices decreased, down to 11% in 2020 against 13% in 2019; this decline is attributable to the crisis of the construction of new buildings of this type. It is also important to underline the rise of a new type of asset: residences for the elderly and students, which were almost negligible in 2019 and represent almost 5% of projects in 2020 or €23.6 million of fundraising. The share of transactions carried out by merchants of goods is also increasing: they represent 38.8% of collections in 2020, compared to 23% in 2019, or an increase of almost 69%. This diversification partly explains the rise of the residential sector.

Crowdfunding is a crucial lever for real estate companies, an innovative financing solution, allowing them to save time raising their funds and calling investors without bringing them into the capital of the project company while maintaining their independence. This cash flow flexibility has attracted 321 players since the creation of the market.

The average delay rate on project completion and investment reimbursement, which only considers breaches of the maximum contractual deadline since 2012, is down 1.91 points on delays of less than 6 months and 1.99 points on delays of more than 6 months. They stand at 4.4% and 5.7% respectively. Notably, only a few players are causing significant delays. This decrease can be mechanically explained by the amounts reimbursed in progress and the increase in collections.

The average default rate, which is calculated based on projects that have suffered a loss of principal and/or a loss of interest since 2012, is estimated at a meagre 0.16%, down 0.41 points: no new default events had been confirmed in 2020.

#### **3.4.5.1 Real estate crowdfunding platforms**

The real estate crowdfunding market is dominated by 5 large platforms (such as Fundimio, October, WiSEED, ClubFunding and Homunity), which account for 2/3 of the overall market in terms of fundraising, and in which each platform raised on average €66.7 million in 2020. They are followed by five medium-sized platforms representing 23.1% of the market share, each having raised an average of €23.3 million, then 10 platforms representing 9.5% of the

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<sup>214</sup> Figure 47: <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-2020>

market share with €4.8 million raised on average, and 7 platforms representing 1% of the market share €697,000 raised. The remaining platforms did not collect in 2020, only refunds<sup>215</sup>.

The best 8 French real estate platforms in 2020 are: *October*, *Raizers*, *WiSEED*, *Homunity*, *ClubFunding*, *Fundimmo*, *Koregraf*, *Baltis Capital*<sup>216</sup>.

*October* was founded in 2014 and is the leading crowdfunding platform in France for investing in real estate and non-real estate SMEs. Having brokered nearly €400 million in loans, the platform has methodically gained recognition among investors and is now one of the largest SME lending spaces in Western Europe, offering fair rates to borrowers and lenders. The Investment Type Enterprise Loan offers returns with ROI of up to 9.9% is open to international lenders, has no secondary market, the minimum investment amount is €2 and operates in several countries: France, Italy, Spain, Netherlands. *October* offers a full suite of asset-backed investment opportunities from the European trading sphere, and the company operates with high standards, compliant with the French Market Authority (AMF). By lending via *October*, you will be investing alongside significant institutions such as the European Investment Bank and Bpifrance, giving you a strong guarantee of the quality of the loans and the platform itself. Although based in France, the platform also hosts projects from the Netherlands, Italy, and Spain, allowing the investor to diversify the portfolio by exposing it to more regions. In addition, investing in the *October* market is a clean and straightforward process, calibrated with crucial information about the borrowing companies and their finances. However, the rates in *October* are lower than those offered by competing sites operating outside of France, such as *Crowdestor* and *Ablate*. Nevertheless, it remains the best peer-to-peer lending platform in France, thanks to its extensive track record and strong collaboration with government institutions.

*Raizers*, was founded in 2015 and it gives access to multiple investment vehicles that were previously reserved for professionals and large institutions. The minimum investment is €1,000 and allows you to distribute your portfolio between rental properties, development projects

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<sup>215</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-2020>

<sup>216</sup> <https://ampleinvest.com/p2p-lending-france/>

through bonds, green energy production, and commercial shares. Among the French real estate crowdfunding platforms with an international perspective, it is one of the best. The type of investment is real estate equity crowdfunding, which offers ROI of up to 12%, international investors can also invest, but an IBAN is required. It does not have a secondary market; it operates in several countries: France, Switzerland, Belgium, and Luxembourg. Unlike other French real estate platforms, it is one of the few sites with no geographical restrictions, giving you the freedom to invest in commercial units and residential properties for rent in Paris and elsewhere. From a risk-reward point of view, it is excellent, and as far as 2020 is concerned, zero development projects have failed, and 99% of repayments are on track. Furthermore, Raizers is a regulated platform, fully compliant with national law and approved by the French Financial Markets Authority (AMF) and the Belgian Financial Markets Authority (FSMA). Raizers provides high transparency of all financial details surrounding the deal for all its projects, disclosing all stakeholders, financial statements, annual accounts, and legal documentation related to the listing.

*WiSEED* was launched in 2009. It offers a complete package for investment needs, combining real estate crowdfunding, business equity, renewable energy and forestry projects into one comprehensive platform. Offering ROI of up to 10%, international investors can invest except those from the US, the minimum investment is €100 and it has no secondary market. With more than 100,000 members and 500 funded projects, WiSEED secures its position as one of France's best peer-to-peer lending platforms due to its size and long market experience. It is recognized by official French government institutions such as the ACPR and MTES. The platform is one of the largest in terms of business volume, launching around 120 loans per year from which investors can choose.

*Homunity* is a crowdfunding platform launched in 2016 with more than 360 successfully funded development projects and almost zero delays. It holds the fastest funded campaign record: €320,000 flowed into a single project in less than 1 minute. It is a real estate equity platform, offering a ROI of around 9-10%; International investors can invest, the minimum investment is €1,000 and there is no secondary market. It is a site that complements a medium-term investment strategy, as developers typically need a minimum of 9 to 24 months to raise

funds and finish construction. Banks contribute about 80% of the total amount, while the remaining 20% comes from Homunity so that the investor will share the risk with heavy, risk-averse players<sup>217</sup>. The company also maintains one of the strongest deal flows in the French real estate crowdfunding world, bringing investors an average of 7.5 new business proposals per month. Despite its positives, non-French speakers may want to look for alternatives to Homunity, as the English translation remains incomplete. That said, the team behind it has built one of the best real estate crowdfunding platforms in France, with a wide range of options to choose from.

*ClubFunding* was founded in 2014. It sets itself apart from the pack of other French platforms by focusing on small development projects. It tops the list of the best peer-to-peer lending platforms in France because of its innovative approach and impressive numbers, which now amount to more than €123 million in issued capital, 178 funded development projects, and zero defaults. Average ROI around 12%. Accepts investors from EU, US; other nationalities on an individual basis, the language on the platform is French only so this may discourage foreign investors; the 'minimum investment is €500 and it does not have a secondary market. The duration of the loan varies from a minimum of 6 to a maximum of 48 months. Provided you pass the necessary AML checks, you can access the platform from anywhere in the world. The company is fully compliant with the French regulatory framework, is supervised by the AMF, registered with ORIAS and a member of the Financement Participatif France association.

*Fundimmo* debuted in 2014 and has since raised €65 million and financed 119 commercial and residential properties. It is one of the pioneering real estate crowdfunding platforms as it boasts a simple website that helps beginners and professionals take their first steps into the French lending market. In terms of compliance, the company operates under a Consultant of Participative Investment (CIP) license issued by the Financial Markets Authority and is

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<sup>217</sup> The position of crowdfunding investors in the bankruptcy procedure of the company can be affected if the ad hoc company is subject to bankruptcy proceedings and they are less protected than the bank. The investors are holders of an "ordinary loan" or even a subordinated loan and therefore have no preference when it comes to recovering their contributions, both in the case of crowd-lending and crowd-investing. Moreover, if a mortgage loan were necessary to purchase the property, the bank would be paid preferentially. A practical example of this risk happened with the failure of two real estate crowdfunding developers in Germany in 2017. Zinlands was the platform where these two projects were published; now the investors are involved in insolvency proceedings, trying to recover the value of their subordinated loans.

registered with ORIAS. It offers a ROI of up to 12% and has no secondary market; the minimum investment amount is €500 or €1,000 depending on the project. Fundimmo aims to break the barriers to starting investment in real estate. The company stands out due to its impressive deal flow and wide selection of investment opportunities. In addition, the platform caters to both short-term and medium-term investors, as it makes loans from 3 months up to 10 years, allowing the investor to diversify according to their desired risk-return horizon. In terms of risk mitigation, the company has not suffered any capital loss since its foundation. They employ the best safeguards by keeping investors' funds separate from their own. They also create an ad hoc intermediary company for each project to hold the funds and transfer them to the borrower, so all parties are better protected.

*Koregraf* is a platform founded in 2014 that has created its position as the bearer of an innovative solution to the unhealthy bureaucracy that has dogged the French real estate market for years. The platforms can best be categorized as an exclusive gateway to the French real estate market and is aimed at investors with enough cash on hand to lend a minimum of €2,000, placing it at the top end of the booming world of French real estate crowdfunding. It offers ROI of up to 10%, has no secondary market and operates only in France. Despite being a medium-sized player facing intense competition from much larger competitors, Koregraf has seen a growing user base and a rapid increase in offers on their market. The platform boasts a clean track record with zero defaults recorded, giving a clear indication of the quality of their work. Membership of the platform is free and no commissions are deducted from the investor's earnings. However, the remarkably high minimum investment considerably reduces diversification options compared to other platforms that allow significantly lower minimum investments.

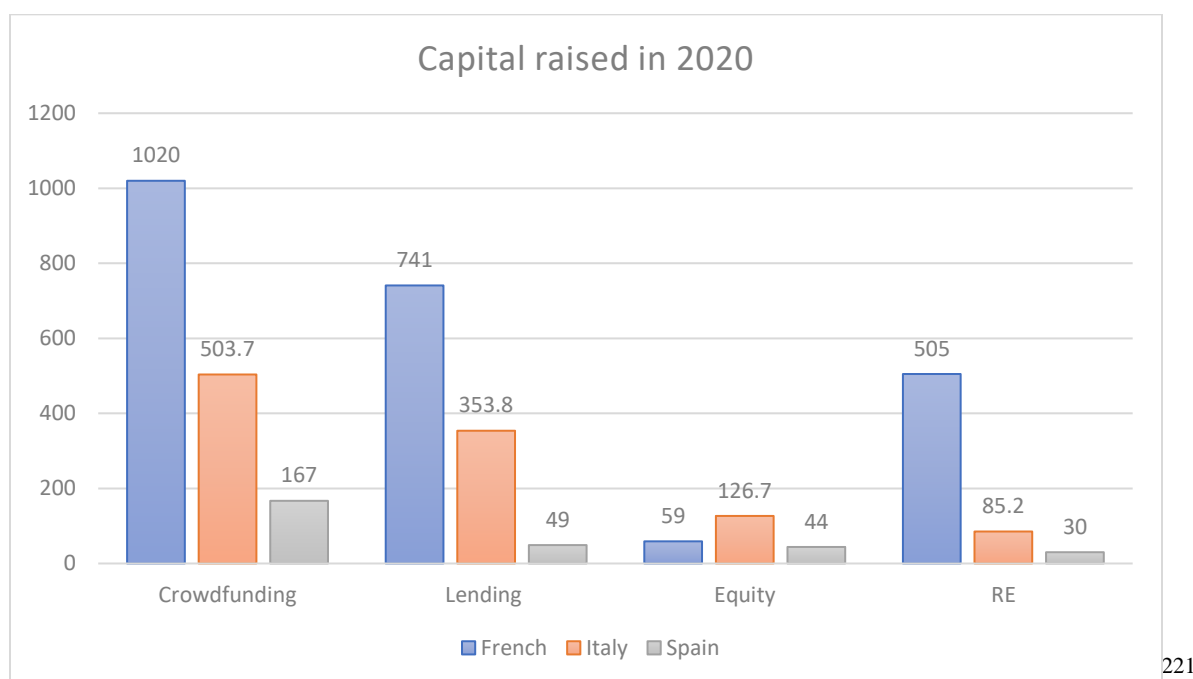
*Baltis Capital* is a real estate crowd investing platform founded in 2015 that focuses on companies and hotels. The company is owned by three partners who have very different resumes. In addition to their business experience, five professionals from different sectors, including finance, technology, real estate, and hospitality. They help select the projects that are listed on this platform. All properties are located in France only. Investors indirectly pay management and success fees to Baltis Capital through the project. It has no secondary market;



the minimum investment amount is €5,000 and it only operates in France. Unlike typical crowd investing platforms, the minimum investment limit of this platform is relatively high. When you invest in the real estate of a company or hotel, you get annual returns based on the profits of the property in question. It only allows investments in shares of simplified joint-stock companies. Rates of return vary for each project, which usually last between 5 and 10 years. Investors receive semi-annual reports on their investments and are invited to a General Meeting of Shareholders once a year.

