CROWD VESTED

The Time is Now

for Real Estate Crowdfunding

What you need to know today about investing in real estate through a crowdfunding portal

Read more about how you can participate at **crowdvested.com**

Equity crowdfunding, or crowd investing, permits all of us to invest in local businesses and projects, something that has been effectively impossible for the past 80 years unless you were among the very rich. Being able to contribute to your community, invest in your neighbor, participate in great opportunities previously reserved to insiders — **this is the promise and the power of crowdfunding.**

Federal rules are coming (through the JOBS Act) that will open up the entire country to the benefits of crowd investing, but currently, Georgia is one of only eight states that allows you to participate in these opportunities. **If you are a Georgia resident, you get to be in the vanguard.**

So why crowd investing for real estate? Why not invest in other local businesses instead?

Put simply, real estate is the foundation of all local business. People can join with neighbors to invest in a redevelopment project in their neighborhoods. They can fund the expansion of a local business or put money in a new development they feel will be successful. Real estate is the framework on which communities are built. Plus, most people have a certain innate understanding of real estate; it is their first big "investment." And it has more transparency —

WITH CROWDVESTING

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through access to public records and comps — than virtually any other investment.

Let's look in more detail at what crowd investing is, where it came from, how it currently works, and what the future for real estate crowd investing will bring.

What is crowd investing?

Crowd investing, or equity crowdfunding, is at its simplest level individuals pooling their resources to support another business or idea.

It is part of crowdfunding, but it is not limited to donation-based "rewards" like regular crowdfunding. While someone may "invest" in a project on sites like Kickstarter or Indiegogo, what they really are doing is donating money in support of an idea they want to see succeed or looking to buy a product yet to be made. There is no ability to get their "investment" back, much less any profit.

Crowd investing is a different kind of crowdfunding, an evolution of both traditional crowdfunding and traditional investing.

It lets you support projects not only because you believe in them and think they make the world a better place, but because you think they are going to succeed and make a profit, a profit that you, the investor, can now share in.

History of crowdfunding

Crowdfund investing may seem like a new concept, but the truth is, crowdfunding is as old as business itself.

Throughout history, local businesses have reached out to their communities to help fund new ventures, expansions and ideas. If you had a good idea and a good reputation in your community, people would vote with their wallets and help get your idea off the ground.

In fact, many high-profile successful projects were funded with crowdfunding principles and ideas, including the Statue of Liberty pedestal and the purchase of the Empire State Building in New York. But in more recent history, the laws regulating investments have made it expensive to raise money from large groups, effectively suppressing a model that had worked for hundreds of years.

When was the last time you were in a great restaurant, or at a busy store, or passing a new building under construction on a prime corner? Have you ever wondered how those businesses got funded? Have you ever wondered how you could be an investor?

Prior to the 1930s, a successful business could reach out to its loyal customers and vendors.

It could advertise its success and ask for help in expanding. But with millions of people losing money in the depression-era stock market, all that changed. Laws were passed to regulate Wall Street, and Main Street got hurt.

The Securities Act (1933), the Exchange Act (1934) and later the Investment Company Act (1940) were all passed with the best intentions to fix widespread abuse and some outright fraud. Those laws, and the thousands of pages of regulations generated from them, have largely done that. But the fraud that led to those laws was not being perpetrated by local companies. The fraud came from national companies and brokers pumping the stock of faraway companies. It was the very distance that made the fraud work. Local investors could not rely on their personal networks or the reputation of the business among people they respected. Investors instead had to rely on the sales pitches of stockbrokers and promoters.

The unintended consequence of those regulations (or the intended one, depending on your perspective) is the destruction of the ability to finance businesses locally.

Where before you could reach out to your network and the broader community, the new laws made that illegal, unless you first went through a cumbersome and expensive registration process. Community-based investment was choked off, and financing moved from the community to the financial centers, primarily New York. And with the extra costs now associated with raising funds, only the biggest deals made sense to fund.

This left smaller businesses with limited options. Banks (and later credit cards), personal savings and friends and families filled the gap. This served many well, but just as many were shut out or limited. And during those periods when the banks pulled back, including the past five years, those limited options became even more scarce.

