



**A SIMPLE
SECURE
REAL ESTATE**
INVESTMENT PLATFORM

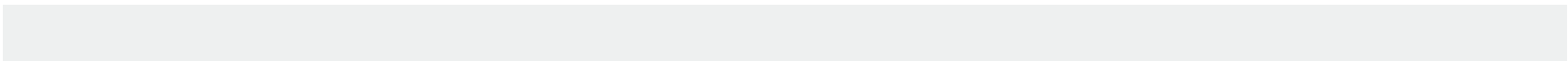
The Comprehensive Guide to Commercial Real Estate Investing.

Everything you need to know to succeed in the new world of
open-access, online commercial real estate investing.





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WHAT TO EXPECT

In this book, we'll begin by discussing why commercial real estate should comprise a part of every investor's portfolio. We'll move on from there to delve into why I have found that real estate crowdfunding provides a superior vehicle for individual investors to gain exposure to direct real estate investments.

From here, we'll dig into the meat of the text where I walk you through each asset class and how to successfully invest in them. We'll then move on to breaking down the key metrics and industry tricks of the trade that commercial real estate professionals use to evaluate deals.

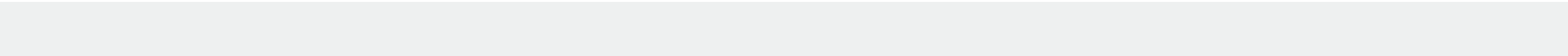
Once we have covered asset classes and commercial real estate metrics, you'll be ready to use that knowledge to begin evaluating risk and identifying opportunities for reward. We'll even walk through hypothetical deals to compare and evaluate relative risk and understand volatility of targeted returns. This portion of the book is where the rubber hits the road.

In the final chapters of this book, we pull it all together to apply the knowledge gained to the concepts of building a diversified real estate investment portfolio.

The bottom line is that it's time for investors to begin understanding, accessing and investing in commercial real estate, an asset class that, in the years ahead, should be as critical to an investor's portfolio as stocks and bonds are today.

We can help you solve the challenges of understanding and accessing commercial real estate investments. The investing part is up to you.

With that, let's dive in!



Why Commercial Real Estate Investing?

Top 6 Reasons to Invest in Commercial Real Estate



U.S. commercial real estate sales topped \$435 billion in 2015, according to JLL. The near record volume of private and institutional capital flowing into the U.S. commercial and multifamily real estate market is a testament to the appeal of the asset class. Here are six reasons why commercial real estate is attracting a broader investor audience to the sector.

Investors don't have to look much further than the recent volatility on Wall Street to understand why real estate investment is in vogue. However, commercial real estate has a long history of being an attractive investment play during both up and down market cycles.

The near record volume of private and institutional capital flowing into the U.S. commercial and multifamily real estate market is a testament to the appeal of the asset class. U.S. commercial real estate sales topped \$435 billion in 2015, according to JLL. Both domestic and international investors are looking to the U.S. as a safe haven to place capital as a strategy to both both preserve their original investment and generate a positive return.



There are a number of current micro- and macro-level dynamics fueling that strong investor appetite for real estate. Chief among them is concerns about slowing growth in China and the negative impact that might have on the global economy. Direct real estate investment also offers a number of benefits, including, but not limited to, stability, portfolio diversity, cash flow and appreciation. Below is a closer look at some of the top reasons that commercial real estate is attracting a broader investor audience to the sector.

1.

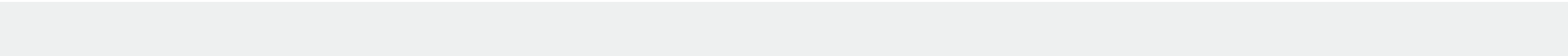
Attractive returns: One of the main reasons that institutional and private investors alike are pursuing real estate investments right now is that they are chasing yields. Real estate returns are attractive compared to alternatives in stocks, bonds or even other commodities such as gold. One benchmark for measuring investment performance for a large pool of individual commercial real estate properties in the private market is the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index, which measures the performance of an immense pool of individual commercial real estate properties on an unleveraged basis. The NCREIF Index reported an annual return of 12.7% in 2015, which bested other key indexes such as the S&P 500, Dow 30 and Russell 2000. On a longer term view, the NCREIF Index has reported an average annual return of 8.8% over the past 15 years, which is 200 basis points above the average performance of the S&P 500 for the same period.

2.

Cash flow: Real estate investments are often structured to deliver steady cash flow with dividends that are distributed to investors monthly, quarterly or annually. The two main options for investors are to make either an equity investment or a debt investment.

