

Paying for Housing:

Thinking Outside MSHDA with Community-Based Financing

Presented by Chris Miller & Kate Redman

Overview of Presentation

- Introduction to Community-Based Financing & Crowdfunding
 - What is it? Overview of Investment and Donation Crowdfunding
 - Why does it matter?
- Potential Tools/Structures for Using Community-Based Financing for Housing Development
- Case Study: Community-Based Financing in Adrian, Michigan
- Potential Applications: Q & A

Community-Based Financing

Introduction

Community Based Financing & Crowdfunding:

Introduction

- What is crowdfunding?
 - “A collective effort by people who network and pool their money together, usually via the Internet, in order to invest in and support efforts initiated by other people or organizations”
 - The important pieces are: Idea + crowd + funds = crowdfunding
- Community-Based Funding vs “Crowd”funding: Other types of community-based funding
 - Cherryland Solar Cooperative; Oryana Expansion; Common Cents Capital

Community Based Financing & Crowdfunding:

Types of Crowdfunding

- “Rewards” or “Donation-Based” Crowdfunding
 - This might include: Civic Crowdfunding, Crowdresourcing
 - Local examples: Rialto Theater; Rare Bird; Grand Traverse Edible Trails; Carter’s Compost
- Investment Crowdfunding
 - This might include: Revenue Share, 0% Loans, Equity Crowdfunding; Accredited Investor-Only Crowdfunding
 - Local examples: MI Farm Market, Earthen Ales

Rewards Crowdfunding:

General Overview

- Types of projects – Anyone, for anything!
 - Who? Individuals and entities – businesses, nonprofits, artists, scientists, musicians, authors, inventors, students....
 - For what? Business capital, albums, parks, art projects, malaria nets, real estate redevelopment, book publishing, community solar
- General trends (vary by platform)
 - Success rates are generally less than half
 - Average length is 30-60 days for campaign
 - Some are BIG: Reading Rainbow raised \$5.4 million (but most funded campaigns are less than \$10,000)

Rewards Crowdfunding:

Civic Crowdfunding in MI!

- Public Spaces/Community Places
 - Partnership between Michigan Economic Development Corporation/Michigan Municipal League (www.crowdfundingmi.com)
 - Innovative, groundbreaking program
 - Patronicity platform
 - Match funds raised dollar for dollar, up to \$50,000
- Other civic/community platforms to consider
 - Neighborly
 - IOBY

Investment Crowdfunding: Securities Law Applies

- Most loans and investments are a “security”
 - A “security” must be registered with state and federal agencies unless it fits within exemptions to state and federal law
- Important points of securities law:
 - Different rules for “accredited” investors
 - Limits on public advertisement for investment
 - Limits on asking for or accepting investment from “non-accredited” investors (regular people)
 - Commonly used small business exemptions: “friends & family”; intrastate

Investment Crowdfunding: Securities Law Applies

- Most loans and investments are a “security”
 - A “security” must be registered with state and/or federal agencies unless it fits within exemptions to state and federal law
- Important points of securities law:
 - Different rules for “accredited” and “non-accredited” investors
 - Limits on public advertisement for investment
- Why does it matter? Invisible infrastructure that determines how businesses and community members think about investment
 - Recent changes in securities law enabling community-based investment
 - Allow public advertisement to non-accredited investors (within limits)

Investment Crowdfunding

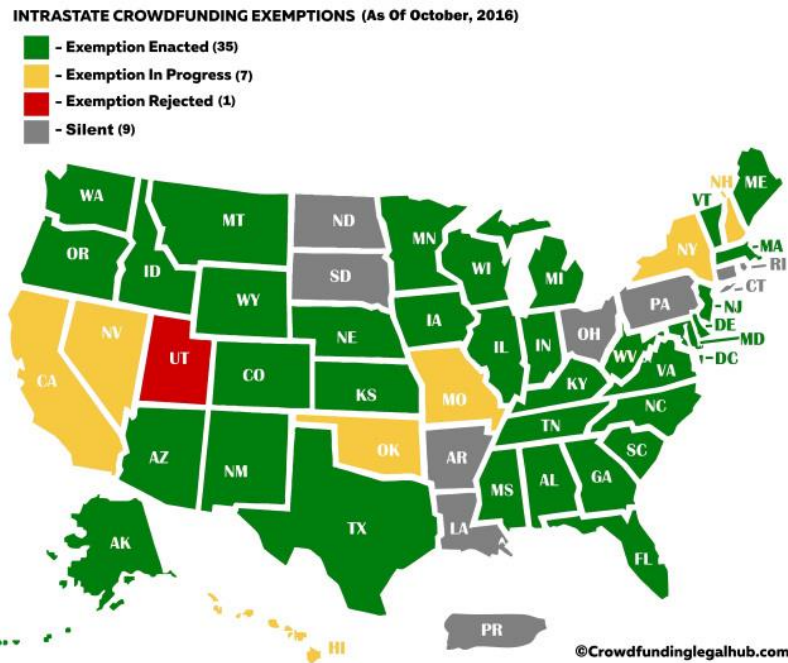
JOBS Act – Title III Federal Crowdfunding

