

Saimaa University of Applied Sciences
Master of Business Administration, Lappeenranta
Degree Programme in International Business Management

Olga Bogdanova

Real estate crowdfunding in Finland: the drivers of campaign success and the industry development

Thesis 2018

Abstract

Olga Bogdanova

Real estate crowdfunding in Finland: the drivers of campaign success and the industry development, 128 pages, 10 appendices

Saimaa University of Applied Sciences

Master of Business Administration, Lappeenranta

Degree Programme in International Business Management

Thesis 2018

Instructor: Senior Lecturer Timo Saarinen, Saimaa University of Applied Sciences

The objectives of the study were to examine the phenomenon of real estate crowdfunding in Finland, to explain the success or failure of RECF campaigns, to understand the drivers behind industry development and to assess its future potential. The data was collected from the two main sources: interviews with the experts and the information from the web sites of the crowdfunding platforms.

The results of the study illustrate the present state of the real estate crowdfunding market in Finland, its peculiarities and commonalities compared to the US and EU markets. The study emphasizes the significance of understanding the motivation and background of the investors, suggests the actions of the fund seeker that ultimately lead to success. The research illustrates the environmental and industry factors shaping the industry and provides expectations and recommendations regarding future development.

The results can be used by the real estate development companies planning to use crowdfunding as a fundraising tool, and by the real estate crowdfunding platforms. Further study is required to understand the real estate investors' motivation and preferences and to develop an internationalization strategy for the real estate platforms.

Keywords: crowdfunding; real estate; RECF; crowdinvesting; crowdlending.

Table of contents

1. Introduction	5
1.1. Background	5
1.2. Research questions, objectives and delimitations	6
1.3. Structure of the Thesis	7
2. Theoretical framework	9
2.1. Crowdfunding	9
2.1.1. Origination, definition and classification of crowdfunding	9
2.1.2. Crowdfunding participants and their incentives	13
2.1.3. Typology of funders and their motivation	15
2.1.4. Success factors of financial return crowdfunding campaign	16
2.1.5. Regulation of the crowdfunding in Finland	24
2.2. Real estate	26
2.2.1. Real estate investment market in Finland	26
2.2.2. The real estate investment system in Finland	27
2.3. Real estate crowdfunding	31
2.3.1. Real estate crowdfunding securities and investment strategies	31
2.3.2. An overview of real estate crowdfunding market	32
2.3.3. Risk and return in real estate crowdfunding	38
2.4. Framework for assessing industry potential	39
2.4.1. Institutional perspective	40
2.4.2. Market pull, technology push and competition	41
3. Methodology	43
3.1. Case studies	43
3.2. Data collection	43
3.3. Structure of the interviews	44
3.4. Data analysis	44
4. Empirical findings	46
4.1. The present state of the real estate crowdfunding market in Finland	46
4.1.1. The market size	46
4.1.2. The business models in real estate crowdfunding in Finland	47
4.1.3. Case 1. Helsinki Allas Oy at the platform Invesdor.com	50
4.1.4. Case 2. ICON offerings: Suurpelto Bond Oy at the platform Invesdor.fi and Icon Ilves Bond Oy at Yrityslainat.fi	58
4.1.5. Cross-case analysis	65
4.2. Evaluating the demand for RECF	67

4.2.1.	Market pull: comparison of RECF with other investing instruments in Finland	67
4.2.2.	Advantages and disadvantages of RECF	72
4.2.3.	Market pull: the nature of demand for crowdfunding as a form of real estate financing	75
4.3.	Assessing the potential and the future trends of RECF	82
4.3.1.	Comparative analysis of real estate crowdfunding market in Finland with UK, Europe and USA	82
4.3.2.	Institutional framework: drivers and pitfalls for development	83
4.3.3.	Future scenarios: growth opportunities	87
5.	Summary and discussion	91
5.1.	Summary of the Research Findings	91
5.2.	Managerial implications	96
5.3.	Limitations of the Research Findings and Further Research	97
	Figures	98
	Graphs	98
	Tables	98
	References	99
	Empirical data	107
	Interviews	109
	Appendices	111
	Appendix 1. The loans at the platform groundfunding.fi	111
	Appendix 2. The loans at the platform Yrityslainat.fi	112
	Appendix 3. The list of investors, the first crowdfunding round of Helsinki Allas Oy	114
	Appendix 4. The list of investors, the second crowdfunding round of Helsinki Allas Oy	116
	Appendix 5. Social capital of Helsinki Allas Oy	118
	Appendix 6. Social capital of ICON Suurpelto Bond Oy	119
	Appendix 7. The publications in Facebook	120
	Appendix 8. The risk assessment grade, growndfunding.fi	124
	Appendix 9. The general list of questions to all the respondents	125
	Appendix 10. The list of questions to the case companies	127

1. Introduction

1.1. Background

Crowdfunding is a relatively new form of alternative financing utilized for funding various types of projects using the Internet: new ventures (startups), cultural and social projects (Mollick 2014), which shows an enormous growth in volume of funds worldwide (Belleflamme et al. 2014). Crowdfunding has received attention from researches; the majority of research works explore dynamics of crowdfunding, its forms, such as peer-to-peer lending, donation-, reward-, equity- and loan-based, analyze crowdfunding as a method of financing new small ventures, focusing on the factors affecting success of crowdfunding campaign, illustrating interesting and successful cases. Other studies include investigation of financing the non-profit projects, drug development, environmental project, scientific research and music industry.

Real estate crowdfunding, enabling small investors to co-found real estate projects has emerged recently, is the current trend in alternative financial markets in the UK (Zhang B. et al. 2016a) showing maximum growth, and is largely unexplored (Herve F. et al. 2017, p. 6). By 2015, the share of real estate crowdfunding in the total volume of crowdfunding accounted for 5.4% (O’Roarty 2016, p. 1). Recently a number of large-scale real estate projects was financed using crowdfunding around the Globe, especially in USA: an office tower in Bogota, numerous projects in New York (Bieri D., 2015). Crowdfunding will change the status-quo in such a conservative market as real estate: in the developed markets, it allows smaller investors to the market that was affordable only for large investors and in the emerging markets it allows to bring funds to the projects that were facing difficulties in obtaining financing before (Lakhani K.R. et al. 2014). Commercial real estate developers primarily raise capital for their projects from private investors or real estate investment trusts. Obtaining financing from banks for real estate projects may take months, whereas crowdfunding campaigns usually deliver the funds within weeks. Crowdfunding also democratized this process by allowing investing smaller amounts into the specific projects (Schatz R.D. 2016). That became possible due to the introduction of the JOBS act in 2012, which regulates and enables crowdfunding

in the USA. Finland has introduced the Crowdfunding Act, which came into force on 3 September 2016, and was supposed to ease the regulation of the investment-based crowdfunding and clarify the loan-based one. Therefore, there is a huge potential for the rapid development of the Finnish crowdfunding scene in the nearest future, and there is certainly a need for examining the real estate crowdfunding to understand how this industry operates at the moment and in the future, and the factors that drive the success of real estate crowdfunding.

1.2. Research questions, objectives and delimitations

The purpose of this study was to understand the phenomenon of real estate crowdfunding in Finland by investigating the present state of the real estate crowdfunding in Finland, examining the campaign success factors and evaluating the perspective of the future industry development.

The results of the study shed light on the dynamics of the real estate crowdfunding market in Finland, identify a demand and measure the attractiveness of the method to real estate developers and investors, and determine and estimate the factors associated with advantages and disadvantages of the real estate crowdfunding compared to other investment and financing tools. Analysis of two cases, different in nature, illustrates the process of funding the real estate project using this form of fundraising and identifies what kinds of drivers influence the campaign success in case of equity and debt offerings. The author also attempts to predict the industry potential and provide suggestions on the direction of the future development based on the interviews with the industry professionals and analysis of the demand, competitive environment and institutional framework in Finland.

In order to present the results of the study in a logical way, the following research questions were set:

RQ1. What is the real estate crowdfunding in Finland?

RQ2. How does the success or failure of RECF campaign can be explained?

RQ3. How attractive the RECF is compared with traditional investment vehicles?

RQ4. What are the factors and how do they affect the demand for RECF as a financing tool and what can be done to improve it?

RQ5. How the potential of RECF industry development can be explained?

RQ6. What are the expectation regarding future industry growth?

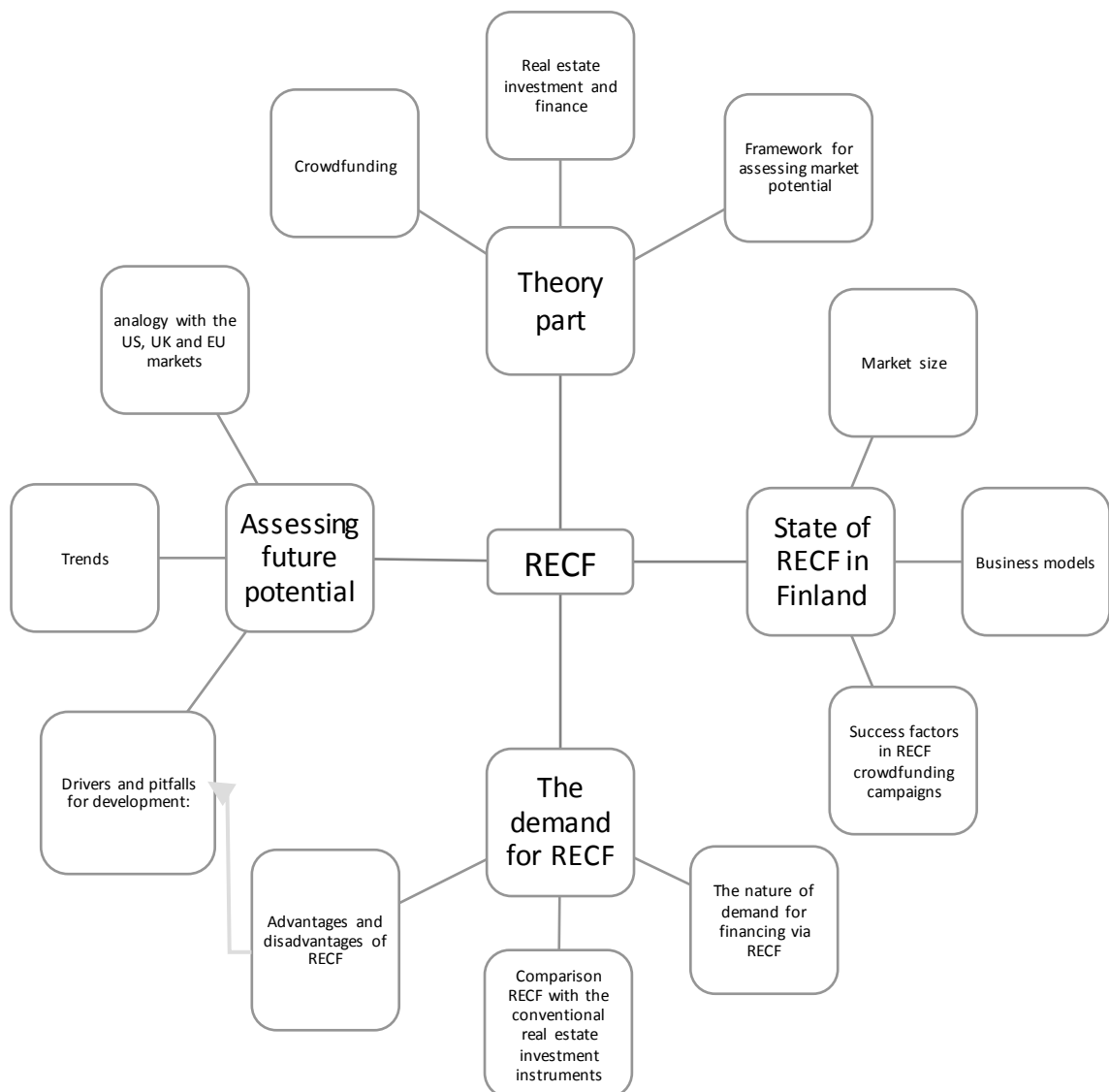
The study will be limited by the territory – Finland and the period of time – years 2015-2017.

1.3. Structure of the Thesis

The structure of this Master's thesis is presented in Figure 1. The Theoretical part of the Thesis consists of three parts, explaining phenomena of real estate crowdfunding from the point of view of crowdfunding and real estate concepts, using the academic literature and industry reports. Framework for assessing the potential of RECF is designed in a way to explain the drivers that affect the industry development in a positive and the negative way.

The Empirical part consists of three logically interconnected parts. First part, The present state of the real estate crowdfunding market in Finland, describes the RECF market and illustrates the effect of success factors on real estate crowdfunding campaigns performance. Second part, Evaluating the demand for real estate crowdfunding, investigate the alternatives of investing in real estate and provides the assessment to advantages and disadvantages of RECF as an investment and financing tool. Finally, the third part provides some insights on the market potential and future trends, based on the results of the analysis of the drivers and pitfall for development and analogy with the US, UK and EU markets.

Figure 1. Structure of the Thesis



Source: developed by the author

2. Theoretical framework

2.1. Crowdfunding

2.1.1. Origination, definition and classification of crowdfunding

Crowdfunding is a relatively new however increasingly growing area of academic research, and several attempts to explain the roots of the concept as well as to provide a definition of the phenomena has been done so far. According to Belleflamme et al. (2010), the term crowdfunding derives from the broader concept of crowdsourcing; Mollick (2014) also refers to the concept of micro-finance when trying to explain the essence of this phenomena. The main definitions are presented in the Table 2.1.

Table 1. Crowdfunding definitions

Source	Definition
Schwiebacher and Larralde (2010)	<i>“an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes”</i>
Ordanini et. al (2011)	<i>“Crowdfunding is an initiative undertaken to raise money for a new project proposed by someone, by collecting small to medium-size investments from several other people (i.e. a crowd)”</i>
Mollick (2014)	<i>“Crowdfunding refers to the efforts by entrepreneurial individuals and groups – cultural, social, and for-profit – to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries”</i>

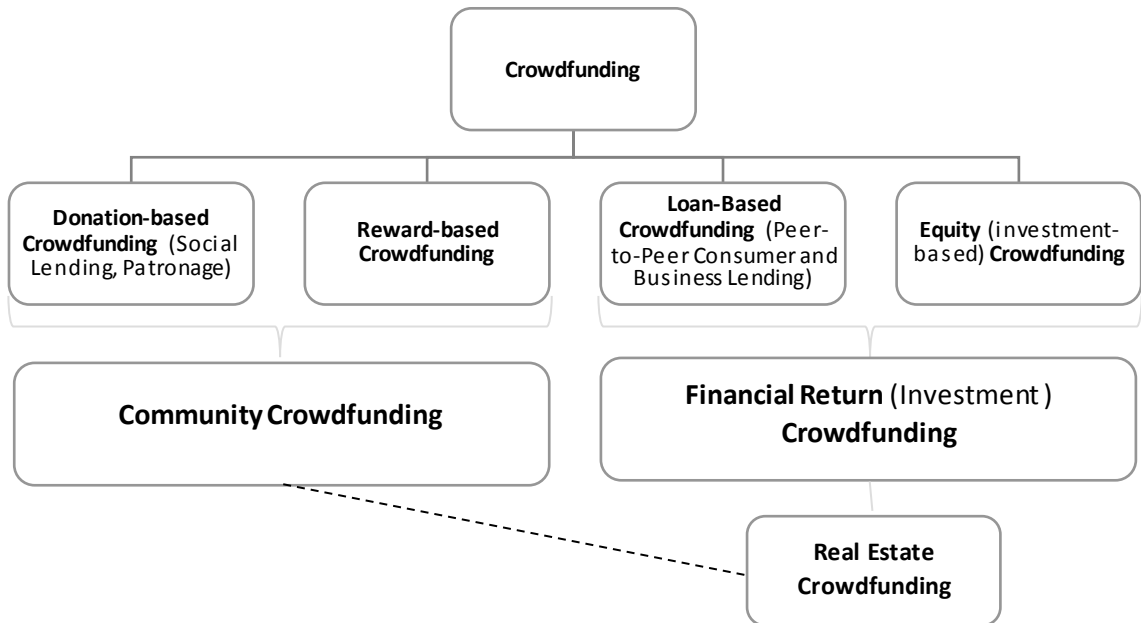
These definitions are quite broad and there is a variety of the crowdfunding models that fall under this umbrella term; therefore in order to bring some clarity, the classification has been introduced by scholars, professionals and legislative authorities. Mollick (2014) divides crowdfunding models into four categories by the context of founding goals: patronage model with no expectations regarding financial return, lending model with offered interest on capital, reward-based

model or preselling and equity crowdfunding model. Schwienbacher and Larralde (2012) group crowdfunding models by the type of rewards offered to funders: donation model which corresponds with patronage model of Mollick (2014), passive investments with expectations of financial return only, and active investments with participation of the funders in forming the final product, in other words, reward-based model.

The typology of crowdfunding models, utilized in the working paper of International Organization of Securities Commissions includes donation crowd-funding, reward crowd-funding, peer-to-peer lending and equity crowd-funding (Kirby & Worner 2014) adopted from Nesta (Pierrakis & Collins 2013). Cambridge Center of Alternative Finance is extensively studying dynamics of alternative finance market activity in partnership with Berkeley and consulting companies such as PWC, ACCA, EY, KPMG with support of industry professionals. Their working taxonomy of alternative finance for business sector includes peer-to-peer business lending, equity-based crowdfunding, reward-based crowdfunding, and donation-based crowdfunding (Zhang et al. 2016a, p. 15). Interesting to note, they separate real estate crowdfunding and peer-to-peer business lending (real estate) starting from 2015, as well as debt-based securities, community shares and invoice trading (Zhang et al. 2016a, p. 15). Finally, the Crowdfunding Act, which regulates financing business activities in Finland by crowdfunding in the form of seeking financial return, uses terms of loan-based and investment-based crowdfunding (Finnish Crowdfunding Act 2016).

The principles of operation of all the types of crowdfunding models are similar: a fund-seeker is initiating a fundraising process via crowdfunding website, or platform, and investors provide small amounts of money as a donation or in exchange for reward if it is provided. The categorization is based on the type of reward the investor receives in exchange for the contribution (Ahlers et al. 2015, p. 6). For this particular Thesis, the classification illustrated in the Figure 2 will be used.

Figure 2. Classification of the crowdfunding



Source: modified from Kirby & Worner (2014)

Donation-based crowdfunding is the one of [the first forms of crowdfunding], mainly represented by non-for profit or charity organizations, rarely business companies seeking funding in form of donations with no material reward for investors in return for their contributions. Reward-based crowdfunding model as well as the similar pre-purchase model offers funders either small rewards in recognition for the contribution or the product the company is planning to produce (Bradford 2012, p. 16).

Loan-based or lending form of crowdfunding, which is also called peer-to-peer lending, includes peer-to-peer consumer lending and peer-to-peer business lending (Zhang et al. 2016a, p. 15). The lending platforms provide loans for a fixed term with repayment of the principal and in majority of the cases the interest (Bradford 2012, p. 20) from individuals or institutions to business in case of peer-to-peer business lending and individuals in case of per-to-peer consumer lending (Zhang et al. 2016a, p. 15). Further, in this Thesis when discussing loan-based crowdfunding in relation to real estate financing, the peer-to-peer business lending will be taken into account. The following definition for the latter is stated in the Finnish Crowdfunding Act (2016): “*loan-based crowdfunding means the*

acquisition, offering or brokering of a loan for a financial return, where a debt relationship is created between the crowdfunding recipient and the customer of the crowdfunding intermediary for the purpose of business activity”.

Equity-based (investment-based) crowdfunding model assumes selling securities in form of stakes (Mollick 2014, p. 3) by mostly startups to private and institutional investors (Zhang et al. 2016a, p. 15) in return for the share of profit (Bradford 2012, p. 24). Vulkan et al. (2016) analyzed descriptive statistics of equity crowdfunding campaigns at the UK equity crowdfunding platform SEEDR in 2012-2105 and found that there are quite important distinctions between reward- and equity crowdfunding. First, for the equity crowdfunding the investment goal, as well as the average investment is much higher. The motivation of the backers in the equity crowdfunding is to receive the financial return on investments. Finally, the information provided for the crowdfunding campaign contains pre-money valuation for making informed decision. At the same time, there are some common aspects in reward and equity crowdfunding, namely the dynamics of the investment process during the campaign in form of herding behavior. There is an evidence of herding behavior at the lending forms of crowdfunding as well (Lee et al. 2012).

Real estate crowdfunding is a recently emerged definition of sub-segment of equity-based and loan-based crowdfunding, with the main peculiarity of being asset-backed and the difference in risk and return (Zhang et al. 2016a). Real estate crowdfunding business model is based on technology that cuts the intermediaries and transactional costs, and provides value for investors and real estate developers, opens new markets for investors and has a huge potential for scaling by standardizing deals. Real estate companies work directly with investors, which allows reaching high interest rate that is attractive for investors and cheap for real estate companies (Miller 2015).

Ahlers et al. (2015) argues that the level of uncertainty and the degree of legal complexity rises from donation-based reward-based forms, referred as community crowdfunding, offering no financial return for investments, towards financial return or investment crowdfunding, which includes the loan-based and equity-based forms. However, in practice, some funded projects have been either

a combination of two forms, or at least bearing some traits, which will be illustrated in the Empirical part of this Thesis.

2.1.2. Crowdfunding participants and their incentives

Crowdfunding is a process that involves several players: company seeking finance for the project or idea, multiple funders, or backers, and the platform (Ordanini et al. 2011). This is a basic model, which is getting more complicated as the industry evolves: the business for financial return crowdfunding platforms will be described in details further in the Chapter 2.3 Real estate crowdfunding, as well as the business models of real estate crowdfunding. In this particular Chapter, the idea is to provide general description of the market functioning for investment (or financial return) crowdfunding.

Agrawal et al. (2013, p. 70-73) identified the incentives for engaging in equity-based crowdfunding for the company seeking finance, or the creator, as access to lower cost of capital and access to information in the context of the early-stage financing. He argues that crowdfunding increases competition between funders and thus willingness to pay, broadens up the geography of funders, and allows creators to improve the product by engaging funders in the process of product development. However another study done by investigating 342 SME loans at one of the European platforms shows that convenience and process transparency of the crowdlending platform is a greater incentive than economic criteria for the borrowers that turn to loan-based crowdfunding, taking into account that financial terms are not better than in the SME banks (Maier 2016, p. 150). This difference in incentives indicates that for various types of the platforms in the context of various institutional settings, the motivation for utilizing crowdfunding for financing the project might vary; therefore in the Empirical part of this Thesis, a study of demand of the real estate developers for the crowdfunding in Finland will be performed.

Funders (backers) are the investors that support the project or idea financially, in many cases being involved into development of the final product and expecting the benefits in some forms. Their incentives according to Agrawal et al. (2013, pp.73-74) vary from the form of the crowdfunding model and include access to

investment opportunities, new products, and the creator, support of the product or service and formalization of the contracts, for instance, with relatives through crowdfunding. The motivation of the funders and the typology will be discussed in more details in the next Section.

Crowdfunding platform is a mainly for-profit business (Agrawal et al. 2013, p. 74) which act as an intermediary between the companies seeking finance and the crowdfunders (Belleflamme et al., 2013, p. 33), charging a fee for successful transactions (Agrawal et al. 2013, p. 74).

Academic literature describes incentives/disincentives and advantages/disadvantages of financial return crowdfunding, and for the convenience, these findings are grouped in the Table 2 below.

Table 2. Incentives and disincentives of crowdfunding

Market Participant	Incentives/Advantages	Disincentives/Disadvantages
Creator	<p>Lower cost of capital: finance without great portion of equity, better access to funders, greater competition between funders, bundling equity with pre-sales;</p> <p>Information: input in product creation, marketing around product, promotion using word-of-mouth of backers.</p>	<p>Risk of disclosing too much information to competitors;</p> <p>Risk of intellectual property violation;</p> <p>No additional value for the project in comparison with business angels;</p> <p>Cost and time required for the crowdfunding campaign;</p> <p>Fear of public failure</p>

Table 2. Incentives and disincentives of crowdfunding (continued)

Market Participant	Incentives/Advantages	Disincentives/Disadvantages
Funders	<p>Access to investment opportunities;</p> <p>Early access to new products;</p> <p>Community participation;</p> <p>Support for a product, service, or idea;</p> <p>Formalization of contracts;</p> <p>Decreased risk: smaller amounts;</p>	<p>Disability of creator to deliver promised results;</p> <p>Fraud;</p> <p>Risk of project failure (approximately 50% default rate);</p> <p>Risk of platform failure;</p> <p>Low liquidity especially for equity crowdfunding;</p>
Platform	Transaction fee and profit	Risk of cyber attack

Sources: developed by the author from Agrawal et al. (2013); Kirby & Worner (2014); Gerber & Hui (2014); Turan (2015).

2.1.3. Typology of funders and their motivation

Ryu & Kim (2016) studied personality traits, demographic characteristics, motivation and behavior by surveying 544 backers of the reward-based crowdfunding platforms in South Korea. Drawing upon Ryan and Deci (2000)'s "intrinsic vs. extrinsic motivation" model, they divided crowdfunders into four groups based on motivation types and personality: angelic backers, reward hunters, avid fans, and tasteful hermits. Ryu & Kim (2016) describe angelic backers' motivation as philanthropic; they are agreeable, tend to invest smaller sums for the large charity projects in the beginning of the crowdfunding round. Lam & Law (2016) refer this type of motivation as intrinsic, social return motivation: the funders are motivated by growth in self-esteem by receiving recognition from society and suggest this type of funders to occur at donation-based crowdfunding platforms. Reward hunters, according to Ryu & Kim (2016), are the opposite of angelic backers, and are motivated by the rewards or the returns from their input, and their investment behavior is characterized by funding

smaller projects in their later stage. Avid fans are the most passionate funders, motivated both by philanthropy and by reward. They are open, agreeable and extroverted persons who invest highest amount of funds (Ryu & Kim 2016). In investment-based platforms, this type of funders is motivated by the financial return, engagement with local community and desire to employ their expert knowledge to improve the chance of the project for success (Lam & Law 2016). Finally, tasteful hermits are the crowdfunders that are characterized by the playfulness, diversity and high amount of investments, motivated by their own interest, and less motivated by the rewards and recognition.

As Lam & Law (2016) summarize, for the equity crowdfunding, the investors are mainly motivated by the financial return and its combination with the combination with social return. This is in line with the findings of Cholakova & Clarysse (2015), who in their studies of funders' motivation at the equity crowdfunding platforms argue that for financial return crowdfunding the primary motivation is financial. Crowdfunding is a contextually complex phenomenon, and the motivation and decision criteria may vary, even from platform to platform. Such, according to the surveys done at the Finnish crowdfunding platform Invesdor in 2015 and 2017, there are three groups of the investors, among them 24% are driven by the financial return (reward hunters), 37% are motivated by the reward and philanthropy (avid fans), and 39% by philanthropy (angelic backers). The research findings moreover support the study of Ryu & Kim (2016) in terms of amounts spent by each of the crowdfunding groups and the type projects each group is focused on. The response rate from the survey was 19%, therefore, this data might not be representative, and nevertheless it will be taken into account for analysis of the cases (Invesdor, 2017a).