Equity investments on the Vairt Marketplace involve buying a passive, minority ownership stake in a hard asset, such as an apartment community or office building. High occupancies and rising rents generally deliver what most owners/investors strive for – steady or rising cash flow over time.

Debt investments refer to investing in a real estate loan. Those loans are backed by an underlying asset as collateral, such as land or a building. One of the advantages of debt investments is that they are generally structured to deliver a fixed return. For example, in 2014 the Vairt Marketplace offered a \$6 million mezzanine (second position) loan investment on behalf of Everwest Real Estate Partners (“Everwest”). Everwest offered Vairt investors a 10.5% fixed interest rate paid quarterly over a targeted five-year term. The collateral is a 687,000 SF, 91% leased, four-building business park located in the New York Metro area with AT&T as the anchor tenant. In this case, Everwest is the lender so Vairt investors are benefitting from the opportunity to co-invest alongside the loan manager in a loan that was already closed and paying a current return.



3.

Equity upside: Specific to equity investments, investors have the opportunity to boost their overall return by cashing in on property appreciation or a capital gain on an asset once it is sold. Property values certainly rise and fall during market cycles, which makes timing the exit strategy a critical aspect of maximizing investor value. Some investors can reap the rewards of opportunistic buys that allow them to buy, fix and flip an asset in a relatively short period, such as one to three years. Other investment strategies, more predicated on the prospect of stable cash flows, might target a hold period of five to seven years or longer.

4.

Depreciation: While realizing appreciation and capital gains is a definite incentive to real estate ownership, there also is depreciation on the other end of the spectrum. Depreciation decreases the accounting value of the physical structure of a real estate asset, as most assets decline in value over time, but does not affect the market value of a property. In its most basic form, the physical improvements of a property may be depreciated over a 27.5 year period in an accounting method referred to as “straight line depreciation”. However, certain improvements (e.g. appliances and flooring) may be depreciated over a period as short as five years. Depreciation is utilized by real estate operators as a tax benefit tool, which allows an investor to utilize a passive “loss” from depreciating improvements to offset other passive income. The net result is a higher after-tax yield. As the tax benefits of depreciation are dependent upon an individual’s or entity’s taxable income, investors are strongly encouraged to consult a tax advisor.

5.

Principal Paydown: : For assets that are mortgaged with a fully amortizing loan (in most cases over a 30-year period), the property’s revenues service an outstanding debt that reduces with each month’s payment. Think of it as a monthly savings program - the rents paid by a property’s tenants reduce the asset’s leverage, which in turn, increases equity and, hence, investor returns at the point of exit (which at 75% leverage can amount to 25% of total returns) while also reducing risk. In a world of investment uncertainty, principal paydown infuses an element of month-over-month certainty of returns.

6.

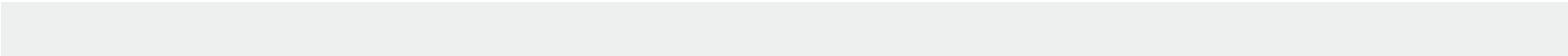
Tangible assets: : Another key advantage of real estate investing is that it is a good way to diversify portfolios that are backed by hard assets. Real estate is not the same as buying shares in a company that may be here today and gone tomorrow. Certainly, cases such as Enron and Lehman Brothers have proved that even stalwart corporations are not infallible. Real estate is an asset class that investors can literally touch and feel. Yes, some building occupants “Commercial real estate offers a number of unique attributes as an investment. Here we cover six of them.” Ian Formigle eBOOK 9 may come and go, and there may be ups and downs in building valuations over the course of its life, but the property itself is not going to disappear



As we've highlighted above, there are many great reasons to invest in commercial real estate. Unfortunately - CRE investment opportunities have historically been limited to minimum \$250,000 investments - putting the class out of reach to all but the most deep pocketed investors.

However, legislation, including the 2012 JOBS act, has recently helped launched a new class of online real estate marketplaces that is democratizing access to commercial real estate deal flow. Platforms such as the Vairt Marketplace now make direct commercial real estate easily accessible to accredited investors. The platform gives investors transparent information on a variety of commercial real estate investment opportunities across the country, as well as providing tools to help investors track performance and manage their own growing real estate investment portfolios.

Vairt is unique in that it only lists institutional-quality commercial real estate investment opportunities and never charges fees for investors to join or invest.



