The current issue and full text archive of this journal is available on Emerald Insight at:
https://www.emerald.com/insight/1358-1988.htm

Equity crowdfunding and regulation: implications for the real estate sector in Italy

Enrico Battisti, Fabio Creta and Nicola Miglietta
Dipartimento di Management, Universita degli Studi di Torino, Torino, Italy

Received 10 August 2018
Revised 6 June 2019
9 October 2019
Accepted 20 December 2019

Abstract

Purpose – This paper gathers initial evidence about the nature and features of the equity crowdfunding model in Italy, especially in terms of regulations. The purpose of this study is to examine how equity crowdfunding might support the real estate sector in Italy.

Design/methodology/approach – To explore the recent initiatives in the development of FinTech in Italy, especially referring to equity crowdfunding's instrument, a qualitative perspective is used. In particular, this paper relies on primary data from regulations and secondary data from the public domain, which are examined in relation to the current literature.

Findings – The results of this study show that equity crowdfunding represents a funding method that is rapidly increasing in Italy, despite rather rigid regulation. Among the various sectors involved, the real estate sector could benefit from the crowdfunding models and, specifically, from the equity one. The development of new real estate equity crowdfunding portals that allow diversification of investment (by reducing the typical entry barriers for real estate investment) could guarantee greater investment transparency and simplicity.

Practical implications – Real estate crowdfunding can be a simple way to invest in the real estate industry. Thanks to the use of technology, specifically internet-based platforms, this type of crowdfunding allows for small investors, as well as professional investors, to access an asset class otherwise not open to small investment tickets and improve the diversification of investments.

Originality/value – Although recent literature has examined the concept of crowdfunding and highlighted different models, aspects and campaigns, no prior studies, to the authors' knowledge, have explicitly and jointly investigated, also based on the state of art of regulation, the equity crowdfunding model and the real estate sector in Italy.

Keywords Regulation, Crowdfunding, Equity crowdfunding, Real estate crowdfunding, Real estate sector

Paper type General review

1. Introduction

FinTech (Financial Technology) concerns the digitization of the banking and financial system through technology that makes the system itself more efficient (Freedman, 2006; Banca d'Italia, 2017; Campanella *et al.*, 2017; Ferrari, 2017; Philippon, 2017; Ziegler *et al.*, 2018). Fintech is articulated through a wide range of technological solutions applied to finance, such as crowdfunding, peer-to-peer lending, payment management, data collection and digital currencies or crypto currencies. Starting in 2010, crowdfunding has emerged as an innovative method for financing new ventures by allowing individual founders of for-profit, social or cultural projects to request funding via small sums from multiple people (Mollick, 2014) rather than raising large amounts from a limited number of large investors and/or backers (Belleflamme *et al.*, 2014). This usually happens without the contribution of common financial intermediaries, but through the use of the Internet (Mollick, 2014).

Journal of Financial Regulation and Compliance
Vol. 28 No. 3, 2020
pp. 353-368

1358-1988
DOI 10.1108/JFRC-08-2018-0109

Taking inspiration from the principles of crowdsourcing (Kleemann *et al.*, 2008) and micro-finance (Morduch, 1999), crowdfunding can be defined as a community-based funding method (Agrawal *et al.*, 2015). Indeed, crowdfunding incorporates advantages that go beyond the funding collected, including feedback on ideas under development (Gerber *et al.*, 2012), project validation (Frydrych *et al.*, 2014) and interaction between different stakeholders (Mollick and Kuppuswamy, 2014). Crowdfunding represents, therefore, a new financial and social phenomenon (Previati *et al.*, 2015) and a new form of entrepreneurial finance (Hornuf and Schwienbacher, 2018) that is spreading (Giudici *et al.*, 2012) all over the world and changing the capital market space (Beaulieu *et al.*, 2015).

In general terms, the crowdfunding market has developed at triple digital rates in recent years (Barbi and Bigelli, 2017) and research interest in crowdfunding has been steadily increasing, even if this interest is still limited (Short *et al.*, 2017) and the literature is relatively novel. In particular, many scholars have defined the different types/models of crowdfunding (Giudici *et al.*, 2012; Harrison, 2013; Beaulieu, 2015), and it is generally possible to highlight five standard-based models: donation-based, equity-based, reward-based, royalty-based and lending-based. Briefly, "equity" involves the purchase of an investor share in the company; "lending" consists of a loan from individuals or institutional intermediaries that will be repaid together with interest in a pre-established period of time; "reward" implies a non-monetary reward, such as a product or service based on the amount invested in the financial campaign; "royalty" implies a monetary reward in terms of shares of the project's future earnings; and "donation" implies a monetary transfer to finance projects with social implications. Compared to other types of crowdfunding, the equity model is a relatively new phenomenon (Lukkarinen *et al.*, 2016).