### 3.5 Comparison between Italy, Spain, and French

The comparison of the amounts raised through crowdfunding shows that France has the most developed market, followed by Italy and Spain, were collected respectively: €1020 million<sup>218</sup>, € 503.7 million<sup>219</sup> and € 167 million<sup>220</sup>.



<sup>218</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-2020>

<sup>219</sup> Politecnico di Milano 1863 School of Management, *Above*, (2021)

<sup>220</sup> Á. González, J. Ramos, *Above*, (2020)

<sup>221</sup> Figure 48: <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-2020>

Politecnico di Milano 1863 School of Management, *Above*, (2021)

Á. González, J. Ramos, *Above*, (2020)

It is essential to underline that RE crowdfunding is particularly developed in France: 49.5% of the total funds raised through crowdfunding are directed to real estate projects<sup>222</sup>. In Italy, it is 16.9%<sup>223</sup> and in Spain 17.9%<sup>224</sup>.

France has the most developed market for all the sectors analyzed in the chart except for the equity segment, more developed in Italy. The lower volumes of funds raised in Spain can be partly attributed to the crisis caused by COVID-19 because while the Italian and French markets continued to grow in 2020, the Spanish market collapsed with 16.85% fewer funds raised than in 2019.

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<sup>222</sup> <https://blog.fundimmo.com/barometre-crowdfunding-immobilier-2020>

<sup>223</sup> Politecnico di Milano 1863 School of Management, *Above*, (2021)

<sup>224</sup> Á. González, J. Ramos, *Above*, (2020)

## ***CHAPTER 4 CROWDFUNDING CAMPAIGN PLANNING***

### **4.1 Phases of the campaign**

Crowdfunding initiatives are called "campaigns," and this designation is certainly not left to chance because each initiative requires:

- a scrupulous preparation
- awareness that even the best plan can fail or encounter problems
- intelligent allocation of resources

Each crowdfunding campaign is different from the others, so it is impossible to create a guide, but it is possible to determine the factors that characterize successful campaigns.

Crowdfunding campaigns can be divided into three main phases:<sup>225</sup>

- 1) pre-launch phase
- 2) launch and management of the campaign
- 3) phase after the closing of the campaign.

#### **4.1.1 Pre-launch phase**

The pre-launch phase is the most important because the company must produce all the content and information regarding its expectations. The preparation must be precise and complete with all the information necessary for the investor to be aware of the project's risks.

The first and essential element to be defined is **the objectives and timeframe** within which the project and the collection must be concluded. All the goals to be achieved and the funds needed to carry out the project need to be determined. As far as the latter are concerned, even if RE projects tend to require higher amounts of funding than non-RE projects, it is still advisable to try to aim for targets that are not too high because they may discourage investors from investing as, realistically, the project is less achievable.

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<sup>225</sup> Ikosom UG, *LA CASSETTA DEGLI ATTREZZI DEL CROWDFUNDING PER LE PMI*, in partnership with Interreg Central Europe CrowdFund-Port CE575

Another element to be defined is the **project's duration**; this is primarily determined by the type of project, the objectives and in part also by the platform. It is always necessary to consider the time needed to raise the funds and the forces required to maintain the promotional program over time; however, on the one hand, longer campaigns could lose steam and might end up becoming repetitive and on the other hand, could demotivate backers, who are instead stimulated by time constraints.

**Choosing the right platform** is an essential step that can influence the campaign's outcome because there are platforms that differ in terms of models, aims, values, and functionalities. The choice of platform is subordinate to that of a specific crowdfunding model: one cannot opt for an equity-based platform when looking to carry out a debt-based campaign. Once the type of platform has been determined, it is advisable to choose one that follows the values and functions of our project. For example, if the promoter is in financial difficulty, it is advisable to finance the initiative with *Rendimento Etico* because it is a platform with the ethical purpose of providing support to those experiencing financial difficulties, restructuring mortgage debts contracted by individuals and businesses that have difficulty honouring their commitments. On the other hand, if we are doing a project in a tourist location, it is advisable to fund it with a platform like *Brickstarter*, an equity-based platform specializing in vacation rental properties.

**Study other projects**, analysing success and failure cases of projects similar to the one that is to be launched, can be very useful in order to learn valuable lessons and avoid unnecessary mistakes. Reasons can vary from poor or ineffective communication, incomplete project description, lack of differentiation from other projects, etc.

**Another factor to consider is the communication strategy**; the two main communication elements are: video and written content<sup>226</sup>.

The video is often at the heart of the communication of a crowdfunding campaign: every project on any platform should be accompanied by a visual presentation. If well made, it can be one of the most powerful hooks and persuasive elements that planners can have:

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<sup>226</sup> Steven dresner, *Crowdfunding A Guide to Raising Capital on the Internet*, (2018), p. 130-134

- The video has the ability to convey information and emotions in a shorter time than the written form
- It can adopt more extravagant and eccentric tactics
- It can make the whole set-up more attractive

As far as the written part is concerned, all the elements of explanation and insight are to be included on the project page. A solid description of the idea, its characteristics, objectives, timeframe, and budget is essential to provide all the elements necessary to help potential investors make their choice. In addition to creating honest and comprehensive content, it is essential to capture attention with convincing headlines and openings and then present information in thematic sections that precisely define the topics to be covered. It should always be borne in mind that the rules of simplicity and brevity apply to online writing using the division of text blocks into easily assimilated sections. Images and screenshots can be useful to complete and supplement the written part, as they break up the walls of words and supplement the information provided, underlining key passages.

The necessary information that an RE crowdfunding campaign should focus on are:

- The project description must contain all necessary information. For example: the conversion of an industrial building, through refurbishment, into a residential complex; where the building is located; how the building is to be renovated; the commercial surface area after completion of the work, whether there are any external facilities such as parking spaces; all the necessary documentation for the deed of sale and any permits from the municipality; the minimum investment, how to make payments, the project's duration, estimated overall ROI and estimated annual ROI; the eventual market analysis to intercept the interest of the project on the market.
- A detailed description of the location informs the investor about the history and characteristics of the building and its neighbourhood.
- The analysis of the real estate market with reference to the micro-area in which the property is located, focusing in particular on the trend of transactions by comparing the

types of buildings and flats that offer a higher CAGR in sales. For example, the suburbs of Milan have recorded a higher growth rate of transactions than the municipal average. Price trends by analysing the variation of prices in the various zones.

- The presentation describes the characteristics of the building before and after refurbishment and the time schedule containing all the renovation works that will be carried out month by month.
- A paragraph containing all the reasons why the investor should invest in the project.
- The floor plans of the renovated building.
- All financial data: the income statement (costs and revenues), the company's financial structure (the equity structure between the equity developer, equity crowdfunding and possibly a bank or debt), and the expected ROI.
- The information about the company, i.e., its characteristics, history, company name, directors, capital, all that information about the company that can encourage an investor to invest.
- A dedicated Q&A section to allow investors to resolve their investment doubts and questions.

Sharing and sociability in a crowdfunding campaign are crucial, so it is necessary to **create an online presence and a target audience**: it is essential to gain people's confidence before launching the campaign; this will help to obtain the necessary funds to realise a successful business idea. Success is always linked to good online public relations work, so a strong presence on social networks is a must. These, together with the personal profiles of the developers and their connections, should be the starting point for trying to gather the first circle of contacts. Securing an initial group of backers before opening the campaign is an excellent way to ensure a good start and begin to generate interest in it from the outset, testing projects beforehand.

Before the campaign's launch, to avoid it turning into a failure, it is a good idea to **check and double-check** everything. Check the substance, the correctness, and the flow of the narrative. It is of course, possible to intervene in any element even after the campaign's launch, but if it is possible to do it earlier, it is undoubtedly better.

Last thing to consider is the timing. When the launch date is chosen, it is important to consider the calendar and any other events that might slow down or promote the campaign. For example, when the time for the launch is chosen, one must keep in mind that the opening time determines the closing time e.g. launching the campaign and then closing it at 5 a.m. could dampen the 'last minute' effect generated in the closing hours of campaigns, which often leads to a surge in collections.

#### **4.1.2 Launch and management of the campaign**

Once the campaign has been launched, support will begin to arrive, both in terms of funding and dissemination, from first-level supporters. Throughout the campaign, it is necessary to keep attention and discussion around the project alive, always trying to be present to answer questions, update information, post news and press reviews. Not a single day can go by without something exciting happening in the campaign universe. It is a priority to keep the dialogue open with all stakeholders, both positive and negative. In some platforms (IndieGogo Kickstarter), “take it all” if it does not reach the target by the end of the campaign, it is possible to collect only the collected part, but this is not so for all platforms. Time will therefore be an essential element to be considered to manoeuvre the various levers in case of need, trying to intervene during the campaign.

The work of presentation does not end with the description of the project, the video and the other elements prepared, but continues as the days go by creating involvement with behind-the-scenes reports and updates on the project being the best way to keep high engagement and create trust in backers, showing that the campaign is present and active. The work, however, is not limited to following comments and discussions: throughout the duration of the campaign, it is important to carry out marketing and advertising work by maintaining relations with media of all kinds. Alongside the social work, it is necessary to reinforce the campaign with dissemination through more traditional forms of information, i.e., through the press, magazines, blogs, and sector websites. A favourable article in a newspaper or a specialised blog can generate a surge of attention around the project and, more importantly, adds value in terms of credibility and potential dissemination by significantly increasing the potential for collection: it

is always practical to draw attention by sharing a positive piece from a recognised and authoritative source.

The support that can come from opinion leaders and authoritative figures in the reference sector, makes the Twitter tool invaluable: it can give excellent results in terms of support and visibility by following influential figures and institutions, trying to open up a conversation with them that can lead in a meaningful way to discussion about the project (avoiding, of course, spamming).

The activities to be carried out during the venture are obviously not limited to dissemination: the monitoring aspect is also crucial. Setting ongoing goals and evaluating their success or otherwise will help both to manage progress and to keep the level of attention high, indicating positive and negative behaviour and activities, to be replicated or eliminated.

#### **4.1.3 Post-launch**

Once the campaign is over, the work does not end: there are still activities and interactions to carry out, whether the campaign is successful or not. First of all, the promoter should thank the crowd, preferably with personal messages to each backer: they trusted the promoter, they supported the idea and invested money, so a “thank you” is the minimum. The promoter shall thank the supporter for the donation via public post or newsletter; of course, the promoter may also thank the supporter, even placing a small plate with the names of the most generous backers.

Then comes the time to collect information, both on the progress of the campaign and on the commitments to be honoured. After the end of the campaign, it is also necessary to keep in touch with the crowd, which will then migrate to a dedicated blog or website, since the life phase on the platform is over. On this new basis, exchanges, reports, new proposals, and updates on the status of the project must continue.

#### **4.2 The main actor**

Several actors are involved in Crowdfunding. The main actors are initiators (individuals or start-ups searching funds), crowdfunding platforms (organizations that enable direct interactions between project initiators and providers), and investors (people keen on providing



funds to finance projects) while advisors, money exchange intermediaries and supervisory authorities offer support or advisory service<sup>227</sup>.

#### **4.2.1 The initiator**

A wide variety of terms have been used in the literature to represent those individuals who post their idea on a CF platform to receive funding: examples of these are "creator", "borrower", "entrepreneur", "enterprise", "founder", "owner", and "start-up".

Usually, those initiators come from a range of backgrounds and have a wide scope of objectives. Fundraisers have many incentives and motivations to use CF. The ultimate goal is to raise the capital and financial resources needed to realize the project/business idea, creating an alternative to traditional finance. In detail, equity-based CF gives companies with limited funds available the opportunity to launch a successful campaign, which would not receive funding from traditional financial institutions.

A widespread practice for companies is to use CF in the early stages of business and demonstrate their creditworthiness through their successful campaigns and thus facilitate their access to bank loans or other forms of traditional finance in future fundraising rounds. CF can then provide a springboard for further funding, possibly through other channels<sup>228</sup>. In addition to raising capital, entrepreneurs can use CF to understand what the market thinks of a specific idea, gain exposure for future funding, gain validation, and build relationships by fostering open communication and collaboration with funders. CF has also been used by entrepreneurs for marketing purposes, trying to stimulate and create interest in the project at an early stage of development by testing market reactions even before the product launch<sup>229</sup>.