Making the Jump From Single-Family to Commercial Real Estate Investing



The first step into real estate investing for individuals often involves investing in the asset class that they best understand – single-family residences (“SFR”). However investing in SFR often presents a number of challenges including limited cash flow, no economies of scale, binary occupancy and more. For these reason and many more, once investors are ready to begin thinking about real estate investing as part of a diversified portfolio, the logical move is to transition to commercial real estate investing. In this chapter we illustrate the multiple advantages CRE provides over SFR, and provide the foundational knowledge necessary for you to make the jump to commercial real estate investing.

The first step into real estate investing for individuals often involves investing in the asset class that they best understand – single-family residences (“SFR”). It’s logical for investors to start here since they have typically already been through the experience of purchasing a SFR. In addition to experience, understanding value is relatively easy as there is a lot of free online information readily available (e.g. Zillow) on the SFR the market. However, some of the challenges of investing in SFR’s are as follows:

- 
1. There is typically little cash flow (unless you are acquiring unleveraged)
 2. Unforeseen capital expenditures can wipe out years of cash flow and tank returns
 3. There are no economies of scale at the asset level
 4. It is extremely hands on
 5. Occupancy is binary (100% or 0%); and
 6. Most of your competition is not seeking to acquire an investment but a place to call

home, which can remove objectivity from the bidding process. Therefore, once investors are ready to begin thinking about real estate investing as part of a diversified portfolio, the logical move is to transition to commercial real estate investing.

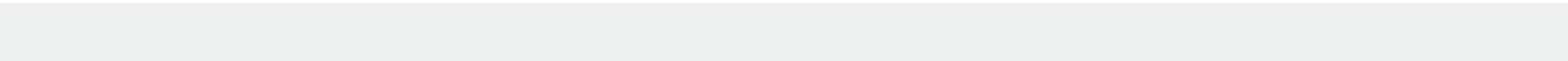
Commercial real estate is an increasingly popular alternative asset class. It is also the third largest asset class after equities and bonds. The commercial real estate market is gigantic and can require rigorous analysis and predetermined investing strategies. Yet spending the time to get up to speed on this asset class can be well worth the effort. As we noted in our chapter, “Invest like Harvard: The Advantages of Direct Real Estate Investing” some of the world’s most sophisticated investors invest heavily into commercial real estate and are handsomely rewarded. In recent years, commercial real estate has been the strongest performing component of diversified portfolios.

The good news is that there are similarities that carry over from SFR into the commercial real estate investing. Numerous terms and metrics such as debt, equity, loan to value, occupancy, net operating income, cash on cash returns, and dozens more apply to all forms of real estate, regardless of the product type. Yet there also are distinct differences between SFR and commercial real estate both in terms of each asset class’s merits as well as how deals are structured.

Equity deals offer greater upside

When looking at the structure under which SFR investing is conducted on most online investment platforms, it is important to understand that most residential investments listed offer a debt financing investment on a “fix-and-flip” strategy and not a traditional buy and hold strategy. In most cases, the online offering is for a short-term, fixed-rate loan, such as a 10-month bridge loan at a high single-digit interest rate.

Commercial real estate offers debt and equity investment opportunities. Debt investors provide leverage at a fixed rate for someone else to own property but with a lien on the asset as collateral for the loan. Equity investors acquire an interest in the property. Equity investors share in the upside when a property meets or exceeds expectations in operating income and they also receive their pro rata share of value appreciation at the time of a property sale. To learn more about debt investing, please check out our chapter on “Real Estate Debt Fund Investing 101”.



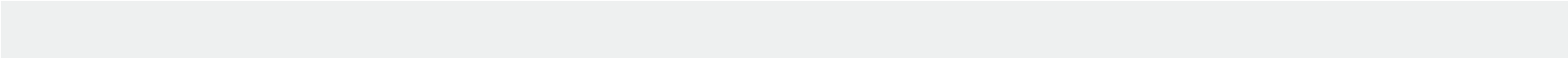


Building Portfolio Diversification

It is true that the SFR market has attracted interest from institutional investors in recent years. However, this interest was predicated on a macro opportunity in SFR's that was attributable to the housing crash. Now that this once in a generation type opportunity is gone, many institutional players are actually now looking to realize profits and liquidate portfolios. The current SFR market is now largely back to being more micro-market in nature.

Commercial real estate is a substantially larger and more diverse market. For example, investment sales for commercial and multifamily properties valued greater than \$5 million topped \$540 billion last year alone. The stock and variety of commercial real estate is vast in comparison to SFR. With each asset class possessing its own drivers and cycles, it also creates opportunities to invest in commercial real estate for a variety of reasons and at different times. If you invest in SFR, you are always buying into (or selling into) the same macro story no matter where you invest.