2.1.4. Success factors of financial return crowdfunding campaign

There has been attempts to take a systematic view and to categorize the factors of success of the crowdfunding campaign in academic literature recently. Ryu & Kim (2016) introduce a conceptual framework that links the project characteristics and the personality of the funders with their motivation and behavior that ultimately influences the campaign success. In the literature review, they categorize the previous studies into three domains: project-level, individual

behavior-level and individual motivation-level factors. This literature review mainly covers the studies that are drawn upon the data from the reward-based platforms. In the most recent systematic literature review, Kaartemo (2017) divides the project-level factors into campaign-, crowdfunding platform-, and fund-seeker-related factors. This approach to classification of the success factors refers to the observable and measurable characteristics of the campaign settings.

The studies on success drivers cover all the types of the crowdfunding campaigns at different platforms: reward-, donation-, equity- and loan-based; however, there is contradictory evidence of some drivers influencing positively or negatively campaign success depending on the context (Kaartemo 2017), or the type of the platform. Such, the motivation (Cholakova & Clarysse 2015), the background of the funders and the size of the deals of the equity crowdfunding are different from those of the reward- and donation-based (Vismara 2015). Therefore, for the purpose of this study, the only factors applicable to the analysis and related to the performance of the investment-based (equity- and loan-based) crowdfunding campaign were summarized.

By testing traditional Vs' investment criteria and variables stemming from reward- and donation-based crowdfunding literature on the sample of sixty campaigns at Finnish platform Invesdor during 2012-2014, Lukkarinen et al. (2016) have identified success factors for equity crowdfunding campaign. They suggest that contrary to the reward crowdfunders, equity investors are interested in the campaigns with **high funding targets** as they signal about company growth possibilities and provide investors with some confidence as the higher the target is, the bigger is the number of funders supporting the campaign. However, these findings are not in line with the study of Vulkan et al. (2016) which imply that the higher investment goal decreases the chance of the early success.

Besides that, the price, or **minimum investment** matters. According to Lukkarinen et al. (2016), high minimum investments threshold may affect negatively to the investment decision due to the higher risk and absence of funds available. The study also shows that campaign duration has a negative impact on the crowdfunding campaign performance, which is also supported Mollick (2014), who examined over 48,500 projects at the US reward-based

crowdfunding platform Kickstarter. Both studies suggest that this correlation is determined by the signaling the confidence of the fund-seeker to the investors, and Lukkarinen et al. (2016) explain that it may also increase the speed of their decision making process.

Another set of the campaign-related factors of success suggested by Lukkarinen et al (2016), Ahlers et al. (2015), Mollick (2014) are related to the **quality of the information presented for investors**. While for the reward-based platform the quality of the pitch, description and the video are the measures of preparedness of the fund-seeker (Mollick 2014), for the equity based platform Lukkarinen et al. (2016) emphasize the **importance of provision of financial information**, which affects slightly positively crowdfunding campaign success and signals the credibility and entrepreneur' capability to investors. Similar to Lukkarinen et al. (2016), Ahlers et al. (2015) studied 104 equity crowdfunding campaigns on the Australian equity crowdfunding platform ASSOBS in 2006-2011, and found that such an attribute of the crowdfunding campaign as provision of financial forecasts signals quality and the ability to provide returns in the future. Moreover, they found that the **information on the exit strategies**, such as IPO or in less degree acquisitions, increases the chance of crowdfunding campaign success since these forms of exit provide the highest returns to the investments.

In addition to such signals, as the background of the fund-seekers and the information on the exit, studied by Ahlers, Vismara (2016) focused on the fund-seeker behavior during the campaign that leads to success. He examined 271 campaigns at the UK equity crowdfunding platforms and found that **equity retention** signals the quality of the projects to the investors. The amount of retained equity by the founders also reflects the expectations of the future return and signals the risk level of the project, therefore positively influencing the success of the campaign (Ahlers et al. 2015; Vismara 2016).

Importance of **leveraging social media** has been studied in the setting of reward-based crowdfunding campaigns and is relevant for the equity crowdfunding (Lukkarinen et al. 2016), even though some companies tend to employ the network not to look desperate for financing. Social media profiles of the investors play an important role in attracting others to the equity crowdfunding

campaign. Vismara (2015) have studied information cascades in the setting of 132 equity crowdfunding campaigns on UK-based platform Crowdcube in 2014 and identified that the successful campaigns show higher number of the public profile investors. According to the study, they invest almost twice of that the average investor do, quite often have an entrepreneurial background, and have been referred in the research as informed investors who represent a positive signal to uninformed investors. Most of the successful campaigns show the higher number of the investors and higher number of public profile investors in the early period of the campaign compared to unsuccessful. These findings are also supported by the results of the study of Lukkarinen et al. (2016), which state that the higher amounts of the investments at the initial stage of the offering signal about credibility to the investors. These findings are in line with the study of Vulkan et al. (2016). Using cross-campaign regression analysis of 636 cases at the UK equity crowdfunding platform SEEDR during 2012-2015, they found the factors associated with the success of the crowdfunding campaign. The results show, that **early success** of the campaign increases the performance probability by sending other crowdfunders positive signals about the unobserved quality of the project, therefore driving herding behavior. Moreover, the authors found that the successful projects utilize pre-marketing of the campaign, offered by the platform SEEDR, therefore increasing the chances for early success of the round.

Ryu & Kim (2016) found that the **typology of funders and their motivation** directly influences the success of the crowdfunding campaign. As has been already mentioned in the section related to the motivation of the funders, various groups of the funders are motivated by diverse factors and behave in a different way. Therefore, it is very important for the success of the campaign, to understand who the investors are, align the proposition with their motivation and to choose the right platform that matches the campaign in the most proper way. Such, Choy & Schlagwein (2016) argue that different IT affordances, or the artefacts supporting cognition or physical actions, have an impact on the certain motivation types. Based on two dimensions, project-platform and cognition-action, they identified four IT affordance types, project-cognition, project-action, platform-cognition, and platform-action affordances. By analyzing two cases, they found out that project-cognition affordances, or how the information about the

campaign is presented, trigger the intrinsic-individual motivation characterized by the self-enjoyment and personal satisfaction; this finding supports the importance of the crowdfunding-campaign related success factors. The second group, the project-action affordances, or possibility to make a difference in a real world using the crowdfunding platform, positively influences individual-intrinsic and individual-extrinsic motivation, or striving for reward. The third group, or platform-cognition affordances, such as platform design, or ease of finding the investment opportunity by the link shared in social media, influence individual-extrinsic and social-extrinsic motivation, such as desire to be a part of like-wise community. Finally, the platform-action affordances, for example, possibility to share information in the social media increasing the traffic, is connected with social-intrinsic and social-extrinsic motivation, which includes showing support and desire to be a part of community.

Ryu & Kim (2016) conceptual framework and Choy & Schlagwein (2016) model on relation between IT affordances and motivation therefore can be transformed into the model illustrated by the Table 3 below in order to understand the factors that create certain investor motivation and behavior that ultimately leads to the campaign success.

What is surprising in this model is that project-cognition affordances do not trigger individual-extrinsic and social-extrinsic motivation (this relationships are shown as broken arrows). However, based on the studies on investment crowdfunding (Lukkarinen et al. 2016; Ahlers et al. 2015, Mollick 2014; Vismara 2016), project-cognition affordances, or how information is presented, play an important role in creating positive signals to the investors, who are in majority of the cases are reward hunters (Cholakova & Clarysse 2015) or avid fans (Ryu & Kim, 2016). This can be explained by the fact that the study of IT affordances by Choy & Schlagwein (2016) has its limitations due to the context (case study of two donation-based crowdfunding platforms).

Table 3. Relationships between IT affordances, funders' motivation and behavior

Affordances	Relationships	Motivation (funder type)	Behavior
Project-cognition affordances: how information about project is presented		Individual-intrinsic motivation (Tasteful Hermit): self-enjoyment and personal satisfaction	Diversification
Project-action affordances: allow to make difference in the real world		Individual-extrinsic motivation (Reward Hunter): reward	Investment-based crowdfunding
Platform-cognition affordances: ease of finding the opportunity by clicking the link (platform design)		Social-intrinsic motivation (Angelic Backer): being a part of community, to help	Small amounts at the early stage of the project
Platform-action affordances: possibility of sharing info about campaign		Social-extrinsic motivation (Avid Fan): being a part of community, rewards, show support	Active contributor

Source: Developed from Ryu & Kim (2016) and Choy & Schlagwein (2016)

In addition to platform design, **information about the staff preferences and other investors** available on the web site plays an important role in creating information cascades around the campaign, as was already mentioned above. Uninformed investors follow informed investors to fund the projects the latest have selected (Parker 2014).

Another important success factor, according to Ahlers et al. (2015) is the **professional and educational background** (MBA degree and entrepreneurial experience) of the founders of the fund-seeking company: the increase of the number of MBA degrees of the board is positively correlated with the number of the investors. According to Ahlers et al. (2015), education and experience signals about professionalism and maturity, as well as of innovation and a higher possibility of fundraising as the MBA graduates are supposed to have a wide

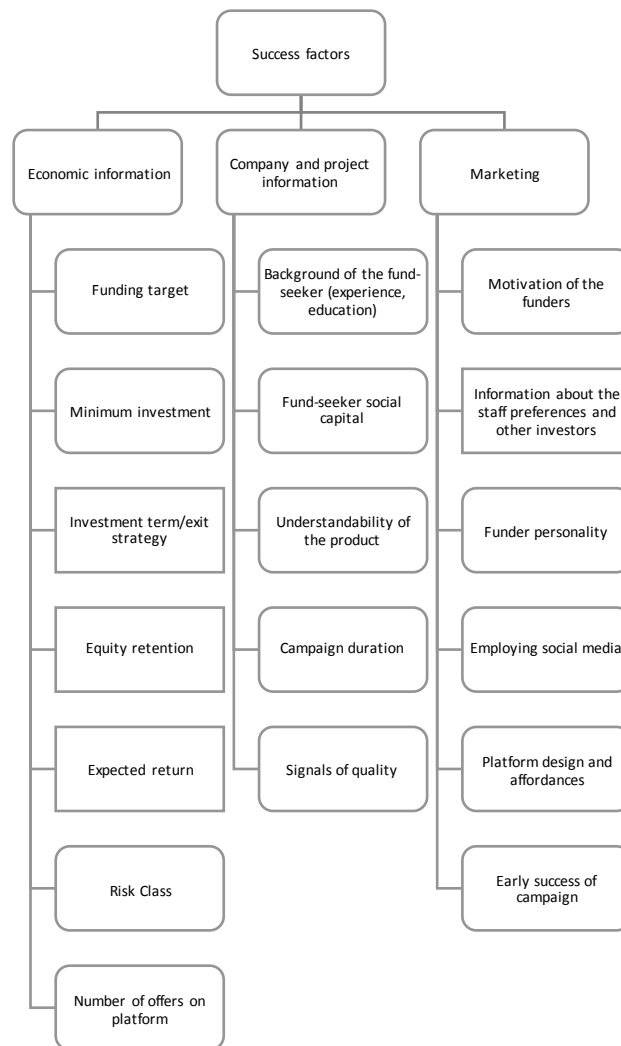
network. Moreover, Ahlers et al. (2015), argues that the higher number of the board members influences the success. Such, an additional board member causes increase in the number of investors by almost 50 percent, as well as the total investments. Ahlers explains this as a positive signal; however, in addition, this correlation of the number of board members with the success of the campaign might be associated with the social capital. Social capital includes above all the support of non-executive directors in the board in networking with potential clients and partners. The role of **social capital** in the crowdfunding round success is supported by Vismara (2016). He explored 271 projects published on the UK platforms Seedrs and Crowdcube in 2011–2014 and found that those campaigns the founders have more social capital have higher success probabilities. Social capital plays two roles: first, it reduces the information asymmetry between the fund-seeker and the investors, and second, by increasing the visibility it helps to attract more investors. Social capital was measured as the number of LinkedIn connections without evaluation of the importance of the contacts. Colombo et al. (2015) highlight the importance of internal social capital developed by contributing to the projects of other members of the crowdfunding community.

As the investors on the crowdfunding platform are typically retail investors, and as it was mentioned above, the majority falls under the category of uninformed, **the understandability of the project** might be a key to success. Lukkarinen et al. (2016) identified that the success of the equity crowdfunding campaign at the Finnish crowdfunding platform Invesdor is dependent on the type of the product the fund-seeking company offers: B2C projects are more understandable for the retail investors and therefore, more successful compared to B2B projects in terms of reaching the funding target.

Real estate crowdfunding involves investing in equity and debt; many real estate crowdfunding platforms offer variety of investment opportunities discussed in the previous section. By investigating 342 cases at the European loan-based platform in 2014-2015, Maier (2016) has attempted to analyze, which factors affect investment decision, making the crowdlending more attractive than traditional investment instruments. He found that **economic factors**, such as the

nominal yield, the risk class, the loan length, the number of the loan at the platform, and the credit volume strongly affect the investment decision, while such information, as the information on the project and the company does not have much influence. High level of return and low level of risk increases the speed of investing, while loan length affects negatively the investment decision, especially if there are competitive offers at the same time at the platform. The information on the company creditworthiness, such as debt to equity ratio, the age of the company and the number of the employees did not seem to affect the speed of investment. These findings are contradictory with the signaling theory in equity crowdfunding.

Figure 3. Factors of success of investment-based crowdfunding campaign



Source: developed by the author based on Ryu & Kim (2016), Kaartemo (2017), Cholakova & Clarysse (2015), Vismara (2015; 2016), Lukkarinen et al. (2016),

Vulkan et al. (2016), Mollick (2014), Ahlers et al. (2015), Choy & Schlagwein (2016), Colombo et al. (2015), Maier (2016)

Reflecting on the studies on the crowdfunding performance for financial return crowdfunding and investor motivation, it can be concluded that crowdfunding performance is dependent on the decision-making criteria, which in turn, is dependent on the motivation and the background of the funders. In this section, the success factors were identified based on existing research in the area of the crowdfunding campaign performance, stemmed from various fields, such as decision-making criteria of the VC investors and business angels, as well as investment behavior of the retail unprofessional investors. It was found out that for equity crowdfunding investment decision is affected by different signals, such as information about the company and the project; information asymmetry drives herding behavior. While for the equity crowdfunding the information of the company and the project is of the most importance for making estimations on the risk and the future return, the loan-based crowdfunding investors are mainly driven by the economic factors in decision-making process. However, it is not clear, how the certain parameters of the project and the financial product affect the crowdfunder decision to invest in real estate projects. Real estate investors are proved more sophisticated rather in general in financial return crowdfunding.

2.1.5. Regulation of the crowdfunding in Finland

In Finland, the Finnish Crowdfunding Act (CFA, 734/2016) came into force in September 2016 as a respond to the growing popularity of crowdfunding in Finland as a result of the limited access to the bank finance. The objective of this act was to support the growth of innovative Finnish SMEs funded by the alternative finance by to establishing clear rules for the crowdfunding market players and the supervisory authorities, and to promote the crowdfunding to the investors by clarifying and protecting their rights. The act covers financial return crowdfunding (equity- and loan-based crowdfunding) and applies to the crowdfunding intermediaries (crowdfunding platforms, alternative investment funds managers, banks, investment firms acting as crowdfunding intermediary, entered in a special register of Finnish Financial Supervisory Authority). (Ministry of Finance 2016a; Finnish Crowdfunding Act 2016)

The CFA provides definition of the equity- and loan-based forms of crowdfunding, and clarifies the roles of the players, namely for crowdfunding intermediary and crowdfunding recipient. For the crowdfunding intermediary the CFA eases the existing requirements for registration by Finnish Financial Supervisory Authority. First, the minimum requirement for equity is reduced from EUR 120,000 to EUR 50,000, which can be replaced by insurance, bank guarantee or other collateral. Second, the crowdfunding intermediaries are not obliged to be a part the Investors' Compensation Fund. (Ministry of Finance 2016a; Finnish Crowdfunding Act 2016). The crowdfunding intermediary is allowed to mediate non-transferrable securities directly to non-professional investors. They are also allowed to receive the orders for transferable financial instruments from professional investors, by using services of authorized intermediaries as an agent. (Ministry of Finance 2016a; Finnish Crowdfunding Act 2016)

Unless the amount of requested funding exceeds EUR 5,000,000 within 12 months, the crowdfunding recipient is not obliged to publish a prospectus. However, the recipient must create up-to-date basic information document of maximum six pages long, containing key crowdfunding information, in Finnish or Swedish. The details of the content of this document are explained by the Decree of the Ministry of Finance on the content and structure of the crowdfunding recipient's disclosure obligation. This document provides information about the company, the details and the conditions of the financial instrument proposed, the risks related to the project, and collaterals or guarantees available (if any). In addition, the investors must receive access to the most recent financial and legal documents. (Finnish Crowdfunding Act 2016; Ministry of Finance 2016b)

Provision of the information about the company, the project, the financial instrument, and the risks associated with the investment helps the investors to make informed decisions. The investors are protected by the provisions regarding acting of the crowdfunding intermediary towards the interests of the investors of this act as well as by some provisions of the Act on Investment Services. Crowdfunding intermediary is not allowed to mediate crowdfunding campaigns of the crowdfunding recipients that are bankrupt and is obliged not to disclose personal information about investors unless they are willing to do so. Investors'

protection is enabled by the monitoring of the compliance of the crowdfunding intermediary with the CFA by Financial Supervisory Authority and Consumer Ombudsman. (Finnish Crowdfunding Act 2016; Ministry of Finance, 2016c)

2.2. Real estate

Hudson-Wilson et al. (2005) justify the inclusion of investments in the real estate into the institutional portfolio since it reduces the risk of the entire portfolio by combining asset classes that respond differently to expected and unexpected events. The returns from the real estate investments are competitive compared with other asset classes. Real estate is a good hedging instrument against inflation providing a stable cash-flow.

2.2.1. Real estate investment market in Finland

Finnish real estate investment market has been growing since 2011, showing maximum increase and absolute record of over EUR 7.4 billion in the volume of transactions in the year 2016. Unlike the previous peak, this time the domestic investors prevail over the international. Another distinguishing aspect is the growing amount of transactions in the residential property investment sector. This increase real estate market activity alongside with the relatively slow economic growth signals of the increased popularity of the real estate as an asset class, residential in particular. (Catella 2017)

According to KTI (2017), the increase of activities in the residential construction sector has boosted the growth of Finnish economy in 2016. The urbanization process cause the demographic increase in the major Finnish cities, which in turn, together with the strong investment supply, creates demand for small apartments with good location. As a reaction for this demand, in 2016 has been an increase in residential construction: 10% compared to the year 2015 and 40% compared to the year 2013-2014, and this trend is estimated to continue.

The size of the property market in Finland constitute EUR 58.2 billion at the end of 2016. The increase in the property market was EUR 3.7 billion or 6.8% compared with 2015. The share of institutional investors, represented by public pension institutions, life funds and pension insurance companies, accounts to EUR 14.9 billion or 8.1% of the total market.

2.2.2. The real estate investment system in Finland

Hudson-Wilson et al. (2005) define investments in the real estate as a two-dimensional quadrant, provided in the Table 4 below. This quadrant is formed by two dimensions: public-private investments and equity-debt form and perfectly illustrates the classification of the real estate investment vehicles across four types.

Table 4. Investments in real estate

	Public	Private
Equity	Public real estate equity: real estate investment trusts, REITs, real estate operating companies, REOCs.	Private commercial real estate equity: direct investments in individual assets, non-listed real estate funds, non-listed real estate companies.
Debt	Public commercial real estate debt: corporate bonds.	Private commercial real estate debt: loans, commercial mortgages held in vehicles.

Source: modified from Hudson-Wilson et al. (2005)

Public real estate equity investment vehicles in Finland are represented from the legal standpoint by two types, by the listed public real estate operating companies (PREOCs) and real estate investment trusts. Public real estate operating companies operate according to the “Securities Market Act” (1339/1997) and the “Finnish Companies Act” (495/1989). The income of the REOCs is a subject to corporate tax and the income tax from the received dividends. (Falkenbach et al. 2013, p. 2). According to KTI (2017 p. 27), the five companies listed at Nasdaq Helsinki exchange are Sponda plc, Citycon plc, Technopolis plc, Investors House and Soumen Hoivatilat. According to

Falkenbach et al. (2013, p. 4), all the listed companies are managing portfolios of commercial real estate properties. Some companies' portfolios include mixed property types; others concentrate on certain types. Such, the most significant player, Citycon is the biggest market player focused on development and management of shopping centers in the Nordic and Baltic countries, and Technopolis develops, owns and manages a portfolio of business park campuses in Finland, Nordic and Baltic countries and Russia. The second biggest REOC Sponda operates in the office and retail segments in Finland and Russia, by investing in development and acquisition (KTI 2017 pp. 27, 33).

Real estate investment trust, or REIT, is a concept introduced in 1880s in the USA for the real estate companies that is eligible for special tax conditions, such as tax exemption for the earnings, if qualified with certain requirements. In the USA these requirements include the minimum proportion of real estate property in the total value of the assets, the minimum proportion of the income from real estate property in the company gross income, the dividend policy and some ownership requirements (Brueggeman & Fisher 2005, pp. 580-581). In Finland, the law on REITs, REIT act, 1173/1997, was introduced in 1998 with the changes to the tax benefits in 2010 in order to encourage the creation of the REITs to support affordable residential rental property. (Stooker 2012, p. 75). At the moment, the only one REIT exists in Finland - Orava Residential REIT plc, listed in 2013 at the Helsinki Stock Exchange. According to the REIT act, the company must invest at least 80% of the assets in permanent rental residential real estate property, the debt might not exceed 80% of the balance sheet, and at least 90% of the profits must be distributed to the shareholders. Moreover, the company must be listed within 3 years from its inception, and there are certain strict provisions related to the accounting and the availability of hedging instruments. (KTI 2017, p. 33, Orava Residential REIT plc, 2016). Altogether the public real estate sector, consisting of REOCs and REITs accounts for EUR 6.9 billion, with the market value of EUR 4.1 billion by the end of 2016 (KTI 2017, p. 33).

Private commercial real estate equity investments in Finland are available in form of direct investments in the properties and indirectly by non-listed property funds and non-listed property companies. From the legal point of view, the investing in the property in Finland refers to the ownership of the building and the

ownership or the long-term lease agreement of the land plot. In practice the majority of the transactions are done using the limited liability company, so-called mutual real estate company (MREC, or *keskinäinen kiinteistöyhtiö*), created for owning the property. The shares of the MREC are connected to the certain apartment or commercial space, and the rental income goes directly to the shareholder of the MREC. The shareholders' responsibilities include the payment of maintenance fee and the finance charge in case the company finance the renovation by the loan. The shareholder has a right to pledge the shares towards the loan and enter the rental agreement, where the income is a subject of the income tax. (KTI 2017, p. 20-21)

Non-listed real estate funds in Finland operate mainly in form of limited partnership or special investment fund. Both structures are tax transparent, which is beneficial for investors from the point of view of the taxation. Limited partnership is a structure where the fund management company is a general partner. This structure is mainly targeting the Finnish institutional investors. The major players managing property funds in Finland are CapMan, Aberdeen Asset Management, Northern Horizon Capital, OP Property Management, and Local Tapiola Property Asset Management, which are also managing residential and commercial development projects. (KTI 2017, pp. 27, 35-36).

Special investment funds are the open-ended structures acting according to the fund rules, operating under the Finnish Common Funds Act (*sijoitusrahastolaki*, 29.1.1999/48) and, where applicable, complying with the Real-Estate Fund Act on the investment (30.3.2007/351), and managed by a fund management company, a necessary condition of which is the professionalism of the founders and the minimum shareholder capital of EUR 125,000. (KTI 2017, p. 27; Act on Common Funds, 2012). In Finland, this form of investment vehicle has been launched by banks and investment management companies recently, in 2012, targeting mainly retail investors. The major players are eQ, specializing in commercial and care properties, Ålandsbanken, with the focus on residential property and land plots for residential construction, and OP Property Management, investing in residential and commercial markets (KTI 2017, p. 27).

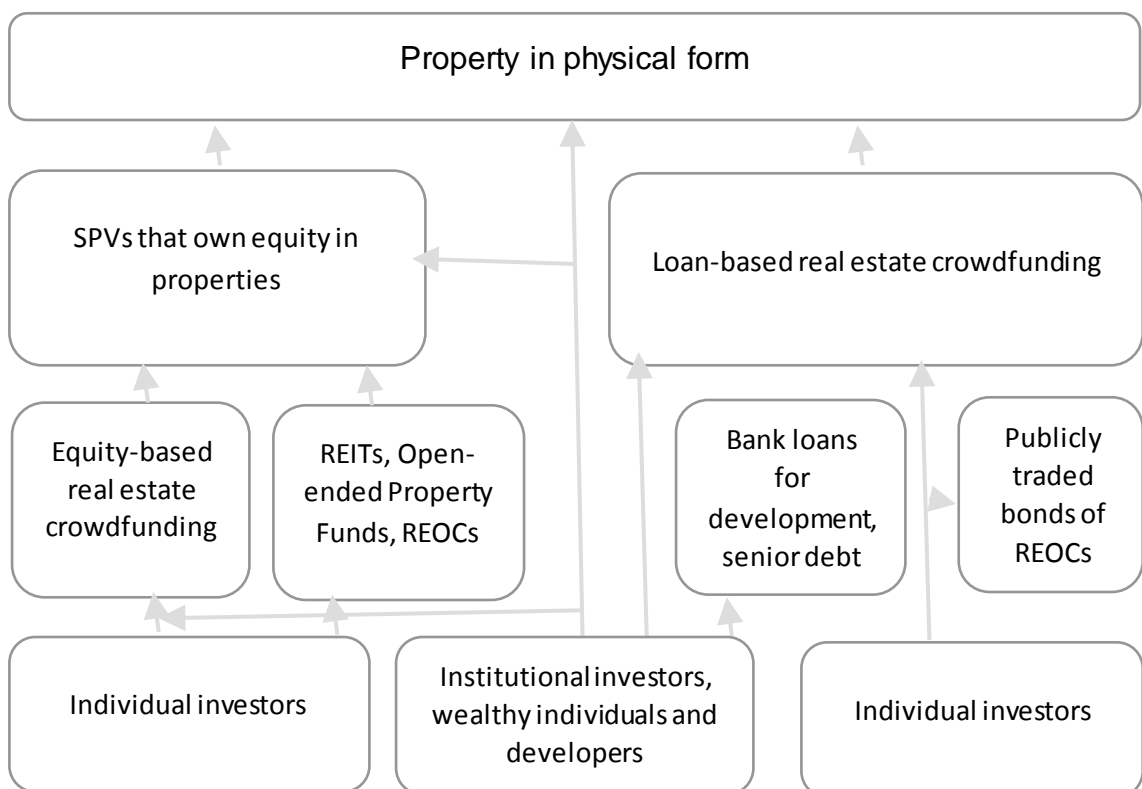
Non-listed real estate companies are the limited liability companies, operating similarly as the public real estate companies. These companies are mainly focused at ownership of rental residential and commercial real estate and are mainly owned by the institutional investors, such as pension funds Varma, Ilmarinen, APG, Elo, AMF Pensionförsäkring, or by international investors. The biggest companies in the residential sector are VVO, SATO and Avara, and in the commercial sector Antiloopi and Mercada. (KTI 2017, p. 34-35)

Public commercial real estate debt is available in form of corporate bonds, issued by the major listed real estate operating companies, such as Sponda, Citycon, and Technopolis, by Orava REIT, and by non-listed residential real estate investment companies VVO and SATO.

Private commercial real estate debt constitute the major part of the debt financing and is provided by the biggest local and Nordic banks, the pension and life funds, and by the debt funds (KTI 2017).

The real estate investment system in Finland is illustrated by the Figure 4 below.