- Became in effective in May (finally)
- Businesses can raise up to \$1 million per year
- Individual investors have annual limit on all investments: varies, but for most people is around \$2000 (if annual income OR net worth is < \$100K)
- Allows flexibility in structure (loans, equity, etc)
- Other rules to note
 - Must register offering with SEC (“Form C”), including numerous disclosures
 - Annual reports to investors/SEC
 - Must use SEC-registered online platform
 - Public advertising (social media) permitted but limited to specific info
- Other exemptions/registrations can be used for crowdfunding under federal law

Investment Crowdfunding

Michigan Invests Locally Exemption (MILE)

- Must comply with “intrastate” exemption to federal securities law: Michigan business with Michigan residents as investors
- Straight-forward registration process
- Raise up to \$1 million or \$2 million with audited financial statements
- Accredited investors can invest unlimited amount; non-accredited can invest up to \$10,000 in any one campaign
- Allows flexibility in structure (loans, equity, etc)
- ***Look for changes in limits on social media advertising***



Investment Crowdfunding:

Some Pros/Cons

- **Pros (from business perspective)**

- Flexible structure for terms of debt; Can be used to leverage additional funds
- Can sell project to funders based on concerns beyond financial return
- Crowdfunding is a marketing tool, too
- Community-based financing can benefit local community, residents, businesses

- **Challenges**

- Administrative workload
- It won't be useful for all businesses or all capital raises
- It is still pretty new: uncertainty and education of investors and advisors

Community Based Financing & Crowdfunding:

Crowdfunding Trends

- **Small but Growing Fast**

- Estimated \$6 billion dollars raised globally in 2013; \$16.2 billion in 2014; \$34.4 billion in 2015
- 22% of Americans have participated in at least one crowdfunding (Pew Foundation, May 2015)
- Crowdfunding is still small percent of total raised funds in US –But platforms and crowdfunding are in triple digit growth.
- 2016 is predicted to continue rapid growth, especially for investment crowdfunding in U.S.

Community Based Financing & Crowdfunding: Crowdfunding Trends

- Equalizer/Innovator/Purpose-
 - More funding for small business, for women, for artists, for entrepreneurs.....
 - 32% of first 50 projects using national Title III crowdfunding were social enterprise (which are only 5.7% of total entrepreneur economy)

Forbes / Entrepreneurs

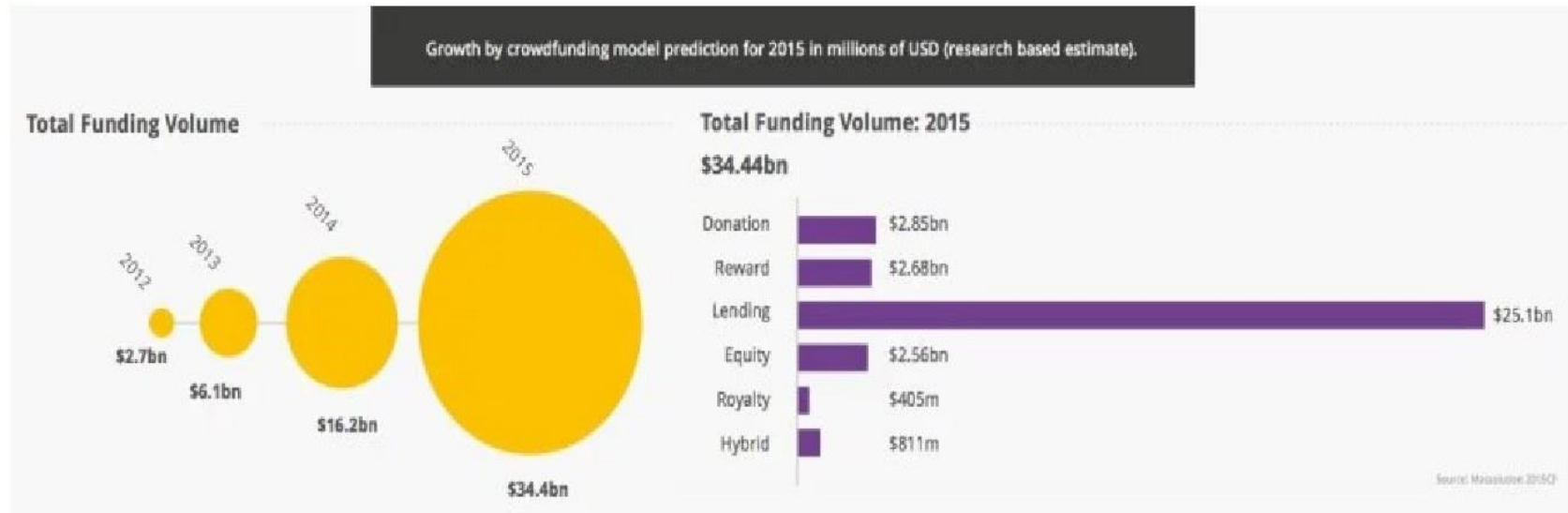
[Top](#)