There are many different points that investors can enter the commercial market for both debt and equity deals. For example, investors can place capital into institutional-quality apartments, hotels, office buildings, shopping centers and industrial facilities. Investors have more choices to select investments they are comfortable with, and, as mentioned above, it also makes it easier to build diversity into portfolios as investors continue to grow their real estate holdings. For more information on commercial real estate portfolio diversification please see our chapter titled, "How to Build a Diversified Real Estate Portfolio"



Grounded in economics

Another consideration when comparing SFR to commercial real estate is the rationality of the market. Single-family homes that rely on a fix-and-flip model cater to the whims of today's homebuyers. Homeownership is at its lowest level in nearly 50 years. In addition, approaching the SFR market with an analytical investor approach can be challenging as homebuyers can be fickle. A variety of wild cards can pop up to kill a sale and delay an exit strategy that can range from a bad choice in paint color to a neighbor that doesn't do yard work. SFR prices can also be highly sensitive (far more than multifamily) to municipal decision making such as school district remapping.

In contrast, commercial real estate is more fundamentally tied to logical demand drivers. Businesses location decisions are based on facts, such as proximity to customers and workers. Retail assets depend upon daily traffic counts along its frontage, something that is easily searchable. Industrial assets require certain clear heights (e.g. 24' or 36'), dock high or ground level loading and proximity to major roadways. That rational context makes it easier for investors to understand, analyze and draw conclusions about investment opportunities.

While more rational, commercial real estate investments can arguably be more complex. So, it is important for investors to do their due diligence and peel back the layers to look at how a deal is structured. That information is typically transparent and readily available in offering documents, but it is important to know where to look and interpret its meaning. To that point, some of the terms and resources that are unique to commercial real estate include:

1. Sponsor promote fee structures
2. Preferred returns
3. Sources & uses
4. Core, Core-plus, Value-added and Opportunistic investing strategies
5. The capital stack

Single-family residential is a good place to start real estate investing, because it does hit the "comfort zone" for many investors. It is a product type and business model that people are familiar with and it is relatively easy to understand. But for investors that are looking to tap into the true power of real estate investing and invest like the best and the brightest institutional investment managers, that means stepping up to commercial real estate assets. Given the scale and complexities of commercial real estate investing, a great way for investors to get exposure to the asset class is to invest passively with proven operators who utilize their expertise to earn consistent returns in a more sophisticated but rational market.

Why Real Estate?

The Changing Dynamics of Real Estate Crowdfunding

The sector is shaking off its ill-fitting “crowdfunding” label and gaining recognition for simply what it is – online real estate investing.

Real estate crowdfunding has experienced explosive growth and transformative change since its debut in late 2013. One of the most notable shifts is that the sector is shaking off its ill-fitting “crowdfunding” label and gaining recognition for simply what it is – online real estate investing.

To its credit, crowdfunding has unlocked the financial power of the crowd. Masses of people around the U.S., and around the world, are now investing in a wide variety of business start-ups, new ideas and innovative technologies via online platforms. There is no doubt that crowdfunding is flexing some financial muscle, with global capital raising capabilities forecasted to reach \$34.4 billion in 2015, according to Massolution, a Los Angeles-based research and advisory firm.

The same legislation that opened the doors to crowdfunding has also helped launch the rise of online real estate investment marketplaces. The Jumpstart Our Business Startups, or JOBS Act, that was passed in 2012 removed a key obstacle by allowing private real estate offerings to be directly advertised to accredited investors.

Since September of 2013, platforms such as Vairt have been able to present institutional-quality real estate offerings backed by best-in-class sponsors and a solid business plan designed to deliver an attractive return to investors. Case in point, Vairt’s first Marketplace offering, Mainstreet - Bloomington, which was realized in August of 2015, delivered a 10% annualized current yield to investors, paid quarterly, with an additional 4% annualized accrued return paid at redemption; a return exactly in line with Mainstreet’s original pro forma.

While the JOBS Act paved the way for the creation of online real estate investing marketplaces, there is nothing new about private real estate offerings. Commercial real estate is an established industry that has been relying on private investment capital for centuries. U.S. commercial real estate investment sales alone topped \$435 billion last year while billions more went to new construction, renovation and redevelopment projects. Online real estate investing is a small, but rapidly growing part of the broader commercial real estate capital markets - one that is expected to play a significantly larger role in the future.