Figure 4. Real estate investment system in Finland



Source: modified from Schweizer & Zhou (2016)

2.3. Real estate crowdfunding

2.3.1. Real estate crowdfunding securities and investment strategies

Real estate crowdfunding is usually used for selling short-term debt and the long-term equity by the fund-seeker using the platform. Equity crowdfunding normally involves more risks and longer investment period offering potential for better returns than loan-based crowdfunding (Massolution 2015). In majority of the cases, the separate entity is created that will hold the ownership of the property. The shares of the entity are sold then to the investors via the platform (Baker 2016). The debt structures mainly include secured senior loans, used for acquiring income property or land plots for the real estate development/renovation (Fundrise 2017).

Alongside with the direct investments in the properties or development projects, some platforms offer investments in portfolios of real estate assets. At the one of the leading US real estate crowdfunding platforms Fundrise, the offerings are grouped into the portfolios varied in the level of risk, return and investment horizon, and the level of diversification. The platform uses eFund and eREIT structures to make direct acquisitions or to buy real estate securities. These structures vary in terms of locations of the properties or the difference in investment strategies. In particular, the Income eREIT intends to generate steady cash flow by focusing mainly on debt financing in commercial real estate properties. The Growth eREIT is aimed at acquiring and owning undervalued income properties, mainly residential assets, with the potential of to appreciate in value over time and ability to maximize the cash flow by securing the long-term fixed rate debt. Other eFunds and eREITs share balanced approach of investing in debt structures to obtain the fixed return and in equity or joint ventures to acquire properties for new construction or redevelopment, or involve refinancing. (Fundrise, 2017.)

Schweizer & Zhou (2016) have analyzed data on 733 projects from seven leading US real estate crowdfunding platforms. They found that the average annual expected return is 11% (median) – 13% (mean); the typical real estate crowdfunding project involves real estate property in the urban area with the

average size of 2.8 million dollars. Typical real estate crowdfunding offers are short-term (12 months or less) junior or bridge loans with a leverage of 66%, where crowdfunding share is 33% of its value, with monthly payments, and the minimum investment of 5000 dollars.

The forms of real estate crowdfunding, the dynamics of the market and its trends are illustrated across three regions that can serve as a model for the assessment of the potential of the real estate crowdfunding in Finland: Americas, UK and Europe.

2.3.2. An overview of real estate crowdfunding market

Americas. Real estate crowdfunding in Americas represented by two types of platforms: real estate equity crowdfunding and P2P real estate lending (with a significant share of business borrowers). Real estate crowdfunding was an already well established and at the same time one of the fastest growing segments of the alternative market in 2015, showing 250% increase in volume in 2015 and an annual average of 231% over the previous three years for real estate equity crowdfunding and 480% increase in 2015 with annual average growth of 471% over three years for P2P real estate lending. (Wardrop et al. 2016.)

The total volume of real estate crowdfunding in 2015 was 1265.78 million USD, including 483.77 million USD from equity-based model, and 782.01 million USD from the share of business borrowers at the P2P real estate lending platforms. The market share of real estate crowdfunding within all the loan- and equity-based crowdfunding models (referred in the report as the balance sheet business lending and the equity-based crowdfunding) was 47.83%. (Wardrop et al. 2016.)

The leading country in terms of the stage of development and the volume of transactions of real estate crowdfunding is USA: 96.77% of the P2P real estate lending and 100% of real estate crowdfunding. In Canada, Brazil and Mexico real estate crowdfunding emerged in 2015 with a 0.75, 0.6 and 0.6 million USD funded. In Latin America, real estate crowdfunding is growing exponentially from 2013 with total amount of transactions of 15 million USD in 2015. (Wardrop et al. 2016.)

The maximum average size of deal in 2015 was in USA: 404 000 USD, 66 investors in average per deal. The share of institutional investors in US prevail in P2P real estate lending model (72.40%), which is explained by existing regulatory constraints of private investors participating in P2P lending in US, and constitute only 7.36% in the volume of real estate (equity) crowdfunding, whereas in the other countries of the region the share of private investors dominates (almost 100%). (Wardrop et al. 2016.)

The leading US-based real estate crowdfunding platforms include Fundrise, Crowdstreet, RealtyShares, Realty Mogul, iFunding, AssetAvenue and Patch of Land. According to Miller (2015), the typical projects at the leading US real estate equity crowdfunding platform Fundrise are mostly commercial projects in the urban areas with the total budget under 30 million USD, with the average crowdfunded size from 2 to 5 million USD per deal, growing from 300 000 USD within three years. The average sum of investments is 10 000 USD and the minimum threshold is 100 USD, which allows access for significant number of private investors. The share of equity crowdfunding in the financial structure of the project is relatively smaller to the bank loan and bigger to the equity share. The investments are relatively short-term (for the period of development of the property) with the high yield, which is attractive for the investors and at the same time is cheaper than the cost of capital available for the developers of niche projects, which are not interesting for the institutional investors from the perspective of the size of the deal since the costs of management increase. According to Fundrise website data (Fundrise 2017), an average return in 2014-2017 is nearly 11% p.a. and total amount invested by the time of writing the Thesis is 1.4 billion dollars.

CrowdStreet is a commercial real estate oriented crowdfunding platform that provides investment opportunities from over 80 professional developers with proven experience of minimum 5 years of managing real estate investments. The company continuously educates investors, providing free guide to investing in commercial real estate, articles, videos, and whitepapers. In 2014-2017, the platform has offered over 105 institutional-quality projects with total investments over 3 billion dollars. (CrowdStreet 2017.)

UK. Real estate crowdfunding in the UK is the one of the most popular sectors for crowdfunding. It includes peer-to-peer business lending and equity-based real estate crowdfunding. (Zhang et al. 2016a.)

The peer-to-peer business lending for real estate is a property-based debt for financing residential and commercial development initiated by small and mid-sized real estate developers, funded mainly by institutional investors. The volume of this type of real estate crowdfunding in 2015 was £ 609 million, 40.87% of the total loan-based crowdfunding volume. The financial products vary from short-term bridge loans (12-18 months) to long-term loans for construction, mainly housing (3-5 years). The average size of a deal in 2015 was £ 522 333, with an average of 490 lenders per loan. (Zhang et al. 2016a.)

The equity-based real estate crowdfunding is a form employing direct private investments into property by selling securities of special purpose vehicle managed by the platform, with a volume in 2015 of £ 87 million, 174 projects, 26% of the total equity crowdfunding. The acceptance rate of the projects by the platforms is rather low, around 3%, enabling success rate of 87%. The average size of a deal in 2015 was £820 042 with an average of 150 investors per deal. The most attractive regions were London and growth centers. (Zhang et al. 2016a.)

Trends: growing base of funders and real estate developers seeking finance, increasing level of female participants, increased competition and marketing, institutionalization and internationalization of the market, introduction of tax incentives for the private investors, increased variety of financial products. (Zhang et al. 2016a.)

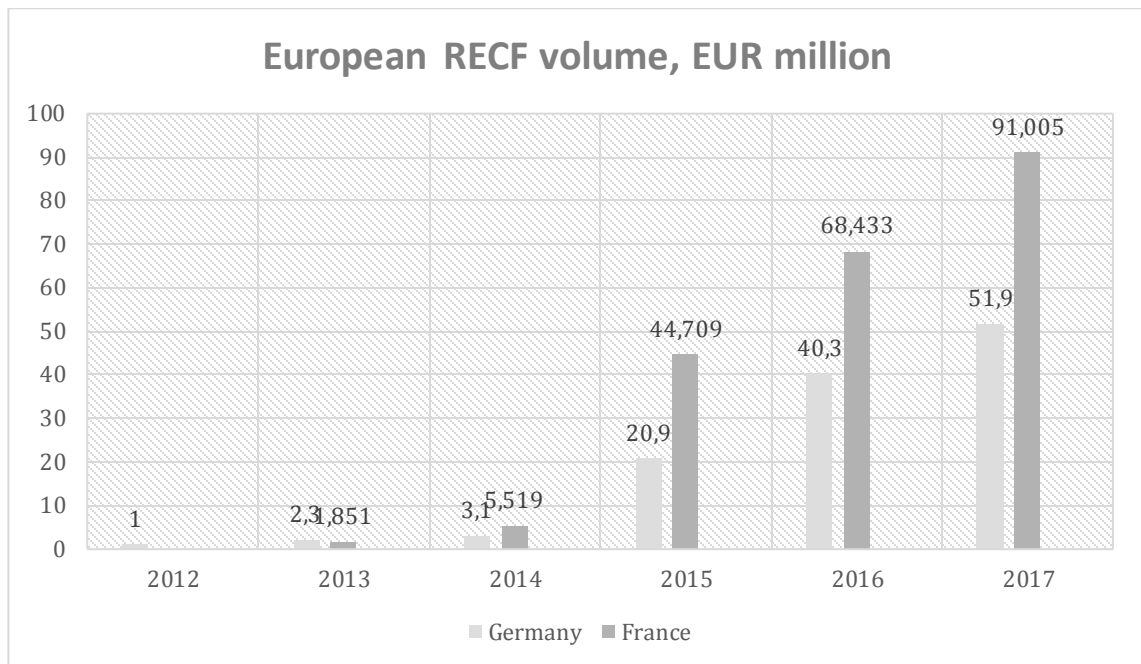
Europe, excluding UK. According to Zhang et al. (2016b), real estate crowdfunding has emerged in Europe quite recently, in 2015; the share of European real estate crowdfunding, in the total business (referred as equity-based crowdfunding and peer-to-peer business lending) crowdfunding market volume, was 6.77%, or EUR 26.97 million. The leading countries in the volume of real estate crowdfunding in 2015 were France (EUR 13 million), Germany (EUR 8 million) and Spain (EUR 3 million). The most common investment

strategies were acquisitions of residential real estate and construction. The average size of deal in 2015 was around EUR 370, 000 (second largest average deal size after equity-based crowdfunding) with the average number of funders of 97 per deal, the maximum size was around EUR 6.5 million, which is the maximum size of deal across industry as well. From the perspective of the investor profile, real estate crowdfunding is quite similar with equity- and loan-based crowdfunding in terms of the female participation, however, the share of the individual investors in the total volume is the lowest across the industry and constitute 56%, while in the equity- and loan-based crowdfunding private investors prevail over institutional (78%). The major trends in Europe include institutionalization, using automated auctions at the RECF lending platforms, internationalization, perceived need in market regulation. (Zhang et al. 2016b.)

Since 2015 real estate crowdfunding in Europe has experienced exponential growth in terms of the volumes and the market share; such, the German real estate crowdfunding accounts for 63% of the market and experienced increase in volume by 92%. (ECN 2017). The market volumes are presented in the Graph 1 below.

This growth was enabled mainly by the introduction of the crowdfunding legislation. Real estate platforms are regulated by the crowdlending and equity crowdfunding regulatory framework (Torris 2017).

Graph 1. European real estate crowdfunding volume, France and Germany



Source: developed by the author, Torris (2017), HelloCrowdfunding.com (2017)

French market has been the biggest in the Continental Europe, and the leader in terms of the introduction of regulation in the end of 2014, which resulted in the market boom in 2015, with the linear growth trend. The market is dominated by the first entrants that were able to deliver the expected returns in 97% of the cases, which creates trust from the side of investors and optimistic glance towards the future development of the market. The top five platforms out of 42 existing in the market provided over 75% of the market volume. The majority of the funded projects involve residential real estate development. As the market is growing, there is a trend of diversification in the investment strategy towards the acquisition of the rental properties, commercial real estate projects, student housing, and fix and flip projects. Another market trends include the growing average size of the investment targets, which has been EUR 425,000 in 2017, and the increasing share of the institutional investors. Minimum investment amount varies from EUR 100 to EUR 1,000, and the interest rates are at the level of 8-12%, with the average of 9.5%. The fees are charged mainly from the real estate companies, and the average fee is 6.5% of the funds raised. The bond structures are the most popular for real estate crowdfunding and account for 65% of the transaction volume. The common structure involves the SPV created for

the bond issue to finance the equity of the company managing the project; however, there is a trend towards the direct issue for financing the project. (Torriss 2017.)

Regulated by KASG introduced in July 2015, German market volume increased from EUR 20 million in 2015 to EUR 52 million up to date in 2017 (Torriss 2017). Alongside with the regulation, there are two main factors of this growth: real estate is traditionally considered as the reliable asset class, which offers less risks compared to startups because of the objectively evaluated value (ECN 2017). Approximately 75% of the deals were performed through three leading real estate crowdfunding platforms, Exporo, Zinsland and Bergfuerst, operating since 2013, 2014 and 2011 respectively. In addition to those, another seven real estate crowdfunding platforms emerged recently. One of them is Engel & Völkers Capital, a real estate crowdfunding platform created by the real estate broker and loan-based platform. The majority of the projects involve residential real estate development and subordinated short-term (21 months) loans with the average interest rate of 6%. (Torriss 2017.)

The majority of the real crowdfunding platform in the rest of the European countries has started operations in 2015-2016. Real estate crowdfunding is popular in Austria mostly in form of subordinated loans for the financing real estate development projects. The interest rates are relatively high, therefore these loans cover the part of the costs, and the larger portion is financed by the bank loans or equity. Another form of crowdfunding is equity for acquisition of the rental real estate, which allows managing risks of the vacancy by diversifying. Estonian market grows quite fast, the total market volume evaluated at the level of EUR 35 million, and the maximum amount of EUR 1.5 million per deal. In Spain, the main strategy of real estate crowdfunding is acquisition of the rental apartments. Even though Spain was among the market leaders in 2015, the challenges connected to the regulation prevent market from growing. Real estate platforms in Latvia operate under AIFMD regime in form of providing loans to the real estate companies or issuing equity for the purchase of the rental properties. Poland has shown a stable growth of the market in 2015-2017; Polish law allows investing using crowdfunding. Swiss market has experience a rapid growth in

2016 and is remarkable by prevailing of the equity form. In other countries, the market is not either much developed, in its inception or does not exist at all; partly this is determined by the lack of appropriate legislation or unfavorable regulatory regime. (ECN 2017.)

2.3.3. Risk and return in real estate crowdfunding

The decisions regarding investing in the real estate project or property is dependent on the specifics of the real estate investment opportunities, other alternatives available, and differences in risks and returns between real estate investment opportunity and alternatives. Distinctive risks that are related to real estate investments can be specified by analyzing differences among eight risk categories, namely business, financial, liquidity, inflation, management, interest rate, legislative, and environmental risks. Business risks in real estate are associated with the location of the property, existing leasing contracts, and the property type. Level of leverage, the cost and the structure of debt influences the financial risks. Real estate traditionally has a high degree of liquidity risk, and in this case, the more universal the property is, the lower is the liquidity risk. Real estate performs well during inflation periods if these risks are covered by the lease agreements meaning that the rent rate is allowed to be adjusted. Management risk is associated with the ability of the company to manage the property efficiently, and it increases for the more complex properties. Interest rate risk affect real estate returns, as this asset class is very high leveraged, therefore properties with fixed interest rates are less risky. Legislative risk is relate to the unfavorable changes in the legislation that affect the returns. Finally, environmental risk may cause the investor the loss of the property or substantial part of it. (Brueggeman & Fisher 2005, pp. 356-358)

Schweizer & Zhou (2016) found that the expected returns of crowdfunding campaigns at seven US leading real estate crowdfunding platforms reflect the risks associated with the projects, which is consistent with the principles of investing in real estate. They found that such campaign characteristics, as property type, financing and campaign specifics influence the expected returns. Such, commercial real estate and real estate development projects offer higher expected returns, 0.7%-1.8% (14.6% versus 12.2%) above residential projects.

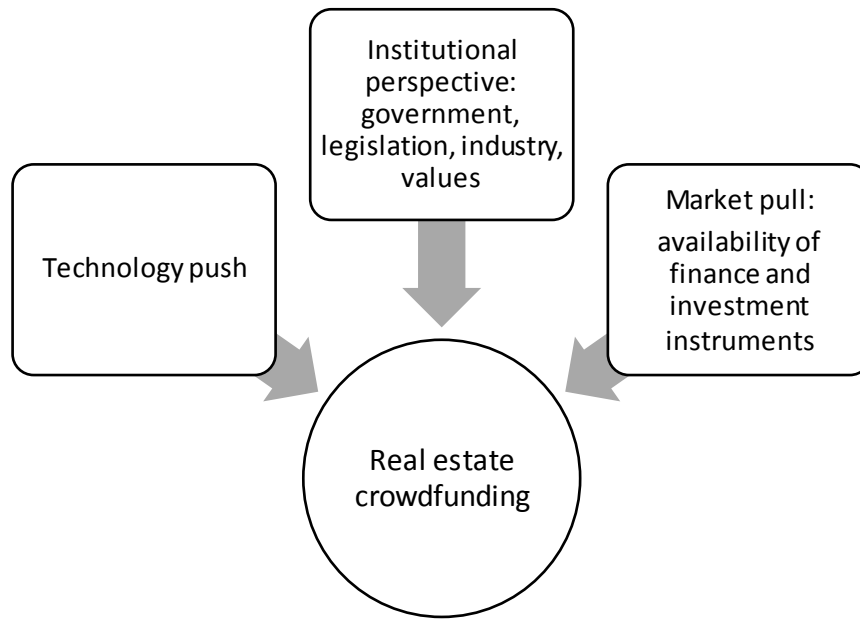
Financing characteristics of the project play the most important role, higher expected returns higher leverage and use of equity, loan-based crowdfunding projects expected returns are 1.9%-4.8% (16.5% versus 10.7%) lower than equity-based crowdfunding projects. Campaign-related characteristics, such as higher minimum investment amount and longer investment term are related to greater expected returns. Investors with monthly payments are offered 0.9%-1.7% less than those investors who are paid later. Finally, expected returns reflect information about the risks associated with the location.

The study of Schweizer & Zhou (2016) is based on the data from US platforms that allow the participation of the accredited or sophisticated investors. The information about the projects is less detailed as it is presented during the due diligence. When making decision on direct investment in real estate property or development project, investors conduct due diligence, which includes checking all the documents containing information on potential risks, and perform investment analysis. A lengthy and costly process that can take over 3 months is not reasonable when investing using crowdfunding. It is not clear from the previous research, how investor analyses the financial information provided by the founder at the crowdfunding platform. As it was mentioned before, unsophisticated investors more likely follow the crowd. Social information becomes important for making investment decisions, which creates herding behavior. Therefore, it is important to understand the motivation of the crowdfunders, what kind of information about the project creates the incentive to invest and what other factors influence the success of the crowdfunding campaign.

2.4. Framework for assessing industry potential

Crowdfunding is ameba-like phenomena, enabled by the technology, reflecting to the needs of the fund-seekers for finance and the demand for investment opportunities, and at the same time taking its shape by the influence of institutions. The drivers affecting the industry are illustrated in the Figure 5.

Figure 5. Drivers shaping the RECF industry



Source: Developed by the author based on Stefano et al. (2012); Kshetri (2015)

2.4.1. Institutional perspective

Kshetri (2015) proposed a conceptual framework based on Scott's (2000) three institutional pillars, regulatory, normative and cognitive, to explain institution's effect on fundraising using crowdfunding. **Regulatory institutions** are related to the formal constraints set by the regulatory authorities in form of the existing laws. **Normative institutions** are informal constraints set by society in form the norms of the professional community. **Cognitive institutions** represent personal values, rules and norms related to the cultural background of the society. Kshetri (2015) suggests that the existence of the regulation facilitating entrepreneurship and protecting investors has a positive effect on equity crowdfunding. Political regime has an impact on development of the crowdfunding: such in authoritarian regimes regulative institutions are created to suppress anti-regime activities associated with the democracy, including crowdfunding that democratizes the finance. Trade associations within crowdfunding industry establish norms and expectations for the participants in form of the code of conduct and constitute the normative institutions, which positively affect the development of crowdfunding. Cultural-cognitive norms affect the crowdfunding industry in a way that the higher the trust to online transactions and between the strangers, the higher potential for the industry development is.

Kleverlaan (2017a) defines the actions at the governmental and industry levels that influence positively the development of the crowdfunding. The main role of the government is in accepting the transparent, integrated regulation, which offers investor protection by entering the open dialogue with industry, and creating support mechanisms. Industry level actions involve increased cooperation and integration at different levels: creating associations, educating the market participants, promoting academic research and education, adopting norms and best practice.

2.4.2. Market pull, technology push and competition

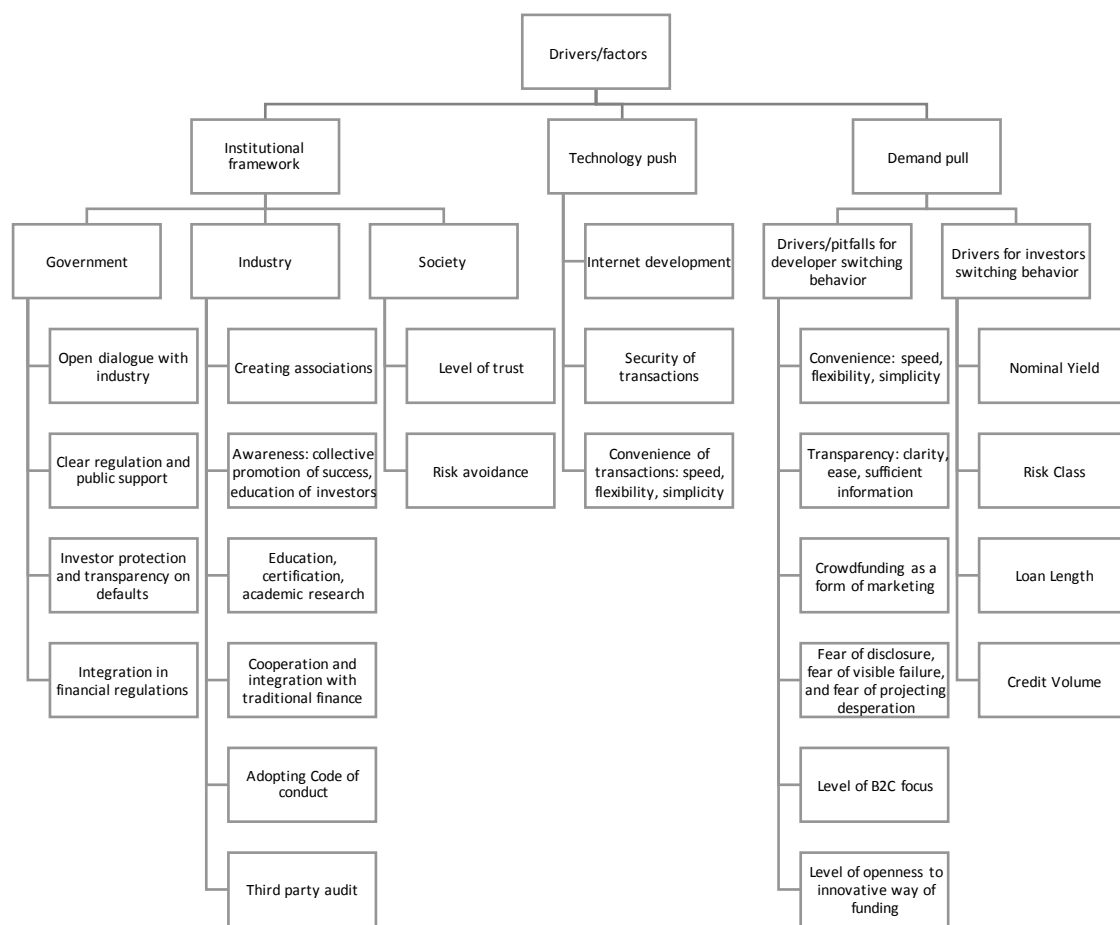
Stefano et al. (2012) underline the importance of the technology (technology push) and the demand (marketing pull) as a source of the innovation. Moreover, they acknowledge the role of resources, competences, and knowledge in enabling the development of these forces as well as being themselves a mean of innovation. By performing exploratory interviews with high-tech companies in USA, Im & Workman (2004) found, that customer orientation alone is not the main factor that drives financial and market performance. They consider customer orientation results in improvement of existing products and more efficient marketing programs development, but does not help to create a new product. In turn, the competitor orientation allows improving the novelty of the product. The new product future market, financial and qualitative performance is dependent on both dimensions of novelty and meaningfulness.

According to Turan (2015), push-pull framework explains the development of the crowdfunding platforms in EU. He suggests that the financial crisis created challenging conditions, demand pull from the side of the new ventures. The technology push, crowdfunding platforms emerged, allow easy, fast, transparent and relatively cheap access for the startups to the finance. Maier (2016) has studied the factors that drive the adoption of the loan-based crowdfunding by the borrowers. He found that non-economical factors, such transparency, convenience, level of B2C orientation and openness to innovations play more important role than economical factors.

Considering real estate, there is no research done, if there is a demand pull. In the Empirical part of the Thesis, the role of the competition on the market

development will be analyzed by performing the competitor analysis of the existing real estate investment instruments and analyzing the expert opinion on the availability of the capital for the real estate development projects. The figure 6 illustrates the framework for assessing the RECF industry, and includes the drivers classified across three groups, namely, market pull, technology push and institutional factors, which are ultimately setting shape of the industry in a specific way.

Figure 6. Drivers and pitfalls for the industry development



Source: developed by the author based on Kshetri (2015), Kleverlaan (2017a), Stefano et al. (2012), Im & Workman (2004), Turan (2015), Maier (2016)

3. Methodology

3.1. Case studies

A multiple case study approach study was chosen to investigate and to understand in depth a novel phenomenon and the relationships among this phenomenon. The concept of crowdfunding is very complex and in many cases dependent on the context. The case study method enables to examine a rich variety of data to describe the context settings and to explain the processes (Saunders et. al 2009). Two different case companies that share similar context of real estate projects in Finland, diverse in the crowdfunding models utilized and the type of the real estate, were selected to illustrate the factors that trigger motivation of various categories of funders and influence the decision making behavior, and ultimately drive the campaign success.

3.2. Data collection

The case study method allows to use multiple data collection techniques (Saunders et. al 2009). The data was collected from the two main sources: interviews with the experts and the information from the web sites of the crowdfunding platforms. The interviews were held with two groups of the respondents: real estate developers and investment management companies, and crowdfunding professionals.

The first group included interviews with the case companies' executives or decision makers: the Chairman of the Board of the Helsinki Allas Oy Raoul Grünstein and the Real Estate Manager of the ICON Sami Saarnisto. They provided insights on the motivation to utilize crowdfunding for issuing equity or bonds, expressed opinion on the advantages and disadvantages, and the potential of using this form of funding, described the financial structure of their projects.

The respondents of the second group represented the Finnish crowdfunding platforms (Invesdor, Yrityslainat, Fundu), including two real estate platforms (groundfunding.fi, realinvest.fi), and two crowdfunding associations at the

European and Nordic level (Crowdfunding Alliance and European Crowdfunding Network). The list of the respondents is presented in the Table 5 below.

Table 5. The list of the respondents

Name	Background
Raoul Grünstein	Chairman of the board, Helsinki Allas Oy
Ilkka Harju	Senior Legislative Counselor, Ministry of Finance
Ronald Kleverlaan	Crowdfunding strategist. Co-founder, CrowdfundingHub. Advisor, European Commission
Kimmo Lönnmärke	CEO, Privanet Securities Oy
Lasse Mäkelä	CEO, Invesdor Ltd
Tuomas Oksanen	Development manager, Fundu Oy
Sami Saarnisto	Real estate manager, ICON Kiinteistörahastot
Dr. Rotem Shneor	Head of the Nordic Crowdfunding Alliance, Professor at University of Agder's Centre for Entrepreneurship
Niklas Vuorinen	Financial Consultant, Groundfunding Oyj

3.3. Structure of the interviews

The form of the interviews utilized was semi-structured, the interviews were held in the meeting or by telephone. The main part of the interviews took place in the period between 17 March 2017 and 29.05.2017, and some additional interviews were done on 30 November 2017. The majority of the interviews were voice recorded and transcribed. The sample interview questions for the various groups of the respondents are provided in the Appendices 9 – 10.