Creators may choose to fund themselves through CF rather than using more traditional forms of finance because of two incentives: a lower cost of capital and access to more information. Regarding the lower cost of capital, founders usually access capital for early stage businesses from personal savings, friends and family members, personal credit cards, home equity loans, angel investors and venture capitalists. In some cases, CF can allow creators to access capital at

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<sup>227</sup> <https://www.crowd-funding.cloud/it/gli-attori-del-crowdfunding-500.asp>

<sup>228</sup> K. Buysere O. Gajda R. K. Dan Marom, *Above*, (2012), p.12-14

<sup>229</sup> Tanya Beaulieu, Suprateek Sarker, Saonee Sarker, *A Conceptual Framework for Understanding Crowdfunding*, (2015)

a lower cost than traditional sources due to two factors. First of all, due to its internet-based nature, FC allows access to capital through a global and extremely large pool of possible lenders, avoiding the classic problems of localisation typical of traditional offline financing mechanisms. The second reason is that, some platforms facilitate a hybrid approach and allow creators to combine the sale of equity with other rewards<sup>230</sup>.

As far as information is concerned, CF is an excellent tool for marketing and information gathering, providing information on post-launch demand and enabling better forecasting of success. This can apply to both RE and non-RE projects as good campaign participation show investor interest in the project, gives validation on the validity of the project and raises awareness and motivates the proposer to improve. In addition, CF provides investors with a mechanism through which they can receive input and feedback on their business plan from users and investors, thus facilitating the proper development of the idea by getting feedback on some of the most critical parts of the business plan before its implementation. For this reason, CF is an incredibly effective way of assessing whether a product or idea has mass appeal<sup>231</sup>.

Regarding the profile of entrepreneurs, they can be classified according to 2 degrees of experience: business experience and project experience. Entrepreneurs with business experience have started previous businesses or have been involved in start-up companies and better understand what it takes to make a business from the initial idea to running an enterprise. The second type of experience is related to the project itself. Sometimes the founding team of a business/product is quite diverse and includes both people with business and product experience<sup>232</sup>.

#### **4.2.2 The platform**

The process behind CF campaigns can be complex, especially when the number of backers and micropayments is high. Since most founders are neither experienced nor interested in managing this process, they rely on CF platforms. Their task is to facilitate interaction and communication between investors and companies. Some CF platforms (Kick starter,

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<sup>230</sup> Ajay Agrawal, Christian Catalini, Avi Goldfarb, *Some Simple Economics of Crowdfunding*, (2014)

<sup>231</sup> K. Buysere O. Gajda R. K. Dan Marom, *Above*, (2012)

<sup>232</sup> T. Beaulieu, S. Sarker, S. Sarker, *Above*, (2015)

Produzioni Dal Basso, MAMACROWD...) only offer an environment where companies can present their projects and where investments are collected. On the contrary, other platforms (Eppela, October, Rendimento Etico) also offer services such as organizing public relations and making arrangements with micro-payment providers. Sometimes they offer other value-added services, such as the provision of services to investors. Occasionally they provide other benefits besides the simple facilitation of financing such as due diligence, consulting, management of a co-investment fund, search for co-investors<sup>233</sup>.

CF platforms receive applications from project owners and then decide which projects to publish on the website through careful selection and due diligence. Usually, the pre-selection process consists of checking the background of the project owner, and through a quick review, they verify the feasibility of the project and the likelihood of a successful campaign. Once the online platform accepts a project, the company has the task of defining a funding target in a given period and an online "pitch", in which the founder presents his project to potential funders. Fundraisers often use social networks to access a broader range of possible backers. The campaign is funded directly on the platform. CF platforms are predominantly for-profit enterprises. Therefore, their objective is to make profits through commissions of 4-5% to 10% or more, depending on the country, of the total funding on the capital raised. *Seedrs* is a UK equity crowdfunding platform that charges a 6% commission on the first £150,000 raised, 4% on the next £300,000 and 2% for investments over £500,000. *Kickstarter* charges a 5% commission for each campaign that reaches its target, *Indiegogo* charges commissions of 4% on every campaign that reaches its goal; 9% on campaigns that don't reach their goal.<sup>234</sup> Their objective is to maximize the number and size of successful projects. CF platforms differ not only in the CF model applied but also in the structure of the campaigns they host. In particular, CF campaigns can take different forms: All Or Nothing<sup>235</sup>, Take it all<sup>236</sup>, All and more<sup>237</sup>, Step by step<sup>238</sup>, Recurring<sup>239</sup>, which differ in their fundraising strategy.

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<sup>233</sup> Joachim Hemer, *A Snapshot on Crowdfunding*, (2011), p. 8-15

<sup>234</sup> <https://taxplanning-internazionale.com/le-10-migliori-piattaforme-di-crowdfunding-del-2020/>

<sup>235</sup> wherein investors receive the funds only if the campaign has reached the minimum goals

<sup>236</sup> wherein investors receive all the funds collect even if the minimum capital requirement has not been reached

### 4.2.3 The investor

Funders are the other most important actors in the CF ecosystem. As mentioned in the previous section, the role of the funders goes beyond simply contributing money: they also play a role in testing the market for the project and providing an opinion and possibly some advice as to whether the project is worth pursuing<sup>240</sup>. There are different motivations for backers to participate in a CF campaign. Either out of altruism or in exchange for financial benefits. These benefits vary according to the type of crowdfunding chosen and the backer's needs, such as their risk aversion and expected return. Depending on their reward expectations, backers will select the CF model that best suits their needs. Considering some benefits for backers, one of the most significant incentives is to access investment opportunities by becoming a shareholder of a company, even if this incentive is only valid for equity CF. Another incentive, is the possibility to have early access to the new product, but almost exclusively in the case of reward-based CF, through the pre-purchase of products before they go to regular customers, although this model is not widely used for RE projects. Funders can also enjoy the benefits of community participation; for many funders, investing in a CF platform is an inherently social activity, and investing capital to gain preferential access to the creator and gain their recognition within the community. The formalization of contracts is seen as an incentive for funders because, through the intermediation of CF platforms, it is possible to formalize participation in the investment by friends and family<sup>241</sup>.

### 4.2.4 The advisor

In addition to the platforms, there are all those consultants that accompany the designer in the crowdfunding campaigns. These specialists can be divided into two categories: classic and

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<sup>237</sup> which is a recent model used only by a few numbers of platforms; it is not dissimilar to the “take it all” with one difference: the borrower is exempt from paying taxes on the funds collected only for that fraction of the capital that exceeds the predetermined amount

<sup>238</sup> this is a less used model and is characterized by the fact that there is no single goal, but the project is divided into more goals/steps; the borrowers receive the funds only when each step is reached. This model can be used only when each step can be reached separately from the other

<sup>239</sup> this strategy can be used only in donation and reward-based and is designed for a campaign which needs to collect capital for a non-determined period because the project has no expiration; therefore, not even an amount of capital to reach is specified. This model is based on a method of subscription and is especially useful for periodic content creators such as bloggers, freelancers, reporters etcetera

<sup>240</sup> T. Beaulieu, S. Sarker, S. Sarker, *Above*, (2015)

<sup>241</sup> A. Agrawal, C. Catalini, A. Goldfarb, *Above*, (2014)

new. Classical advisors generally coincide with lawyers, accountants, and notaries or, in any case, with similar professionals offering legal and financial advice. The new advisors, on the contrary, are linked to the world of web and digital marketing, are mainly involved in the management of communication and promotion of the campaign and are specialized in online communication<sup>242</sup>.

New consultants have also included companies specializing in providing support for the design and execution of national and international campaigns. This new type of advisor aims to offer a 360-degree consultancy for every need and every kind of crowdfunding. Unifintech and Crowd Advisor are two companies that offer this new type of advice<sup>243</sup>. They provide services for: financial strategy, business plan, legal support, communication, AIM listing, data processing centre, cloud platform rental, custom software development, research, and development consultancy<sup>244</sup>.

There are three types of crowdfunding consultants based on their compensation fee structure<sup>245</sup>:

- 1) Hourly rate or fixed cost consultants: these consultants either charge an hourly rate or a fixed amount for their services. They may also charge a consultation fee for the initial discussion or ask you to pay a certain amount in advance for a project. The advantage of this method is that you know all costs in advance as well as the attention and time the consultants will devote to the campaign. In addition, they will not cut earnings if the campaign is an overwhelming success because compensation through commission fees in case of a very successful campaign can be costly as consultants are paid as a percentage of the total funds raised. However, this can also prove a disadvantage because the consultant has little incentive to give their all to make the campaign successful. Whether you are successful or not, they have already had their pay.
- 2) Commission-based consultants: these consultants use a commission-based fee. They receive a certain percentage of the funds raised after the campaign is successful. The

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<sup>242</sup> <https://www.crowd-funding.cloud/it/gli-attori-del-crowdfunding-500.asp>

<sup>243</sup> <https://www.unifintech.it/offerta/>

<sup>244</sup> <http://www.crowdadvisors.net/>

<sup>245</sup> <https://www.easyship.com/blog/should-you-hire-a-crowdfunding-consultant>

advantage of this model is that initial costs are avoided and that the consultant has an incentive to make the project successful since their pay is based on it. However, the disadvantage is that there is a free-rider effect: sometimes, the campaign's success may not be directly linked to their action, but they will still get their share.

- 3) Hybrid advisers: These advisers are a mix of the first two, so they charge part-hourly or fixed-rate fees initially and receive a commission on the funds raised after a successful campaign. Their fees are lower than those charged by hourly or fixed-fee consultants and commission-based compensation consultants. The advantage of these consultants is that they receive an initial pay, which is good for focusing their attention and time on your project, and a commission that acts as an incentive to work hard and make the project successful.

#### **4.2.4.1 Pros and cons of hiring a consultant**

There are several advantages and disadvantages to hiring a consultant. Working with a team of consultants is a great way to transfer knowledge and digital marketing that can be useful once the crowdfunding campaign is over.

The first thing to do is to assess the business needs and objectives of the campaign and outsource the relevant tasks to consultants with the experience to elevate the campaign.

The advantages of hiring a crowdfunding consultant are<sup>246</sup>:

- Knowledge and experience: they have expertise and experience built up over years of working in crowdfunding.
- A wide knowledge network: crowdfunding agencies often have a vast knowledge network, including influencers and journalists who can help the campaign gain visibility.
- Crowdfunding consultants can help the company reach a higher funding target while maximizing ROI.
- Build the brand: working with the best consultants helps you develop a strong portfolio of digital materials such as trusted marketing insights, marketing strategy, audience data

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<sup>246</sup> <https://www.easyship.com/blog/should-you-hire-a-crowdfunding-consultant>

and visuals that can help you build a bigger brand and continue to grow your business after the crowdfunding campaign.

However, hiring consultants also has disadvantages:

- Additional costs: hiring a good crowdfunding consultant who will bring value to your campaign is not cheap, so it is essential to consider their fees, such as commission of funds raised, hourly rate, or a fixed cost.
- Once the campaign is over, the consultant will leave everything to you and your team, and you will start to manage all the activities yourself.

Analyzing the pros and cons of hiring a crowdfunding campaign consultant, I believe that it is almost always advisable to rely on the help of an expert because carrying out a crowdfunding campaign can bring with it many challenges and complications and taking into account the extremely positive impact that a successful campaign can have, it is advisable for the company to do everything possible to achieve it. Also because hiring Commission-based consultants will have an impact on finances only if the campaign is successful.

#### **4.2.5 Money exchange intermediaries**

Money exchange intermediaries are entities that manage online payments. The platforms usually rely on external providers both online world (Lemon Way, Mango Pay) and the traditional banks, to manage money transactions between financiers and designers<sup>247</sup>. Lemon Way and Mango Pay are two payment institutions used by some of the platforms operating in the Italian and Spanish markets.

**Lemon Way**<sup>248</sup> is an authorized payment institute created to simplify even the most complex payment transactions, explicitly designed for marketplaces (B2B, B2C and C2C) and crowdfunding platforms: it integrates multiple payment methods. It enables its partners to receive payments from anywhere in the world. The collection on behalf of third parties is its main activity and allows industry actors to comply with the regulations, requiring a trusted

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<sup>247</sup> <https://www.crowd-funding.cloud/it/gli-attori-del-crowdfunding-500.asp>

<sup>248</sup> <https://www.lemonway.com/it/>

intermediary to collect and allocate funds among stakeholders. Therefore, it represents a solution both as a technological and financial enabler and regulatory<sup>249</sup>.

Regulatory limits and local specificities:

- Making payment agents platforms exempt from fundraising makes it possible to meet the rules required by regulations related to the collection for third parties and the provision of funds.
- It also allows KYC<sup>250</sup> checks and fraud prevention
- procedures to be carried out in real-time, both for natural and legal persons.