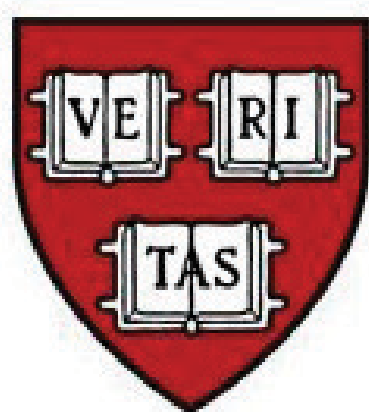
Driving this shift is the fact that the fundraising activities, which real estate sponsors and syndicators used to execute offline, are rapidly transitioning online. A combination of legislative changes and new technology platforms such as the Vairt Marketplace are enabling accredited investors to invest online in real estate in much the same way as they buy stocks and bonds from an online brokerage account. The days when real estate operators had to rely on raising investment capital at the golf course or over drinks at the country club are slipping into the past. For investors, the end result is that private real estate investing opportunities, that have traditionally been highly exclusive, are now more widely accessible to individuals.



Technology is also transforming private real estate investing by bringing greater efficiency and transparency to the process. The Vairt Marketplace gives accredited investors access to online investing tools that allow them to view offer information, complete offer transactions, receive post-funding updates and track investment performance. Investors aren't the only stakeholders to benefit - sponsors are seeing transformative gains from these tools as well. In addition to the Marketplace, Vairt also offers a private label software-as-a-service (SaaS) solution with its Sponsor Direct portal that allows sponsors to offer online real estate fundraising and investor management capabilities on their own branded websites, allowing sponsors to provide the same streamlined online investor acquisition and management solutions directly to their own existing investors.

Vairt has created a powerful online solution for what has traditionally been a brick-and-mortar business model. Just as Amazon and other online firms are revolutionizing the retail industry, Vairt is transforming the commercial real estate playing field by drastically simplifying the online funding process for direct real estate investment.

Invest like Harvard: How to Profit from Direct Real Estate Investing



**HARVARD
MANAGEMENT
COMPANY, INC.**

For fiscal year 2015 Harvard's direct real estate investments posted the highest annual return of all portfolio asset classes at 35.5%, trouncing U.S. equity and private equity holdings, which returned 12.4% and 11.8% respectively. In this chapter we outline Harvard's direct investment real estate strategy and show how you can access similar direct investment opportunities through existing online investment marketplaces.

There are plenty of pundits who offer advice on how to "invest like the pros". However, investors who are looking to enhance the performance of their investment portfolios probably won't find a better investment model than the one used by the \$37.6 billion endowment for Harvard University.

The entity in charge of managing the endowment, Harvard Management Company (HMC), has accrued an impressive investment track record across its 41-year history. As of fiscal year 2015, the endowment had produced an average annual return of 12.2% – 290 basis points higher than the average 9.3% return of a typical U.S. 60/40 stock and bond portfolio.

The methodology behind HMC's success is the application of what is known as Modern Portfolio Theory. Modern Portfolio Theory is a theory of finance that seeks to maximize portfolio returns by carefully allocating capital across multiple asset classes.

Among those asset classes, Modern Portfolio Theory calls for 10% to 20% of a well-diversified portfolio to be allocated into hard real estate assets. Historical results show that strategy to be

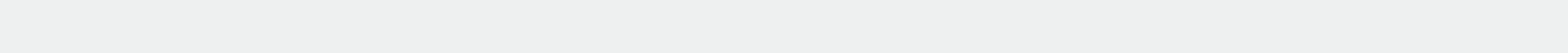


effective in posting above-market returns in both good and poor market conditions. For example, fiscal 2015 was a challenging year for many investors as global markets reacted to falling oil prices and concerns of slowing growth in China. However, Harvard's annual return of 5.8% outperformed a number of other benchmark indexes, and real estate played a leading role in boosting the endowment's overall return for the year. Specifically, Harvard's direct real estate investments posted the highest annual return of all portfolio asset classes at 19.4%, trouncing its second and third best performing asset classes, U.S. equity and private equity holdings, which returned 12.4% and 11.8% respectively.

According to a letter from HMC President Stephen Blyth, Ph.D. in the endowment's 2015 fiscal report, the real estate return of 19.4% was driven primarily by the "exceptional, continued success of a direct investment strategy started in 2010." In fiscal year 2015, the Harvard direct real estate program returned 35.5%, as our internal real estate team and their joint venture partners continued to create outstanding value throughout their portfolio," stated Blyth. That performance reinforces the advantages that can be found by devoting a percentage of an investment portfolio to real estate assets. It also emphasizes the important distinction that exists between direct real estate investing versus other real estate investment options such as buying shares of publicly traded REIT stocks.