3.4. Data analysis

The cases were analyzed by applying desk research using the data provided at the web sites of the company and the crowdfunding platform and in-depth interviews. The theoretical framework combining the real estate investment theory with the crowdfunding campaign performance studies was used to explain the phenomena of real estate crowdfunding in Finland.

The interviews were transcribed, and the data was categorized across the topics and summarized. The conclusions regarding the current demand and for RECF and the assumptions regarding development of the real estate crowdfunding market in Finland has been proposed based on the expert opinion of the crowdfunding community and the analysis of the current situation using the theoretical framework for assessing the potential of the crowdfunding market.

4. Empirical findings

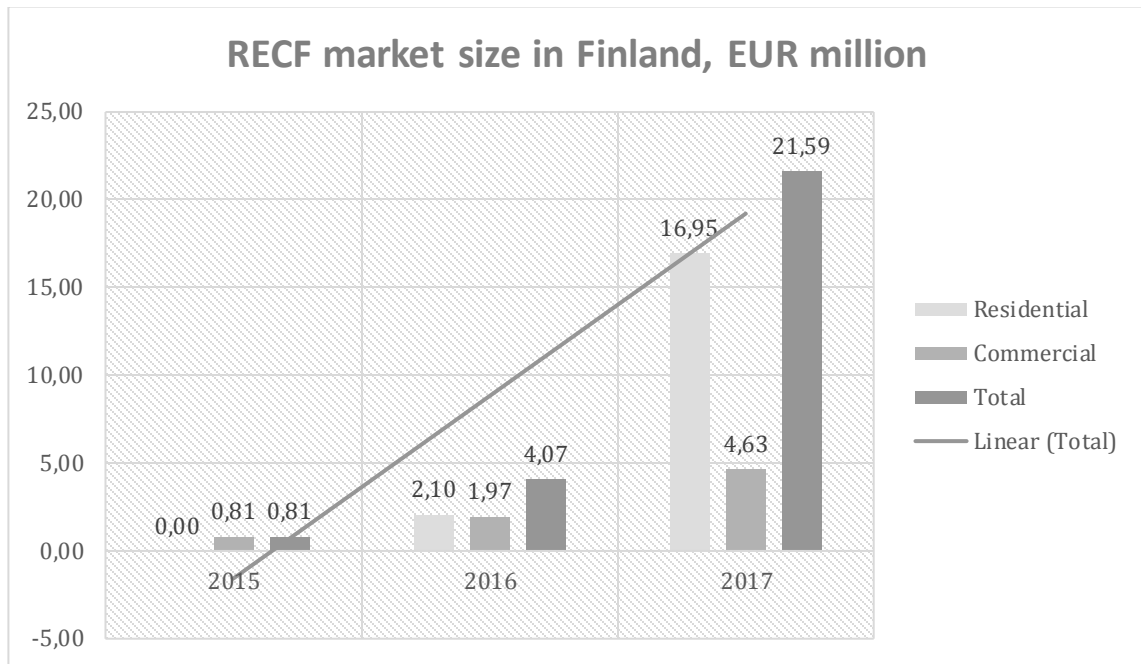
4.1. The present state of the real estate crowdfunding market in Finland

4.1.1. The market size

The real estate crowdfunding in Finland is in its inception at the time of writing the Thesis. The first real estate project, a construction of the recreational facility in Helsinki, was financed by equity issue at the platform Invesdor in the end of 2015. In the beginning of 2016 the second project, a bond issue for the residential development in Espoo was offered at the same platform. In the middle of 2016 the third remarkable project, a construction of the sustainable office building was financed by crowdlending at the platform Joukon Voima. At the same time, the specialized Turku-based real estate platform, Groundfunding.fi was founded. The second real estate crowdfunding platform, Realinvest.fi, has started the first crowdfunding campaign in 2017. Crowdlending platforms, such as Fundu.fi and Yrityslainat.fi, provided crowdfunded loans for development projects.

After the introduction of the Finnish Crowdfunding Act in September 2016, the volumes of transactions are growing exponentially, mainly due to the increasing number of the platforms providing this service. Similarly, to the leading countries in Continental Europe, Finnish real estate crowdfunding market is dominated by the debt in form of the bridge loans for residential development. Equity form of RECF is not very developed in Finland, and there are certain limitations existing according to the crowdfunding experts. Some of those limitations are related to the uncertainties with the existing legislation, either equity issue falls under alternative investment fund regulations (Lönnmärke 2017) or if the additional permission from the Finanssivalvonta is needed (Vuorinen 2017). The information on market size of the real estate crowdfunding and its' growth in Finland is illustrated in the Graph 2 below.

Graph 2. Real estate crowdfunding market size in Finland, EUR million



Source: developed by the author based on Invesdor (2017b.), Groundfunding (2017), Joukon Voima (2017), Realinvest (2017), Yrityslainat (2017)

The market growth in 2017 constituted 430%, with the total market volume of EUR 21.59 million, which is 51% of the total investment-based (equity- and loan-based) crowdfunding in 2016 in Finland (there is no data on the volumes for 2017 yet).

4.1.2. The business models in real estate crowdfunding in Finland

Invesdor is a leading Nordic equity crowdfunding platform founded in 2012 that operates in Finland, the UK, Norway and Denmark and has offices in Helsinki and London. According to Mäkelä (2017) they position themselves as a generalist company and hope to be compared to stock exchange, and do not have any plans to focus on the niche market, as the Nordic market is very small, they have ambitious targets for the future. The company charges 7% for fundraising and 3% for the services if the company brings own investors. The platforms partly take responsibility of underwriter. Such, according to Mäkelä (2017), the platform selects the best investment opportunities and perform the own due diligence and require all the necessary documents to be published. By the time of writing the

Thesis, there has been three cases of real estate financing, two equity and one bond offers with the total amount of around EUR 2.5 million. The causes of success and the failure of the campaigns will be analyzed further in the next chapter.

Groundfunding is a Turku-based real estate crowdfunding platform founded in 2016 by the team of real estate professionals. The platform is specializing at providing crowdfunded loans to the small-scale real estate development companies. The equity crowdfunding is not available at the platform, as the company has not obtained the permission from Finanssivalvonta yet. According to Vuorinen (2017), the company does its own due diligence and assess the projects risks according company own classification, which is described in details on the web site and is based on the capital structure, location, market, external rating of the company, and legal documentation (Appendix 8). After analysis, the detailed structured description, loan terms and conditions, risk class and documentation on the project are published on the web site. According to the Groundfunding Oyj requirements, the developer must have a previous experience of managing real estate development projects. The risks for investors also managed by acquiring outsourced debt collectors' services that collect the debt from the company (Groundfunding 2017).

The average requested amount of investments is exceeding EUR 370,000, with the minimum of around EUR 200,000 and the maximum of EUR 800,000. The minimum investment is in average EUR 2,167 and varies from EUR 1,000 to EUR 3,000. The interest rate is determined by the borrower taking into account risk class, the term of the loan, and the capital repayments during the loan period. For the projects with the risk class A the interest rate varies from 5.25% for the short-term loans (investment term 6 months) to 7% (14-19 months). Risk class B projects are offered at a premium with the interest rate varying from 10% to 12% p.a. The interest rate were estimated based on the interest rates offered to investors by the other companies in Europe and Finland. Groundfunding.fi keeps all the documentation related to the loan issue, and the investor receives the electronic bond. In addition to the documentation for the decision making, the updates on the projects are published at the website for tracking the progress of the project by the investors. (Groundfunding 2017.)

Joukon Voima is the niche crowdfunding platform, specializing at the financing sustainable projects, such as related to sustainable consumption, energy efficiency and renewable energy. Currently the portfolio of the platform includes 10 small projects with the target of EUR 6,000 to EUR 200,000 and one commercial real estate project Finnoonportti, aimed at construction of the solar-powered and geothermally heated business complex. (Joukon Voima 2017.)

Realinvest.fi is a real estate crowdfunding platform, a part of Privanet Securities Oy. By the time of writing the Thesis, the first case, a residential construction loan of EUR 1.6 million was provided in a record time according to Lönnmärke (2017). The differentiating peculiarities of this platform is that the loans are organized in form of auction, there is a possibility to track the construction process not only in form of reports and photos, but also using the web camera and automatic upload of financial reports to the web page. Moreover, the notorious problem of the liquidity is solved by providing the investors right to exit the agreement by selling the securities using the Privanet secondary market for unlisted companies (Realinvest 2017).

Yrityslainat.fi is a crowdlending platform for the business existed from 2013. At the moment of writing the Thesis, there has been 18 cases of real estate crowdfunding with the total amount of over EUR 16 million (Appendix 2). The majority of the loans were provided in 2017, and the typical loan is around EUR 1 million with the interest rate of 9%, and the average amount of investment of EUR 1,000. The investment strategies include purchase of the income residential property, residential development and in some rare cases commercial real estate (CRE) development. The loans are classified across the credit rating based on credit information and the minimal due diligence is performed in cooperation with Solidity (Bisnode Finland Oy). The outstanding debts are issued to collection agency. (Yrityslainat 2017.)

The interest rates reflect the risks associated with the type of the asset and the loan term. Such, for the risk rate of 4* out of 5* (the lowest risk for the time of writing the Thesis for the real estate cases at the platform), and the investment term of 12-18 months, the interest rate varies between 7% and 8% per annum. The cases with the lowest risk normally involve purchase of the rental residential

properties, and the highest risk is associated with the real estate development, where the interest rates vary from 9% to 12% with some exceptions. Unlike at the platform Invesdor, the loans at Yrityslainat are provided even in case the campaign has not reached the requested amount. The most attractive offers, from the point of view of the number of investors and the total amount of funds raised, include short-term loans (6-12 months) for financing development projects, with the interest rates of 9-11% and the loans for the acquisition of the rental residential properties, with the interest rates of 8-10% and the investment term 12-18 month. (Yrityslainat 2017.)

The minimum amount of investments is not limited, which helps to attract maximum of the investors. The average number per campaign is around 1,000 that is significantly higher compared to other platforms and to Groundfunding in particular. The average investment varies from around EUR 300 to EUR 3,000, which is less than at Groundfunding platform. Higher number of investors enables to attract bigger amounts, EUR 2 million maximum, EUR 1 million in average compared to EUR 350,000 at Groundfunding. There is a tendency of the growth of the maximum amount of investments at the platform recently, for some projects it varies from EUR 50,000 to EUR 250,000. This can be determined by the two factors: according to the information from the company representatives, the platform provides the face-to-face consultations, explaining the risks and educating investors, and there has been an increasing interest from the side of professional investors. (Yrityslainat 2017; Groundfunding 2017.)

4.1.3. Case 1. Helsinki Allas Oy at the platform Invesdor.com

Information about the project and the company. Helsinki Allas Oy is a commercial real estate development project, which was aimed at creating a unique recreational facility, located by the Market Square in Helsinki city center. The spa includes three large floating swimming pools with heating water, saunas, a restaurant, a café, facilities for cultural festivals and events, and the commercial areas. The project has started in 2013 with an idea and the permission for the construction was issued in 2015. The company has decided to run two crowdfunding rounds, the first round was held in September-October 2015, and the second in November-December 2016. For the first round, the company aimed

at raising equity capital for funding the construction of the buildings, floating pools and groundwork. The goal of the second crowdfunding round was to replace already made short-term loans and finalize the investment phase of the project (making some modifications to existing property complex, consisting of three swimming pools, three saunas, a side building with a roof terrace and a pavilion-like cafeteria). The second stage of the project took place from December 2016 to the summer of 2017 and involved construction of the main building with cafeterias and making updates to the existing premises based on the customers' feedback. (Helsinki Allas Oy 2017.)

Korjaamo Group is the managing company for the project. It has previous experience of operating two commercial real estate properties in Helsinki (recreation or entertainment): Korjaamo Culture Factory in Töölö and the Ice Park at Rautatientori. The project team of Helsinki Allas Oy is quite diverse and comprise of experienced professionals (Helsinki Allas Oy 2017). Helsinki Allas Oy's project team consists of the board members with business education and the expertise from various fields: from cultural business, media (MTV), design, HORECO, to engineering, architecture, real estate, construction project management and corporate strategy, business development and venture capital. The roles, background and the social capital is provided in the Appendix 5.

Economic information. The first campaign objective was to raise EUR 500,000 - EUR 1 million by issuing new shares at the price of EUR 200 per share and offering from 9.19 to 20.20 percent of the equity. For the second campaign, targeting to raise EUR 400,000 – EUR 1 million during the crowdfunding round, Helsinki Allas Oy in fact raised EUR 1,117,600 by offering shares at the same price as for the first round. Altogether, during two crowdfunding campaigns it was raised almost EUR 2 million. (Helsinki Allas Oy 2017.)

The total investments in the project were estimated at the level of EUR 9 million. By the first round, the company's total liabilities were approximately EUR 1.5 million, including own capital and reserves of EUR 78,000, long-term liabilities of EUR 82,500 and the short-term capital of EUR 1.35 million. The funding plan was designed in a way, that the equity part, EUR 2 million, corporate partnership and support EUR 1.5 million and loans EUR 5.5 million. The share issue was planned

in a way, that 25-50% of the new shares will be subscribed by the crowdfunding and the remaining part would be funded by the parent company, and registered in the trade register simultaneously. The company's total liabilities before the second crowdfunding round, were EUR 8.4 million, including equity and subordinated loans EUR 3.5 million (41 percent), loans EUR 4.6 million (55 percent), contributions from collaborators and investment aid EUR 0.4 million (4 percent). According to the balance statement of Helsinki Allas Oy by the provided at the website Invesdor.fi, by the end of 2015 the company's short-term liabilities amounted to EUR 2 million, including trade creditors EUR 1.47 million. (Helsinki Allas Oy 2017.)

According to the shareholder agreements for the both crowdfunding rounds, shareholder has a right to offer the stocks issued at this emission and the company is obliged to repurchase them between 1.9 – 31.12.2023 at redemption price based on the financial statements by 30.6.2023, on the conditions that the company accumulated enough own funds. Prior that, shareholder has no right to sell or transfer the shares to the third party. The dividends will be paid starting from 2019, in case enough capital available. (Helsinki Allas Oy 2017.)

The form of crowdfunding used in both rounds was unique; equity-based crowdfunding was blended with reward-based crowdfunding; depending on the number of shares bought by investor, the rewards were ranging from the gift and discount for the services to free entrance passes and additional services. In addition, in order to influence faster fundraising, during the second crowdfunding round, an additional prize was offered to those who invest before the special date. (Helsinki Allas Oy 2017.) The summary of the economic information on the first and the second crowdfunding rounds of equity offering at the platform Invesdor is provided in the Table 5 below.

Table 6. Helsinki Allas Oy equity offerings at the platform Invesdor

Equity offering	1st round	2nd round
Target	EUR 500,000 - EUR 1 million	EUR 400,000 - EUR 1 million
Campaign duration	37 days, 28.09.2015 - 03.11.2015	37 days, 16.11.2016 – 22.12.2016
Invested	EUR 810,800	EUR 1,117,600
Investment term	8 years	7 years
Number of investments	398	751
Average investment	EUR 2035	EUR 1488
Equity offered	16.67 - 28.57 %	9.19 - 20.20 %
Price per share	EUR 200	EUR 200
Number of existing shares	12,500	19,754
Pre-money valuation	EUR 2.5 million	EUR 3,950,800
Estimated revenue 2016	EUR 3,574,000	EUR 2,655,000

Source: Helsinki Allas Oy (2017)

According to Grünstein (2017), the expected return is approximately ranges from 15% to 25% per investment per annum. Assuming that the company will distribute 100% of the earning to the shareholders, and the value of the assets will be at the level of investments in the project, the annual ROI will be the following (see Table 6).

Table 7. Expected return of Helsinki Allas Oy equity offering

Price per share, EUR	200
Number of shares after the second campaign	25342
Average annual profit, 2019-2023,	964,000
Earnings per share, EUR p.a.	38
Asset value by exit, EUR	9 million
Redemption price per share, EUR	355
ROI	1.75
ROI p.a.	29%

According to the description of the project published at the platform Invesdor (Helsinki Allas Oy 2017), the risks associated the project are classified across

three categories: construction risks, operational risks and financial risks. The risk related to construction was the risk of breaching the schedule, which was relatively high due to the dependence on the financing schedule. Another construction risk was the risk of exceeding the budget, which was managed by assigning turnkey contract to the professional subcontractor. Operational risks are related to the fluctuations of the number of visitors, affected by the weather conditions or accidents and are managed by the company by implementing safety solutions and acquiring liability insurances. Financial risks are related to the decrease in profits by 20-30% affected by the decrease in customers flow. Other business risks related to the real estate investment and not mentioned in the description, associated with the location of the property, existing leasing contracts, and the property type. The location of the property is excellent, the company has managed to agree on the leasing, and the major business risk is the property type, as the uniqueness of the property makes it even more illiquid and the recreational real estate is the most risky among the property types.

Marketing the campaign. In addition to the actions of the platform responsible for marketing the campaign, Helsinki Allas Oy was extremely active in Facebook. Before starting the crowdfunding campaign and the project, the company organized pop-up café at the future construction place and was posting about the project in Facebook and Instagram. During the crowdfunding campaigns, the company was posting at Facebook, and Instagram 2-4 posts per day, plus posts of the followers. The Facebook page of Allas Sea Pool has over 30 000 followers, who actively reacted on the posts. The company has not published at LinkedIn, it is not very active on this platform, the page of Allas Sea Pool has only 86 followers and the page of Korjaamo Group -175 follower. The data from the publications related to the campaign at Facebook were summarized in the Appendix 7. The company produced 69 publications during the first campaign, and 13 publications during the second. The data was categorized into five categories, namely, information on the project, how it will benefit the citizen, information on the financial and non-financial benefits, possibility to influence the city development, possibility to influence the project, and the information on the progress of the campaign. The first category contained the posts about the future sea pool and the history of the project, the second - video interviews and repost

of media publications (Helsinki Sanomat, MTV, Yle, etc.) with the famous people stating their opinion on how the project will influence the cultural life of Helsinki.

Investors' profiles. At the moment, at the platform Invesdor there is no possibility to track the investments made and the names, unless the investor is willing to do so. Interesting to note, that in both rounds there were investments from investor Töölö Urban, the parent company of Korjaamo, Allas Sea Pool and Ice Park. In the first round, they were daily during the first ten days (from 2.10.2015 to 11.10.2015), while in the second round from time to time. The list of investors other than Töölö Urban, anonymous or with nicknames is provided in the Appendix 4. By analyzing LinkedIn profiles of the investors, it was found that some of them are the members of the LinkedIn group Finnish Hi-tech Start-up Community, some belong to the Invesdor's CEO network, and quite many of them are from the media, entertainment, real estate and construction industries. During the first round, there were investments from private investment and real estate development companies, as well as from the private investors with the consulting and financial background. In the second round, it is notable, that there were many investments from the private investors affiliated to the partner companies of Helsinki Allas Oy. Like in the first round, in the second round there were contributions from two professional investors, business angels.

Motivation of the company seeking financing. The main reason for using crowdfunding, according to Grünstein (2017), was inability to get a bank financing for the entire project, mainly because of the risks perceived by the banks related to the novice of the concept and lack of conglomerate guaranteeing the financing. For the next projects in Finland and Europe, sizing in average EUR 8-10 million, the company plans to structure the business model in a way so the operational business (restaurants, entertainment) and the real estate business will be divided into two separate entities, and the operational company will enter a rental agreement with the real estate company. The reason is that the risks and returns are different (for the real estate part the cost of equity is 4-8 percent p.a., whereas for the operational part it is 15-25 percent p.a.), so do the investors' expectations and levels of risk acceptance. For the real estate part of the project the company plans to utilize the cheapest possible sources of funding: approximately 60 percent of bank collateralized loan at the interest rate of 3-3.5 percent, 40 percent

of equity, which consist of 70-80 percent (28-32 percent in the total financial structure) of the parent company financing and 20-30 percent (8-12 percent in the total financial structure) of crowdfunding. Based on the positive experience from the round of crowdfunding at Invesdor, the additional motivation for using crowdfunding in the future is dictated by the desire to create a local aspect of the project and to benefit from the marketing possibilities.

Case analysis. Both the first and especially the second crowdfunding rounds of Helsinki Allas Oy might be referred as extremely successful, due to the cumulative effect of various factors.

From the point of view of the economic factors, the maximum target in both rounds of Helsinki Allas Oy was attractive for investors at the platform Invesdor, the minimum investment threshold allowed the all the types of investors to participate. The relatively high number of investments compared to other projects at the platform supports this assumption. Based on the financial information provided, the level of expected return is very attractive and reflects the level of risk, especially for the second campaign, when the construction phase was almost over, therefore, the construction risks were minimized, and the estimations of the operational income were more accurate, based on the existing data from the first year of operations. The expected return from the investments was intended to be in form of dividends and the exit, which was planned in form in share buy back at the asset price by the date, and the real estate as an asset ensures that the outcome from the exit will be positive. In case the expectations on the return will prove to become true, the share prices might turn out to be undervalued. The company is planning to structure the next crowdfunding differently, by offering different conditions for the real estate and operational parts of the business separately.

Unique bundling of two different types of crowdfunding, according Grünstein (2017), was another factor of success of the campaign and additional publicity for the project, which is very important taking into consideration that the revenue from the project comes not only from the rental payments, but also from consumer targeted activities, such as events, swimming, sauna and restaurant services, which constitute 86% of the planned revenue. B-to C orientation of the company

made the proposition understandable for investors. Moreover, by offering equity with a low minimum investment requirement bundled with the reward in form of membership, Helsinki Allas Oy targeted all the motivational segments of funders. Angelic backers would be motivated by the possibility to help the company experiencing challenges in raising funds from the banks to establish the remarkable leisure facility in the city center. For this group of the funders rewards offered by Helsinki Allas Oy for buying shares, would be probably a sufficient return. Avid fans would benefit from the rewards and future financial returns, as well as from being a part of community. For this motivational type of funders, the company organized free grand opening party in May 2017. Tasteful hermits as well as the reward hunters would be motivated by the possibility to diversify investments as well as from gaining the attractive financial return at the expense of understandable risks. The company has effectively targeted each motivational group by making the tailored Facebook and Instagram publications, which was revealed during the content analysis of the posts. According to Grünstein (2017), the success of the combination of two forms of crowdfunding became possible only because of this publicity of the project.

The information about the strong team of the project was published at the platform Invesdor and signaled to investors about management ability of the company, which not only positively influences the success of the crowdfunding campaign, by sending positive signals to investors, but also is a source of the social capital. Fund-seeker social capital has a connection to the projects teams experience and education, evaluated as the total number of the LinkedIn connections. Those connections allowed, for example, promoting the project to the citizen or attracting venture capital and business angels, whose investments in the project alongside with the investments of the parent company through the crowdfunding platform might be perceived as a positive signal by non-professional investors.

To sum up, the social importance of the project of Allas Sea Pool triggered the philanthropic motives (social-intrinsic motivation) and desire to be a part of community (social extrinsic motivation) alongside with the motivation to receive the financial returns from investments, therefore involving all the types of the investors at the platform Invesdor. *“People who are interested in real estate development in the area invest money and also want to see the social impact.*

Because these investors have different values and different needs. It is not only financial return to be maximized. If you only look at the crowdfunding as it is only a small part of financing, you miss a potential.” (Kleverlaan, 2017b)

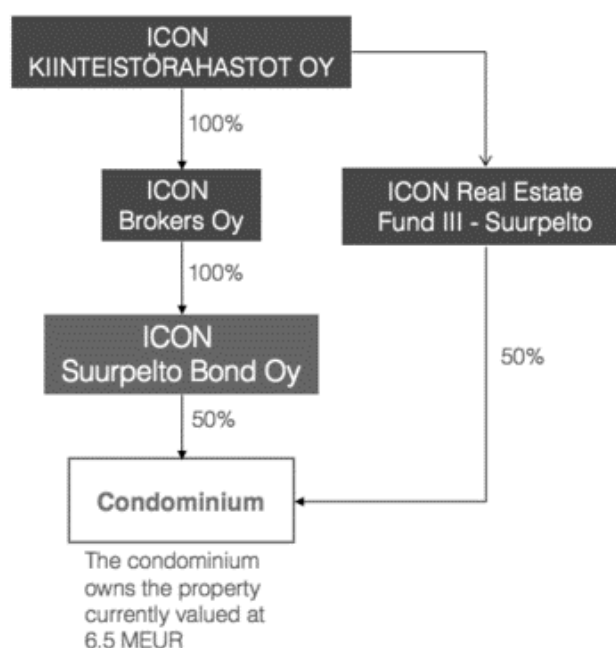
The small minimum amount of 200 per share increased the share of unprofessional backers, who's investment decision was mostly based on the positive signals about the project, rather than financial analysis and due diligence. Besides, this campaign utilized the elements of reward-based crowdfunding, which also explains the amount of investors. Moreover, the project itself is not a pure real estate development, it combined with the entertainment and restaurant business, which can also explain the popularity among investors. Thus, this case cannot be replicated for all the types of the real estate to make the assumptions regarding factors of success, even though it confirmed the theoretical assumptions.

4.1.4. Case 2. ICON offerings: Suurpelto Bond Oy at the platform Invesdor.fi and Icon Ilves Bond Oy at Yrityslainat.fi

Information about the projects and the company. ICON Suurpelto Bond Oy and Icon Ilves Bond Oy are the part of ICON Group, created for issuing the bonds using crowdfunding for financing real estate development projects. The projects are managed by ICON Real Estate Funds (ICON Kiinteistörahastot Oy), a fund management company, specialized mostly in the real estate development, renovation or redevelopment in particular, with minor investments in cash flow projects. (ICON Suurpelto Bond Oy 2017.)

The Suurpelto project aims at construction of residential property with the total area of 20 000 square meters consisting of four apartment buildings, commercial space and a parking. The project has started in the 1Q of 2016 with the property completed planned in the 3Q of 2018. ICON Suurpelto Bond Oy is a 100% subsidiary of ICON Brokers Oy, which is a wholly owned subsidiary of ICON Kiinteistörahastot Oy (ICON Real Estate Funds). ICON Suurpelto Bond Oy owns 20-25% of the SPV created for the project, and the rest will be owned by the real estate fund under the management of ICON. The construction face will be funded by the bank financing, which constitute 50-75% above this sums (ICON Suurpelto Bond Oy 2017). The structure of the ownership is presented in the Figure 7.

Figure 7. ICON Suurpelto project ownership structure



Source: (ICON Suurpelto Bond Oy 2017.)

The ICON lves is a land development project aimed at acquisition of the land plot located in Riihimäki, obtaining the necessary permissions for construction and selling the land plot to the residential real estate development companies (ICON lves Bond Oy 2017). ICON's board and the team consists of real estate professionals and marketing entrepreneurs. The information on the company team and their background and social capital based on LinkedIn connections is presented in the Appendix 6.

Economic information. The information on the main conditions on the first and the second debt offerings of ICON is presented in the Table 7 below.