Offers numerous modalities of payment:

- To raise funds, it integrates the leading alternative and international payment methods (Visa and MasterCard bank cards, Sepa Credit Transfers, Sepa Direct Debits, Sofort, Paylib, bank cheques, Pagaré, iDeal,...).
- Allows use of up to 14 different currencies, including (USD, EUR, GBP).

Reconciliation of payment flows:

- Acts as treasury through automatic reconciliation of flows.
- Allows funds to be allocated to different beneficiaries.
- Manages the allocation of commissions.

**MANGOPAY**<sup>251</sup> is the payment solution designed for marketplaces, crowdfunding platforms and fintech companies.

Unlike more traditional forms of payment, it offers its customers a white-label API, which is fully customizable and easy for developers to use.

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<sup>249</sup> <https://www.fintastico.com/services/reviews/lemon-way/>

<sup>250</sup> stands for Know your customer and are checks on customers to avoid fraud.

<sup>251</sup> <https://www.mangopay.com/it/>



It allows customers to monitor their transactions virtually in real time thanks to an accessible dashboard, with which it's possible to manage commissions, users, e-wallets, and financial reports<sup>252</sup>.

Main functions:

- Payment methods adaptable to different markets: this allows the platforms to customize the user's journey to best suit their requirements, enabling users to make payments worldwide.
- E-wallets and "ibanization": can link an IBAN code to e-wallets allowing you to create a payment flow that matches the different requirements and specificities of each platform.
- White-label technology to customize payments: MANGOPAY technology integrates seamlessly into websites and mobile applications and allows users to select the payment methods that best suit their products and users.
- User verification: automated identity-check.

In particular, for donation crowdfunding, it allows donations to be collected, funds to be held securely, and users and donations to be verified.

For equity crowdfunding, MANGOPAY offers protected investment payments, allows IBANs to be linked to e-wallets and verifies project holders.

Finally, for loan crowdfunding, MANGOPAY ensures that the platform facilitates loans and helps manage deposits and acquire mortgage payments in compliance with local regulations.

#### **4.2.5.1 Crowdfunding and cryptos**

Cryptocurrencies can be used both as a financing tool and as a means of payment in crowdfunding.

As a financing tool, this is the case of *Opstart*, which also accepts Bitcoins (BTC) to finance Equity Crowdfunding campaigns on its platform. The platform offers the possibility of associating a Bitcoin (BTC) wallet to one's account and then deciding when subscribing to an investment whether to pay in fiat currency (euro) or cryptocurrency (Bitcoin).

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<sup>252</sup> <https://www.fintastico.com/it/servizi/reviews/mangopay/>

A startup can issue token thought and ICO as a means of payment. It is the parallel version of IPOs, which uses DLTs, such as the Blockchain. Tokens are cryptographically secured and benefit from the inherent characteristics of DLTs on which they are built, such as transparency, security and immutability of the ledger given its distributed and shared nature.

Even if the ICO process is not standardized, the following are the main steps:

- a startup, a company, or the developing team of a project not yet incorporated, announces to the public their intention to perform an ICO, the offering terms and conditions through a non-standardized offering document, the so-called “*white paper*”;
- during the ICOs, investors buy some of the project’s tokens with fiat or digital currency;
- if the offering is successful and the minimum fundraising target floor is reached, the money raised is used to pursue the goals of the project, otherwise, money is returned to investors, and the ICO is deemed unsuccessful (smart contract<sup>253</sup>).

The issuer is usually a startup that intends to finance the development of a service. As in a reward crowdfunding campaign, rewards are given in return for the funding provided by investors, which consists of “tokens”. The functioning of the tokens is guaranteed by an authentication system based on blockchain and smart contracts. Typically, with the tokens purchased, the backer can use the services offered by the startup that issued them (e.g., purchase of discounted products, access to cloud storage, access to online games).

A token can also grant property rights such as the right to share the profits generated by the company that issued the tokens, in which case the ICO becomes similar to equity crowdfunding or lending crowdfunding and should be subject to the rules and laws governing the solicitation of public savings<sup>254</sup>.

#### **4.2.6 Supervisory authorities**

According to the laws of each Nation, these are the entities that have the task of supervising specific sectors. As far as crowdfunding is concerned, the central supervisory bodies in Italy

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<sup>253</sup> Are automated scripts that execute certain transactions upon satisfaction of (pre-defined) conditions. In other words, they are computer programs that can carry out the terms of the agreement between parties without the need for human coordination or intervention.

<sup>254</sup> <https://www.crowdfundingbuzz.it/blockchain/>

are Consob and Banca d'Italia; in Spain, The National Securities Market Commission (CNMV) is the body responsible for the supervision and inspection of Spanish securities markets and the activity of all those involved in them, the main guarantors of financial activities in France are the AMF (Autorité des Marchés Financiers) and ACPR (Autorité de Contrôle Prudentiel et de Résolution). In addition to these, in the European context, the main supervisory bodies are European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA) although it is not an official supervisory body, it is worth mentioning the European Crowdfunding Network (ECN).

#### **4.2.6.1 European supervisory authorities**

The main European supervisory bodies are: European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA) and for crowdfunding the European Crowdfunding Network (ECN).

The main objective of the **EBA** is to create the European Single Rulebook in the banking sector through the adoption of technical standards and guidelines. The Single Rulebook aims to create a single set of harmonized prudential rules for financial institutions operating in Europe, helping to create a level playing field and providing high protection for depositors, investors, and consumers. It also promotes convergence of supervisory practices to ensure a harmonized application of prudential rules. Finally, the EBA has the mandate to assess the risks and vulnerabilities of the EU banking sector through regular risk assessment reports and pan-European stress tests<sup>255</sup>.

The EBA is represented by its Chair, whose role is to prepare the work and lead the discussions at the Board of Supervisors' table. While the executive director is in charge of preparing board meetings and ensuring the day-to-day operational work of the Authority.

The two governing bodies of the EBA are<sup>256</sup>:

- The Board of Supervisors (BoS) which is the main decision-making body of the Authority, takes all the policy decisions of the EBA. At the same time, decisions on

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<sup>255</sup> <https://www.eba.europa.eu/about-us/missions-and-tasks>

<sup>256</sup> <https://www.eba.europa.eu/about-us/organisation>

more specific issues related to the resolution of financial institutions have been delegated to the Resolution Committee (ResCo).

- The Board is responsible for ensuring that the Authority fulfils its mission and pursues its objectives. In this regard, it is entrusted with the power to propose, among other things, the annual work program, the annual budget, the staff policy plan and the annual report.

It is worth noting that to protect the rights of the parties involved in the decisions taken by the EBA, a Board of Appeal has been set up.

**EIOPA** is an independent advisory body to the European Commission, the European Parliament, and the European Union Council. Through its advisory work, it helps shape informed policy and legislation at the European and national levels. Its mission is to protect the public interest by helping to ensure the short-, medium- and long-term stability and effectiveness of the European financial system. It seeks to achieve its objective by promoting a sound regulatory framework and consistent supervision of the insurance and occupational pensions sectors in Europe<sup>257</sup>.

The **ESMA** is an independent EU authority that helps safeguard the stability of the EU financial system by improving investor protection and promoting stable and orderly financial markets.

ESMA's objectives are:

- assessing risks to investors, markets and financial stability;
- complete a single rule book for EU financial markets promoting supervisory convergence;
- supervising credit rating agencies, trade repositories and securitization repositories.

ESMA seeks to promote supervisory convergence among the Member States' National Competent Authorities (NCAs) responsible for supervising securities and capital markets and aims to do so in all financial sectors by working closely with the other European authorities

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<sup>257</sup> [https://www.eiopa.europa.eu/about\\_en](https://www.eiopa.europa.eu/about_en)

EBA and EIOPA. Nevertheless, ESMA as an independent authority, is accountable to the European institutions for its activities. The Authority reports to the institutions on its activities regularly at meetings and also through its annual report<sup>258</sup>.

EUROCROWD, registered as **European Crowdfunding Network AISBL (ECN)** in 2013 in Belgium, is an independent and professional business network promoting proper transparency, regulation, and governance in digital finance<sup>259</sup>.

It carries out initiatives to innovate, represent, promote, and protect the European crowdfunding industry as a key aspect of innovation within alternative finance and financial technology, including crypto assets and distributed ledger technologies.

Its mission is to:

- Promote crowdfunding as a viable offer for job creation, social innovation and entrepreneurship drive to the European public, policymakers and stakeholders;
- Provide resources, professional support and a forum for collaborative crowdfunding action;
- Publicize community successes and promote innovative financial solutions for financing social and business projects;
- Create and influence political discourse regarding crowdfunding within the European Union.

#### **4.2.6.2 Italian supervisory authorities**

The central supervisory bodies in Italy are Consob and Banca d'Italia. The **Consob** is the supervisory body of the Italian financial market. It verifies the transparency and correctness of operators' behaviour to safeguard the financial system's confidence and competitiveness, protect investors, and ensure compliance with financial regulations. Consob supervises to prevent and, where necessary, sanction any misconduct; it exercises the powers granted by law so that savers are provided with the information they need to make informed investment choices. It works to guarantee the maximum efficiency of trading, ensuring the quality of prices

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<sup>258</sup> <https://www.esma.europa.eu/about-esma/esma-in-brief>

<sup>259</sup> <https://eurocrowd.org/purpose/>

and the efficiency and certainty of the methods of execution of contracts concluded on regulated markets<sup>260</sup>.

In Italy, equity crowdfunding is regulated by the 'Decreto crescita bis'. In the overall design of the legislator, equity crowdfunding is seen as a tool that can foster the development of innovative start-ups through rules and financing methods that can exploit the potential of the internet. The Decree delegates to Consob the task of regulating some specific aspects of the phenomenon with the aim of creating a reliable environment for the development of the market and creating confidence among investors<sup>261</sup>.

The **Bank of Italy** is the central bank of the Italian Republic; it is an institution under public law, governed by national and European rules. It pursues purposes of general interest in the monetary and financial sector, such as maintaining price stability, the stability and efficiency of the financial system, and other tasks entrusted to it by national law. In Europe, the Bank of Italy is the competent national authority under the Single Supervisory Mechanism for banks and the central resolution authority for banks and securities firms. The bank's governance reflects the need to strictly protect its independence from external conditions, an essential prerequisite for effective institutional action. National and European regulations guarantee the autonomy necessary to pursue the bank's mandate. However, this autonomy is accompanied by stringent obligations of transparency and publicity. The Bank of Italy reports on its activities to the Government, Parliament, and the public by disseminating data and information on institutional activities and the use of resources<sup>262</sup>.

#### **4.2.6.3. Spanish supervisory authorities**

The National Securities Market Commission (**CNMV**) is responsible for the supervision and inspection of the Spanish securities markets and the activities of all those involved. The CNMV was created by Law 24/1988 on the securities market; since then, its regime has been updated to adapt to the financial markets' evolution and introduce new measures to protect investors<sup>263</sup>.

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<sup>260</sup> <https://www.consob.it/web/area-pubblica/consob>

<sup>261</sup> <https://www.consob.it/web/investor-education/crowdfunding>

<sup>262</sup> <https://www.bancaditalia.it/chi-siamo/index.html>

<sup>263</sup> <https://www.cnmv.es/portal/quees/Funciones/Funciones.aspx?lang=en>

The CNMV's mission is to ensure the transparency of the Spanish securities markets and proper price formation and investor protection.

It focuses mainly on companies that issue or offer securities for public placement on secondary securities markets and companies that provide investment services and collective investment undertakings. The CNMV exercises prudential supervision to ensure the safety of operations and the solvency of the system. It actively participates in international institutions such as IOSCO (International Organization of Securities Commissions), ESMA (European Securities and Markets Authority), or the FSB (Financial Stability Board). Similarly, it collaborates with the Ibero-American Institute of the Stock Exchange. To operate crowdfunding platforms, they must obtain the authorization of the CNMV. In addition, lending crowdfunding companies require additional authorization from the Banco de España. The regulation aims to make crowdfunding professional and to minimize the risk of fraud<sup>264</sup>.

#### **4.2.6.4 French supervisory authorities**

The guarantors of financial activities in France are the AMF (Autorité des Marchés Financiers) and ACPR (Autorité de Contrôle Prudentiel et de Résolution).

The **AMF** is the body responsible for ensuring the protection of savings invested in financial products, investor information and the proper functioning of the markets<sup>265</sup>.

The mission of the AMF is to ensure:

- protection of savings invested in financial instruments offered to the public and in any other investment offered to the public;
- investor information;
- ensure the proper functioning of the markets in financial instruments.

In pursuing its mission, it takes into account the objectives of financial stability. The AMF is also responsible for ensuring the quality of the information provided by management companies on their climate change strategy<sup>266</sup>.