THE HISTORY OF

CROWD FUNDING

1884	The American Committee for the Statue of Liberty used crowdfunding donations of mostly $1 or less to finance the pedestal for the statue.
1933	The Securities Act of 1933 was enacted enabling the SEC to regulate interstate commerce. The Act states that entities cannot offer or sell securities to the public unless the offering is registered with the SEC or there is an available exemption from registration.
1997	Fans decide to underwrite an entire U.S. tour for British rock group Marillion. Because fans were donating their money, it was allowed.
2009	Kickstarter, the largest crowdfunding platform, launches, providing funding for artistic endeavors and providing donors with goods and services in return.
2011	President Obama begins the Startup America Initiative.
2011	Kansas passes Invest Kansas Exemption for intrastate crowdfunding.
2012	Georgia passes Invest Georgia Exemption.
2012	President Obama signs into law the Jumpstart Our Business Startups Act.
2013	Video game, *Star Citizen*, becomes the most crowdfunded game ever, reaching more than $17 million in funding.
2014	**CrowdVested is launched in Atlanta.**

Why Crowdfunding and Why Now?

As flawed, paternalistic and limiting as the current securities laws are, until recently there really was not a good alternative that addressed historical concerns of companies and promoters taking advantage of investors with limited information.

The regulators have not been sitting on their hands. Experiments in limited exemptions have been tried, and many remain in force.

For example, the most popular current exemption from registration is the Accredited Investor exemption.

In short, this permits companies to offer equity on a private basis to high net worth individuals, on the assumption that these people can both afford to lose their investment and have the sophistication and the leverage to be able to get the information necessary to understand the risk. This one exemption is the backbone of all modern venture capital and "angel" investment. Recently this exemption has been expanded further, removing the "private" restriction and allowing companies to advertise an investment, but only these Accredited Investors can participate. And the SEC is currently writing rules to permit these types of offerings to the rest of us (the true "crowdfunding" written into the JOBS Act).

TO BE ACCREDITED, INVESTORS MUST HAVE EITHER:

- a net worth (or joint net worth with a spouse) of $1 million or more, excluding the value of the primary residence
- an income of $200,000 or a joint income with a spouse of more than $300,000

So why are lawmakers willing to experiment now? What is the justification for opening up markets again, and why put investors again at risk of being duped by fraudsters and charlatans?

Put very simply, just as the Internet has disrupted and changed every market from books and music to manufacturing, logistics and communication, it now is modifying and largely "fixing" the information gap between those raising money and those investing. Where before it was nearly impossible to get reliable information about a business if it was outside of your community and personal network, now the tools exist to shine light on all corners, making it possible for average investors to make informed investment decisions.

The Internet has driven the popularity of non-equity crowdfunding, with people joining together for causes ranging from supporting a cool, new band to purchasing supplies for needy schools. In the last 15 years, sites like Kickstarter have become household names.

Now, thanks to changes in regulations both locally and nationally, equity investing opportunities also are becoming available to "the crowd."

Current federal regulations restrict equity crowdfunding for non-accredited investors. An accredited investor is an individual allowed by the Securities and Exchange Commission to participate in higher risk investments.

WHY NOW?

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- Now the tools exist to shine light on all corners, making it possible for average investors to make informed investment decisions.

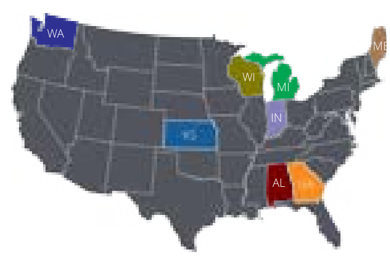
A look at history shows us that equity crowdfunding is not a new concept. However, securities laws have made it virtually impossible for 80 years. Now, thanks largely to the Internet, equity crowdfunding makes sense again.

What makes Georgia unique?

Prior to the creation of the SEC in the 1930s, regulation of investment was left primarily up to the states. That tradition is largely maintained today, but only for investments that don't cross state borders. So long as both the company raising the money and the investor are in the same state, the SEC largely leaves oversight and regulation up to the state where the investment takes place. This means states are free to implement their own "intrastate" rules.

Georgia regulators are at the vanguard, and have opened up the state to crowd investing.

Only seven other states have allowed crowd investing, though many others are considering it.