Table 8. Economic information, ICON bond offerings

Bond offering	Suurpelto Bond Oy at Invesdor	ICON Ilves Bond Oy at Yrityslainat.fi
Investment range	EUR 200,000 – 1,250,000	up to EUR 2,000,000
Form of investment	convertible bond	secured loan
Interest rate	8%	7,00%
Invested	EUR 399,200	EUR 1,660,000
Number of investments	77	1089
Average investment	EUR 5184	EUR 1,670
Price per bond/ minimum investment	EUR 100 / EUR 1000	EUR 10
Investment term	3.5 years	12-24 month

Source: ICON Suurpelto Bond Oy (2017); ICON Ilves Bond Oy (2017)

The bonds of Suurpelto Bond Oy were issued in dematerialized form by Invesdor acting as a paying agent and are kept in the register of Bondholders. The bonds are secured with the possibility to convert them into the equity in the event of the default. The property is valued at the level of EUR 6.5 million; therefore, the Suurpelto Bond Oy value is EUR 1.3 – 1.6 million. The project is conducted under RS scheme, and in case of the contractor failure, the bank and the insurance company are responsible to finish the project together with the contractor. (ICON Suurpelto Bond Oy 2017.)

According to the Terms and conditions of bond issue, the bond term is 3.5 years with the interest rate of the bonds 8 percent per annum. The interest payments are divided into two parts; one-half of the accrued annual interest is paid twice a year, and the second part will be paid once in the end of the term, in the 3Q of 2019. The bonds repaid in principal amount by the end of the term, or earlier with the written notice in 20 business days prior repayment. (ICON Suurpelto Bond Oy 2017.)

The loan offered in immaterial form of the agreement signed using the bank ID at Yrityslainat.fi will be secured by the pledge of the land plot, which purchase price

is EUR 1.35 million. The investment term is minimum 12 month; after this period, the company has a right to pay off the loan within 12 months. The credit rating of the loan assessed by the platform is of satisfactory creditworthiness. The platform provides additional services to its clients: meeting with clients in order to educate them how to choose the loan and investment management. The fees for investors are 1-3% of the investment sum for the placement and 0.5% of the investment and the interest the management fee. (ICON Ilves Bond Oy 2017)

Motivation of the company seeking financing. The main reason the company turned to crowdfunding was a perceived opportunity to acquire different segment of the market compared to conventional tools of fundraising. According to Saarnisto (2017), they saw a gap in the market: the traditional investment products offer low yields, close to zero, and renting out the apartments provides 4% yields, and requires substantive investments. The company was able to offer more compelling yields and at the same time make a decent profit. Moreover, the product is easy and fast to set up, and the customer acquisition costs are almost at the same level as of the real estate fund, with the possibility of decrease in the future when the customer base would be acquired, since according to Saarnisto (2017), the advantage of crowdfunding is that the same base of investors may be used when acquired.

Plans for the future. The company is planning to offer this product continuously. They plan to finance up to EUR 2-2.5 million of the future real estate development projects using loan-based crowdfunding. According to Saarnisto (2017), an average investments to the project are estimated at the level of EUR 10 million, therefore the share of crowdfunding in the projects will be up to 20-25%. The yield are planned to be set at the rate of about 7% per annum, with the interest paid biannually and the term of 3-3.5 years. The bonds will be offered using both intermediaries and the web site of the company. In some cases, such as large-scale projects, the company plans to utilize several crowdfunding rounds, refinancing old financing.

Case analysis.

The first crowdfunding campaign of ICON, ICON Suurpelto Bond at Invesdor was relatively unsuccessful compared to the second round, ICON Ilves at

Yrityslainat.fi. From the point of view of the economic factors, the minimum investment amount for the first campaign was too high, and the investment term is too long compared to the second offering and the offerings of competitive companies. Moreover, in the first case, the funding target was in a form of range, with a minimum of EUR 200,000, which determined the result of EUR 400,000 raised. Higher target probably could attract more investments. The number of investors for the second campaign is 14-times higher, partly due to these factors. To assess the appropriateness of the level of risk and return for the projects, the offering was compared with other real estate crowdfunded projects. The risk level was evaluated similar to how it is performed at the platform Groundfunding.fi.

Table 9. The risk evaluation grade

Parameter	Value	ICON Suurpelto Bond Oy	ICON Ilves Bond Oy
Project			
Equity share	< 20%		2
	20-30%	1	
	> 30%		
The share of the crowdfunding	> 25%		2
	10-25%	1	
	< 10%		
RS-project	No		
	Yes	0	
Property type	Separate house		N/A
	Condominium/Duplex		
	apartment building	0	
Location	Fussy market		
	Downtown/Growth center	1	
Collateral	No		
	Yes	0	0
Contractor		N/A	N/A
Rating Alfa	AAA		
	AA+		
	AA		
	A+		
	A-C		
Debtor rating			
Overall rating (incl. Rating Alfa)	very weak	3	
Total		6	

Risk class

mark	A	B	C	D	E
score	< 1	1-5	6-10	11-15	> 15
ICON Suurpelto Bond Oy					
ICON Ilves Bond Oy					

The market of the metropolitan area is blooming; there is a great demand for the residential real estate, from the point of view of property investments and buying apartments. The subway development makes the district even more attractive. Therefore, the main risks are related not with the market situation, but mostly with the construction. It is stated by the ICON that in case of project failure it affects only the investors of the fund, not the bondholders. However, it is stated that in case of failure the bonds may be converted to the shares of the ICON Suurpelto Bond Oy, therefore, the investors of the Fund and the bondholders of the ICON Suurpelto Bond Oy would have the same rights for the profit, not the right to receive the interest rate. Therefore, this form of the collateral cannot be considered as compelling. Moreover, there is no information on the contractor and its rating, which adds uncertainty to the evaluation. Altogether, these risks influence the credit rating of the company, and it shifts from level B to the level C. At the platform Groundfunding.fi this type of loans are offered with a premium, at the level of 9-12% p.a. at the platforms and Yrityslainat.fi, therefore, 8% can be considered as not compelling from the point of view of competition.

ICON Ilves Bond Oy risk level is evaluated by Yrityslainat.fi at the level of two points out of five, satisfactory creditworthiness. This loan will be secured by the collateral of the land plot to be acquired. The total amount of the investments required for this project however, exceeds the value of the land plot, which adds risks to the project. The interest rate of 7% is quite low for this type of risk compared to the other projects at the platform, normally it varies from 9% to 11%. Vuorinen (2017) considers this level of the yields is extremely high, which is mainly determined by the stage of the market development. He believes that the yields will decrease gradually as the market matures. The cases of ICON are the precedents for such a trend.

From the perspective of the company and the project information, the success of the second project of ICON can be explained by the understandability of the

product. First, the business idea is quite simple: it is a mere property speculation, which is profitable in the growing metropolitan residential real estate market in Finland. Bond offering of ICON Suurpelto Bond Oy had a complicated ownership structure, which is understandable for professional investors and requires time to analyze. Second, at the platform of the placement there are over dozens of the real estate investment offerings, therefore investors are already experienced in investing in land real estate development. Finally, the idea of real estate crowdfunding was a new concept by the time of the first campaign, and it evolved during 2017, the total amount of the transactions has grown exponentially, as well as the average investment target.

From the perspective of the marketing, the company has not utilized in full the potential of the social media and social capital in both campaigns. However, the crowdfunding campaigns themselves can be considered as the additional marketing to the Suurpelto bond offerings at the website of ICON. From a legal standpoint, it cannot be considered as crowdfunding, since there is no platform between the company seeking funding and the investors. Nevertheless, this is the instrument, which the company plans to use continuously in the future alongside with the offerings using various platforms.

The choice of the platform has an impact on the campaign success. Invesdor is an equity crowdfunding platform, and has two main attributes, according to the research referred in the theoretical part of the Thesis, namely, the investors' appetite for the extra returns usual for the startups and growing companies from one side, and the philanthropic motivation to support the Finnish SMEs from the other side. Real estate investment therefore might be considered as not relevant to the investors' expectations. Yrityslainat.fi offers the projects with the understandable risk level to the reward-motivated investors. RECF was not new to its clients: before ICON Ilves Bond Oy offering, there has been over dozen of real estate loans. They offer consulting service to its clients, which minimizes the information asymmetry between the company and the investors. Moreover, the platforms tries to manage risks by acquiring outsourced due diligence and debt collection services. Finally, the average number of investors at the platform is record high.

To sum up, in case of the bond and loan offerings of ICON, the success or the failure was determined mainly by the economical information on the project and the choice of the platform. Moreover, the real estate crowdfunding has been in its inception at the time of the first campaign, therefore, not very common to the investors. Real estate crowdfunding required higher amounts of the investments, and at that point of time the targeted amount was too high.

4.1.5. Cross-case analysis

In this Section, the comparative analysis of two cases will be performed in order to reveal similar and different patterns. The companies and their crowdfunding campaigns were different in terms of the business models, the property types of the real estate projects, and the securities offered (Table 9).

Table 10. Summary of the cases and comparison of success drivers

	Helsinki Allas Oy		ICON	
	First round	Second round	Icon Suurpelto	Icon Ilves
Company information				
Company background	Entertainment industry		Real estate fund management company	
Property type	Commercial real estate (leisure)		Residential real estate	Land plot
Investment strategy	Real estate development and further property ownership		Real estate development and property sale	Land development and sale
Motivation for RECF	Funding gap RECF as marketing (desire to localize the project)		Understanding potential of RECF Desire to become the first in introducing the new product to the market	
Security issued	Equity		Convertible bond	Secured loan

Table 10. Summary of the cases and comparison of success drivers (continued)

	Helsinki Allas Oy		ICON	
	Fisrt round	Second round	Icon Suurpelto	Icon Ilves
Economic information				
Minimum investment, EUR	200	200	1,000	10
Expected return	15%-25%	15%-25%	8%	7%
Investment term	8 years	7 years	3,5 years	12-24 months
Success factors				
Company and project information	Background of the fund-seeker Fund-seeker social capital Understandability of the product		Background of the fund-seeker	Background of the fund-seeker Understandability of the product
Economic information	Funding target Minimum investment Expected return Risk class Information on the exit		Expected return	Funding target Minimum investment Investment term Expected return Risk Class
Marketing	Motivation of the funders Funders personality Information about the staff preferences and other investors Employing social media Social capital			

The B2C and community oriented real estate projects trigger the philanthropic motivation and create desire of the citizens to become a part of the phenomenon. This is supported by the crowdfunding experts' opinion, that in general, people not only want to receive a financial return, but also create a social impact (Kleverlaan, 2017b), and the socially oriented projects, such as healthcare properties, are the most successful among other (Vuorinen 2017). The study on the investors' motivation conducted by Invesdor in 2015 and 2017 shows that investors not only want to have an access to the early-stage investment opportunities, but also to have an impact. These findings are not in line with the previous research stating that the motivation for the equity crowdfunding is purely

financial reward (Lam & Law 2016; Cholakova & Clarysse 2015). This can be explained by the assumption, that the community oriented real estate projects, such as Case 1, bear the traits of reward- or donation-based crowdfunding.

For this type of projects, important factors that drive the success, include among economical factors, the right choice of the platform, active engagement with the community by using social media, combining the equity with the rewards. Platform choice is important from two perspectives: first, the motivation of the investors, and second, the platform affordances to create impact and share the message in social media.

The success or failure of financial products of ICON was mainly driven by the economical information and the choice of the platform. The short-term loan secured by the pledge of the property with the interest rate of 7%, with a minimum investment of EUR 10 was attractive for investors in the second campaign. The platform the second round was held, provides the consulting services to the investors, which minimizes the level of perceived risk and creates trust.

4.2. Evaluating the demand for RECF

4.2.1. Market pull: comparison of RECF with other investing instruments in Finland

For the private clients real estate investments are available in form of the private and public real estate equity and public debt.

Private real estate equity. According to the opinion of the financial advisor of one of the Finnish companies specializing at offering a variety of financial products, including investments to the real estate mutual funds, real estate is considered as a safe haven for the senior people who inherited large amount of funds, and they demand for the long-term horizon investment with low risk and stable return. This group of investors requires personal approach that is not offered at crowdfunding platforms, excepting Yrityslainat. The investment strategy mutual funds offering investments in real estate, is the leveraged buyout of the rental residential or in some cases commercial properties, and in rare cases involving development. Some funds are closed-ended, and in some cases It is possible to redeem the investments, however, this is not reasonable in short run

sue to the subscription and redemption fees, which vary typically from 1% to 3% of the investment, depending on the investment horizon. Usually the investments in this type of funds are considered as long-term. The funds charge the management fee, which can be 1-2% of the net assets, and the performance fee, usually 20% of the yield over the reference yield, which can be from 4.7% to 7%.

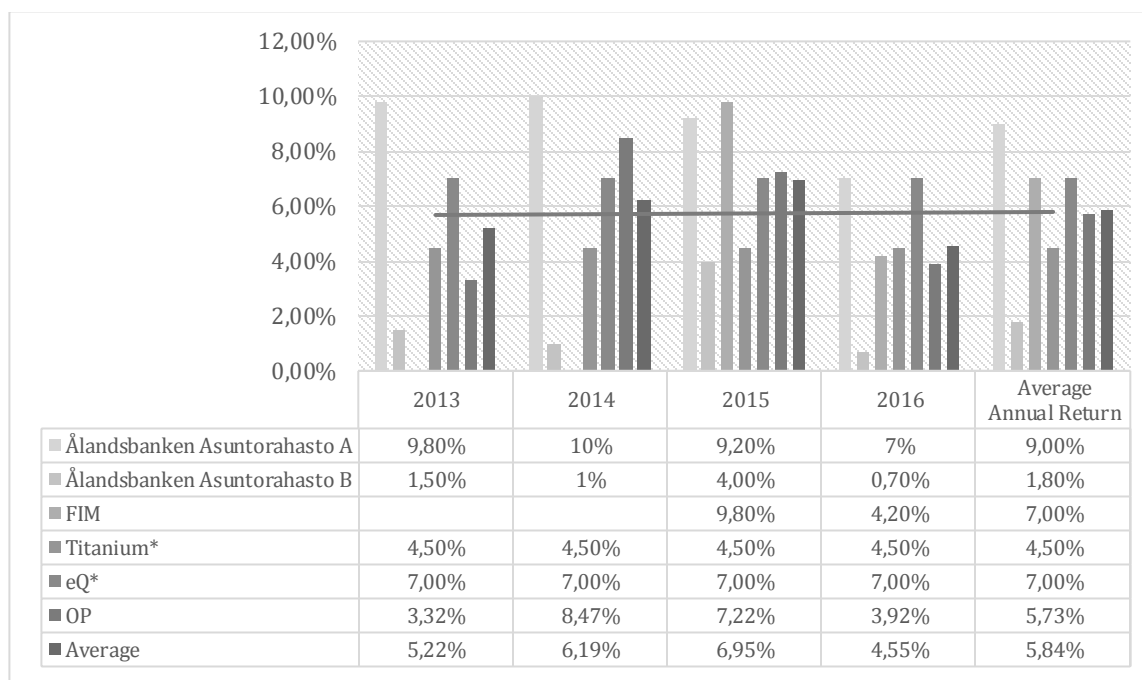
Ålandsbanken offers investments in two residential, varied in the level of risk, and two land investment funds. The performance of the first two is comprised of the cash flow from well-diversified portfolio of the new, smaller rental housing in growth centers, mainly in the Helsinki metropolitan area, and the increase in the property value. The fund pays an investor a cash flow annually of 75% of the net result of leasing and realized capital gains. The other two funds are focused at acquisition of the land plots in the growth areas for the residential construction in order to receive a return in form of the long-term leasing payments, usually for 30-60 years (Ålandsbanken, 2017). FIM Asuntotuotto offers the similar to Ålandsbanken product, investments to the residential rental properties (FIM, 2017). In addition to the rental residential investments, Titanium specializes in the care property. The minimum amount of investments is EUR 20,000 and the reference yield 4.5% (Titanium, 2017). UB Pohjoismaiset Liikekiinteistöt fund is focused in the commercial and office properties in the Nordic region. The minimum amount of investments is EUR 5,000, and the estimated return is at the level of 7-9% (United Bankers, 2017). EQ Care and eQ Finnish Real Estate specialize at health and care properties and commercial real estate, respectively (eQ, 2017).

Taaleri offers a variety of real estate investment solutions for private investors, with the focus on growth: real estate development fund, rental home fund, and property fund. Real estate development fund is a closed-end fund intended for the implementation of the development projects, involving construction or redevelopment of the residential properties. The minimum amount of investment is EUR 10,000 and the term of investment is around 10 years, the profits will not be paid in the first years. Rental home fund is focused at investments in the rental residential properties, and is open at the moment. Property funds are closed-end funds investing in the land plots for the residential development, both funds are closed at the moment and not accepting investments (Taaleri 2017).

OP has two real estate funds: OP-Vuokratuotto and OP-Kiinteistö. The first fund strategy is the acquisition of the rental commercial and residential real estate, with distribution of 75% of the profits to its investors. The minimum amount of investment is EUR 5,000. The second fund is focused on investing in REOC in Europe. (OP 2017)

The historical performance of some of the real estate mutual investment funds is provided in the Graph 3 below. The average (mean performance) is 6% p.a., and in general, according to the financial advisor of the investment management company, it varies depending on the property type, from 6% for the rental residential real estate and 7-9% for the commercial and care real estate, and reflect the risks associated to the property type.

Graph 3. Historical performance of the mutual real estate funds, 2013-2016



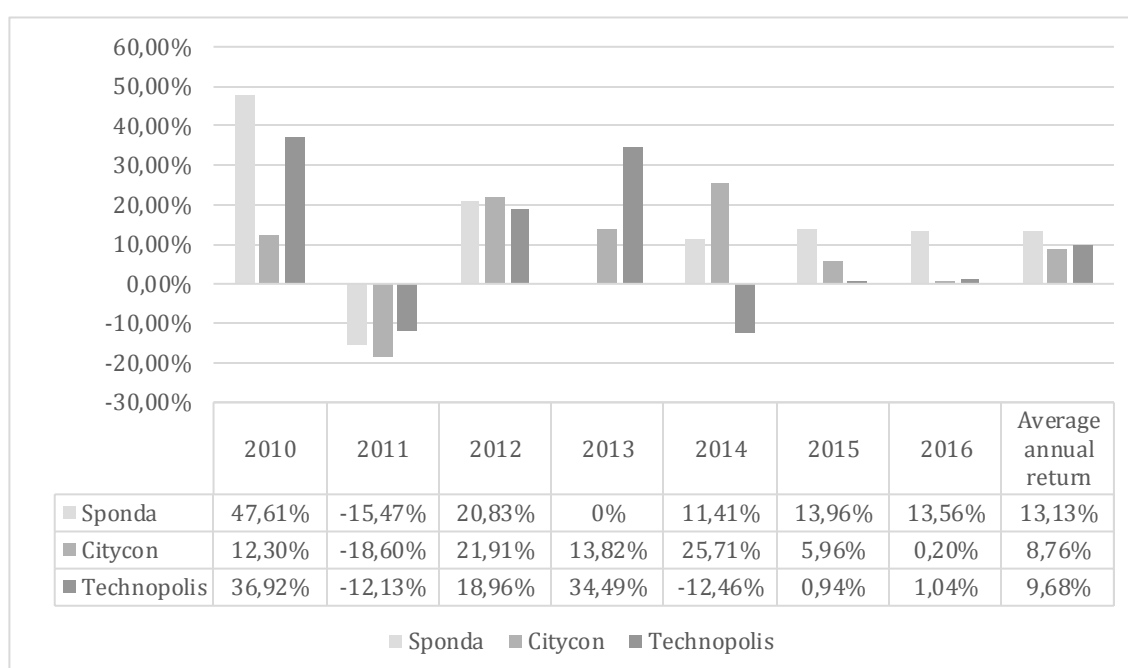
Source: developed by the author based on Ålandsbanken (2017), FIM (2017), Titanium (2017), United Bankers (2017), eQ (2017), Taaleri (2017), OP (2017)

Public real estate equity. At the moment in Finland, there are three listed real estate operating companies (REOCs): Sponda, Citycon and Technopolis. All of them are focused at the commercial real estate development and investments, and this strategy is associated with the highest risk and returns. The historical

average annual performance of the real estate over the period from 2010 to 2016 is 8.5-13%, mean (Sponda 2017; Citycon 2017; Technopolis 2017). The total annual performance is composed of the share price change and the dividends paid. The dividends are paid annually or semiannually, and are at the level of 5-6% p.a. The transaction costs include brokerage fees, 0.06%-0.2% depending on the amount (Nordea, 2017).

In addition to the REOCs, in 2016 the Orava REIT has been listed. The annual fees include the management fee of 0.6% of the total assets, and the performance fee of 20% of the annual return exceeding the reference return of 7%. (Orava Residential REIT plc. 2016.) The Graph 4 summarizes the historical performance of the Finnish PREOCs.

Graph 4. The PREOCs historical annual performance, return and dividends, 2010-2016.



Source: developed by the author based on Sponda (2017), Citycon (2017), Technopolis (2017)

Public real estate debt. At the moment, there are corporate bonds listed at NASDAQ OMXHelsinki by Sponda, Technopolis and at Irish Stock Exchange and Oslo Børs by Citycon. The Table 10 below shows the main conditions of the bond offerings.

Table 11. Public real estate debt

Company name	Coupon rate,	Maturity date	Additional information
Sponda	3.38% 2.38%	October 2018 May 2020	
Technopolis	3.75%	May 2020	senior, unsecured
Citycon	3.75% 2.50% 3.9% 2.375% 1.25% 2.75%	June 2020 October 2024 Sept 2025 Sept 2022 Sept 2026 Sept 2025	senior, unsecured

Source: developed by the author based on Danske Bank (2017); NASDAQ (2017); Citycon (2017)

To examine the advantages and disadvantages of the real estate crowdfunding, as well as the opportunities and pitfalls, the data on the real estate investment instruments was summarized in the Table 11 below.

Table 12. The summary of the real estate investment instruments.

	Average annual returns	Risk	Investment term	Minimum investment	Fees for investors
RECF equity	N/A	high	long-term	EUR 200 - EUR 1,000	No fees
RECF lending	5%-12%	high	short-term	EUR 10 - EUR 3,000	From 0% to 3.5%
Mutual funds, REITs	1.8%-9%	depending on the strategy	long-term	EUR 5,000 – EUR 20,000	subscription fee 1-3%, redemption fee 1-3% management fees
REOCs, equity	10%-13%	high	long-term	-	brokerage fees 0.06%-0.2%
REOCs, bonds	1.25% – 3.9% av. 2.89%	low	medium to long-term	-	brokerage fees 0.06%-0.2%

The issue of advantages and disadvantages of crowdfunding for investors will be addressed in the next Section.

4.2.2. Advantages and disadvantages of RECF

Access to the investment opportunities. Some respondents consider real estate crowdfunding as a possibility to make own investment decision, to invest in the attractive projects and diversify investment portfolio without additional costs.

“For investor crowdfunding allows access to the investment opportunities that previously have been reserved only for larger institutional investors, new asset classes that you can diversify personal portfolio to include business loans to property development which otherwise would be difficult. Alternative was to use a mutual fund but in the mutual fund there is no possibility to make investment decisions...” “Those who invest smaller amounts they diversify their investments heavily, investing into every single case. And it is rational, since there is no transaction costs.” (Oksanen 2017.)

“We have clients that are interested to invest into real estate using crowdfunding.” (Lönnmärke 2017.)

“There was no place, where private investors could place few thousands that they have at their bank accounts and they would benefit more than in stock market.” (Vuorinen 2017.)

“This investment profiles differ but the point is that this investor can diversify in specific percentage where he or she wishes... with lower risk opportunity which is the real estate.” (Grünstein 2017.)

Returns. In terms of the returns, crowdfunding competes with the investments in the equity of REOCs, which provide impressive returns, but at the time can be considered as the riskiest form among all the other instruments. RECF shows greater performance than renting out apartments, investing in REOCs bonds and mutual funds. In addition, RECF is more attractive due to less fees and administration costs.

“A lot of the return from the investments goes to governing or administration of the funds.” (Vuorinen 2017.)

“...in the mutual fund ... the management fees make the return smaller. In crowdfunding by minimizing the transaction costs, the fees, the investor gets the bigger profits.” (Oksanen 2017.)

“And obviously because of the rent market is now at minus or close to zero, money tend to navigate towards markets where you can get some kind of yield, and I think the crowdfunding is a great platform for that cause what I have seen now anything between 5 and 7% yield, I think the money will just follow the yields in the end.” (Saarnisto 2017.)

Risk level. Crowdfunding is traditionally perceived as a high-risk investment instrument, mainly due to the fact, that it was primarily used to finance risky startups, and investors, as well as development companies consider that this form of funding is used only for the projects that has problems to acquire finance otherwise. However, some crowdfunding professionals consider that the risk is not as high as it is perceived.

“It is a perceived risk. We have experience and make sure that we inform the investors and that they can trust the projects published at our web site. We have to give a high rewards because of the market, not because of the risks.” (Vuorinen 2017.)

Platforms continually undertake efforts to minimize the risks, maximize investor protection, and create trust.

“We use debt collectors outside services that collect the debt from the company.”
“We do our own due diligence for the projects. It is our own due diligence, own classification, based on amount of own capital, proportion of our loan, then we make our own assessment of the risks, we consider the location, market, external credit rating of the company, debt situation of the company, risks based on the analysis of legal documentation.” (Vuorinen 2017.)

“Fundu makes outsourced due diligence because there is an inherent incentive for a platform to affect those interest rates, that are determined by outside analyst, who doesn't have an incentive. We evaluate risk level based on qualitative and quantitative information: account information, evaluation of the business plan, the management, the guarantor's financial situation and personal balance sheet. The

company requires the following information from the company seeking finance: amount of funds needed, balance sheet and income statement, latest transactions from the accounting system, report from the bank account, list of the outstanding debt, guaranties, business plan, description of the company management and company ownership, information of the guarantors. This information is sent to external analyst who writes a report and provides a credit risk rating for the company.” (Oksanen 2017.)

Investment term. In average, the investment term for real estate crowdfunding is 12-18 months, with some exceptions of the longer investment term in case of equity crowdfunding and 3.5 years bonds. This is considered as a main competitive advantage of the RECF alongside with the high returns, compared to other investment instruments.

“Investor preferences are high yield, short investment period projects. Crowdfunding loans are totally illiquid investments, and therefore the demand is for those loans which duration is shorter, 6 month is the optimal.” (Oksanen 2017.)

Liquidity. Some respondent refer to the low liquidity, the lack of the secondary market as the one of the disadvantages of RECF, compared, for example to the equity and bonds of the listed REOCs.

“There is an issue of the secondary markets.” (Kleverlaan 2017b.)

“Crowdfunding loans are totally illiquid investments.” (Oksanen 2017.)

Some respondents are not considering liquidity a major issue; platforms are trying to cope with this limitation: at the platform Realinvest, which is a part of Privanet Group, specializing on the trading of unlisted shares, there is an option of the secondary market, with the possibility to sell the securities.

“From our point of view, the secondary market is not a limitation for the companies. In our platform we are trading a variety of the companies, average size of trading at our secondary market is few thousand euros.” (Lönnmärk 2017.)

Transparency. RECF offers more transparency to the investors compared with REITs and mutual funds, since the investments in the project are direct and all the information on the project is presented on the web site. RECF platforms offer

the possibility to track the project by publishing the reports and pictures of the construction site. At Realinvest.fi, there is also possibility to track the process by accessing the real time video from the site and real-time financial reporting.

“If we speak about REITs we don’t know where money go to. We as transparent as possible about through the information at our web site for the investors. We want to get as much company information from the construction part as possible.” (Vuorinen 2017.)