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<sup>264</sup> <https://www.cnmv.es/portal/quees/Funciones/Funciones.aspx?lang=en>

<sup>265</sup> <https://www.amf-france.org/fr/lamf/presentation-de-lamf/lamf-en-un-clin-doeil>

In France, banking and insurance supervision is exercised by the **ACPR**. It is an administrative authority independent of external conditions for the exercise of its missions and financial autonomy. The ACPR is supported by the Banque de France, which provides it with its human and IT resources for its operation. Established on 9 March 2010 in the application of the Ordinance of 21 January 2010, the ACP (which became ACPR in 2013) is the result of the merger of the Banking and Insurance Supervisory Authorities and the Supervisory Authorities. The need for this Authority with extended powers arose in response to the new challenges that emerged during the 2008 financial crisis. It is explicitly responsible for ensuring that the financial system's stability is maintained to prevent the occurrence of new financial crises; the ACPR also ensures the protection of the clients, insured persons, and beneficiaries of the persons under its supervision. In addition, the Authority also performs the function of combating money laundering and terrorist financing. On 26 July 2013, the Law on the Separation and Regulation of Banking Activities endowed the ACP with new powers in the field of bank resolution, with the aim of helping to resolve crises at a lower cost; on this occasion, it became the Prudential Supervision and Resolution Authority. While in December 2016, the ACPR's resolution powers were also extended to the insurance sector; this mission takes place in the context of the harmonization of European legislation promoted by the European Insurance and Pension Fund Authority and in which the ACPR is actively involved.

In order to fulfil its tasks, it has the power to adopt administrative police measures and the power to impose sanctions. The ACPR, therefore, has comprehensive powers that can exercise independently, taking into account multiple issues. The support of the Banque de France also allows it to have more resources; its functioning is based on a general secretariat, which brings together all operational departments and several decision-making bodies: a supervisory board, a resolution board, and a sanctions commission<sup>267</sup>.

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<sup>266</sup> <https://www.amf-france.org/fr/lamf/nos-missions>

<sup>267</sup> <https://acpr.banque-france.fr/lacpr/presentation/quest-ce-que-lacpr>



## ***CHAPTER 5 ANALYSIS OF THE MAIN DETERMINANT OF SUCCESS IN A REAL ESTATE CROWDFUNDING CAMPAIGN***

### **5.1 The questionnaire**

During my study on RE crowdfunding, I identified 6 main determinants of success in an RE crowdfunding campaign. To make a more detailed analysis, I decided to carry out a questionnaire to assess the importance of each determinant of success. I interviewed all the managers and founders of RE platforms operating in the Italian and Spanish markets. I want to take this opportunity to thank all the participants of the questionnaire.

The questionnaire consists of 7 questions:

1. Reduction of the information asymmetry is a factor that underlines quality and credibility in a campaign: the more information about the project, the campaign, and the management offered to the investors, the greater is the probability of success.
2. The use of social networks by the campaign's founders has a positive impact on its outcome.
3. Project updates such as detailed information on new financing sources, business development, and a new marketing campaign can positively influence investors.
4. Human capital, education and experience of the management and particularly the past managerial experience of the entrepreneur.
5. The presence of third-party signals such as project awards, intellectual property and partner investors.
6. The amount of capital raised in the first weeks of the campaign, if significant, can positively influence the outcome of the campaign.
7. The seventh question consisted of a blank space where the respondent could add additional determinants of success if he deems appropriate.

In the questionnaire, respondents will be asked to give a grade from 1 (not very decisive) to 4 (very decisive).

### 5.1.2 Analysis of the questionnaire

The questionnaire was answered by 21 people and considering the not particularly high number of RE crowdfunding platforms operating in the Italian and Spanish market, I am very satisfied with the high participation.

Question 1 (reduction of the information asymmetry is a factor that underlines quality and credibility in a campaign: the more information about the project, the campaign, and the management offered to the investors, the greater is the probability of success).

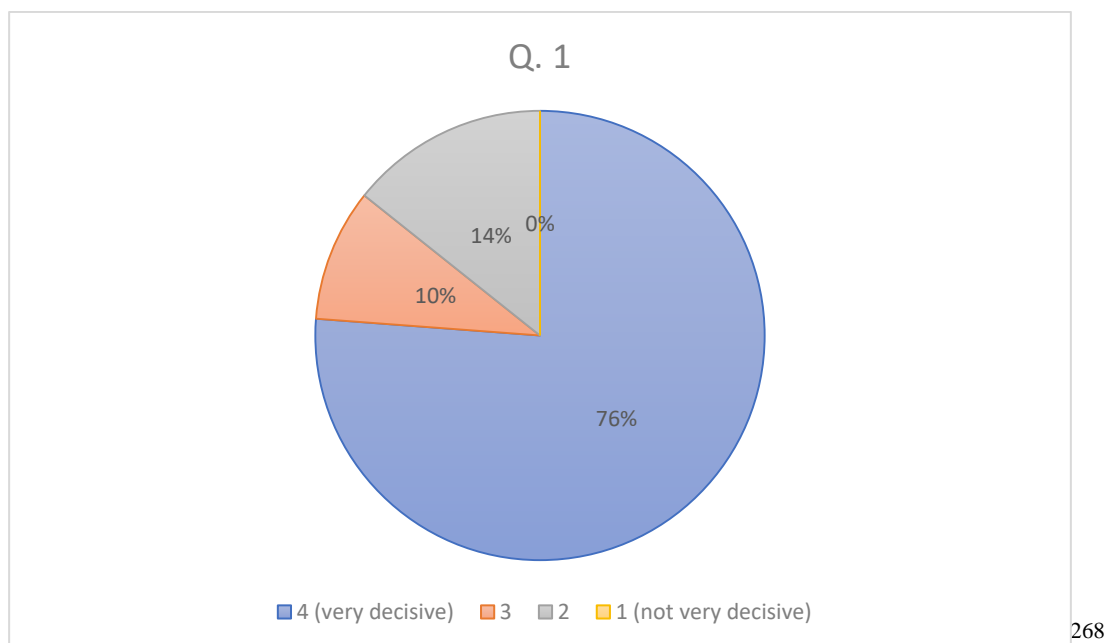
The replies received are as follow:

Grade 4: 16

Grade 3: 2

Grade 2: 3

Grade 1: 0



The answers to the first question are very satisfactory and highlight the importance of good communication with investors. In fact, according to the questionnaire, it is the most crucial determinant of success. Therefore, good communication containing extensive information is often rewarded by investors who are more motivated to invest, increasing the campaign's probability of success.

Question 2: (the use of social networks by the campaign's founders has a positive impact on its outcome).

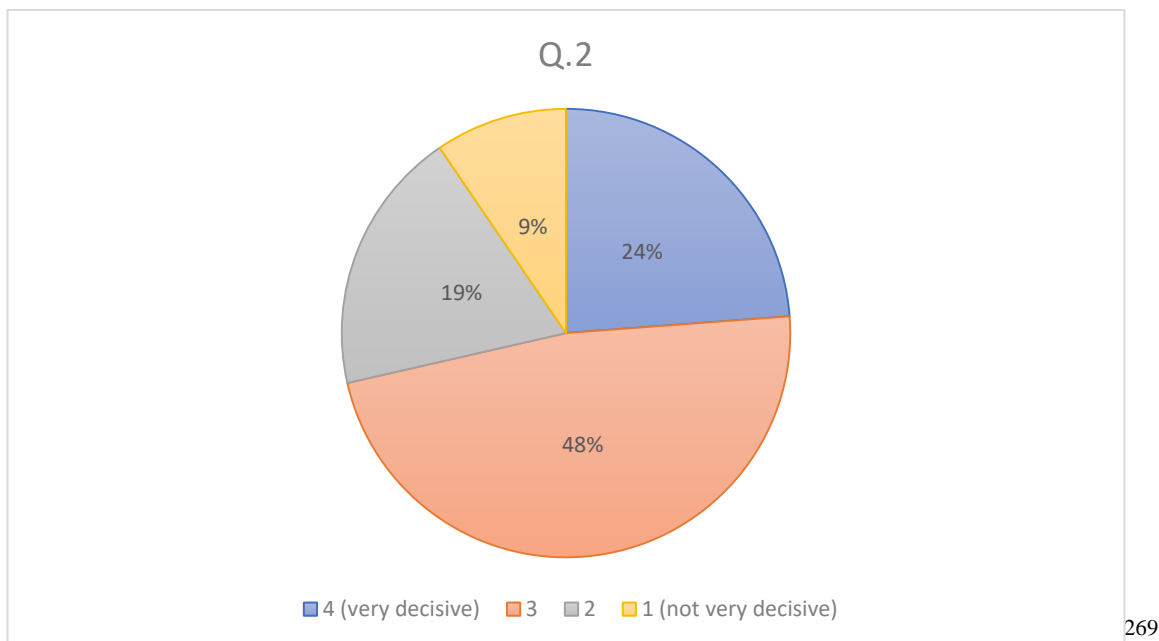
The replies received are as follow:

Grade 4: 5

Grade 3: 10

Grade 2: 4

Grade 1: 2



The answers to this question show how the use of social networks can have a positive impact on the outcome of a campaign. In fact, 72% of respondents gave an answer between 3 and 4.

Question 3: (Project updates such as detailed information on new financing sources, business development, and a new marketing campaign can positively influence investors).

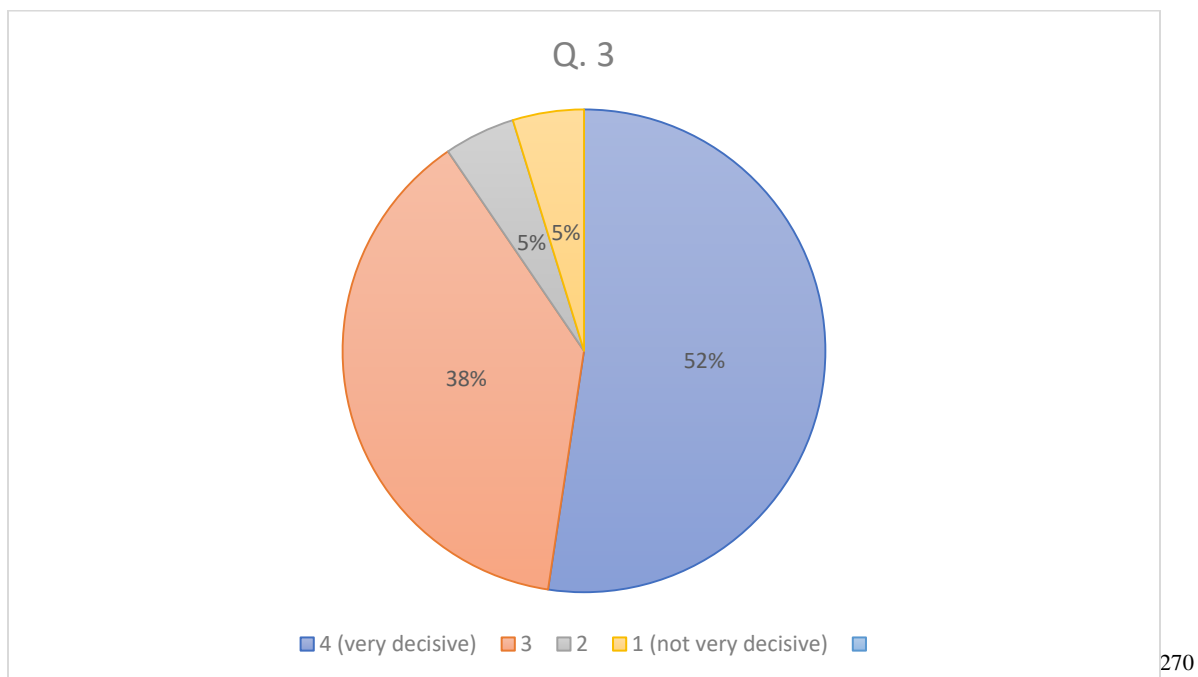
The replies received are as follow:

Grade 4: 11

Grade 3: 8

Grade 2: 1

Grade 1: 1



The remarkably positive response to this question highlights, together with Q. 1, the importance of information. Providing updates on the campaign and new details on the project during the campaign can have a positive impact on the campaign result.

<sup>270</sup> Figure 51: Question 3 questionnaire

Question 4: (Human capital, education, and experience of the management and particularly the past managerial experience of the entrepreneur).