CROWDFUNDING NOW LEGAL

At the time of this writing, Georgia, Kansas, Michigan, Wisconsin, Washington, Alabama, Maine and Indiana are the only states where crowdfuning is legal.

Crowdfunding is now legal in Georgia

Georgia permits crowd investing through the "Invest Georgia Exemption," or IGE. It permits a Georgia company to raise money from Georgia residents without having to go through an expensive and time-consuming registration process.

In fact, only a one-page notice form has to be filed, a far cry from the hundreds of pages and months of work required under federal laws.

Invest Georgia Exemption Requirements

The IGE does have certain requirements designed to strike a balance between protecting smaller investors while encouraging local investment and business expansion to continue:

1 | **The maximum a company can raise per year is $1 million.**

2 | **The maximum one can invest is $10,000 per company per year** (accredited investors are not subject to this limitation).

3 | **The money raised must go into an escrow account with a Georgia bank until the offering is completed.**

4 | **No "bad actors" may use the exemption.** "Bad actors," generally, are persons that have previously violated securities laws or have been involved in other fraudulent activities. IGE allows both accredited and non-accredited investors who are residents of Georgia to invest in Georgia-based private companies. CrowdVested, which is focused entirely on commercial real estate and expects to roll out investment opportunities for investors in fall 2013, is one of several Georgia-based equity crowdfunding portals. The entire country is watching Georgia, as companies in the state, including CrowdVested, lead the way in the new frontier of crowdfunding.

4 | **IGE does not exempt companies from any of the anti-fraud rules in place;** it only reduces the amount of paperwork you have to file. Offering companies stil l must be truthful in all communications with investors.

What the Future Brings

In 2012, President Barack Obama signed into law the Jumpstart Our Business Startups (JOBS) Act. This legislation is meant to loosen restrictions on investments, including allowing equity crowdfunding for both accredited and non-accredited investors.

The SEC was supposed to write regulations putting the JOBS Act into effect by January 2013. To date, only the rules for accredited crowdfunding have been written, with more on the way. There is no announced timeline for crowd investing for the rest of us. Until that happens, crowd investing will be limited to those forward-looking states like Georgia that allow it.

Four Reasons People Give Money

There are four basic reasons people hand over their hard-earned money — to give to a good cause, to buy goods or services, to be a part of a club or movement or to make an investment. Crowdfunding works across the spectrum, with the investment opportunity being the newest and final iteration of crowdfunding.

Why do People Give up Money?

1 | **To give to a cause or charity**
A teacher is able to fund a field trip for her class by setting up a campaign on DonorsChoose.org.

2 | **To receive a product or service**
Poplar Wood Farm in New Jersey offers Kickstarter backers of its new barn project the chance to name a goat when they gave a certain amount.

3 | **To gain access to a social group or club**
An independent film reaches its funding goal with IndieGoGo. The funders feel their contribution makes them supporters of the overall art scene.

4 | **To make an investment**
A developer raises funds for a warehouse building renovation on CrowdVested, with members of the community investing in the project.

Why Crowdfund Real Estate?

Crowd investing can work for any business, but it fits real estate especially well because of the vast amount of information publicly available.

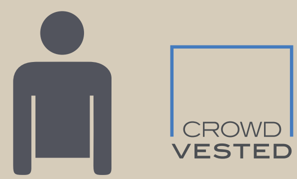
And real estate is inherently local. If you want to check on your project or evaluate an investment opportunity, you can drive by and look at it, walk on it, touch it. You can pull the zoning, tax records and title. You can check comps and neighborhood demographics. No other investment category has these characteristics. Remember, the premise behind crowdfunding is that the information gap between businesses and their investors is diminished by the Internet and publicly available information.

How a Real Estate Equity Crowdfunding Deal Works

Here's an example of how a typical real estate investment would work on CrowdVested:

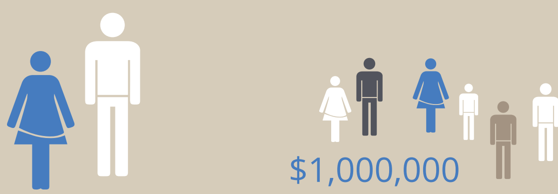
CrowdVested announces an investment opportunity. It is an industrial building that a developer wants to rehab into condos.