Convenience. RECF is a simple and easy to understand according to the respondents.

“...it is an easier product in the fund market, so that crowdfunding bond market is a bit easier product for us and also for the customer. It is easy for investor to be involved ... the same as paying bills via internet banking. I think that drives the market. Instead of doing complicated investment products, spending time going to the bank or portfolio manager.” (Saarnisto 2017.)

“The investment project we are selling are very easy to understand for Finnish investors.” (Oksanen 2017.)

To sum up, real estate crowdfunding in its present form is an attractive way of investment in real estate, and there is an increasing demand from the investors’ side to such an instrument. However, real estate investment market offers many compelling products for private investors, which creates a certain limitation for the further development. To understand the potential for the development, it is also necessary to assess the demand for the RECF as a financing tool, which will be performed in the next section.

4.2.3. Market pull: the nature of demand for crowdfunding as a form of real estate financing

Real estate crowdfunding is not a competing tool to bank financing at the moment, as the interest rates are too high compared with the bank financing and corporate bonds issuing. Harju (2017) considers that the entry to this market is difficult as its 70% is dominated by the banks. To evaluate the potential of this form of financing, we need to look closer at the drivers affecting the demand of the real estate players in a positive and a negative way.

Funding gap. The main motivation of the real estate developers to utilize crowdfunding is stimulated by the funding gap: the banks are not providing finance covering more than 50-70% of the projects costs.

“There are a lot of real estate developers who would like to have investors to start building.” (Lönnmärke 2017.)

“...from the real estate construction side, there is a specific demand because banks are not giving loans. The number of companies that I talk they say that banks give even less and less loans for small-scale construction. When we speak about the projects up to 5-6 million total cost or total selling price, the banks are not willing to finance more than 50-70 percent. There is a huge gap. Then the trend has been ongoing that the companies ... need to finance it from the alternative sources. There are many other ways of alternative finance solutions, and the real estate crowdfunding is just the one of them.” (Vuorinen 2017.)

“It was because we were a startup having big investment plan and no prove of the concept. Nobody else did not have functioning see pool with the same business model. ...The banks could not really make a good estimation of the probability that we will succeed and we have not had a conglomerate guaranteeing the financing, so they thought that is it too risky for them. They said we could come back after one or two years when we have a prove of the concept, meaning that we have had one or two seasons we can really verify that we are indeed have profit making business model.” (Grünstein 2017.)

“...They have problems with access to traditional finance.” (Oksanen 2017.)

“The need for capital is the main reason the companies turn to crowdfunding in case the developers cannot get the loan from the bank. It is a matter of availability of finance, and the level of risk and return, and sometimes it can be that difficult to evaluate in the smaller company the risks level than in the larger companies.” (Mäkelä 2017.)

Mainly the companies experiencing the funding gap are the SMEs, focusing on residential development, or the projects with the unique concept, with lack of equity and assets.

“If you have a difficult real estate property and you would not get funds in a traditional way, then crowdfunding would be beneficial. It is a question of the project and what are the alternatives compared to crowdfunding.” (Grünstein 2017.)

“Usually small development companies or even individual entrepreneurs, they do not have many real estate development projects at a time, rather one. Usually their projects are residential developments, apartments. They lack assets, their own equity capital is limited, and that is why they are trying to seek financing from alternative providers.” (Oksanen 2017.)

Typical real estate crowdfunding involves small-scale projects, short-term loans, covering 15-25% of the project costs, mainly at the initial stage.

“The total amount of the investments into the project is around from few to ten millions Euro. The amounts that they seek through crowdfunding is around few hundred thousand and million Euro.” “It is easy to start project using crowdfunding and then as the project matures crowdfunding capital could be converted into bank finance.” (Oksanen 2017.)

“Bank financing ... can amount maximum 50-75% of the property, we think that 60% would be available from the bank, and then you still need 40%, and this 40% is in equity meaning risk money, risk investments. So that risk investment would come either through our parent company or else it would come through crowdfunding.” (Grünstein 2017.)

“We are looking for something between EUR 2-2.5 million, the rent is going to be set at certain rate, I think about 7% yield per annum and it is going to be paid every 6 month and 3-3.5 year. We are planning to offer 20-25% through the crowdfunding. The sizes of the property we are looking at are around 10 million EURO, so 2.5 million would be around 25%.” (Saarnisto 2017.)

As market develops, there are several projects involving acquisition of the rental properties and lend development. The example includes some projects at the platform Yrityslainat.fi. These projects involve crowdfunding at the acquisition stage and then the crowdfunded loans are refinanced by the bank mortgages.

“...Junior financing, mezzanine financing, money required for a short amount of time, 2-3 years, and you can already come in and rent, let’s say you buy a property and you need to put down 10-15% upfront and then you pay the rest of the cost when some general funding is done. Therefore, for that time when you only need 10% of the money is good to do at crowdfunding platform.” (Saarnisto 2017.)

Interest rates. The high interest rates are the one of the major pitfalls at the moment. The yields are driven mainly by the market expectation, neither than by the level of risk: crowdfunding historically promised 10-15% returns, but that is going to change over time. Some respondents believe that the interest rates are not that high if to consider that crowdfunding is a fraction of the total project funding.

“Issues that prevail since 10 years ago in crowdfunding, people saw it as a new method of investing and because of perceived high risks they wanted higher interest rates. That has kept the level high interest rates, so now the companies that did crowdfunding in Finland and in Europe before us they promised investors 10-12% of return and that has to make us keep the interest level high so that we can get the investors. But the problem with that is that it prevails all the finance seeking companies to see it as too high.” (Vuorinen 2017.)

“The interest rates are determined by outside analyst, who doesn’t have an incentive.” “At the moment crowdfunding capital can be costly for the company, especially if they use a platform that requires organizing fees. But at the same time, the speed that the developers can get money may make the cost reasonable.” “So if the banks are able to provide cheap loans then our interest rate might be higher and still the total cost of capital for the total investment might be still relatively low, even though if our interest rates and organizing fees would be high. So you need to look at investments from the end customer point of view, and what kind of benefits the company going to receive from being able to get 100% financing.” (Oksanen 2017.)

“It is less expensive than getting it from junior loan.” (Saarnisto 2017.)

The respondents believe that the interest rates will go down by time, and suggest that issuing bonds using crowdfunding might be even more cost-effective.

Another attempt to adjust the interest rates has been done by Realinvest.fi by introducing automated bidding, and the results of the auction form the final interest rate.

“We have to keep working with companies that are willing to pay higher than average interest for the financing, and we need to find ways that we get more trust around crowdfunding in general so that we can lower the interest rates or lower the return. It does not happen overnight, it happens progressively by time, by getting more companies and getting trust of public.” (Vuorinen 2017.)

“I have been discussing with investors, it seems that you would aim for a profit margin or interest for your investment between 4% and 8% if you invest into real estate.” (Grünstein 2017.)

“SRV, listed construction company recently had a bond financing for their business, and they paid 11% yield, although they are listed, and at our platform, IKON issued bonds at 8%, which is not bad.” (Mäkelä 2017.)

Crowdfunding as a form of marketing, the level of B2C focus. Such attribute of crowdfunding as marketing of the final product is not perceived by all the developers as a positive factor. It has an impact only on the recreational and connected with the B2C orientation of real estate project.

“More and more companies have realized that crowdfunding is extremely good in terms of marketing and visibility for the company. Five years ago there was thinking that if you can’t get financing anywhere else, then you come to alternative financing, but now there are high quality companies and well known investors choose crowdfunding, completely choosing situation upside down. We have become as the one of the most preferred player, but in real estate business it is still a little bit new, so in some people thinking we may still be like at the earlier stages like we were before.” (Mäkelä 2017.)

“...we want to have a local aspect. It is a very good marketing also to get thousands of people involved as we have done in Helsinki. And they will be the owners of this place.” (Grünstein 2017.)

“Marketing benefits of crowdfunding in case of property developer are not applicable in the majority of the cases.” (Oksanen 2017.)

Fears of developers. Publicity of crowdfunding is perceived as a negative factor, rather than advantage.

"They fear the failure, disclosure, humiliation through the fact that people see crowdfunding as a final or last resource in financing. If you cannot get financing somewhere else, you turn to the market. The companies see us as public sort of financing, and that is a negative thing." " Even though that they still need the money, they don't want to take it from the source that is unknown for them." (Vuorinen 2017.)

"The market is so that there is a risk that you will not obtain the funding as you planned via crowdfunding, which is a negative factor." (Grünstein 2017.)

Fees. The fees can be considered as the negative factor. The platforms typically charge the real estate developers. The fees range between 3-8% depending on the client size of the project, and if the company brings own investors, it affects the fee. At the same time, the fee can be compared to the fund set-up costs if the company continuously uses crowdfunding.

"I would say that the crowdfunding is between 5-6%, in fund you can get somewhere between 3-5%, but again, crowdfunding once you got it going you don't need set you costs, then you can roll and obviously every time you do a new product, the cost come down a bit, so I think that we are now at the point where the crowdfunding is a bit cheaper than doing the fund." (Saarnisto 2017.)

Level of openness to innovative way of funding. The majority of the respondents agreed that the traditional players in real estate industry are not very much open yet, and that is the major pitfall for the RECF development.

"In general traditional organizations do not like to be combined with crowdfunding, most because they do not have an experience, they do not want those small investors involved in short run. In long run, yes, they will be integrated." (Kleverlaan 2017b.)

"Real estate is a traditional industry that needs to adopt to a digital world, while the other things, like the software, technology, knowledge intensive industries are more used to using digital formats of transactions." "If real estate developers, similar organizations, or investment groups that are used to invest in real estate

will be open to start engaging the crowd in such a way, it will speed it up.” (Shneor 2017.)

“From the real estate construction side, there is a specific demand, but they are struggling with understanding the benefits of crowdfunding that we do for them.” (Vuorinen 2017.)

“Now there are high quality companies and well known investors choose crowdfunding, we have become as the one of the most preferred player. But in real estate business, it is still a little bit new, so in some people thinking, we may still be like at the earlier stages like we were before. They are looking at us, what are they, and why somebody should go and use them. It's understandable and it's a question of time when the people realize and understand what we are doing, so then they hopefully change their views.” (Mäkelä 2017.)

“Some real estate companies in Finland are doing crowdfunding themselves without Internet and using the crowdfunding platforms. From the perspective of Privanet, for those companies would be easier to use crowdfunding platforms. It is the necessary first step that companies are doing it by themselves, and after that, they understand that it takes too much time for them, and if some of the good crowdfunding platforms could offer them their services, it could go faster.” (Lönnmärk 2017.)

To sum up, there is a specific demand from the side of the real estate developers experiencing the funding gap. The speed of the industry development will be dependent on the degree of the openness of traditional actors, such as real estate developers and investment funds. The traditional real estate industry is not interested in integration with the crowdfunding now and in the short-time perspective due to the fear of failure and projection desperation, high interest rates and fees, but many of the respondents consider that this attitude will change in the end. Some respondents suggest that traditional financial organizations, such as banks might enter this market as they have necessary infrastructure, experience and clients. It will take some time to educate traditional real estate players and to make the product attractive for them. The RECF platforms should focus on delivering the message of the advantages to the traditional real estate players: the transparency and convenience, such as speed, flexibility and

simplicity, which are the factors that affect the developers switching behavior at the European platforms (Maier 2016).

4.3. Assessing the potential and the future trends of RECF

4.3.1. Comparative analysis of real estate crowdfunding market in Finland with UK, Europe and USA

Real estate crowdfunding is the most developed in USA, which is determined by the introduction of the JOBS act regulation investment return crowdfunding before the regulatory initiatives came in force in Europe. The rapid growth of the equity RECF in the USA was connected with the opening this market to unaccredited investors. In Finland, this role has been taken first by the listed PREOCs, and then by REIT and mutual funds. Ministry of Finance in Finland was mainly focusing on the development of SMEs in Finland by opening them alternative source of funding.

“We have not had this form [RECF] in mind when we drafted Crowdfunding Act; the basic assumption was that crowdfunding is a SME funding. We have specific law for real estate investment funds; they also can operate in different legal entities as limited liability partnerships, listed companies, and alternative investment funds which are based on a European directive, so it is basically collective investment undertaking, more traditional way of investing collectively in real estate.” (Harju 2017.)

Moreover, the institutional framework in the USA is much different from Finland. Therefore, taking US market as a scenario for assessing the market potential would be incorrect. However, some interesting trends could be taken as a reference, for example, increased level of advice on the platform (creating portfolios of various level of risk and return), increasing share of the institutional investors. As the major pitfall of the market development is the developers' resistance to cooperate, the platforms could do active sourcing, similarly to US platforms, namely, by creating eFunds and eREITs for acquisition of the rental properties and small development projects.

As a part of European Union, Finland is more likely to follow the development of the leading European countries in terms of real estate crowdfunding market

development. There is a clear connection between the introduction of crowdfunding legislation and the rapid development of the real estate crowdfunding market in the UK, Germany and France. The same exponential growth happened in Finland in 2017, after the introduction of the Crowdfunding Act. A time lag between Finland and these countries in terms of the legislation is 2-3 years; therefore, there are some grounds to believe that Finnish RECF market will follow the same linear growth of 50-100% per year as happened in the above-mentioned countries. One of the respondents (Shneor 2017) mentioned bad cases as a pitfall for further development. Alternatively, the successful exits will benefit the industry growth, similarly as in France.

As was described in the Theory part of the Thesis, in Germany there is a sign of the cooperation of the RECF with the traditional real estate players (Engel & Völkers Capital), and in Finland, the fund management company ICON started to utilize RECF in cooperation with crowdfunding platforms. There is a potential for the industry development from the perspective of integration to the Finnish real estate investment system by cooperation with the traditional players. This aspect will be discussed in the following Section.

4.3.2. Institutional framework: drivers and pitfalls for development

Regulatory institutions

Clear regulation and investor protection. In general, Finnish Crowdfunding Act is considered a very positive factor, and it can be seen from data on the industry growth in 2017. Some respondents consider the regulation clear and a sign of increasing transparency, investment protection and control functions of authorities create more trust.

*“Crowdfunding Act that will help to really boost also real estate crowdfunding.”
(Kleverlaan 2017b.)*

*“The government has good initiatives within crowdfunding act towards transparency and comparability between different projects and platforms.”
(Oksanen 2017.)*

“The legislation is clearly controls and create more trust.” (Vuorinen 2017.)

Some of the respondents see some challenges of industry development, related to the limit of the amount that can be raised without prospectus, but at the same time, others do not consider this to be relevant at the moment as the interest rates in RECF are too high to finance whole project. There probably will be need to adjust the legislation, and the Ministry of Finance is open for that.

“The challenge here is that sometimes you need very high amount of money, how you deal with prospectus regulations here if you want to offer it to the crowds. If it is covered somehow, it is a big potential here.” (Kleverlaan 2017b.)

“You can do multiple rounds for bigger projects, EUR 2.5 million several times, using a different entity. For the next stage, you refinance the old and get a new financing. If there are more players in the market with bigger projects, we could have a discussion what could be the new limits. From my point of view EUR 2.5 million is enough, since financing whole project with 7% is a big risk.” (Saarnisto 2017.)

“The real estate crowdfunding is a possible tool, yes, and we need to take into account that and evaluate the law.” (Harju 2017.)

Open dialogue with industry. The Ministry of Finance was active in discussion with the industry the draft of the Crowdfunding Act. However, some respondents consider the dialogue between the authorities and the industry is not very good, therefore, the best practice and expertise of crowdfunding professionals as not been taken into account.

“Ministry of finance is preparing the adjustment to the crowdfunding act, and it's not done publicly, so there is not a very good dialog between authorities and the industry.” (Oksanen 2017.)

Normative institutions

Norms of the professional community. In addition to the legislation, there are market drivers enabling investor protection: crowdfunding platforms are incentivized even more than larger financial institutions to create trust.

“There is also a market based investor protection, because after all, finance industry is very heavily relying on trust, we need to win that trust of the investors and if we lose that trust then we don't have a business at all anymore.

Crowdfunding platforms have even higher incentives towards investor protections than larger financial institutions.” (Oksanen 2017.)

Creating associations. Crowdfunding platforms are eager to create associations to distribute the good practices and develop within the industry. Nordic Crowdfunding Alliance is the organization, which together with European Crowdfunding Network and the leading crowdfunding platforms organizes events, with the focus on promotion of the success cases, education of the investors and fostering of the research.

Cooperation and integration with traditional finance. The trend towards the cooperation with crowdfunding platforms can already be seen: crowdfunding platform Invesdor has a cooperation agreement with Danske Bank (Invesdor 2016), Nordea and OP launched their crowdfunding platforms. As we can see significant growth in the RECF during the year of 2017, the banks might perceive this niche as very promising, since the real estate is less risky and involves higher target amounts, than SME funding. Most of the respondents agreed on that.

“We currently had a case called Transfluent, which is raising funding through us, and the lead investor is the VC fund Vision Plus, which has put the first initial investment into the company. And business angels have been using us for a quite some time investing onto different companies. I believe digitalization is going to happen to fundraising, and we are in position to do that. So I believe that traditional institutional investors will be using us as well, in addition to the retail investors.” (Mäkelä 2017.)

“We are not collaborating in any formal way [with traditional finance], but the outcome is still that we provide required capital that is not provided by the bank. Banks provide cheap loans and I often say they are our best friends, because from company’s point of view the only thing that really matters is the total cost of capital...being able to get 100% financing. Therefore, all these kinds of alternative finance models and crowdfunding platforms are actually collaborating with traditional institutions even if there is no formal cooperation agreements.” “There can be a situation when the traditional financial institutions will acquire alternative finance platforms. The position of banks at this moment is very difficult, they are making good profits, they have very dominant position on the market, but the

future is looking very uncertain, therefore it make sense to be involved in all kind of FinTech innovations.” (Oksanen 2017.)

“I also think that traditional organizations like banks may feel more comfortable entering the crowdfunding market in the real estate angle, because they have infrastructure, this is a low risk category, and they feel more comfortable to do it and also customers.” (Shneor 2017.)

We can see already the desire of ICON, a fund management company, to utilize this instrument for financing its real estate development projects.

Cognitive institutions

The level of trust is very high in Finnish society, and the finance industry highly relies on trust. In order to improve trust and create a positive image of crowdfunding, government could start using it in form of social bonds. Some respondents consider that the interest to the real estate crowdfunding might be stimulated by the focus on community, socially important projects involving a mass of neighborhood residents. Interestingly, that the real estate crowdfunding in Finland has started from such a project, Helsinki Allas Oy.

“For the short run, it is very important to focus on community related projects. If you have a real estate project where you have a lot of involvement of crowd, either in a local community or you are raising money through the people that going to live in the area or work in the area (if it is commercial real estate), there is a big opportunity, because you show that there is a big connection and involvement of people who willing to live and work there, and they also want to invest in it.” (Kleverlaan 2017b.)

“Maybe it is more about image question, would be good if government would start using crowdfunding. So using these kids of products and same language but for different purpose, maybe the social bond for funding the governmental projects could give a more acceptable image; get the knowledge of the product to the population.” (Saarnisto 2017.)

“The best prospects and the best progress was in health care construction, investors like this idea.” (Vuorinen 2017.)

Some respondents believe that investor education would improve the acceptance of the product by the market; some believe it is not economically reasonable. The lending platform Yrityislainat.fi offering many RECF loans, already provides investment consulting by meeting with their investors, but at the same time charging investor fees.

“Yes, we should [educate investors], because in Finland traditional households have not owned much portfolios of exchange traded shares or bonds. From the economical point of view educating investors is not very feasible.” (Oksanen 2017.)

“All the companies should spend some money for investors’ education. The more information the investor has, the more they can start to choose between the products.” (Saarnisto 2017.)

“The real challenge is in educating people using this method.” (Shneor 2017.)

The successful exits or instead, bad cases can influence the industry development.

“If there is a record of bad deals that can slow down and really harm the industry.” (Shneor 2017.)

To the point, there are successful repayments of the RECF loans at the platform Groundfunding.fi, which is a positive signal that has to be articulated to the crowd using the advantages of social media.

4.3.3. Future scenarios: growth opportunities

Rapid development of debt form of RECF. In general, there are optimistic expectations regarding the future of RECF, but expect that the entering this market will not be easy due to domination of the traditional players. The respondents believe that the main advantage of RECF over the startup crowdfunding is the collateral and the lower level of risks; moreover, real estate is more understandable for unprofessional investors compared to startups. The high investment targets for the real estate crowdfunding make this niche profitable for the platforms, which can further stimulate them to educate the investors and real estate developers.

“There is 2-3 years lag behind what happening in UK, so you will see that in 3 years real estate crowdfunding will have a big impact on Finnish real estate industry.” “Normally, if you are investing in to the company, a startup, there is very high risk. If equity fail, you do not get anything. If you invest in real estate you have an ability if something like collateral was connected to it.” (Kleverlaan 2017b.)

“I think there is a big potential for the real estate crowdfunding. In other European countries, RECF has been already quite big, whereas in Finland you do not really have players yet. There will be a lot of interest because people understand property. I think there is going to be a big demand for that.” (Mäkelä 2017.)

“We believe that development of real estate crowdfunding will happen in Finland very soon.” (Lönnmärk 2017.)

“The market access might be quite difficult, because the banks are so dominant in this industry: Nordea, Danske and OP dominate 70% of the market.” (Harju 2017.)

“It will grow increasingly faster, but like any other start, it will be not an easy start.” (Shneor 2017.)

Some of the respondents consider that the real estate crowdfunding will be developing very fast mainly the in debt form, which is traditionally more understandable for Europe. Equity form also has limitations, related to the liquidity and the need to evaluate the project. For the equity RECF, they foresee the bottom-up initiatives, when community implements the project of redevelopment or construction using equity crowdfunding as a source the early stage financing. At the moment, the short-term investments are more popular among investors, but as market matures, we will see long-term debt as well.

“In general, we perceive bonds as easier: you get fixed interest, and it is tradable with a secondary market. If you are selling equity, then it is dependent on the success of the real estate project and return. In Europe, we are debt-oriented; we understand debt better than equity, it is easy to get access to the money.” (Kleverlaan 2017b.)

“I don’t see equity crowdfunding a viable model. Finland is traditionally what is called continental financial system, where companies traditionally very heavily relied on bank finance, and households have traditionally put their money on bank accounts instead of owning shares or bonds, which is very common in Anglo-Saxon countries.” “The main form of crowdfunding for real estate development is a loan-based crowdfunding, because it is easier to get loan financing. Making an equity investment for smaller investor is much harder than making a loan investment; they do not have to look a downside of the business, only the bankruptcy risks. Equity crowdfunding involves making analysis of the company value and risks, and if the company evaluation or the assessment of the future potential of the company is wrong, then the investor is not going to make profits. Also the nature of the company, when small company make a project, the exit strategy for equity investors will be uncertain.” (Oksanen 2017.)

Institutionalization and integration in traditional finance.

The cost of acquisition of the private investors is relatively high compared to financial institutions, and therefore some platforms are interested in cooperation with traditional finance.

“We are targeting financial institutions in order to minimize customer acquisition costs in order to improve the margins. Our marketing efforts are targeted towards larger institutions. It is easier to grow the platform together with institutions and more effective. Cost effectiveness due to high automation and digitalization can create an advantage over traditional financing; crowdfunding platforms are able to perform those tasks in the value chain more efficiently instead of handling customer acquisition, the banks may just provide finance and cut the costs they can stream on their operations as well.” (Oksanen 2017.)

Internationalization

Possibility of scaling business at the Finnish real estate market is limited, and the technology allows the platforms to extend the limited Finnish real estate market and grow the investor base by attracting the international investors.

“For us scaling of the business is done internationalization. I think that natural step from Finland is Sweden. Mixing of the traditional finance and FinTech is very viable in Sweden.” (Oksanen 2017.)

“We plan to enter Russian market.” (Lönnmärke 2017.)

Increased level of advice at the platforms

The respondents argue that the education of the investors is one of the measures to create trust. As can be seen from the US and EU experience, the platforms provide a great share of advice, such as creating portfolios targeting different risk and return strategies. In Finland only one platform, Yrityslainat.fi is physically meeting with its clients to explain the project. This may explain the high volume of the real estate crowdfunding cases at the platform, the high number of the investors and the average amount of investments. As was mentioned by one of the respondents, *“RECF if it is basically collective investment undertaking”*, but performed in the cost-effective, highly automated way. In the future, the differences between mutual funds and real estate crowdfunding can be blurred either by adopting the level of advice by RECF or by utilizing the crowdfunding tools by the mutual funds.

5. Summary and discussion

5.1. Summary of the Research Findings

This Section provides the summary of the empirical findings with relation to the research questions and the theoretical framework.

RQ1. What is the real estate crowdfunding in Finland?

Real estate crowdfunding market in Finland is very young and determined by the desire of new players to enter the booming real estate investment market and the demand for the alternative finance due to the market gap. The market is developing similarly to the leading European countries; the introduction of the crowdfunding regulation has become a driver for the market growth. RECF niche development has started from the community-related real estate projects (Helsinki Allas Oy and Finnoonportti), which is a positive factor.

The main and the most attractive form of the RECF in Finland at the moment is short-term debt (12-18 months) with or without a collateral for the residential real estate development, with an average of EUR 400,000 – EUR million depending on the platform. This is determined by the demand for the bridge loans from the real estate developers' side and the demand for the short-term debt investments. The interest rates reflect the level of risk and market expectations and vary from 7% to 12%. As the market develops, similarly to German and French market, RECF is being involved in the acquisition of the rental properties and land development, with the further refinancing by the bank loans.

RQ2. How does the success or failure of RECF campaign can be explained?

The framework created by synthesizing existing theory on crowdfunding campaign success factors explains the success and failure of RECF campaigns. The results of the multiple case analysis cases support the previous research for equity- and loan-based crowdfunding.

The equity offering of Helsinki Allas Oy was explained by the following factors:

- High funding target (Lukkarinen et al. 2016);
- Low minimum investment (Lukkarinen et al. 2016);

- High expected return (Maier 2016);
- Acceptable level of risk (Maier 2016);
- Understandability of the product (Lukkarinen et al. 2016);
- Information on the exit (Ahlers et al. 2015)
- Understanding motivation and personality of the funders (Ryu & Kim 2016);
- Employing social media (Lukkarinen et al. 2016) to trigger various motivational groups;
- Information about the staff preferences and other investors (Parker 2014);
- Background of the fund-seeker (Vismara 2016);
- Fund-seeker social capital (Colombo et al. 2015);
- Understandability of the product (Lukkarinen et al. 2016).

The success and failure of the debt offerings of ICON could be explained by the following factors:

- Minimum investment (Lukkarinen et al. 2016);
- Investment term (Maier 2016);
- Expected return (Maier 2016);
- Risk class (Maier 2016).
- Background of the fund-seeker (Vismara 2016);
- Understandability of the product (Lukkarinen et al. 2016);
- High funding target (Lukkarinen et al. 2016);
- Risk class (Maier 2016).

The success of Helsinki Allas Oy was mainly based on ability of the company to reduce the information misbalance between the company and the investors, and utilizing the marketing potential of the social media and own social capital. These findings are in line with the existing literature on the factors of success of equity crowdfunding campaigns. In case of ICON debt offerings, the company has not used the marketing potential of crowdfunding; the focus was on the economic factors, which supports the study of Maier (2016) on success factors for loan-based crowdfunding. Interestingly, that in case of Helsinki Allas Oy, the majority of the factors of success of equity crowdfunding cases are in line with the study of Lukkarinen et al. (2016) for the platform Invesdor. Relatively unsuccessful case of ICON at the same platform illustrates, that the majority of the factors were not

utilized. At the same time, the next case of ICON at the lending platform Yrityslainat shows that the company offered the product, attractive for the investors of the lending platforms, and that lead to success. These findings show that RECF is a concept dependent on the context.