Asset allocation is the most fundamental strategic investment decision an investor can make, and even Blyth admits that it can be the most challenging. Those strategic asset allocation targets vary from investor to investor. HMC recently took a fresh look at its own strategy, and after considerable research and market analysis, the company reconfirmed its commitment to real estate in 2016 with a target range of 10% to 17%.

Most accredited investors don't have the deep bench of investment resources as a major institutional entity such as Harvard. However, investors do have greater access to direct real estate investment opportunities than ever before via the online real estate marketplace. Platforms such as the Vairt Marketplace now make direct commercial real estate easily accessible to accredited investors. The platform gives investors transparent information on a variety of commercial real estate investment opportunities across the country, as well as providing tools to help investors track performance and manage their own growing real estate investment portfolios.



10 Reasons to Invest with Real Estate Crowdfunding



Real estate crowdfunding is experiencing explosive growth as investors witness its maturation into an increasingly mainstream form of online direct real estate investing. In this chapter, we discuss the top ten reasons investors are adopting real estate crowdfunding and provide details on how to get started with as little as \$10,000.

The explosive growth occurring in the real estate crowdfunding industry validates why investors are being increasingly drawn to the space. Title II of the Jumpstart our Business Startups or “JOBS” Act, passed in September of 2013, provided the catalyst for the emergence of online marketplaces dedicated to direct real estate investing. Two and a half years later and with the tremendous efforts of numerous online platforms, online real estate investing is now a reality that is rapidly approaching mainstream status. In this chapter, we will delve into the top ten reasons that we see as to why investors are getting involved.

1.

Online convenience: The rapid rise of e-commerce shows how people utilize the Internet to buy everything from automobiles to groceries. People like the speed and convenience of being able to access information, compare and contrast choices, form a conclusion and complete a transaction whether they are at home, in an office or poolside at their favorite beach destination. Investors now have that same type of access to institutional-quality commercial real estate offerings literally at their fingertips and in real time.

2.

National Access: Investors no longer have to focus on real estate deals that they stumble across in their own backyard. In addition, the old school method of real estate investing often relied upon finding out about a potential investment opportunity by word-of-mouth. This method, which is commonly referred to as the “country club model” made access to real estate investments difficult to identify and highly inefficient. Online real estate investing shatters this paradigm by revolutionizing access and delivering transparency to private real estate offerings.

Platforms such as Vairt provide a gateway to access offering information on a wide variety of live deals across the U.S. An investor can access investment opportunities across the country just as easily as in his or her own home city. Investors can now invest in any market of their choice, not just the narrow choice that was previously available to them. At the same time, sponsors can now just as easily accept an investor from across the country as from across town, which has spurred sponsor interest in developing a national, rather than regional, investor base. Access to deals that they, otherwise, would have no knowledge of is a frequent number one reason investors cite as motivation for joining online platforms such as Vairt.

3.

Compare and contrast multiple competing investments: Now that investors have broad reaching access to private real estate investment opportunities across the country, the next step is to evaluate them. Quality online real estate investing platforms provide comprehensive offering information in an easy to decipher and consistent format. The result is that investors can now quickly compare and contrast competing offerings and filter through them to find a project that fits his or her investment criteria, as well as register to receive notifications when new offerings that match the investor’s criteria become available.

“Ready to invest in commercial real estate?
Vairt platforms offer a great way to do it.”

Vairt makes a point to put all of its offering information and documents into the same format. To learn more about how to review an investment offering on the Vairt Marketplace, you can view our video, "How to Review an Investment Offering". Also, keep in mind that in any market, when efficiency, scalability and choice arrives, consumers (or in this case investors) typically win. As the online real estate investing market continues to grow, the quality of investment choices and terms offered to investors will inevitably continue to improve as more investors enter online marketplaces and more sponsors enter and compete to attract them

4.

Directly invest in commercial real estate: Online real estate investing allows investors to directly invest in commercial real estate, meaning they are not buying into a publicly traded real estate company that owns dozens of properties, or a mutual fund that includes an assortment of different real estate companies. Rather, direct real estate investment gives investors a stake in one specific property, or a fund with a specific investment focus. Direct investment allows investors to select the specific property type, the location and the operator that best suits their investment strategy and objectives. For more information on this topic, please check out our article, "What are the Differences Between Direct and Indirect (REIT) Real Estate Investments?"

5.