JAN 30, 2016 @ 04:56 AM 740 VIEWS

Rewards Crowdfunding: Still Propping Up The Innovation Economy

Community Based Financing & Crowdfunding: Crowdfunding Trends

- In United States, we hear more about donation crowdfunding, but globally investment crowdfunding is dominant. Why is that? **Enter securities law . . .**



(Source: <https://crowdfundinglegalnews.files.wordpress.com/2016/01/capture-1.jpg>)

Community Based Financing & Crowdfunding:

Why does it matter?

- Benefits for communities
 - Economic and community development: fill vacant buildings and empty lots
 - Builds new relationships
 - Diversify local economies
 - Encourage development that community members want to see (such as workforce an affordable housing)
 - Attract & retain talent
 - Multiplier effect of local capital staying local
 - Better Communities Better Michigan

Community Based Financing & Crowdfunding:

Why does it matter?

- Benefits for local community members/investors
 - Connection and engagement of donors/investors with local projects
 - Diversify investments for financial stability
 - Bring more than funding: customers, promoters, advocates
- Local Businesses/Nonprofits/Organizations
 - Funding source with motivation beyond financial return
 - Can fill gaps in access to capital
 - Use crowdfunding for engagement of customers/community

Community Based Financing & Crowdfunding: Example



- Experienced microbrewery production and management team
- Located in the heart of downtown Tecumseh
- Building already owned; established following of local supporters
- First to be fully funded under MILE law

Community-Based Financing

Potential Tools and Models

Potential Applications: Overview of Tools and Structures

- Donation crowdfunding
- Investment crowdfunding
 - Individual investment
 - Community real estate development fund
- Other tools for community-based financing
 - Cooperatives

Potential Tools & Models:

Donation Crowdfunding/“Pre-Selling”

- Nonprofit affordable & workforce housing
 - Support affordable/workforce housing developed by or in partnership with nonprofit organizations
 - Green design & solar upgrades for affordable housing

Potential Tools & Models:

Donation Crowdfunding/“Pre-Selling”



- Pre-sell units to support innovative design and affinity-based housing
 - Green design
 - Example: Open Building Institute Eco-Building Toolkit (www.kickstarter.com/projects/622508883/open-building-institute-eco-building-toolkit)
 - “Millennial” and “Baby Boomer” attractors: tiny houses, storage cubes good design (Hab Housing)

Potential Tools & Models:

Investment Crowdfunding

- Option 1: Individuals invest in individual Projects
 - Loan-based crowdfunding or equity investment
 - Rehab or “flip” homes in need of renovation
 - Multi-family units; Accessory Dwelling Unit development
- Option 2: Create community real estate fund
 - Diversified investment in local real estate projects: balance of affordable and regular investments
 - Could be managed by nonprofit, for profit, or municipal entity
 - Favorable treatment for real estate funds under Investment Company Act
 - Use of municipal bonds
 - Could invest in energy efficiency and “greening” of existing infrastructure

Potential Tools & Models: Investment Crowdfunding

- Lots of room for innovation and creativity
- Community could support development of “infrastructure” to support more local investment, including: self-directed IRAs, local crowdfunding platform, resources for conducting campaigns

grist

ELECTION 2016 BRIEFLY GRIST 50 SECTIONS NEWSLETTER [DONATE](#) MORE 



SHARE THE POWER

This affordable housing complex has a solar farm on its roof

By Sam Bliss on Apr 3, 2015

Potential Tools & Models:

Other Community-Based Financing

- Cooperatives
 - Aging in place
 - Affinity-housing
- Condominium/Time-Share
 - Subsidize worker housing with weekly rentals in the shoulder season?
- Land ownership separated from building ownership
 - Community Land Trust
 - New applications for Michigan's obscured and out of date "Summer Resort" laws
 - Potential for community equity real estate investment? Use of secondary market?

Community-Based Financing

Case Study: City of Adrian

Case Study: City of Adrian

Main Street Community Partnership

- 22 Adrian residents invested in building on Main Street
- 7,400 sq. ft. of mixed-use space
- Provided stable landlord to a long-term expanding first floor retailer.



Case Study: City of Adrian

Benefits; Ongoing and Current Efforts

- Community Benefits
 - Strengthens existing/new relationships
 - Diversifies local economy
 - Enhances the emotional connection to a community
 - Fills vacant buildings and empty lots
- Other ongoing and current efforts in Adrian

Community-Based Financing

Potential Applications Q &A

Potential Applications: Community-Based Financing

- Redevelopment of abandoned buildings
- Workforce & affordable housing
- Senior housing/aging in place
- Migrant & seasonal worker housing
- Multi-family units
- Work/live spaces
- ... Other?