A well-known bank will lend 70% of the capital required, the developer is putting in 10% of his own money and the developer aims to raise 20% via crowdfunding on CrowdVested. Total projected raise is $1 million.

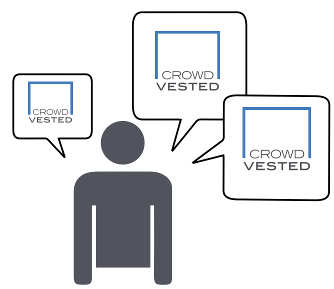


Joe Investor reads about the deal on Crowd-Vested. He studies financial projections, disclosure documents and bios of developers.

He makes a decision to invest $2,000. The money is deducted from Joe Investor's account and put into escrow.

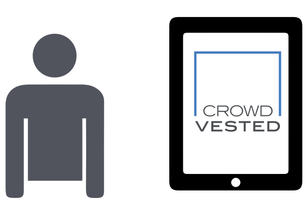


Joe Investor's money stays in escrow, controlled by a third party, while more people invest. The minimum amount that the developer needs is raised. Financing closes. Construction begins.



Joe Investor talks up the project to all his friends. He is proud of the project, which is good for his neighborhood, and he is a huge brand advocate. Joe Investor's dividends accrue.

The project is sold. Joe Investor gets back his $2,000, plus the dividends he has accrued plus his cut of the profit.



Joe Investor is happy and begins surfing CrowdVested for his next crowdfunding opportunity.

Seven Questions You Should Ask Yourself Before Investing in Commercial Real Estate Offering

If you are thinking about investing in a commercial real estate deal, you should consider seven things as you make your investment decision:

1. Who else is financing the deal?

The real estate deal is likely to include a lender, such as a bank, and other investors, including the developer. It makes sense to look at who the other investors are. If a well-known bank is lending money, that bank has done extensive due diligence, which may provide some comfort that at least the basics have been covered.

2. Where will you be in line to get paid?

In most commercial real estate deals, there is a financing "stack." Normally, the lender is paid first, followed by professional investors and then the developer/sponsor. Where are you in that stack? Are you closer to the lender or closer to the developer?

3. What is the internal rate of return?

For your investment, what kind of return will you see? You need to consider whether the amount you could potentially see is worth your investment now. Internal rate of return, known as IRR, essentially is the interest rate that will bring a series of cash flows to a net present value. The higher the IRR, the better the investment. Like any investment, IRR should go up if you are shouldering more of the risk. The closer you are to the lender in the financing stack, the lower your risk and the lower your return. The closer you are to the developer/sponsor, the higher your risk and the higher your return should be.

4. What is the developer's history?

Has the developer worked on this type of project before? Is it familiar with the area? Has it been successful in similar projects? The more you know about the developer's likelihood of success, the more you can weigh the risk of investing.

5. Have zoning issues been resolved and does the neighborhood support the project?

Zoning issues can be a major setback for any project's timeline and chance of being completed. If the community does not support the project, getting the proper permits could take even longer. This is another reason to have a bank or commercial lender involved; the deal won't happen if zoning and other threshold issues are not handled properly.

6. Is this a project you would be proud to invest in? Will this project help your community or the community where it is located? Will you be proud to be a part of the "crowd" that makes this project happen?

One of the best facets of crowdfunding is that investors become brand advocates, so pick an investment that you will want to tell your friends about.

7. Are you comfortable with the risk/reward ratio?

The funding you provide needs to be money you can afford to lose if the project is not successful. There is no guarantee for a return on investment.

About CrowdVested

CrowdVested is a Georgia-based online crowdfunding platform dedicated solely to the Georgia real estate industry. It is an innovative new way for Georgia residents to invest in real estate projects here in our state.

We are investment-focused and passionate about improving Georgia's communities. Our mission is to connect sponsors of great real estate projects with investors seeking not only a return on their investment but also a shared passion and vision for bettering our local communities.

CrowdVested opens real estate investment up to all Georgians, restoring the input and influence local communities have historically enjoyed while broadening the investment opportunities available to everyone. No longer are project sponsors limited to seeking funding from distant institutions and the most wealthy in our society. Through our platform, Georgia-based companies can now sell equity shares to both accredited and non-accredited Georgia residents.

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Go to crowdvested.com for more information on investing with CrowdVested.