In addition to the existing theory, some finding were discovered during the cases analysis and interviews with the experts:

- Real estate crowdfunding can be used as a fundraising tool and a source of additional marketing for community projects; active engagement of the social capital, targeting various motivational groups of investors using the combination of equity with reward, employing social media and the platform affordances are the keys to success;
- Platform choice is very important, the success of the RECF offering is dependent on the understanding the motivation and expectations of the investors by the fund seeker. In addition, availability of other RECF offerings at the platform, consulting services at the platforms improve understanding of the product by the investors, which ultimately increases the success chances;
- Timing: at the early stage of real estate crowdfunding, the investors are not familiar with the product, which can be the reason of failure of the campaign.

RQ3. How attractive the RECF is compared with traditional investment vehicles?

The findings partly support the existing theory explaining investors' switching behavior (Maier 2016), stating that the main drivers are economical, such as yield (return), risk class, and loan length:

- The majority of the respondents agreed that RECF provides access to the investment opportunities: real estate crowdfunding allows private investors are able to participate to attractive investment opportunities with a small amount of investment and possibility to diversify their portfolio without additional costs such as subscription and redemption fees;
- Level of returns: competing returns enabled by the cost-effective way of managing projects (less administrative costs);

- Desk research revealed that the public real estate equity market is dominated by the Finnish PREOCs, REIT and mutual funds, and there is a very small opportunity to enter;
- Public real estate debt is not very attractive in comparison with loan-based RECF, therefore, there is a potential for this form;
- Risk level: crowdfunding has gained a reputation of risky investment method, and this perception is changing over time; platforms undertake efforts to improve perception of the investors by performing risk rating, outsourced due diligence, outsourced debt collecting and educating investors;
- Investment term: debt form of RECF offers attractive terms, and average of 12-18 months; equity form is an illiquid long-term investment;

In addition to that, there are some additional findings, based on the experts' opinion, related to advantages and disadvantages of RECF:

- Liquidity: is the major issue, especially for the equity RECF; some platforms implement secondary market to improve the attractiveness of the product;
- Transparency: RECF is the most transparent form of real estate investment; technology allows to track the project implementation and the financial indicators in real time;
- Convenience: RECF is considered as a simple product.

RQ4. What are the factors and how do they affect the demand for RECF as a financing tool and what can be done to improve it?

Some empirical findings are in line with the borrowers' switching behavior (Maier 2016), and some are irrelevant:

- Crowdfunding as a form of marketing does not play a big role for real estate and depends on the level of B2C focus of the company, therefore, utilized mainly for the equity-based community RECF projects;
- Fears of developers are the main obstacle to the demand growth and is considered by the respondents as temporary;
- Level of openness to innovative way of funding was the driver for increasing demand;

In addition, there are empirical findings contributing to the theory:

- Real estate market growth: the desk research revealed the increasing demand for residential real estate in the Metropolitan area, followed by the growth of the residential construction;
- Funding gap: the majority of the respondents agreed on fact that the main driver of the demand of real estate developers is the inability to get funding from traditional financial institutions;
- Economical drivers, such as interest rates and fees does not serve as an incentive; they are relatively high at the moment, however, there is a trend towards their decrease, by means of automatization;
- Convenience, such as speed, flexibility and simplicity, were not considered by the respondents as the driver to turn to crowdfunding, however, there is a potential for the RECF platforms to translate the message about these advantages to the real estate developers.

RQ5. How the potential of RECF industry development can be explained?

The real estate crowdfunding potential for the future development was assessed by the three-dimensional framework, comprised from the technology push, market pull and institutional factors. According to the results of the analysis and the expert opinion, the existing environment is favorable for the future industry growth.

- Technology push: there are specialized RECF, as well as equity- and debt crowdfunding platforms interested in the development of this niche, creating and articulating advantages of this method to real estate players;
- Market pull: RECF in debt form is attractive for the private and institutional investors; real estate developers are somewhat reluctant to adopt this technology, but there are positive trends;
- Introduction of the regulation and investment protection served as the trigger for the industry development similarly as in Germany and France;
- The industry is incentivized to create trust and implement best practices to attract clients;
- Crowdfunding associations promote the success cases and investors education;

- RECF platforms cooperate with traditional finance and the real estate companies;
- The level of trust: there are already successful cases; increased advice and education of the investors supports the existing growth.

RQ6. What are the expectation regarding future industry growth?

The main expectations follow the general European trends:

- The majority of the respondents foresee the rapid development of debt form of RECF;
- The future growth strategies include cooperation with the institutional investors, integration in traditional finance, and internationalization of the platforms;
- Increased level of advice at the platforms or cooperation with the real estate advisors could blur the difference between traditional real estate investment companies.

5.2. Managerial implications

This Thesis provides an up-to date review of the real estate crowdfunding market in Finland, analysis of the perspectives of the future development. Real estate developers can learn from the cases how to plan and implement effectively the crowdfunding campaign and to choose the right platform. The development of the market will depend on the actions of the specialized platforms: the competition in the real estate crowdfunding is high; however, there are opportunities and advantages of RECF that needed to be articulated to the market. Based on the research findings, there are some normative recommendations to the platforms.

The major pitfall of the development is the resistance of the real estate developers to use crowdfunding. Either the specialized platforms could be overcome this by means of active sourcing of the rental properties for acquisition and managing the projects, or the mutual funds could turn to the practice of the customer acquisition crowdfunding. This requires some level of proficiency from the platform. In Finland ICON is an example of the real estate investment company, adopting new practice, by doing crowdfunding at their web site, or by using the platforms as an intermediary. In USA, real estate crowdfunding platforms create

eFunds and eREITs and then place the funds into acquisition of the properties. In Europe, the example of such an integration is creating joint venture by the platform and the real estate advisor.

One of the advantages of the crowdfunding is ability to promote it widely and in a cost-effective way. Not all the platforms, however, utilize this potential in full. Social media are very good to create trust, to promote the offers and successful cases and successful exits. The example of such a practice is the equity platform Invesdor.

Increased advice will help to educate the investors use this method. At the moment there is not enough advice, however, some platforms, such as Yrityslainat, provide this service. In USA the real estate platforms group projects in the portfolios, which can be applied in Finland when there is enough projects to form the portfolios.

5.3. Limitations of the Research Findings and Further Research

The results of this study are based on the limited empirical data; the market is still in its inception, and developing very fast. There are several potential areas for the future research. First, in order to understand the real estate investors' motivation and preferences would be beneficial to conduct a survey. Second, the area of potential development is internationalization of the platforms, and there has been already actions taken by the equity platform Invesdor, therefore, would be beneficial to create an internationalization strategy for the real estate platforms.

Figures

Figure 1. Structure of the Thesis, p 8

Figure 2. Classification of the crowdfunding, p 11

Figure 3. Factors of success of investment-based crowdfunding campaign, p 23

Figure 4. Real estate investment system in Finland, p 31

Figure 5. Drivers shaping the RECF industry, p 41

Figure 6. Drivers and pitfalls for the industry development, p 43

Figure 7. ICON Suurpelto project ownership structure, p 59

Graphs

Graph 1. European real estate crowdfunding volume, p 37

Graph 2. Real estate crowdfunding market size in Finland, EUR million, p 47

Graph 3. Historical performance of the mutual real estate funds, 2013-2016, p 69

Graph 4. The PREOCs historical annual performance, 2010-2016, p 70

Tables

Table 1. Crowdfunding definitions, p 9

Table 2. Incentives and disincentives of crowdfunding, p 14

Table 3. Relation between IT affordances, funders' motivation and behavior, p 21

Table 4. Investments in real estate, p 27

Table 5. The list of the respondents, p 44

Table 6. Helsinki Allas Oy equity offerings at the platform Invesdor, p 53

Table 7. Expected return of Helsinki Allas Oy equity offering, p 53

Table 8. Economic information, ICON bond offerings, p 60

Table 9. The risk evaluation grade, p 62

Table 10. Summary of the cases and comparison of success drivers, p 65

Table 11. Public real estate debt, p 71

Table 12. The summary of the real estate investment instruments, p 71

References

- Agrawal, A., Catalini, C. & Goldfarb, A. 2013. Some simple economics of crowdfunding. *Innovation Policy and the Economy*, Volume 14. University of Chicago Press (p. 63 – 97). [Http://www.nber.org/books/lern13-1](http://www.nber.org/books/lern13-1). Accessed 03 May 2017.
- Ahlers, G. K.C., Cumming, D., Günther, C. & Schweizer, D. 2015. Signaling in Equity Crowdfunding. *Entrepreneurship Theory and Practice*, 39: 955–980. doi:10.1111/etap.12157. Accessed 02.05.2017.
- Baker, C. 2016. Real Estate Crowdfunding – Modern Trend or Restructured Investment Model?: Have the SEC’s Proposed Rules on Crowdfunding Created a Closed-market System?, 9 *J. Bus. Entrepreneurship & L.* 21. <https://digitalcommons.pepperdine.edu/jbel/vol9/iss1/2/>. Accessed 22 November 2017.
- Belleflamme, P., Lambert, T. & Schwienbacher, A. 2013. Crowdfunding: Tapping the Right Crowd. *Journal of Business Venturing*, 2014, 29(5), 585-609; CORE Discussion Paper No. 2011/32. <http://dx.doi.org/10.2139/ssrn.1578175>. Accessed on 01 May 2017.
- Bieri, D. Crowdfunding the City: The End of “Cataclysmic Money”? 2015. *Environment and Planning A* .Volume: 47 issue: 12, page(s): 2429-2435. <https://doi.org/10.1177/0308518X15615369>. Accessed on 05 February 2017.
- Bradford, C. S. 2012. Crowdfunding and the federal securities laws. *Columbia Business Law Review*, 2012. <http://digitalcommons.unl.edu/cgi/viewcontent.cgi?article=1118&context=lawfacpub>. Accessed 02 May 2017.
- Brueggeman, W. & Fisher, J. 2005. *Real Estate Finance and Investment*. Twelfth Edition. McGraw-Hill.
- Catella 2017. Catella Market Indicator - spring 2017. http://www.catella.com/PageFiles/73933/Catella_Market-Indicator_2017_spring.pdf?epslanguage=en. Accessed 20 February 2017.

Cholakova, M. & Clarysse, B. 2015. Does the Possibility to Make Equity Investments in Crowdfunding Projects Crowd Out Reward-Based Investments? *Entrepreneurship Theory and Practice*, 39(1), 145–172. https://www.researchgate.net/publication/267214928_Does_the_Possibility_to_Make_Equity_Investments_in_Crowdfunding_Projects_Crowd_Out_Reward-Based_Investments. Accessed 26 September 2017.

Choy, K. & Schlagwein, D. 2016. Crowdsourcing for a better world. On the relation between IT affordances and donor motivations in charitable crowdfunding, *Information Technology & People*, 19(1): p 221–247. <https://doi.org/10.1108/ITP-09-2014-0215> Accessed 10 October 2017.

Colombo, M.G., Franzoni, C. & Rossi-Lamastra, C. 2015. Internal social capital and the attraction of early contributions in crowdfunding projects. *Entrepreneurship Theory and Practice* 39, 75-100. <http://www.massimogcolombo.com/static/publications/Colombo%20Franzoni%20Rossi-Lamastra%202014%20ETP.pdf>. Accessed 20 October 2017.

CrowdStreet 2017. The official web-site. www.crowdstreet.com. Accessed 26 September 2017.

ECN 2017. The official web site of European Crowdfunding Network. Review of Crowdfunding Regulation 2017. http://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN_Review_of_Crowdfunding_Regulation_2017.pdf. Accessed 01 October 2017.

Falkenbach, H., Niskanen, J. & Kiehelä, S. 2013. Development and performance of the public real estate investment sector in Finland. *International Journal of Strategic Property Management*. P. 233-247. 1648-715X (printed). Doi: 10.3846/1648715x.2013.822033. Accessed 7 February 2017.

Finnish Crowdfunding Act, 734/2016 (Joukkorahoituslaki) 2016. <http://www.finlex.fi/en/laki/kaannokset/2016/en20160734>. Accessed 24 May 2017.

Fundrise 2017. The official web site. <https://fundrise.com/> Accessed 22 November 2017.

Gerber, E.M. & Hui, J. 2014. Crowdfunding: Motivations and Deterrents for Participation, *ACM Transactions on Computer-Human Interaction*, 20(6). https://www.researchgate.net/publication/275961145_Crowdfunding_Motivations_and_Deterrents_for_Participation. Accessed 23 September 2017.

HelloCrowdfunding.com, 2017. Baromètre décembre 2017. <https://www.hellocrowdfunding.com/immobilier/barometre/decembre-2017>. Accessed 13 December 2017.

Hervé, F., Manthé, E., Sannajust, A. & Schwienbacher, A. 2017. Determinants of Individual Investment Decisions in Investment-Based Crowdfunding. <https://ssrn.com/abstract=2746398>. Accessed on 8 February 2017.

Hudson-Wilson, S., Gordon, J. & Fabozzi, F., Anson, M. & Giliberto, M.S. 2005. Why Real Estate?. *The Journal of Portfolio Management*. 31. 12-21. DOI 10.3905/jpm.2005.593883. Accessed 02 November 2017.

Im, S & Workman Jr, J.P.. (2004). Market orientation, creativity and new product performance in high-technology firms. *Journal of Marketing*. 62. 42-54. https://www.researchgate.net/publication/312975257_Market_orientation_creativity_and_new_product_performance_in_high-technology_firms. Accessed 12 December 2017

Invesdor, 2017a. Tutkimusraportti. Sijoittajan järki ja tunteet: vaihtoehtoiset sijoitusmarkkinat 2017 - barometri. <https://home.invesdor.com/hubfs/Vaihtoehtoiset%20sijoitusmarkkinat%202017%20tutkimusraportti.pdf?t=1509709603482>. Accessed 25 October 2017.

Kaartemo, V. 2017. The elements of a successful crowdfunding campaign: A systematic literature review of crowdfunding performance. *International Review of Entrepreneurship*. Vol. 15, No. 3. <https://www.researchgate.net/publication/319392255>. Accessed 11 September 2017.

Kirby E., Worner S. 2014. Crowd-funding: An Infant Industry Growing Fast., IOSCO Research Department. <https://www.iosco.org/research/pdf/swp/Crowd-funding-An-Infant-Industry-Growing-Fast.pdf>. Accessed 01 May 2017.

Kleverlaan R., 2017b. Alternative Finance Maturity Model. A public-private growth model of the Alternative Finance Industry. <https://www.slideshare.net/kleverlaan/alternative-finance-maturity-model-nordic-crowdfunding-event>. Accessed 17 march 2017.

KTI 2017. The Finnish Property Market, 2017. <https://kti.fi/wp-content/uploads/page/The-Finnish-Property-Market-2017.pdf>. Accessed 12 November 2017.

Lakhani, K.R., Hutter K., and Friar G. 2014. Prodigy network: Democratizing real estate design and financing. Harvard Business School Case 614-064. <http://www.hbs.edu/faculty/Pages/item.aspx?num=47056>. Accessed on 05 February 2017.

Lam, P.T.I. & Law, A.O.K. 2016. Crowdfunding for renewable and sustainable energy projects: An exploratory case study approach. *Renewable and Sustainable Energy Reviews*, 60: p 11–20. <https://doi.org/10.1016/j.rser.2016.01.046>. Accessed 10 October 2017.

Lee, E., Lee, B., Chae, M. 2012. Herding behavior in online p2p lending: an empirical investigation. *Electronic Commerce Research and Applications*, Volume 11, Issue 5, 2012, Pages 495-503, ISSN 1567-4223. <https://doi.org/10.1016/j.elerap.2012.02.001>. Accessed 20 October 2017.

Lukkarinen, A., Teich, J.E., Wallenius, H. & Wallenius, J. 2016. Success drivers of online equity crowdfunding campaigns, *Decision Support Systems*, 87: p 26–38., <https://doi.org/10.1016/j.dss.2016.04.006>. Accessed 11 September 2017.

Maier, E. Supply and demand on crowdlending platforms: connecting small and medium-sized enterprise borrowers and consumer investors. *Journal of Retailing and Consumer Services*, Volume 33, November 2016, Pages 143-153, ISSN 0969-6989, <https://doi.org/10.1016/j.jretconser.2016.08.004>. (<http://www.sciencedirect.com/science/article/pii/S0969698915301600>). Accessed 03 May 2017.

Massolution, 2015. 2015CF-RE crowdfunding for real estate. Available at http://reports.crowdsourcing.org/index.php?route=product/product&product_id=52. Accessed on 22 November 2017.

Miller, D. 2015. Crowdfunding Commercial Real Estate — the New Disruptor? Dan Miller, Co-founder and President Fundrise, interview at Wharton University of Pennsylvania, Apr 22, 2015. <http://knowledge.wharton.upenn.edu/article/is-crowd-sourced-funding-for-commercial-real-estate-the-next-big-disruptor/>. Accessed 21 October 2017.

Ministry of Finance 2016a. Crowdfunding Act enters into force in September. Press release by Ministry of Finance. (25.8.2016). http://vm.fi/en/article/-/asset_publisher/joukkorahoituslaki-tuo-toimialalle-kevytta-saantelya. Accessed 24 October 2017.

Ministry of Finance 2016b. Decree of the Ministry of Finance on the content and structure of the crowdfunding recipient's disclosure obligation. <http://vm.fi/documents/10623/2033991/Decree%20of%20the%20Ministry%20of%20Finance%20on%20Crowdfunding%20Recipient's%20Disclosure%20Obligation,%20unofficial%20translation/cbc18af2-7c01-429b-963d-69cf92ac9d5e>. Accessed 24 October 2017.

Ministry of Finance 2016c. Investor protection clarified in crowdfunding. Press release of Ministry of Finance (8.12.2016). http://vm.fi/en/article/-/asset_publisher/sijoittajansuojaa-selkeytetaan-joukkorahoituksessa. Accessed 24 October 2017.

Mollick, E. 2014. The dynamics of crowdfunding: An exploratory study, *Journal of Business Venturing*, Volume 29, Issue 1, January 2014, Pages 1-16, ISSN 0883-9026. <https://doi.org/10.1016/j.jbusvent.2013.06.005>. Accessed on 01 May 2017.

Nir Kshetri. Success of Crowd-based Online Technology in Fundraising: An Institutional Perspective. *Journal of International Management*. 21. 100-116. DOI: 10.1016/j.intman.2015.03.004. Accessed 10 December 2017.

O'Roarty, B., McMahon, s., Martin, R., Marx, S., Craddock, P. (2016), Real estate crowdfunding: Gimmick or Game Changer? Investment Property Forum report.

<http://www.ipf.org.uk/resourceLibrary/real-estate-crowdfunding-gimmick-or-game-changer-november-2016-report.html>. Accessed 10 October 2017.

Orava Residential REIT plc. 2016. Rules for real estate investment operations. Approved by the Finnish Financial Supervisory Authority on 28 January 2011. Confirmed by the General Meeting on 22 March 2016. http://oravaasuntorahasto.fi/wp-content/uploads/2016/05/Kiinteistosijoitustoiminnan_saannot-_20160322_EN.pdf. Accessed 21 November 2017.

Ordanini, A., Miceli, L., Pizzetti, M., Parasuraman, A. 2011. Crowd-funding: transforming customers into investors through innovative service platforms, *Journal of Service Management*, Vol. 22 Issue: 4, pp.443-470. Doi: 10.1108/09564231111155079. Accessed 01 May 2017.

Parker, Simon C. 2014. Crowdfunding, Cascades and Informed Investors. IZA Discussion Paper No. 7994. DOI: 10.1016/j.econlet.2014.10.001. Accessed 27 October 2017.

Pierrakis, Y. & Collins, L. 2013. Banking on Each Other: peer-to-peer lending to business: evidence from Funding Circle. <http://www.nesta.org.uk/library/documents/Peer-to-peer-lending-report.pdf>. Accessed 01 May 2017.

Ryu, S. & Kim, Y.-G. 2016. A typology of crowdfunding sponsors: Birds of a feather flock together? *Electronic Commerce Research and Applications*, 16: p 43–54. <https://doi.org/10.1016/j.elerap.2016.01.006> Accessed 24 October 2017

Saunders, M., Lewis, P., Thornhill, A. 2009. *Research Methods for business students*. Fifth edition. Pearson Education Limited.

Schatz R.D. 2015. Will Internet-based financing change how businesses raise capital? Executive Summary. SAGE Business Researcher. <http://businessresearcher.sagepub.com/sbr-1645-94780-2641593/20150209/crowdfunding>. Accessed on 01 February 2017.

Schweizer, D. & Zhou, T. 2016. Do Principles Pay in Real Estate Crowdfunding?. doi 10.13140/RG.2.2.17238.86083. Accessed 14 April 2017.

Schwienbacher, A., Larralde, B. 2012. Crowdfunding of small entrepreneurial ventures. In Cumming, D. (Ed.) The Oxford Handbook of Entrepreneurial Finance (pp. 369-391). Oxford UK: Oxford University Press. Available at <http://ssrn.com/abstract=1699183>. Accessed on 01 May 2017..

Stefano, G., Gambardella, A. & Verona, G. Technology push and demand pull perspectives in innovation studies: Current findings and future research directions, In Research Policy, Volume 41, Issue 8, 2012, Pages 1283-1295, ISSN 0048-7333, <https://doi.org/10.1016/j.respol.2012.03.021>. <http://www.sciencedirect.com/science/article/pii/S0048733312000820>. Accessed 12 December 2017.

Stoker, R. 2012. REITs Around the World: Your Guide to Real Estate Investment Trusts. Richard Stoker and Gold Egg Investing LLC. <http://www.espaciosdepaz.org/book/478046061/download-reits-around-the-world-your-guide-to-real-estate-investment-trusts-in-nearly-40-countries-for-inflation-protection-currency-hedging-risk-management-and-diversification-richard-stoker.pdf>. Accessed on 21 November 2017.

Torris T., 2017. French Real Estate Crowdfunding Grows Steadily and Delivers. Crowdfunding Insider. <https://www.crowdfundinsider.com/2017/09/122523-french-real-estate-crowdfunding-grows-steadily-delivers/>. Accessed 31 October 2017.

Torris T., 2017. German Real Estate Crowdfunding Market Booms. Crowdfunding Insider. <https://www.crowdfundinsider.com/2017/06/102443-german-real-estate-crowdfunding-market-booms/>. Accessed 31 October 2017.

Turan S. 2015. Financial Innovation - Crowdfunding: Friend or Foe? Procedia - Social and Behavioral Sciences, Volume 195, 2015, Pages 353-362, ISSN 1877-0428. <https://doi.org/10.1016/j.sbspro.2015.06.334>. Accessed 12 December 2017.

Vismara, S. 2015. Information Cascades among investors in Equity Crowdfunding. Academy of Management Proceedings. 2015. https://www.researchgate.net/publication/314831909_Information_Cascades_Among_Investors_in_Equity_Crowdfunding. Accessed 22 October 2017.

Vismara, S. 2016. Equity retention and social network theory in equity crowdfunding. Small Business Economics. 46. https://www.researchgate.net/publication/294278766_Equity_retention_and_social_network_theory_in_equity_crowdfunding. Accessed 22 October 2017.

Vulkan, N., Åstebro, T., Sierra M.F. 2016. Equity crowdfunding: A new phenomena, In Journal of Business Venturing Insights, Volume 5, 2016, Pages 37-49, ISSN 2352-6734, <https://doi.org/10.1016/j.jbvi.2016.02.001>. https://www.sbs.ox.ac.uk/sites/default/files/Entrepreneurship_Centre/Docs/OxEPR2/vulkan-et-al-new-phenomenon-equity-crowdfunding.pdf. Accessed 03 October 2017.

Wardrop, R., Rosenberg, R., Zhang, B., Ziegler, T., Squire R., Burton J., Hernadez, E., Garvey, K. Breaking new ground: the Americas alternative finance benchmarking report. Cambridge Centre for Alternative Finance, April 2016. https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-americas-alternative-finance-benchmarking-report.pdf. Accessed 2 May 2017.

Zhang, B., Baeck, P., Ziegler T., Bone J., Garvey K. 2016a. Pushing boundaries. The 2015 UK alternative finance industry report. Cambridge Centre for Alternative Finance. <https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/pushing-boundaries/#.WQh0h7uwezk>. Accessed on 02 May 2017.

Zhang, B., Wardrop, R., Ziegler T., Lui, A., Burton J., James A., Garvey K. 2016b Sustaining momentum: the 2nd European alternative finance industry report. Cambridge Centre for Alternative Finance. https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf. Accessed 02 May 2017.

Empirical data

Ålandsbanken, 2017. Ålandsbanken official website, information on the investment products. <https://www.alandsbanken.fi/pankkipalvelut/sijoita-saasta/rahastot/tomtfonden>. Accessed 05 December 2017.

Citycon 2017. Citycon official web site, information for investors. <https://www.citycon.com/investors/share-information/historical-price-lookup>. <https://www.citycon.com/investors/share-information/total-return-calculator>. Accessed 04 December 2017.

Danske Bank, 2017. Information on Technopolis bond listing. <http://www.danskebank.fi/PDF/Joukkolainat/FI4000157078.pdf>. Accessed 08 December 2017.

eQ, 2017. The official web site of eQ. Real estate funds EQ Care and eQ Finnish Real Estate. <https://www.eq.fi/en/funds/eq-hoivakiinteistot>. <https://www.eq.fi/en/funds/eq-liikekiinteistot>. Accessed 05 December 2017.

Facebook, 2017. The official FB group of Helsinki Allas Oy. <https://www.facebook.com/AllasSeaPool/>. Accessed 12 November 2017.

FIM, 2017. FIM official web site. Real estate fund FIM Asuntotuotto A. <https://www.fim.com/fi/sijoittaminen/fim-rahastot/fim-asuntotuotto-a/>. Accessed 05 December 2017.

Groundfunding 2017. Groundfunding Oyj official web site. Goundfunding.fi. Accessed 17 December 2017.

Helsinki Allas Oy, 2017. Helsinki Allas Oy offerings at the platform Invesdor. <https://www.invesdor.com/en/pitches/770>. <https://www.invesdor.com/en/pitches/546>. Accessed 03 April 2017.

ICON Ilves Bond Oy, 2017. ICON Ilves Bond Oy offering at the platforms Yrityslainat.fi. <https://www.yrityslainat.fi/sijoituskohteet/hakemus/2383>. <https://www.yrityslainat.fi/sijoituskohteet/hakemus/2474>. Accessed 21 December 2017.

ICON Suurpelto Bond Oy, 2017. ICON Suurpelto Bond Oy offering at the platform Invesdor. <https://www.invesdor.com/en/pitches/622>, accessed 03 April 2017.

Invesdor 2016. Invesdor starts cooperation with Danske Bank in Finland. <https://www.invesdor.com/en/media/news/493>. Accessed 20 December 2017.

Invesdor 2017b. The official web site. www.invesdor.fi. Accessed 12 September 2017.

Joukon Voima 2017. Joukon Voima official web site. <https://joukonvoima.fi/>. Accessed 02 September 2017.

LinkedIn 2017. The pages of the team members and investors of Helsinki Allas Oy and ICON Kiinteistörahastot Oy. <https://fi.linkedin.com/>. Accessed 15 October 2017.

NASDAQ, 2017. Information on Sponda bond listing. <http://www.nasdaqomxnordic.com/bonds/finland>. Accessed 08 December 2017.