Equity-based crowdfunding is a model that consists of funding from individuals who invest their money in the capital of a company by purchasing part of its shares (Pais *et al.*, 2014; Cultera, 2015; Quaranta, 2017). Equity-based venture financing through an online crowd has developed swiftly (Moritz *et al.*, 2015). Some studies have focused on different aspects connected to this type of financing source (Lukkarinen *et al.*, 2016; Vulkan *et al.*, 2016; Miglietta *et al.*, 2019), but quantitative and qualitative research on this type of crowdfunding is still scarce (Hornuf and Schwienbacher, 2018). To the best of our knowledge, no prior studies have explicitly and jointly investigated, based also on the state of art of regulation, the equity crowdfunding model and real estate, which historically represents one of the most important sectors in Italy. Until a few years ago, the only option to enter into the real estate market was to have large capital and buy property. In the actual crowdfunding scenario, there are instead specialised platforms that allow an investor to participate in the real estate market even with small amounts of capital and diversify the portfolio with an investment that has always been considered safe and profitable. In this sense, real estate crowdfunding is a process, whereby real estate investors and project owners raise and aggregate small amounts of capital from an extensive group of investors through the use of technology (Montgomery *et al.*, 2018).

Based on these considerations, this paper seeks to gather initial evidence about the nature and features of the equity crowdfunding model in Italy, especially in terms of regulations. Specifically, the aim of this study is to examine how equity crowdfunding might support the real estate sector in Italy. To achieve the research's purpose, this paper relies on primary data from regulations (in the USA, the European Union (EU) and Italy) and secondary data from the public domain, which are examined in relation to the current literature.

The contribution of this paper is twofold. First, through a general revision of regulations, we extend the literature examining a specific crowdfunding model (equity) to fill the theoretical gap with reference to the Italian market. There are limited contributions in the literature that examine this model of crowdfunding within a specific sector such as real estate (Lowies *et al.*, 2017; Garcia-Teruel, 2019; Shahrokhi and Parhizgari, 2019). We believe that the equity crowdfunding tool can represent an alternative finance instrument that, through the help of scientific contributions, will be made known to a wider audience of people, even in a sector that is historically not as innovative as the real estate one. Second, we highlight how equity crowdfunding can represent an important source for financing that could support the real estate sector in Italy, thanks to the innovative approach of crowdfunding platforms, related business models and blockchain technology. In practice, it could be used at an institutional level by larger Italian municipalities to solve the social housing emergency that affects most of them and also by small and medium-sized enterprises (SMEs) that often encounter difficulties in accessing credit, especially those in the construction sector. Possible practical implications could also arise from interaction with the blockchain technology, regulated in Italy by Decree Law 135/2018; for this reason, regulated versions of the offers are beginning to appear on the market, for example, the Security Token Offerings (STOs) and the Initial Exchange Offerings (IEOs). These types of offers exploit the blockchain technology in agreement with the market authorities, giving guarantees to the contributors.

This paper is organised as follows: Section 2 presents a short overview of equity crowdfunding regulation in the United States and the EU. Section 3 focuses on the Italian regulation, and Section 4 examines the current state of the art of crowdfunding in Italy applied to the real estate sector. Section 5 focuses on equity-based real estate, whereas Section 6 presents a concluding discussion that identifies implications and future lines of research.

2. State of art of equity crowdfunding regulation in the USA and the European Union

2.1 Regulation in the USA

Regulations around equity crowdfunding differ by country (Lukkarinen *et al.*, 2016). The first real international crowdfunding legislation was introduced in the United States on 5 April 2012, with the Jumpstart Our Business Startups (JOBS) Act, on behalf of President Obama (Piattelli, 2013). This defines the regulation of the web platform through which the collection of funds can take place. If it is not already registered as a broker or dealer, it must be identified as a new figure called a “funding portal”, and for the limited amount of offers made on these platforms, exemptions are introduced to the ordinary regulations applicable to the public offering of financial instruments (Alvisi, 2014). The American legislation only concerns equity-based crowdfunding granting the possibility of access to all types of companies except companies listed on regulated markets, non-US companies and certain types of investment companies (SEC, 2012).