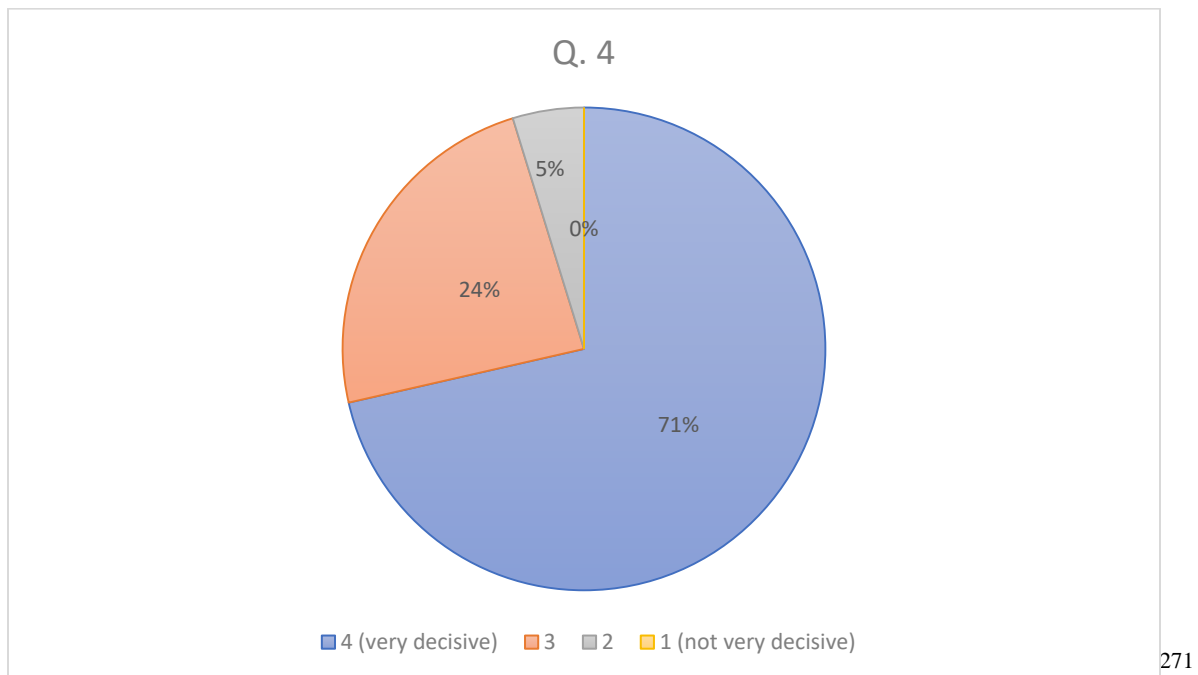
The replies received are as follow:

Grade 4: 15

Grade 3: 3

Grade 2: 1

Grade 1: 0



The fourth question reflects the second most important element of success. It demonstrates that in RE crowdfunding campaigns, the background of the entrepreneur or company carrying out the campaign is fundamental, and a campaign carried out by a company with considerable experience in the RE market is more likely to succeed than one that does not have the same background and expertise.

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<sup>271</sup> Figure 52: Question 4 questionnaire

Question 5: (the presence of third-party signals such as project awards, intellectual property, and partner investors).

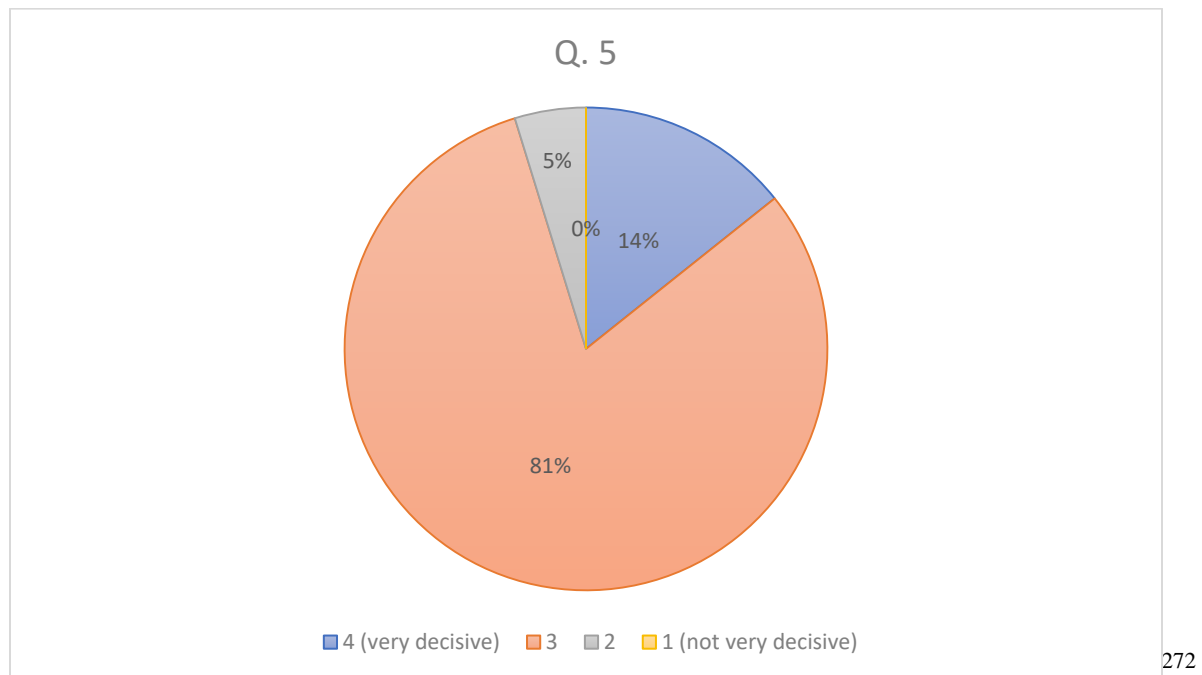
The replies received are as follow:

Grade 4: 3

Grade 3: 17

Grade 2: 1

Grade 1: 0



The fifth question shows that third-party signals such as project awards, intellectual property, and partner investors are significant, but compared to the other determinants of success, they are less relevant.

Question 6 (The amount of capital raised in the first weeks of the campaign, if significant, can positively influence the outcome of the campaign).

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<sup>272</sup> Figure 53: Question 5 questionnaire

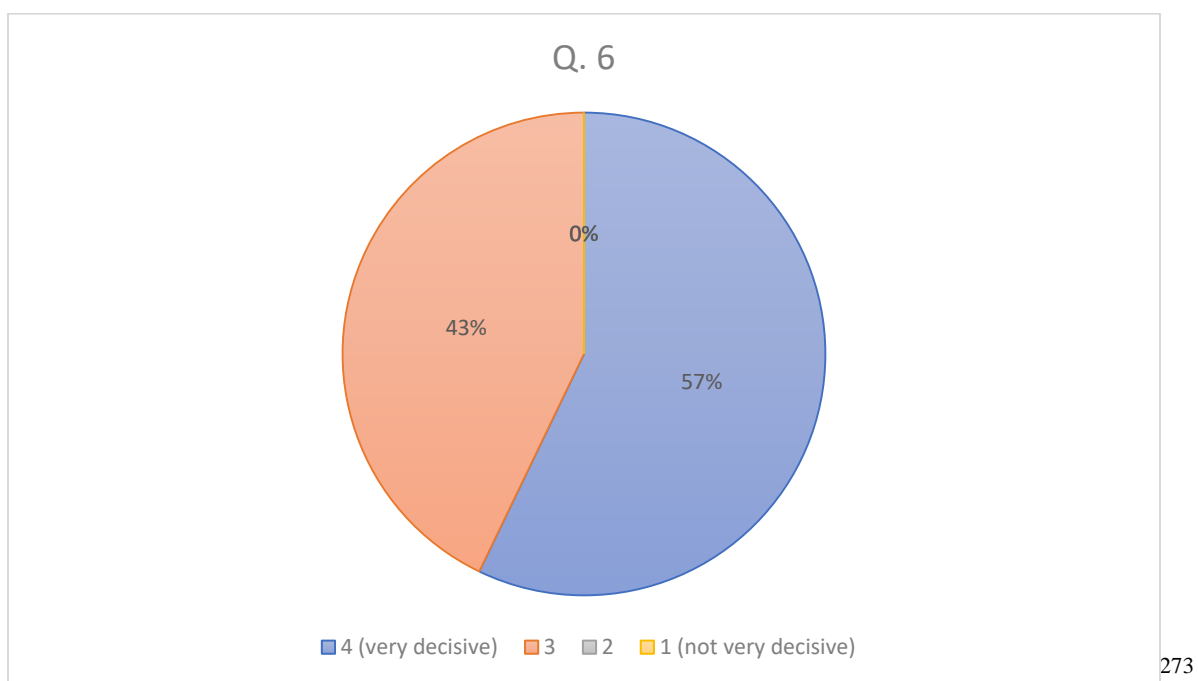
The replies received are as follow:

Grade 4: 12

Grade 3: 9

Grade 2: 0

Grade 1: 0



The sixth determinant of success shows how social dynamics can influence the outcome of a campaign because if a campaign manages to raise significant amounts of capital in the first few weeks, new investors will have a greater incentive to invest, driven by the enthusiasm of the first few weeks. In fact, 100% of respondents answered between 3 and 4, so a good start makes all the difference.

Regarding the seventh question (the participant could add additional determinants of success), more factors emerged which can positively influence the outcome of a campaign.

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<sup>273</sup> Figure 54: Question 6 questionnaire

In the case of debt-based campaigns, the expected rate of return is significant: the higher it is, the more attractive it is to investors and the faster the campaign will be concluded. At the same time, the percentage lent out of the total capital needed for the project is also very important; a low LTV rate is seen favourably.

Guarantees offered to investors, such as the possibility of a loan covered by a mortgage, is one of the best incentives because it lowers the risk of the investment. Risk is one of the main factors: it depends on several elements and is the main reason for the failure of a campaign, so the more guarantees investors are given on their capital, the lower the risk and the greater the chances of success.

The survey showed that there are differences between the Italian, French, and Spanish markets.

In recent years throughout Italy and in France, there has been strong optimism in the markets and great demand for returns that have brought high volumes of investments. All projects, both the most promising and the less promising, are being financed very quickly and therefore since practically all campaigns manage to raise the set capital, it is impossible to determine the key factors of success. However, this optimism and hunger for returns is not present in the Spanish market, where it is more common for a campaign to end unsuccessfully. Hence marketing becomes the winner rather than product. This can be seen by looking at the number of projects that do not meet the timetable or the expected returns. Platforms at this early stage try to select projects as best they can to give investors reliable opportunities that can be analysed concretely and correctly.

## **5.2 A successful crowdfunding case**

### **5.2.1 The project: Florence, Cavour Palace**

Palazzo Cavour is a historic building located between Via Cavour 82 and Via Micheli 30, in the heart of Florence's historic centre. The project of restoration and conservation, foresees a change of use, part of it to representative offices on the ground floor and the rest residential, for a total of about 5,000 m<sup>2</sup> developed across 4 floors, plus basement and attic; more specifically, 55 residential units and one office unit will be built.



### **5.2.2 The offering company**

AD Casa Srl is a group of Italian companies that have been active in the RE market and the Tuscan territory for about 15 years and was founded by Florentine entrepreneur Andrea Duranti. The company has been one of the leading companies in the real estate sector for 15 years, during which it has carried out an ever-increasing number of property redevelopment and recovery plans, mainly in Florence and surrounding province.

The experience gained over the years has led to forming partnerships with other entrepreneurs active in the sector, increasing prospects and business volumes. Thanks to an innovative vision of the business, the group has built and delivered over 100 flats a year for the last 5 years. The AD Casa Group is made up of several specialized companies that are involved in various interrelated activities: real estate purchase and development with the support of trusted agents and consultants; redevelopment of buildings or parts of buildings through a select group of professionals who, according to their specific skills, work mainly on residential buildings with the support of the companies' internal technical team. The group specializes in managing income-producing properties predominantly concentrated in the historical centre of Florence, developed with a particular focus on contemporary interior design. All the activities and initiatives, proposed even during negative periods for the sector, have met with the support of banking institutions that can confirm the success of the initiatives and the full respect of the execution times presented for the various projects.

AD Casa's clients are both institutional and private. The company's organizational structure is divided into three macro-areas: Administrative Management, Technical Management and Commercial Management; these report directly to the CEO.

The analysis of the bidder (an active group of companies made up of specialists with long term experience in the sector and the Florentine market) already confirms this as one of the determinants of success.

### 5.2.3 Financial analysis of the investment.

According to the company's business plan, the investment duration is 24 months. The Investing Shareholders will be endowed with shares in the company with patrimonial rights only, excluding administrative rights. The purpose of the transaction or investment is to remunerate these shareholders with an estimated gross return of €242,424, equal to an overall gross ROI of 24%, therefore an annualized ROI of 12%. The investment building is owned by AD Casa, contributing € 3,821,000 in the form of equity.