Cash flow: Most private real estate offerings offer the prospect of sustainable investor cash flow distributions that are targeted to grow over the asset holding period. Often times, these distributions commence at 6% - 9% annualized rates of return, typically paid quarterly, that can hit double digit yields within three years and sometimes even achieve such yields out of the gate. In a yield starved world, investors are increasingly discovering that cash flowing commercial real estate investments provide an attractive option to earn a strong yield as well as equity appreciation upon sale

6.

Lower minimum investment amounts: Online real estate investment platforms put direct real estate investment more easily in reach for individual investors. In the past, the ability to invest in a real estate private offering usually came with a minimum investment amount of \$100,000 or greater. Now investors can access institutional quality real estate offerings for as little as \$10,000

7.

Diversification: Modern Portfolio Theory posits that diversification is key to achieving optimal returns, while also providing some protection against exposure to market risks (for more information on this topic, please see our chapter "Invest like Harvard: How to Profit from Direct Real Estate Investing"). The relatively low minimum investment amounts made possible by online real estate investing platforms, allow individual investors, for the first time, to mimic the endowment model of investing and quickly build a diversified real estate investment portfolio. Rather than sinking \$100,000 into a single property and waiting for it to reach maturity, investors can now choose to invest \$10,000 or \$20,000 into five

to 10 different deals that vary by geographic regions, sponsors, investment structures, asset classes, risk profiles and holding periods. To learn more about the rapid diversification now available through real estate investing online, please read our chapter, "How to Build a Diversified Real Estate Portfolio Using CrowdFunded Real Estate".

8.

Robust reporting platforms: Online real estate investing platforms offer online dashboards that help investors to manage their investments, regardless of whether it is a single property or a larger portfolio of real estate assets. Investors can use their dashboard for a variety of functions, such as to access quarterly reports, store all investor documents, receive and store K-1s and view distributions. Vairt, for example, is continually adding new tools to our investor dashboard to that, in its next iteration, will now include robust portfolio analytics.

The explosive growth occurring in the real estate crowdfunding industry validates why investors are being increasingly drawn to the space. Title II of the Jumpstart our Business Startups or "JOBS" Act, passed in September of 2013, provided the catalyst for the emergence of online marketplaces dedicated to direct real estate investing. Two and a half years later and with the tremendous efforts of numerous online platforms, online real estate investing is now a reality that is rapidly approaching mainstream status. In this chapter, we will delve into the top ten reasons that we see as to why investors are getting involved.

9.

Dissatisfaction with equity markets: Another we factor that is enticing investors to move into direct real estate investing is a growing dissatisfaction and concern over exposure to equity markets. From domestic markets at all-time highs yet with international distress over uncertainty in China, a political roller coaster and negative interest rates (see our recent article: Negative Interest Rates' Effects on U.S. Real Estate), investors have been exiting the U.S. equity markets and redeploying capital into direct real estate investments. In a climate of heightened uncertainty, a well-leased commercial real estate asset with a durable rent roll increasingly looks like an attractive alternative.

10.

It's the same as it has always been; just better: Finally, and perhaps most important, is that the advent of online real estate investing is a story of modality and not one of a fundamental change in action or structure. Once investors understand this story, skepticism subsides and the virtues of online investing platforms begin to shine.

For example, a common myth that is debunked as soon as investors better understand on online real estate investing, is that it is different or riskier than offline real estate investing. Online real estate investing is syndication. Syndication, in its purest form, is a pooling of individuals to invest jointly into something that no individual could afford to invest in alone.



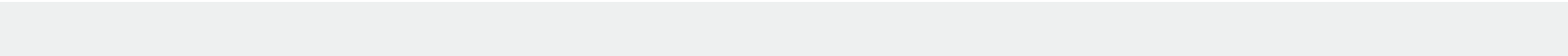
Syndication has existed offline for centuries if not millennia. As mentioned above, prior to passage of Title II of the JOBS Act in September of 2013, U.S. security regulations mandated that syndication be conducted privately pursuant to Section 506(b) of Regulation D. Since the passage of Title II, syndication can be conducted publicly pursuant to Section 506(c) of Regulation D. Now that syndication can be conducted publicly it can occur online. Now that it can occur online, it can allow technology companies to emerge (such as Vairt) to make it more efficient, scalable and transparent.

Every investment opportunity applying for inclusion to the Vairt Marketplace is subjected to a rigorous, objective vetting process. Only 2% of all applicants successfully pass this process and appear on Vairt's marketplace. For an in-depth description of the Vairt vetting process please view our Vairt Marketplace Screening Process video.