Prior to the issuance of the JOBS Act in 2012, the equity-based model in the United States was deemed not permissible under the Securities Act of 1993. For this reason, the frequent use of crowdfunding by companies was structured as a reward-based model. Otherwise, if they needed to take financial holdings, the Regulation of the Securities Act would come into force, which provided for management by an intermediary registered with the SEC and was authorised by the FINRA (Financial Industry Regulatory Authority; European Crowdfunding Network, 2013).

However, the major regulatory change in the United States occurred in October 2015, when the SEC enacted the crowdfunding regulation, implementing Title III of the JOBS Act. Prior to the promulgation of Title III, equity crowdfunding was allowed only for "accredited" investors. Some of the requirements to be considered as an accredited investor (accredited investors are a type of investor regulated by article 501 of regulation D of the Securities Act of 1933) are:

- having an income of at least $200,000 per year; and
- having a net worth of more than $1m, not considering the value of the first home, individually or jointly.

With the approval of the crowdfunding regulation, equity crowdfunding investment was made accessible to all investors, not just institutional investors. The new rules establish that the following thresholds must not be exceeded:

- $2,000 or 5 per cent of the investor's annual income if their income is less than $100,000; and
- 10 per cent of the annual income if the investor's income exceeds $100,000.

Moreover, it was established that the issuers of financial holdings are exempt from registering with the SEC for offers not exceeding €1m; the SEC has also established that the issuer must avail themselves of the intermediation of a broker or funding portal duly registered with the SEC (Piattelli, 2013).

Finally, obligations of an informative nature regarding the roles of broker and funding portal were introduced with respect to potential investors. In particular, there is a mapping of risks and transparency towards investors through the publication of the related information documents on the crowdfunding platform (Alvisi, 2014).

2.2 Regulation in the European Union

Crowdfunding is one of the financial services not yet evenly regulated in the EU. To date, only a few Member States have introduced an *ad hoc* discipline on the subject (Italy in 2013 was the first Member State to do so for equity crowdfunding), whereas in other countries, crowdfunding platform operators operate without a reference legislative framework. Therefore, to operate in several Member States, providers of crowdfunding services are required to comply with very different national regulatory frameworks and obtain authorization from several competent national authorities, with the consequent reduced possibility of developing an integrated market of crowdfunding services in the EU.

In the absence of a reference community framework and specific national regulations regarding equity crowdfunding (with the exception of Italy), portal managers in other jurisdictions adhere for the moment to the rules of conduct and procedures contemplated in agreements taken from time to time with the local and independent competent control authorities, so as to make the offers of financial instruments as coherent as possible with the national regulatory framework of reference (Consob, 2013).

From the point of view of investor protection, the intervention of individual Member States has so far been mainly limited to the publication of "warning" documents that highlight two aspects:

- The investment solicitation activities promoted by the managers do not fall within the sphere of competence of the supervisory authorities.
- These are activities that, in turn, are outside the scope of application of alternative systems to ordinary justice for the solution of any disputes concerning financial investments (Alvisi, 2014).

Only 11 of 28 countries, including Italy, have introduced specific legislation for crowdfunding (Review of Crowdfunding Regulation, 2017). Italy, Belgium, France, Germany and Spain have structured the crowdfunding discipline, introducing special exceptions to the existing regulatory system. By contrast, The Netherlands, Portugal and the United Kingdom have regulated crowdfunding in addition to the existing regulatory framework, and these countries are delegated to the supervisory and control authorities of the related financial markets, which can introduce the administrative measures they consider necessary for the proper functioning of the collective financing. Austria, Finland and Lithuania have introduced a specific crowdfunding provision called the "Crowdfunding Act". The aim was to create a regulatory system for bottom-up financing of SMEs, for the management of platforms and introduction of special exemptions to the current legislation (Piattelli, 2017).

The regulations adopted by the countries that have introduced specific legislation for crowdfunding are different according to each case. For example, in Italy, only equity crowdfunding is regulated and, to a minimal extent, social lending. By contrast, in France and Belgium, the discipline introduced concerns only equity-based and lending-based financial instruments. In most of the Member States where there is no specific crowdfunding regulation, the legislation in force for financial markets is applied, even if the peculiarities of collective financing do not always allow an effective and efficient use of the existing regulatory system. This follows a growing difficulty in the spread of cross-border crowdfunding, thanks to which a platform of a Member State should be able to raise capital from any other EU country (European Crowdfunding Network, 2017).