The following table summarises the financial structure of the project<sup>274</sup>.

Type	Financing entity	Amount	%
Equity Developer	AD Casa Srl	€ 3,821,000	25.93%
Bank	Main Bank	€ 6,700,000	45.47%
Advances on preliminary sales	Buyers	€ 3,214,000	21.81%
Equity crowdfunding	Crowdfunders	€ 1,000,000	6.67%
Total		€ 14,735,000	100%

Analysing the financial structure of the investment, it is easy to notice that in this case, one of the determinants of success listed in the previous paragraph is also present. In fact, only 6.67% of the total costs of the project is financed by CF, while 25.93% is financed by the company developing the project and 45.47% by a bank loan. Both of these forms of financing reassure crowdfunders about the riskiness of the investment because most of the capital is financed either by banks or by the company.

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<sup>274</sup> Figure 55: <https://www.walliance.it/project?idP=2580900418035-460#firenze-palazzocavour>

Costs			Revenues	
Property acquisition	€ 6,350,000		Basement	€ 280,900
Renovation expenses	€ 5,200,000		Ground floor	€ 2,330,678
Technical & Financial ex.	€ 760,000		First floor	€ 4,230,445
Brokerage fees	€ 600,000		Second floor	€ 4,154,022
Various expenses	€ 1,050,000		Third floor	€ 3,590,250
Operating costs	€ 775,000		Fourth floor	€ 5,787,353
<b>Total cost</b>	<b>€ 14,735,000</b>		<b>Total revenues</b>	<b>€ 20,373,648</b>

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Expected gross profit	€ 5,638,648
<b>Expected taxation</b>	<b>€ 1,578,821</b>
<b>Expected net profit</b>	<b>€ 4,059,827</b>

The table contains the expected profit and loss account of the project: with the total costs of the project (€ 14,735,000) and the revenues (€ 20,373,648) from the sale of the building. Their expected profit (€5,638,648) is given by total revenues net of total costs. The expected taxation is around 28%, so the expected net profit (€4,059,827).

The project was completed but lasted 26 months instead of 24 and the final annual ROI was 11.8%.

#### 5.2.4 The location

The building boasts a strategic position between Via Cavour and Via Micheli, two main roads that link it directly to the historic centre.

In ancient times, Via Cavour (named after the statesman Camillo Benso, Count of Cavour) was called Via Larga degli Spadai due to numerous gunsmiths' workshops. This road was developed between 1322 and 1325, between the penultimate and last circle of walls, to improve the distribution of the flow of goods. However, Via Cavour ended near Via Salvestrina, where it was easy to access the gardens of the convents and monasteries that existed at the time.

With the arrival of the Medici family, the street established itself as the main artery. The construction of the Medici Riccardi palace, and various restorations, such as the renovation of

<sup>275</sup> Figure 56: <https://www.walliance.it/project?idP=2580900418035-460#firenze-palazzocavour>

the basilica of San Lorenzo, contributed to the importance of the whole area by attracting other powerful, friendly families who soon moved in. So, it became a closed street between beautiful residences.

Between 1865-1871, the years when Florence was capital of Italy, work began on Via Cavour to build hotels, houses and clubs for the new political class, making the street one of the main areas in which the new government offices were located, and it continues to be one of the city's main arteries today.

The building is accessed through two separate entrances, one on Via Cavour and Via Micheli, where the lifts give access to the various floors.

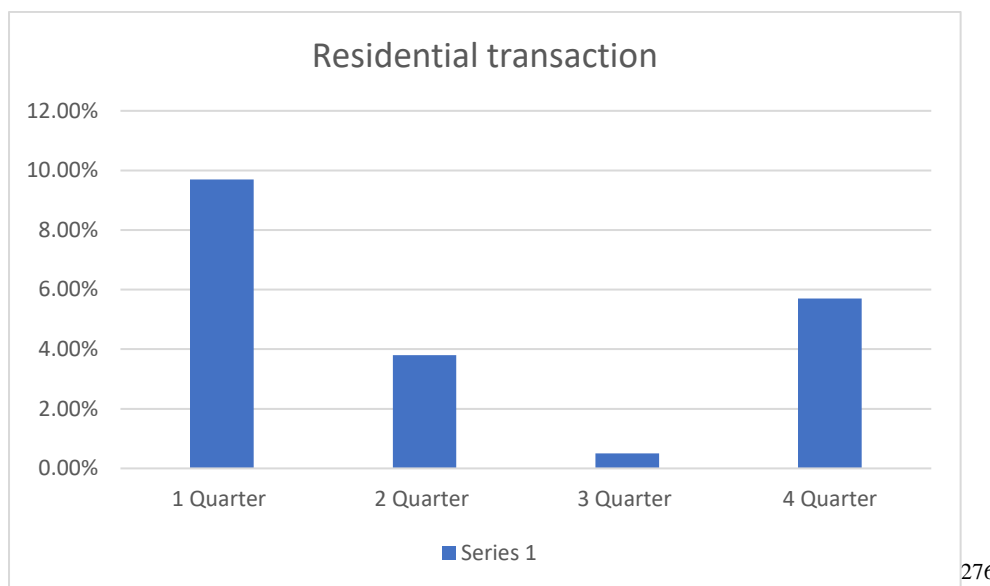
### **5.2.5 Real estate market**

Florence is Italy's third-largest city in terms of the number of property projects under development and the attractiveness to foreign investors, both institutional and private.

About 80% of purchases in the historic centre are investments destined for the tourist rental market, which is booming, to the detriment of residential use, which is becoming increasingly difficult in the Unesco area.

The Observatory on the Real Estate Market (OMI) has data available on residential property transactions for all four quarters of 2017. The data shows a 4.8% growth in transactions in Tuscany, from 35,960 to 37,681, more than double the national figure of +2.6%. At the provincial level, only Massa Carrara showed a contraction in sales of 3.6%, while all the other provinces recorded growth, ranging from the peaks of Lucca (+13.8%) and Prato (+10.2%) to the lows of Livorno and Grosseto, where growth was around 1.2%, while Florence recorded an increase of 4.7%.

Residential transactions in Tuscany grew strongly by +9.7% in the first quarter 2017 but slowed down in the following quarters to +0.5% in the third quarter and rose again to 5.6% in the fourth quarter.



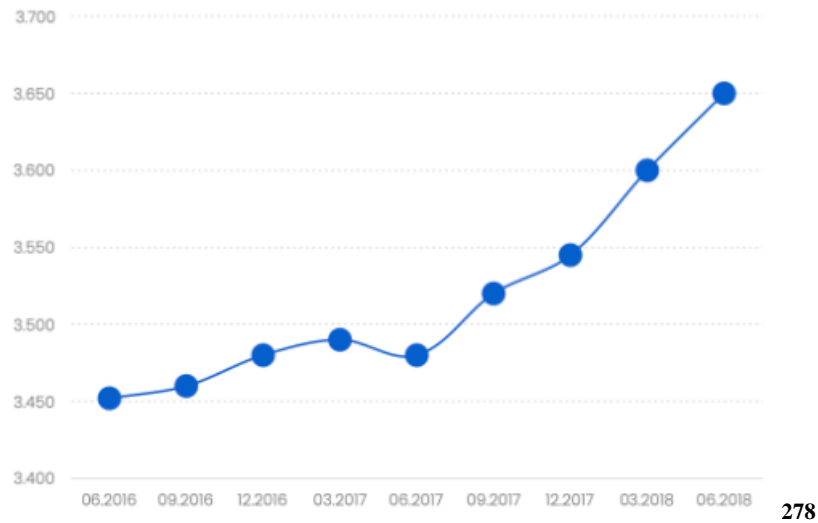
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The following two graphs describe the market development in the municipality of Florence: the first one describes the number of transactions and the second one the price<sup>277</sup>.



<sup>276</sup> Figure 57: <https://www.walliance.it/project?idP=2580900418035-460#firenze-palazzocavour>

<sup>277</sup> Figure 58: <https://www.walliance.it/project?idP=2580900418035-460#firenze-palazzocavour>



The graphs have the objective to show the validity of the project by highlighting how the real estate market in the municipality of Florence is in the growing phase of its life cycle, showing the number of purchases and sales from 2014 to 2017 in constant growth, the same applies to the price of real estate that from June 2016 to June 2018 has grown steadily from semester to semester.

### 5.2.6 Further information provided

There is no informative video, but it is possible to take a virtual tour of the renovated flats. Plans of all the renovated floors are also provided.



<sup>278</sup> Figure 59: <https://www.walliance.it/project?idP=2580900418035-460#firenze-palazzocavour>

<sup>279</sup> Figure 60: <https://www.walliance.it/project?idP=2580900418035-460#firenze-palazzocavour>

The detailed description of the location and the real estate market by analysing its characteristics and opportunities provides investors with a wealth of information to make informed investments. Providing significant amounts of detail is often rewarded by investors and is a crucial determinant of success.

## *Conclusion*

This thesis investigated how crowdfunding is placed into the current economic scenario and identified the factors of success of a real estate crowdfunding campaign. From this analysis emerged the true innovation of crowdfunding: the democratization of the economy inherent in the phenomenon itself. Investing in the real estate market have always been a prerogative of minority elite who already possessed adequate start-up capital. Among the five main crowdfunding models in the real estate market, equity-based and lending-based crowdfunding are the ones that have broken this barrier and allowed investors, even with limited capital (as little as €250-500), to invest in real estate projects.

The solid and constant growth of the phenomenon in Europe has confirmed that the crowdfunding market is not a temporary but a lasting phenomenon and establishes it as an alternative method of financing. In Italy alone, data has shown a substantial increase in the overall value of projects financed through platforms, with an increase of 43% for equity and 52% for debt compared to 2019, demonstrating that growth has not stopped even with the crisis due to COVID-19. The analysis of the Spanish market, on the other hand, showed a market that is still growing, although less mature than the Italian and the French one, where there is a higher default rate of platforms and a lower success rate of campaigns. The crisis caused by COVID-19 negatively affected the market by decreasing the volume of capital raised by around 20% from 2019 to 2020; however, the volumes raised are still higher than in 2018. The analysis of the French market confirmed the Italian trend and showed an even more developed market that raised a record €1020 million in 2020, 49.4% of which was for the RE sector alone, as large as the entire Italian CF market and three times that of Spain. These differences between the markets also emerged in the questionnaire analyzed in chapter five, which shows that in the Italian market there is a great euphoria and hunger for returns, that pushes investors to finance with extreme speed both the most promising and the less promising projects with little attention to risk. On the other hand, there is much more attention in the Spanish market and more guarantees are required from investors.



The phenomenon's importance has also reached the European legislator who has recognized the relevance and the potential of crowdfunding. By approving the recent \*directive, it aims to promote crowdfunding platforms and protect investors. The regulation provides for the adoption of a single set of rules for crowdfunding service providers in the EU (Ecsp - European crowdfunding service providers), paving the way for a harmonization of legislation at the European level on the subject, to encourage the development of the market.

As a result of the in-depth analysis carried out in the paper, RE crowdfunding has emerged as a viable alternative to traditional funding methods and as a valid investment tool, thanks to the high returns and low default rates. This characteristic allows the real estate crowdfunding campaigns to reach their target more quickly than other crowdfunding sectors. However, they are still inevitably connected with the real estate market and its risks, which is a “cyclical” sector. Currently, the market is in a growth phase, and crowdfunding campaigns gain benefit from it, however, as the market follows its natural course, these campaigns may result more risky and less profitable.

### ***Abstract: The Thesis' Summary***

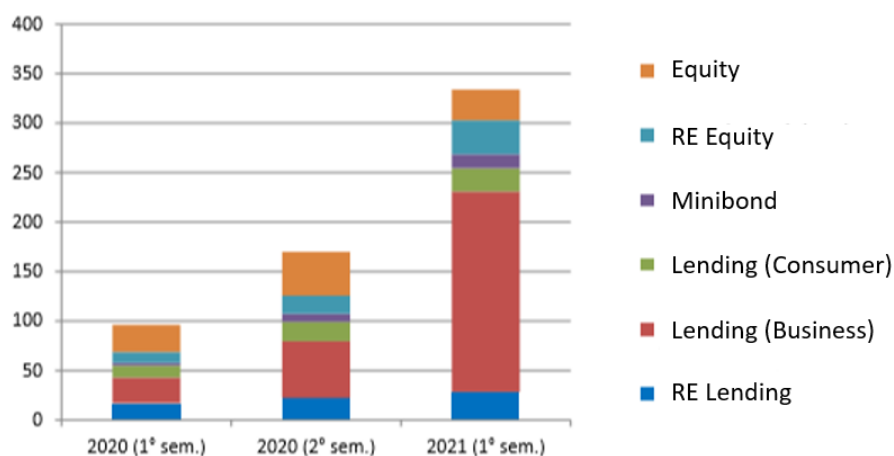
Crowdfunding is a new method of financing obtaining funds from the “crowd”, meaning a vast audience of subjects, via the Internet. Different crowdfunding models exist, but firstly we need to make a distinction between investment and non-investment crowdfunding. Investment crowdfunding can be divided into three main models: lend/debt, invoice trading, and equity; and non-investment crowdfunding consists of reward and donation-based. The two most commonly used models in RE crowdfunding are the lending-based model also as “peer-to-peer lending”, that consisted in asking the crowd for a fundraiser rather than applying for a loan to the bank and the equity-base model in which the investors receive a stake in the form of equity while the entrepreneur prepares an open call for selling shares on the internet, benefiting from the possibility to attract a large audience.