Putting it all together

Investors who study the space of online real estate investing are beginning to recognize the power it possesses to revolutionize their portfolio strategy. Tapping into the true power of direct real estate investing requires leveraging the tools, resources and efficiencies of the online real estate marketplace. The more investors who enter the marketplace, the better the marketplace becomes.

Commercial real estate investment has historically been limited to deep-pocketed investors, typically those with a minimum \$250,000 to invest in each deal. Thanks to the JOBS Act and new software which enables real estate syndications at scale, Vairt is now able to provide access to institutional-quality commercial real estate investment offerings with minimums as low as \$10,000.



What is Real Estate Syndication?



Crowdfunding is harnessing the power of technology to modernize the centuries-old practice of real estate syndication and, in the process, is putting institutional quality real estate deals at the fingertips of today's investors. In this chapter we give a brief history of real estate syndication including an in-depth view on its most modern incarnation, real estate crowdfunding. We also give details on how both investors and qualified sponsors can learn more about this technology-enabled future of real estate investing.

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A real estate syndicate is a group of investors who pool their capital to buy or build property. Combined, individuals and companies have more buying power than what they could manage on their own. Syndicates are commonly structured as special-purpose entities, such as limited

Partnerships (“LPs”) or limited liability companies (“LLCs”). Despite the legal form it takes, a special purpose entity is the method by which investors purchase the real estate, such as an apartment complex, office building or even a portfolio or property fund.



A Brief History of Real Estate Syndication

The practice of teaming up to acquire real estate has a long history that goes back hundreds of years, but for most of the 20th Century it has been relatively clandestine. It used to be that real estate entrepreneurs (now known as “sponsors”) could advertise their investment ideas to anyone; the term of art for this practice today is “public solicitation”. However, the Securities Act of 1933 required all new securities offerings to be registered with the Securities Exchange Commission (“SEC”) so that the federal body could provide oversight and protect investors from fraud. Of course, registering each offering and

jumping through the necessary hoops made syndication far less efficient.

Public vs. Private Syndication

Luckily, though, the SEC promulgated “safe harbor” rules that allowed for sponsors to avoid registration under certain conditions. However, the safe harbors did not allow for public solicitation. Therefore, sponsors had two choices: 1.) raise money without public solicitation and avoid registration, or 2.) register the securities with the SEC, wait for approval, and then solicit investments from the public. The prior is almost always more efficient for sponsors, and therefore they almost always choose private syndication.

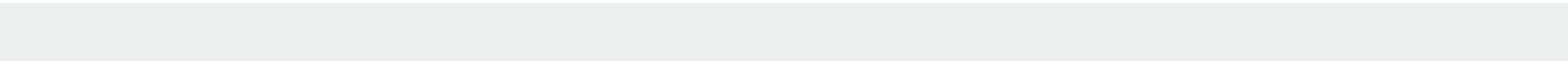
Although the Securities Act of 1933 effectively stopped public solicitation, private syndication continued. Such deals forced syndicators to gather capital from their own private “black book” of moneyed sources that often included members of the country club set, family trusts and working professionals, among others. Those real estate syndications were put together quietly and relied heavily on personal connections or brokers.

One notable example of the power of syndication dates back to the early 1960s when a group came together to acquire the Empire State Building in New York City. Syndicators reportedly sold about 3,300 ownership shares at \$10,000 each to own a piece of the prestigious 102-story building, which at the time was one of the tallest buildings in the world.



Modern Day Syndication: Crowdfunding

These days, crowdfunding firms are writing a new chapter in the evolution of real estate syndications. The Jumpstart Our Business Startups (“JOBS”) Act of 2012 directed the SEC to allow public solicitation without registration so long as all purchasers are accredited. Hence, we have Rule 506(c) which does just that.. The JOBS Act is widely credited with launching the crowdfunding industry. Effectively, crowdfunding platforms are leveraging online technology to create a new, efficient place for real estate syndication that bridges the gap between syndicators and a much larger pool of investors. Because they can reach a wider audience, sponsors have a tool that enables them raise capital more quickly and efficiently manage and grow those new relationships. Also, individuals can now easily identify and invest in real estate opportunities anywhere in the country via the online crowdfunding marketplace. Real estate investing via syndications is an established practice with a long track record of delivering results to both sides – syndicators and investors. Crowdfunding firms such as Vairt are simply layering technology on top of that practice to create a new online platform that makes real estate syndication transparent, efficient and scalable for the first time in its history. Online real estate syndication has the potential to launch a new era of real estate investing. That is already evident in a crowdfunding investor that has experienced explosive growth in just a few years with even more growth ahead.





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