Nordea, 2017. Nordea official web site, information on the fees. <https://www.nordea.fi/en/personal-customers/savings-and-investments/investments/online-trading.html#tab=Prices>. Accessed 04 December 2017.

OP 2017. OP real estate funds. https://www.op.fi/op/henkiloasiakkaat/saastot-ja-sijoitukset?sivu=fund_basic_data.html&ID_NOTATION=80444270&sym=80444270&id=32461. https://www.op.fi/op/henkiloasiakkaat/saastot-ja-sijoitukset?sivu=fund_basic_data.html&id=32461&ID_NOTATION=20049600&sym=20049600. Accessed 14 December 2017.

Realinvest 2017. The official web site of Privanet Securities Oy. <https://realinvest.fi>. Accessed 02 December 2017.

Sponda 2017. Sponda official web site, information for investors. <https://investors.sponda.fi/en/share-and-shareholders/share-price-centre>, accessed 04 December 2017.

Taaleri 2017. Taaleri official web site, real estate investments. <https://www.taaleri.com/en/wealth-management/private-equity-funds/real-estate-investments>. Accessed 06 December 2017.

Technopolis 2017. Technopolis official web site, information for investors. <https://www.technopolis.fi/en/about-us/investors/share-information/investment-calculator/>. Accessed 04 December 2017.

Titanium, 2017. Titanium official web site, real estate fund Titanium Asunto. <https://www.titanium.fi/rahasot/titanium-asunto/>. Accessed 05 December 2017.

United Bankers, 2017. United Bankers official web site. Real estate fund Nordic Property. <http://unitedbankers.fi/ub-nordic-property/>. Accessed 05 December 2017.

Yrityslainat 2017. The official web site of Vauraus Suomi. <https://www.yrityslainat.fi>. Accessed 07.12.2017

Interviews

Grünstein, R. 2017. Chairman of the board. Helsinki Allas Oy. Interview 04 April 2017.

Harju I., Senior Legislative Counselor. Ministry of Finance. Interview 18 March 2017.

Kleverlaan, R. 2017b. Crowdfunding strategist. CrowdfundingHub. Advisor. European Commission. Co-founder. European Crowdfunding Network. Interview 18 March 2017.

Lönnmärke, K. 2017. CEO. Privanet Securities Oy, Interview 24 March 2017.

Mäkelä, L. 2017. CEO. Invesdor Ltd. Interview 10 May 2017.

Oksanen, T. 2017. Development manager. Fundu Oy. Interview 20 April 2017.

Saarnisto, S. 2017. Real estate manager. ICON Kiinteistörahastot Oy. Interview 29 May 2017.

Shneor, R. 2017. Head of the Nordic Crowdfunding Alliance, Professor at University of Agder's Centre for Entrepreneurship. Interview 27 March 2017.

Vuorinen, N. 2017. Financial Consultant. Groundfunding Oyj. Interview 04 April 2017.

Appendices

Appendix 1. The loans at the platform groundfunding.fi

Name, address, type	Total investment (EUR)	No. of investors	Interest rate, p.a.	Minimum/ average investment, EUR	Risk type/ Investment term (months)
Liedon Ruutu	298,350	66	10.00%	1,500	B/17
Helsinki Kalevankatu 61	205,500	50	12.00%	2,000	B/17
Tampereen Kaukajärven Aamukaste	198,500	32	11.00%	2,000	B/12
Tampereen Kaukajärven Aamurusko	198,500	34	11%	1,000	B/11
Isonnevan Kotikutonen	800,001	8	5.25%	50,000	A/6
Eerikkilä Resort	454,896	64	7%	3,000	A/19
Kalliotie 3	268,535	53	10%	2,000	B/12
Kivikonlaita 51	247,126	41	10%	2,000	B/6
Kivikonlaita 34	497,500	85	10%	3,000	B/5
Eerikkilä Resort	547,353	84	7.00%	3,000	A/14
Vantaa As Oy Vantaan Lummetar	198,018	49	10%	2,000	B/11
Total/Average	3,914,279/ 355,843	51	9,67 %	2,150*	*without Isonnevan Kotikutonen

Source: Groundfunding (2017)

Appendix 2. The loans at the platform Yrityslainat.fi

Name, address, type	Total investment (EUR)	No. of investors	Interest rate, p.a.	Minimum/ average/ maximum investment, EUR	Risk type/ Investment term (months)
2017					
Arvorahasto Oy, purchase of housing companies	330,600/380,000 (87%)	1,575	7,00%	10/210/9,650	****/18
ICON Ilves Bond Oy, residential development	1,660,000/2,000,000 (83%)	1089	7,00%	10/1,670250,000	**/12
Rakennusliike J. Rajala Oy, residential development	300,000/1,200,000 (25%)	444	12,00%	10/67553,000	*/12
Acquisition of the land plot and residential development	750,000	1,653	11,00%	10/45312,590	****/6
Huhtanen Capital Oy, residential development	875,000/3,500,000	816	8,00%	10/1072/50,000	12
MM-Yritysrakentaja Oy, acquisition of the rental residential real estate	1,249,750/4,999,000 (25%)	1,269	8,00%	10/985/100,000	***18
SSR Group, residential development	2,000,000/4,000,000	2,286	9,00%	10/875/100,000	****/18
Kiinteistö Oy Lakeuden Tupa, commercial real estate redevelopment	2,000,000	1,766	11,00%	10/1133/50,000	***12
Rakennusliike J. Rajala Oy	2,800,000	1,704	10,00%	10/1643100,000	***12
Refinancing of existing loan, residential development	1,700,000	1,533	12,00%	10/1109100,000	*/12

Name, address, type	Total investment (EUR)	No. of investors	Interest rate, p.a.	Minimum/ average/ maximum investment, EUR	Risk type/ Investment term (months)
Acquisition of the rental residential real estate	1,000,000	2,058	9,00%	10/486 60,000	*** /12
CRE development project	687,500 2,750,000 25%	103	11,00%	10/6674 150,000	* /12
Acquisition of the rental residential real estate	25,000	87	10,00%	10/287/ 1,430	* /48
Hartwall arena, acquisition of real estate investment company	200,000/ 400,000 (50%)	424	7,00%	10/471 9,780	*** /18
Real estate fund, residential development	500,000/ 2,000,000 (25%)	189	7%	10/2645 50,000	* /18
Acquisition of the rental residential real estate	420,000	1,452	10%	10/289/ 11,970	*** /18
2016					
Acquisition of the forestry properties	100,000	304	6,50%	10/ 17,130	*** /60
Acquisition of commercial real estate	150,000	189	8,50%	10/793 6,600	*** /60
Total/Average	16,022,850 942,520	1,047	9,11%		

Source: Yrityislainat (2017)

Appendix 3. The list of investors, the first crowdfunding round of Helsinki Allas Oy

Date	Name	Background
29.9.2015	Tuomo Railo	Artistic director at Glims & Gloms dance company
30.9.2015	Fredrik Dow	Radio Networks, Europe, at Nokia Networks
3.10.2015	Liisa Välikangas	Professor at Hanken School of Economics
12.10.2015	Jussi Rouhunkoski	Survey Methodologist and Part-Time Design Entrepreneur
13.10.2015	Santtu Hulkkonen	Co-founder & Executive Vice President at Solved - The Cleantech Company
13.10.2015	Silke Karner	Senior Software Engineer at Sievo Oy
16.10.2015	Nina Korjus	Market Court Judge at Market Court
17.10.2015	Sonja Soininen	Team Lead at Pöyry
17.10.2015	Universo Invest Oy	Universo Invest Ltd is a family run Finnish investment company which invests based on the values and ideology of family running the company. Universo Invest is interested in investments that contribute to health, exercise, wellbeing and ecology.
20.10.2015	Eija-Riitta Korhola, PhD	Delegate of the Consultative Commission on Industrial Change (CCMI) at EESC, Professional Board Member
22.10.2015	Janne Jäälinoja	Helps Finnish SMEs grow and go international
31.10.2015	Timo Jatila	Vice President Business Development at ABB Oy
31.10.2015	Juho Santalahti	Client Partner at SAP
31.10.2015	Jussi Tuisku	Senior Vice President at Ruukki
31.10.2015	Reija Timperi	CEO at Statuta Oy
31.10.2015	Bevz&Co Oy	Specializes in holistic real estate and property development services in retail and real estate development cases, currently working on different real estate and retail development projects across Finland.
31.10.2015	Lauri Pietarinen	Chief Executive Officer at Ajanta Oy, the private investment company
31.10.2015	Berg & Company	Mission is to support and advance the development of various FinTech solutions. Advise, specify, manage, and deliver FinTech solutions over several growing sectors.

Date	Name	Background
2.11.2015	Jarno Mielonen	Systems Specialist at CSC - IT Center for Science
2.11.2015	Johanna Hirsjärvi	Relationship Manager, Major Corporate and Institutional Clients at OP Financial Group
3.11.2015	Jussi Suominen	Entrepreneur
3.11.2015	Chris Boylan	Research Scientist at Varian Medical Systems
3.11.2015	Eemeli Kantola	Web developer and Lean/Agile consultant, Futurice

Source: Helsinki Allas Oy (2017); LinkedIn (2017)

Appendix 4. The list of investors, the second crowdfunding round of Helsinki Allas Oy

Date	Name	Background
21.11.2016	Lauri Pietarinen	Chief Executive Officer at Ajanta Oy, one of the leading Finnish private investment companies
21.11.2016	Eija-Riitta Korhola, PhD	Delegate of the Consultative Commission on Industrial Change (CCMI) at EESC, Professional Board Member
22.11.2016	Sonja Soininen	Team Lead at Pöyry
22.11.2016	Kari Rinne	Entrepreneur, small and medium size innovative technology companies for B2B markets and export
22.11.2016	Bluet Oy Ltd	Bluet is a Finnish company, specializing in floating construction solutions, including Helsinki Allas OY
25.11.2016	Antti Halonen	Partner at VALOR Partners and Tech Startup Enthusiast
28.11.2016	Touko Kontro	Business angel Entrepreneur & CEO startup advisor board professional
6.12.2016	Eemeli Kantola	Web developer and Lean/Agile consultant, Futurice
8.12.2016	Jussi Tuisku	Senior Vice President at Ruukki, components for construction industry
13.12.2016	Anssi Jarvinen	Creative Director / Partner at Superson. Columnist. Blogger. Ex-Vice Chairperson at Council for Mass Media (JSN).
16.12.2016	Claus Blomqvist	CEO at CB-Osake, repairment services
17.12.2016	Pekka Mäkelä	CEO, Co-founder at Glucostratus Oy, a member of Finnish Hi-tech Start-up Community
19.12.2016	RA Communications Oy	RA Communications Oy
20.12.2016	Tilton John George	Angel Investor, Investor's network
21.12.2016	Eljas Repo	CEO and Editor-in-Chief at Repo Media, Investor's network
21.12.2016	Jone Ullakko	Musician / Producer / 3d Audio Engineer
22.12.2016	Hannu Vaahtio	experienced independent real estate and finance professional
22.12.2016	Lauri Nuorteva	Youth Manager at Badminton club Drive, entrepreneur
21.12.2016	Hanna Aartolahti	Post Production Coordinator at Solar Films Inc.

Date	Name	Background
21.12.2016	Jonna Enroth	Line Producer at Solar Films Inc.
21.12.2016	Jesse Fryckman	Producer, Solar Republic
21.12.2016	Emmi Gröhn	Motion Pictures and Film Professional, Cocoa
21.12.2016	Jukka Helle	Managing director at Solar Films Inc. Oy, Solar Films Inc. Oy
21.12.2016	Pinka Hämäläinen	Production Accountant at Solar Films Inc.
21.12.2016	Ida Kallio	Production Secretary, Social Media Manager, Senior Executive Asst., Solar Films Inc.
21.12.2016	Maria Kaurismäki	
21.12.2016	Petri Kotwica	Independent Motion Pictures and Film Professional
21.12.2016	Ossi Lahtinen	Verstas® -manager at Fira Oy (construction)
21.12.2016	Nina Laurio	Producer at Solar Films Inc.
21.12.2016	Jussi Lepistö	Head of Markets, Finland at SEB
21.12.2016	Taneli Mustonen	KHT-Tilintarkastaja, Authorised Public Accountant, Partner, Head of audit at BDO Oy, a member of Finnish Hi-tech
21.12.2016	Samuli Norhoma	Executive Producer at Solar Republic Oy
21.12.2016	Tiina-Mari Pitkänen	Independent Motion Pictures and Film Professional
21.12.2016	Kim Sainio	Media worker at Solar Republic and Radio Rock
21.12.2016	Risto Salomaa	Filmproducer at Solar Films Inc.
21.12.2016	Markus Selin	Owner, solar films inc Oy
21.12.2016	Joel Siitonen	Post Production Manager at Solar Films Inc.
21.12.2016	Perttu Sirviö	Régisseur at Institut finlandais
21.12.2016	Hanna Virolainen	Project manager at Sweco Rakennetekniikka Oy
22.12.2016	Christer Ekqvist	Owner at Rento bar, Restaurant boat Esposito
22.12.2016	Malla Hinttala	manager at City of Helsinki
22.12.2016	Heidi Hirvelä	Marketing Specialist, Exterior Products, at Tikkurila Oyj
22.12.2016	Susanna Karranto	Night People Group, a Finnish restaurant company
22.12.2016	Mikko Kouki	Artistic Director at Turku City Theatre, Actor

Source: LinkedIn (2017)

Appendix 5. Social capital of Helsinki Allas Oy

Helsinki Allas Oy team	The background	Number of connections
Raoul Grünstein, the Chairman of the board	MSc (Econ), Hanken; Entrepreneur (publishing, consultancy in sponsorship, marketing); The CEO, Korjaamo Group	836
Timo Metsälä, the CEO, shareholder, Board member	The founder of Verkkoisännöinti; The owner of Ovenia group	295
Pekka Pakkanen, the head designer and architect	the partner, Huttunen-Lipasti-Pakkanen; Significant projects: Gösta museum, Helsinki Guggenheim museum	
Marianne Mäkelä, Business development	Managing experience in marketing: MTV3, Alma media, Viherjuuri and Image Match	61
Sanna Tuominen, marketing plans	Entrepreneurship and management background in marketing: Sanoma group, Töölö Urban	452
Kim Heiniö, restaurant business development	The founder and CEO of the Soupster Family restaurants; Over 20 years of experience in restaurant business	500+
Sophia Ehrnrooth, Consultant for Design solutions and cultural profiling	Entrepreneur: Töölö Urban and Finlayson; Visual artist	432
Markus Selin, a business consultant, entertainment,	The owner of the one of the Finnish leading TV and movie producing companies; Shareholder and Board member, Töölö Urban.	500+
Ami Hasan, marketing and customer relations consultant	Founder of advertising agency; Shareholder, Töölö Urban	500+
Jaron Duivestein	Co-owner of the SkyWheel	1,060
Arto Sivonen, social media	Founder of design agency Måndag	500+
Santtu Hulkkonen, cleantech	Partner, Solved; Former employee at Finnpro and Sitra	3,709
Pekka Salmi, funding strategy and planning	Strategy, business development, venture capital, Sitra; Board member in 30+ companies	598
Timo Urala		226
Total		9669

Source: LinkedIn (2017); Helsinki Allas Oy (2017)

Appendix 6. Social capital of ICON Suurpelto Bond Oy

ICON Suurpelto Bond Oy team	Background	Number of connections
Teemu Nuutinen, Marketing manager	BBA; Serial entrepreneur, investor, and a business adviser in growth companies	1,139
Sami Saarnisto, Real estate manager	BBA, ITS property manager degree; Experienced real estate investment professional, OP Group	167
Susanne Vatanen, project management	SRV	253
Jan Hellbom, financial management	experienced business controller, Destia Länsi-Suomi and Vacon	136
Markus Havulehto, the CEO	Degree Hanken, APV-1 investment service degree, ITS property manager degree; Experienced investment and real estate broker; Investor	521
Jari Koskinen, the Chairman of the Board	MBA, PhD (Econ); Co-owner of Vacon Oyj	176
Total		2392

Sources: LinkedIn (2017); ICON Suurpelto Bond Oy (2017)

Appendix 7. The publications in Facebook

Date	Activity	Content
The first campaign		
28.09.2015	171 likes, 24 shares	Launch of share issue
28.09.2015	345 likes, 27 shares	The history of the project
29.09.2015	41 likes, 2 shares, 23.2 k views	Video interview with Tuomas Enbusken, a Finnish radio and TV presenter and journalist: Helsinki citizen need more access to the sea
30.09.2015	61 likes, 6 shares	Financial structure
01.10.2015	16 likes, 1 share, 8.4 views	Video interview with the city's cultural director Stuba Nikula, how crowdfunding allows people to influence the development of the city
01.10.2015	18 likes, 6 shares	Why crowdfunding? Urban culture is created bottom-up
02.10.2015	155 likes, 4 shares	How to become a part of creating new Helsinki
02.10.2015	99 likes, 4 shares	Crowdfunding: influence the city development and gain rewards
03.10.2015	31 likes, 1 share, 16.2 k views	Video interview with the restaurant developer Kim Heino
04.10.2015	38 likes, 5 shares, 33,5 k views	Interview with the Old Marketplace merchant Anna Häro: possibility to decide how the marketplace will look like
05.10.2015	67 likes, 5 shares	Why invest in Allas
07.10.2015	43 likes, 1 share	EUR 100,000 crossed
08.10.2015	94 likes, 10 shares	Information about the platform Invesdor
10.10.2015	101 likes, 2 shares	Information about future activities
11.10.2015	121 likes, 1 shares	Interview with Minna Väisälä
12.10.2015	12 likes, 442 views	Video interview with Tuula Paalinen, the owner of the cheese shop in the Old Market Hall
12.10.2015	40 likes, 6 shares	Allas has received EUR 335,000, share of the publication in Helsinki Sanomat
12.10.2015	73 likes, 8 shares	Information about dividends
12.10.2015	251 likes, 5 shares	Information about the Baltic Sea Center
13.10.2015	111 likes	Interview with Anders Westerholm, entrepreneur
13.10.2015	95 likes, 4 shares	Information on additional benefits

Date	Activity	Content
14.10.2015	16 likes, 6 shares, 15,1 k views	How to participate in crowdfunding
14.10.2015	12 likes, 410 views	Video interview with designer Arto Sivonen
14.10.2015	109 likes, 2 shares	Reminder about the deadline
14.10.2015	162 likes, 3 shares	Interview with Mika Ahonen, sauna owner
14.10.2015	70 likes, 3 shares	Benefits of investing: dividends and investment club
16.10.2015	91 likes, 11 shares	Benefits of investing: dividends and investment club, contribution to the city development
16.10.2015	147 likes, 4 shares	Interview with Kimmo Helistö, Arla Sauna
17.10.2015	30 likes, 1 share, 13,7 k views	Video interview with Kirsi Piha, Chairman of the board, communication strategist at Ellun Kanat
17.10.2015	16 likes, 1 share, 15,4 k views	Video interview with Eveliina Hanskin, Loop Jooga
17.10.2015	7 likes, 1 share, 12,7 k views	Video interview with Tomi Ruotimo, Chairman of the board, Pro Radio Helsinki
18.10.2015	4 likes	Reminder
19.10.2015	7 likes	Information about the radio Helsinki cast about Allas Sea Pool
20.10.2015	51 likes, 2 shares	EUR 436,800 received
20.10.2015	78 likes, 3 shares	Cleantech solutions: Santtu Hulkkonen, Solved
21.10.2015	6 likes, 1 share	Radio Helsinki cast announce
21.10.2015	11 likes	How to invest
22.10.2015	46 likes, 1 share	EUR 449,800 received, link to Invesdor
23.10.2015	11 likes	Link to Radio Helsinki article
23.10.2015	88 likes, 2 shares	Reminder
23.10.2015	1 likes	Link to Radio Helsinki article
23.10.2015	68 likes, 6 shares	Additional benefits (rewards)
23.10.2015	94 likes, 7 shares	EUR 450,000 received, link to Invesdor
23.10.2015	25 likes	Reminder
24.10.2015	97 likes, 5 shares	Reminder about investors benefits
25.10.2015	68 likes	Interview with Anna Härö
25.10.2015	144 likes, 15 shares	Story about Allas on medium.com, shared
26.10.2015	27 likes, 3 shares	Investing in Allas – investing in cleantech solutions

Date	Activity	Content
26.10.2015	29 likes, 1 share	Crowdfunding in Allas - contribution to the urban culture, additional benefits
27.10.2015	6 likes	Link to the article on lily.fi
27.10.2015	41 likes, 3 shares	The project is not only a good investment with a profit expectation, but a contribution to the culture and benefits
28.10.2015		Interview with the city cultural director
28.10.2015	15 likes, 1 share	dividend policy, additional benefits, link to invesdor.com
28.10.2015	52 likes	EUR 480,000 received, link to Invesdor
29.10.2015	39 likes	investing in Allas – to become customer-owner
29.10.2015	27 likes	EUR 483,000 received, link to Invesdor
30.10.2015	270 likes, 12 shares	EUR 500,000 received, link to Invesdor
30.10.2015	161 likes, 10 shares	Helsinki Sanomat publication, shared
30.10.2015	106 likes, 1 shares	Reasons to invest: location, cleantech, dividends, urban culture, benefits
31.10.2015	41 likes, 4 shares	Information how the pool will look like and the warning about the end of the share issue
01.11.2015	83 likes, 4 share	Reminder, link to Invesdor
01.11.2015	178 likes, 8 shares	People trust the project, MTV article, shared
02.11.2015	3 likes, 8 shares	Owners club and benefits
02.11.2015	38 likes, 2 shares	EUR 550,000 reached, link to invesdor.com
02.11.2015	170 likes, 9 shares	The end of crowdfunding was spectacular, EUR 745,000 reached, gratitude to the funders, link to invesdor.com
03.11.2015	37 likes, 2 shares	Reminder of the deadline
03.11.2015	9 likes	The end of campaign, EUR 783,000 reached, link to invesdor.fi
03.11.2015	61 likes, 5 shares	EUR 814,000 raised, gratitude to the funders
03.11.2015	69 likes, 5 shares	Yle publication, shared

Date	Activity	Content
The second campaign		
22.11.2016	345 likes, 27 shares	Announce of the second campaign
28.11.2016	105 likes, 6 shares	Announce of the second campaign at Invesdor, shared
1.12.2016	17 likes	Invesdor article, shared
3.12.2016	49 likes, 6 shares	Additional benefits for those who invest before 6.12.2016, link to invesdor.com
3.12.2016	104 likes, 2 shares	Description of the benefits, link to invesdor.com
6.12.2016	13 likes	EUR 400,000 minimum limit reached, link to invesdor.com
8.12.2016	238 likes, 15 shares	Reminder description of the project, link to invesdor.com
10.12.2016	375 likes, 16 shares,	Reminder
12.12.2016	167 likes, 7 shares	EUR 540,000 reached, link to invesdor.com
16.12.2016	153 likes, 4 shares	EUR 720,000 reached, link to invesdor.com
19.12.2016	228 likes, 10 shares	EUR 800,000 reached, subscription period is extended, link to invesdor.com
19.12.2016	92 likes, 8 shares	Publication in kauppalehti.fi , shared
21.12.2016	70 likes, 2 shares	EUR 1,000,000 maximum limit crossed, link to invesdor.com

Source: Facebook (2017)

Appendix 8. The risk assessment grade, growndfunding.fi

Parameter	Value	Score
Project		
Equity share	< 20%	2
	20-30%	1
	> 30%	0
The share of the crowdfunding	> 25%	2
	10-25%	1
	< 10%	0
RS-project	No	1
	Yes	0
Property type	Separate house	2
	Condominium/Duplex	1
	apartment building	0
Location	Fussy market	4
		3
		2
		1
	Downtown/Growth center	0
Collateral	No	2
	Yes	0
Contractor		
Rating Alfa	AAA	-1
	AA+	0
	AA	1
	A+	2
	A-C	3
Debtor rating		
Overall rating (incl. Rating Alfa)	very weak	3
	weak	2
	moderate	1
	satisfying	0
	good	-1
	excellent	-2
	superb	-3

Risk class

mark	A	B	C	D	E
score	< 1	1-5	6-10	11-15	> 15

Source: Groundfunding (2017)

Appendix 9. The general list of questions to all the respondents

1. What is your opinion on real estate crowdfunding in Finland? Do you think there is a demand from the investors and real estate companies?
2. What are the advantages and disadvantages of investing via real estate crowdfunding?
3. Do you think that real estate crowdfunding is an alternative, disruptive financial instrument, or it can be additional tool for real estate companies?
4. There is a skepticism of perceiving real estate crowdfunding as “real estate lending without underwriting standards or real estate investing without due diligence”. Your opinion
5. What is the most attractive form of financial product?
6. What are the attractive investment strategies?
 - a. buy and hold,
 - b. fix and flip approaches,
 - c. equity and debt in new construction of residential and commercial properties,
 - d. land development
7. The Decree of the Ministry of Finance on the content and structure of the crowdfunding recipient's disclosure obligation prescribe the content of the content of the crowdfunding basic information document. Do you consider it relevant and sufficient when investing in real estate? Do you think there is a need for specific regulation for real estate crowdfunding?
8. Traditionally real estate investments perceived as safe investment, whereas crowdfunding is associated with high risk and return. What kind of guarantees could be introduced to minimize risks? How do you think the difference of DD by banks and crowdfunding platforms influences the chances of money laundering or fraud?
9. Do you agree with the proposition that crowdfunding is suitable for specific niche-markets in real estate? For example, socially important projects?

10. What are your expectations regarding development and future potential of this instrument of financing real estate for Finland? Is real estate crowdfunding can offer full funding of real estate project?

11. What factors may affect positively/negatively? Are there specific bottlenecks for the crowdfunding industry regarding the funding of real estate?

Government

- a. Open dialogue with industry
- b. Clear regulation and public support
- c. Investor protection and transparency on defaults
- d. Integration in financial regulations

Industry

- a. Creating associations
- b. Awareness: collective promotion of success, education of investors
- c. Education, certification, academic research
- d. Cooperation and integration with traditional finance
- e. Adopting Code of conduct

Society

- a. Level of trust
- b. Risk acceptance

Finance

- a. Lack/availability of financial resources (banks utilize lower LTV)
- b. Attractiveness of conventional investment vehicles
- c. Secondary market

Appendix 10. The list of questions to the case companies

1. Please describe briefly your company:
 - a. business model
 - b. company size
 - c. company age
 - d. number of employees
2. Please describe your development projects:
 - a. type of the real estate (office, retail, residential, industrial, other)
 - b. total amount of investments into the project
 - c. financial structure: % of equity, debt, how financed, terms, interest, length
3. How likely you would utilize crowdfunding as a mean of fundraising? For which kind of project/stage and in which form?
 - a. motivation for using crowdfunding
 - b. % of crowdfunding in the financial structure
 - c. form of crowdfunding: loan, equity, convertible loan, hybrid with reward based
4. Do you think that these factors increase interest of using crowdfunding for financing real estate?
 - a. Level of B2C focus of the company
 - b. Level of openness to innovative way of funding
 - c. Social importance, uniqueness of the project (niche)
 - d. Crowdfunding as a form of marketing

e. Other, please specify

5. What are the advantages and disadvantages of raising funding via real estate crowdfunding?

a. Convenience: speed, flexibility, simplicity

b. Economic components

c. Transparency: clarity, ease, sufficient information

d. Fear of disclosure, fear of visible failure, and fear of projecting desperation

e. Risks: fraud, failure, etc.

f. Other, please specify