The property market is a market with unique characteristics and has some imperfections; the most relevant is the fact that the numbers of buyers are lower than those of other markets, entailing less liquidity and less transparency. Another great imperfection is the heterogeneity of the property; the non-standardization of each specific building with its peculiarities causes an uneven means for comparison. Among the other flaws, the lack of transparency leads to difficulties in obtaining relevant information regarding the property's price and puts the buyer in a position of uncertainty and disadvantage. The supply characteristics bring another element of inefficiency to the table: the price is not determined by several transactions but from different property trades with different characteristics. Therefore, if we want to classify the real estate market according to the power that subjects have to influence the market, we should place it between monopolistic competition and oligopoly. Real estate crowdfunding aims at minimizing some of these imperfections. It is so attractive for investors because it overcomes many limits of the real estate market, opening it not only to institutional investors but also small ones, offering to the latter group detailed information about the project and the path to make the investment. There are five different models in real estate crowdfunding: equity method, lending-based, IREIT (Intelligent REIT), silent partnership and real estate crowdfunding 2.0.

The European crowdfunding market is a fast-growing market; however in 2020, some countries suffered a drop in the volumes raised, in particular, debt-based alternative finance is the model that suffered the most significant drop; this drop can be attributed to the economic crisis caused by COVID-19. Crowdfunding in Europe is regulated by “REGULATION (EU) 2020/1503 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 7 October 2020” amending the former Regulation (EU) 2017/1129 and Directive (EU) 2019/1937. In these articles, this regulation establishes the uniform requirements necessary for the provision of crowdfunding services, emphasizes the importance and characteristics of prudent management, and defines prudential requirements. However, the various member states of the union introduced specific national regulations on crowdfunding, which differ from one another to adapt to the different national markets. The regulatory differences hinder the cross-border provision of crowdfunding services, determining a predominantly national development of crowdfunding services. Therefore, one of the objectives of this new legislation is to create a European passport for all equity and lending crowdfunding platforms to facilitate the development of platforms and businesses funds in all countries above local regulations. The following paper will focus mainly on market analysis: Italian, Spanish and French.

The Italian market is solid, and its growth has not been slowed down even by the crisis caused by COVID-19. The last 12 months confirmed and reinforced the strong growth of the industry. Consob-authorized portals generated a flow of € 127.6 million from equity placements (of which € 34.3 million from RE portals) plus € 22.3 million from minibond placements. Lending portals contributed € 43.2 million in loans to individuals and € 310.6 million in loans to corporates (of which 50.9 million from specialized RE portals). Therefore, total industry capital raised over the last year amounted to €503.7 million, up 172% on the previous 12 months.

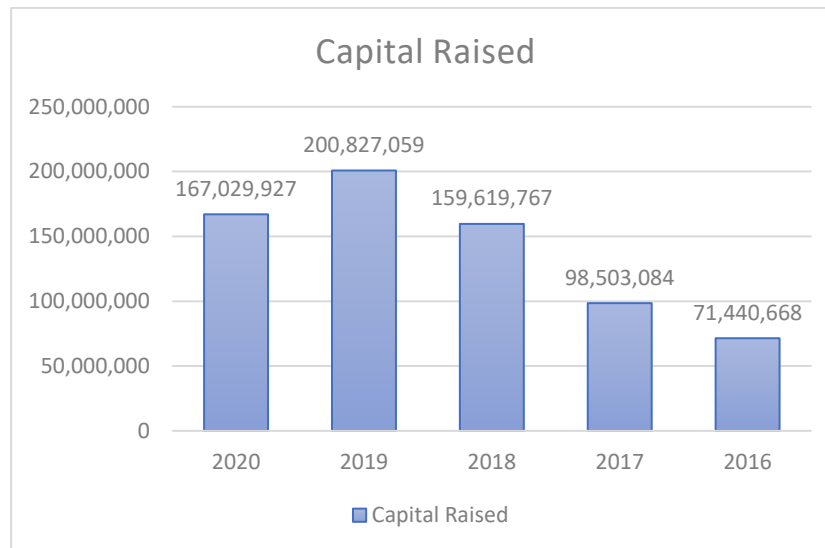
The following chart summarizes the capital raised in the last three semester:



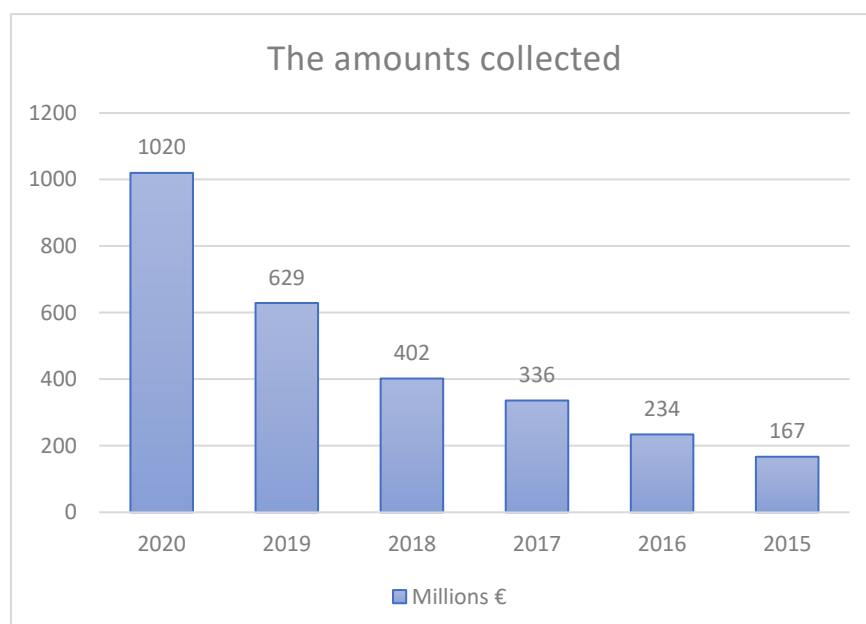
Equity crowdfunding by non-real estate platforms generated capital inflows of €93.3 million in recent months, up 63% on the previous period. Specialized RE platforms raised € 34.3 million, up 76%. Platforms authorized to place minibonds also raised €22.3 million and it is essential to note that this segment did not exist until the first half of 2020. P2P flows also continued to grow at double-digit rates, with €43.2 million disbursed in the last year, up 75%. Finally, the greatest growth was recorded in the flow from P2B platforms in the first half of 2021, which brings the flow of the last 12 months to € 259.7 million, up almost 500% compared to the previous period. The flow of loans on real estate portals also grew significantly by € 51 million, up 75%.

In 2019 crowdfunding in Spain has raised € 200 million for the first time, showing a steady growth of around € 50 million every year from € 98,503,084 raised in 2017 to € 159,691,767 (62.12%) in 2018, and € 200,827,059 (25.8%.) in 2019. This means that the market continues to grow, but the momentum is less. However, in 2020, the total collection amounted to €167,029,927, showing a drop of -16.85%, a very significant decline that raises some doubts about the sector's profitability as a whole. The most significant fall was in the lending platforms with a decrease of -40.40%, from €82,480,570 in 2019 to €49,158,300 in 2020 followed by real estate platforms which fell by -26.31% from €39,788,885 to €29,319,570 and investment platforms which fell by -6.29% from €47,538,500 to €44,548,631. The sharp and widespread decline in economic activity due to prolonged confinement has meant that more entrepreneurs

need financing to launch or preserve their businesses, while fewer investors/lenders are willing to finance them.

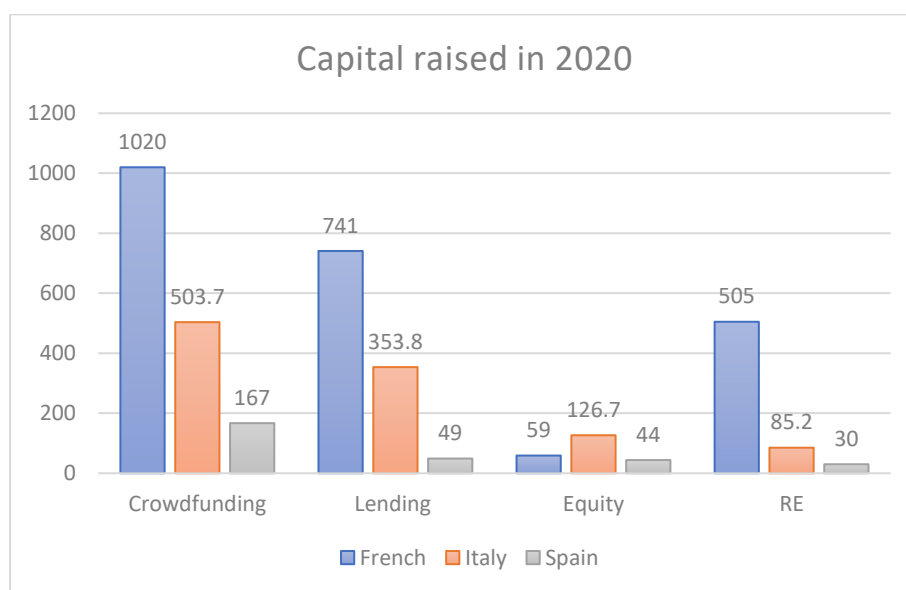


Like other European markets, the French market is constantly growing, but in 2020 for the first time, more than one billion euros were raised through crowdfunding platforms. Record also in terms of growth, as the volumes raised increased by 62% between 2019 and 2020 (+ 56% between 2018 and 2019). In the period between 2015 and 2020, the total collection increased sixfold. The ecosystem as a whole proved to be robust and agile despite the crisis caused by COVID-19.



Crowdlending is the most important segment. Lending platforms raised €741m, up 46% in 2019. The debt continues to drive the lending sector as it covers 90.5% of volumes. Of the €741m, 75% is related to real estate projects and 13% in renewable energy.

Comparing the amounts raised through crowdfunding between the three countries shows that France has the most developed market, followed by Italy and Spain, were collected respectively: €1020 million, € 503.7 million, and € 167 million.



RE crowdfunding is particularly developed in France: 49.5% of the total funds raised through crowdfunding are directed to real estate projects. In Italy, it is 16.9% and in Spain 17.9%.

Crowdfunding campaigns can be divided into three main phases: pre-launch phase, launch and management of the campaign and phase after the campaign's closing.

The pre-launch phase is the most important because the company must produce all the content and information regarding its expectations. The preparation must be precise and complete with all the required information for the investor to be aware of the project's risks.

During the campaign launch, it is necessary to keep attention and discussion around the project alive, always trying to be present to answer questions, update information, post news and press reviews. Not a single day can go by without something exciting happening in the campaign

universe. It is a priority to keep the dialogue open with all stakeholders, both positive and negative.

Once the campaign is over, the work does not end: there are still activities and interactions to carry out, whether the campaign is successful or not. First of all, the promoter should thank the crowd. Then comes the time to collect information, both on the campaign's progress and on the commitments to be honoured.

In the last chapter, I tried to identify the main determinants of the success of an RE crowdfunding campaign through a 7-question questionnaire addressed to the top managers and founders of some of the main Italian, French, and Spanish platforms.

The most important is the reduction of the information asymmetry is a factor that underlines quality and credibility in a campaign: the more information about the project, the campaign, and the management offered to the investors, the greater is the probability of success. Followed by management characteristics like: human capital, education, and management experience, particularly the entrepreneur's past managerial experience.

The survey also showed that in both the Italian and French markets, there is a strong optimism and hunger for returns that lead to the completion of campaigns with extreme speed without clearly defining the determinants of success. While in the Spanish market it is more common for a campaign to fail, if guarantees are offered to the investor in the event of project failure, such as the possibility of a loan covered by a mortgage, that is one of the best incentives because it lowers the risk of the investment and greatly increases the chances of success of a campaign.

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