

# Real Estate Equity Crowdfunding: A New Investment Opportunity for the Investors

NEW YORK, UNITED STATES, February 20, 2018 /EINPresswire.com/ -- Real estate presents a huge opportunity for investment for the investors whereby they can increase their profit and get significant returns. Different [ways are available by which investors can invest in real estate properties](#). Equity crowdfunding is one of the ways and is a new opportunity for the investors to gain investment. Read on to know what is: crowdfunding, equity crowdfunding and everything that you should know about this investment instrument.

## What is Crowdfunding?

It is a method of raising capital to fund a project through collective efforts of a large number of people like friends, family, customers, who contribute relatively small amount. It is a form of alternative finance and crowdsourcing and is one of the most innovative ways to raise funds for a cause. It comes in many forms, and one of the recent entries to crowdfunding is the real estate industry. Talking in context of real estate, there are 3 ways to invest in a crowdfunded real-estate property:

- Equity crowdfunding
- Syndicated debt crowdfunding
- Platform-issued ('pre-filled') debt crowdfunding

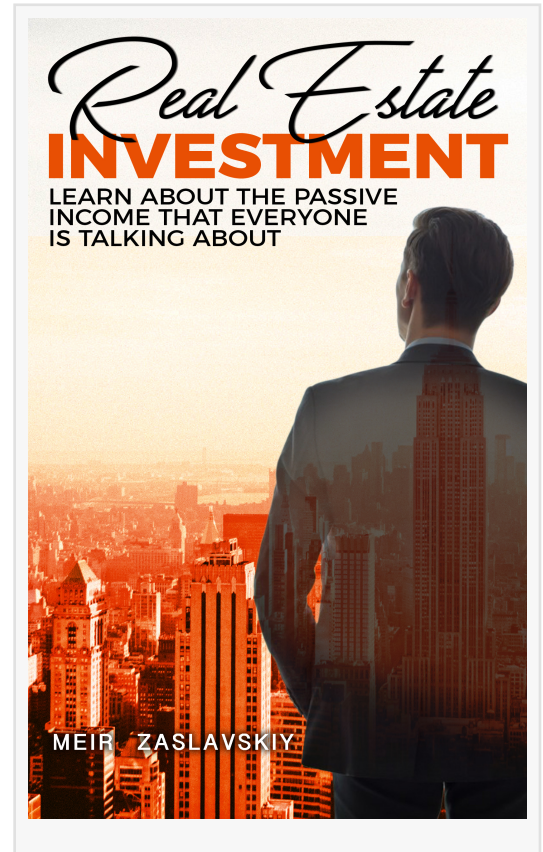
## What is Equity Crowdfunding?

It is the mechanism wherein a lot of investors provide money to a business in return for equity or shares in the company. It gives an opportunity to anyone to invest in innovative startups and growing companies. It gives the investors part-ownership in business that they help to fund.

## Equity Crowdfunding in Real Estate

It is a platform, which helps individuals in becoming partial owners in properties and allows them to fully participate alongside the real estate companies who are involved in acquiring, building or redeveloping a property. It is the most known and used real estate crowdfunding concept. Investors are passive investors, i.e., they do not have to manage the property and are given a fixed share of the profits. Following are the [pros and cons of going for equity crowdfunding in real estate](#):

## Pros



- High yield potential: There is a high yield potential as being equity investors, individuals can share in uncapped gains.
- Lower barrier to entry: Even if you have a very less amount of money, you can still invest even in large commercial real estate projects through equity crowdfunding and enjoy the benefits of the real estate i.e., strong returns and lower volatility.
- No self-employment taxes: Since this investment is a passive activity, one need not pay any employment taxes on the profits made on the investment.
- Higher returns: This method seems to provide potentially higher returns than many other investment options available.

## Cons

- The risks. Like every other investment, this also comes with risks. An investor should know how to evaluate the risk factors like local economy volatility and chances of higher than expected construction costs. Due diligence is what is required.
- Liquidity constraint: These investments need to be held up for a period of five years or so, and hence one should go for this option if this much bandwidth is available, lack of liquidity is not there, and an investor is comfortable with the invested amount to be tied up for several years.
- It's still an early option: It is still an early option to be considered as the performance track record and validation is still not complete and individual investors are still trying to figure it out.
- Lack of control: Since it is a passive investment, the investors are not involved in the day to day activities and therefore have limited ability and control over the operations required.

## Characteristics of the Investors of Equity Crowdfunding

- The investors have a passive role to play.
- They hold a significant % of ownership, even larger than the sponsors.
- May have some voting rights for important decisions like the sale of property, refinancing, etc.
- They have limited liability, at max what they can lose is what they have invested.

You can continue to invest in real estate in that old traditional way or invest in an investment trust, or you could try doing it the 21st century way, i.e. through crowdfunding. Now that you know everything about this investment option, i.e., [equity crowdfunding for real estate, dig a little deeper](#), consider this option and decide what you feel is best for you!

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