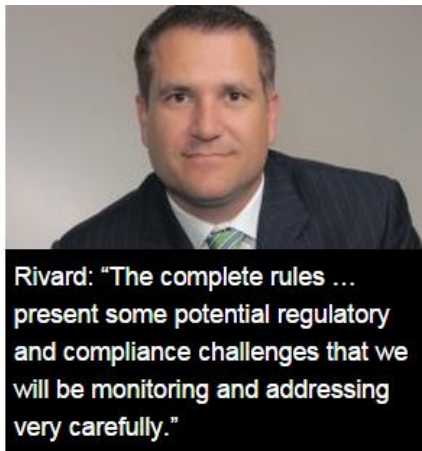




EXCLUSIVE

## How This Real Estate Firm Views Crowdfunding

By [Carrie Rossenfeld](#) | San Diego | May 5, 2015



SAN DIEGO—You don't need to pick just one horse in the crowdfunding race, Pathfinder Partners' CFO, COO and managing director **Brent Rivard** tells GlobeSt.com. In light of new **SEC regulations** that allow crowdfunding—specifically online platforms—to raise **equity** or **debt capital** from individual investors, we spoke with Rivard exclusively about his firm's fundraising strategies and how crowdfunding impacts CRE.

**GlobeSt.com: How does crowdfunding impact/benefit the commercial real estate industry?**

**Rivard:** The ability to crowdfund or generally solicit investors has forever changed fundraising for **commercial real estate**. Now, **Internet**-based platforms are enabling individual investors who previously didn't have access to private real estate investment opportunities and real estate owners and **developers** to easily connect and transact. Not surprisingly, the popularity of crowdfunding is soaring. According to a report from CNBC, booming investments in real estate are leading the way among equity-crowdfunded projects, which rose to \$662 million in the first quarter of 2015, a big jump from the \$483 million recorded in the final quarter of 2014.

**GlobeSt.com: Why has Pathfinder Partners adapted new fundraising strategies such as crowdfunding?**

**Rivard:** Since inception in 2006, Pathfinder has invested in 77 transactions, 33 of which have sold for a weighted average, project-level internal rate of return of 35% (25% net to investors). Over that time, we have built strong relationships within the real estate and finance community, which drives a strong pipeline for investment opportunities—but we can't invest in those transactions without capital. So, when we recently launched **Pathfinder Partners Opportunity Fund V-A L.P.**, our fifth

broad-based opportunistic fund, we decided to use this new channel for fundraising for incremental capital.

Historically, we have raised capital for our funds primarily through personal relationships. Raising capital one relationship at a time takes time and effort that can otherwise be spent on doing what we love most: investing in, operating, improving and ultimately selling real estate. There was always that option to raise capital through the broker-dealer networks and pay financial advisors large fees off the top (i.e., 5% to 10% of investor capital), but that went against our core principles of keeping fees and transaction costs low in order to enhance investor returns.

Crowdfunding or general solicitation expedites investing and potentially proves a “viral” opportunity for growth and access to incremental capital. We’ve been limited in our ability to “crowdfund,” “generally solicit” or advertise our fund offerings to potential investors—until now. In 2012, the JOBS Act (“Jumpstart Our Business Startups”) was signed into law, creating a new type of private-equity offering under a new Rule 506 (c), which allows firms to raise capital using general solicitation and advertising as a means of attracting investors. But this opportunity doesn’t come without some additional burden. As we raise capital under this new rule, we are required to perform additional **due diligence** on investors to ensure that they meet the definition of an “accredited” investor—under the SEC rules, this is someone who earned \$200,000 or more in the last two years or has a net worth of \$1 million excluding their primary residence.

This is new, uncharted territory. The complete rules have yet to be finalized and, therefore, present some potential regulatory and compliance challenges that we will be monitoring and addressing very carefully.

***GlobeSt.com: What are the different types of crowdfunding platforms, and has/will your firm use(d) these platforms?***

***Rivard:*** We are increasing our public visibility through social media, advertising and email campaigns and have spent considerable time reviewing the available real estate crowdfunding platforms that seem to be sprouting up every week. We’ve learned that there are several different types of platforms in the market.

Some crowdfunding portals are acting as **technology**-enhanced intermediaries, providing a marketplace for investors and sponsors to connect. Sponsors generally pay a fee to the intermediary based on capital raised. There are also traditional syndicators using technology platforms to raise capital for a particular investment opportunity, without introducing the end investor to the sponsor. In this case, the syndicator aggregates dozens of investors together and invests, as a single entity, in

the deal; the sponsor, in this case, never develops a relationship with the end investors. Some platforms only raise capital for individual assets, and some allow blind pool funds. Of course, there are plenty of other options in the middle. For Fund V-A, we've chosen [Realcrowd.com](https://www.realcrowd.com) as our general solicitation platform and are excited about our first entry into this new channel.

The real estate crowdfunding channel is definitely gaining traction in the market, and we believe it will make a material penetration into the amount of capital raised—and the way capital is raised—in the near future. As saw when **Charles Schwab** and other discount brokers entered the domain of the major **Wall Street** firms, commissions and transaction costs declined and volume increased; the same changes will likely occur in crowdfunding.

***GlobeSt.com: Will your firm's overall strategy change as a result of crowdfunding and other emerging technologies?***

**Rivard:** We believe you don't need to pick just one horse in this race and will be reviewing multiple real estate technology platforms for incremental capital. Although Pathfinder sees this as an incremental source of capital, we are definitely not looking to crowdfund in the traditional sense. We're planning to use the new general solicitation rules to attract new, accredited investors and build a loyal investor following with a new group of investors who wouldn't have found us in the old days. We plan to maintain similar minimum investment amounts as we have historically and will continue to strive to build the type of long-term, transparent relationships with our investors that we have become known for having.

***GlobeSt.com: What opportunities does crowdfunding offer the commercial real estate industry?***

**Rivard:** The new rules present opportunities to advertise investment funds, publish a strong track record and attract new investors, without the significant incremental costs of using the broker-dealer networks with their high fees. As a result, these new rules have the potential to be a large disrupter in the capital markets. With this in mind, capital brokers, banks, private lenders, real estate brokers and many others are interested in understanding how this new channel could impact our industry—and potentially their business.