In March 2018, the European Commission published the first draft of the Regulation on European Providers of Crowdfunding Services (ECSP) for Businesses, called "ECSP for Business". The scope of application of the ECSP regulation concerns exclusively two financial models of crowdfunding, namely, equity crowdfunding and social lending, with the exclusion of peer-to-peer private loans that are already regulated by the European Directive for consumer credit. The ECSP regulation aims to overcome the obstacle of an absence of a single regulatory framework by strengthening the protection of investors and savers through the implementation of transparency to promote dimensional growth and the development of platforms within the EU single market. The objective is essentially to facilitate the raising of capital, provide more and better investment opportunities and encourage the spread of cross-border crowdfunding. The proposal creates a European passport for crowdfunding platforms that want to operate in one or more European countries. This is a regulatory action that standardises the rules for investor protection and portal management for all those platforms that decide to abandon the national licence and obtain the licence issued by the European Financial Markets' Authority (ESMA). The regulation also provides stringent rules on conflicts of interest on the portal to ensure that the platforms operate in the most neutral manner possible, without favouring specific investors or issuers. The difference with national schemes is that this proposal covers a subset of services classified as crowdfunding. The new legislation would make it possible to considerably reduce the costs of market access, as well as the costs of regulation and supervision, for crowdfunding platforms that operate across borders as they would need only one authorization. At the same time, the regime would be more proportionate than the provisions of the MiFID (Markets in Financial Instruments Directive). The proposed regime, oriented to the provision of services, would also allow a certain flexibility in seizing the activities of the platforms that combine multiple business models, as it provides a single regime applicable to both investment-and loan-based models, reducing regulatory uncertainty (Impact Assessment accompanying the document Proposal for a Regulation of the European Parliament and of the Council on European Crowdfunding Service Providers

(ECSP) for Business, and Proposal for a Directive of the European Parliament and of the Council amending Directive 2014/65/EU on markets financial instruments, European Commission, 2018).

In August 2018, the European Commission published the final version of the text introducing important new features for crowdfunding (*Support for – and Proposed Improvements to – the European Commission Proposal for a Regulation on European Crowdfunding Service Providers (ECSP) for Business*, European Commission, 2018), such as:

(1) Threshold – The threshold proposed by the Commission for crowdfunding offers was raised to €8m, calculated over a 12-month period, compared to the €1m initially proposed, because there are currently some member states with a higher threshold (for example, in Italy, the maximum is €5m).
(2) Marketing – Initially, the text provided that the platforms could never communicate a single campaign on any medium. Now they can but are encouraged to allow the comparability of the performance of their closed projects.
(3) Portals – On the subject of crowdfunding platforms, two main innovations were introduced at the end of August:

- EU portals – Community crowdfunding platforms vary in terms of complexity, and the commission has chosen to regulate equity crowdfunding platforms differently from lending platforms; on the other hand, the rapporteur proposes to differentiate between platforms that simply facilitate the meeting between investors and those who propose investment projects and platforms that instead actively enter into price formation and the preparation of offers, therefore requesting different information requirements for each type of platform and for different levels of risk.
- Non-EU portals – The platforms of third countries that want to offer their services within the EU should be allowed to do so, as long as they are authorised in their respective third states, and the right measures have been taken for them to ensure compliance with the same rules imposed on European platforms.

3. State of art of equity crowdfunding regulation in Italy

3.1 General overview

Italy has been the first country to introduce a specific discipline of equity-based crowdfunding, which is the system that allows companies to collect financial capital through the Internet, offering in exchange shares of the ownership of the company and therefore the possibility of participating in profits and creating long-term value (Pais *et al.*, 2014).

The regulation of equity crowdfunding in Italy is implemented through four Consob Regulations:

(1) Consob Regulation n. 18592 of 26/06/2013;
(2) Consob Regulation n. 19520 of 24/02/2016;
(3) Consob Regulation n. 20204 of 29/11/2017; and
(4) Consob Regulation n. 20264 of 17/01/2018.

In June, the Consob Consultation Document 06/20/2019 was introduced that has modified the Consob Regulation n. 18592 of 06/26/2013.

3.1.1 Consob regulation n. 18592 of 26/06/2013. The "Decreto Crescita 2.0" has initially opened up the use of crowdfunding financing only to companies with the qualification of "innovative start-ups" (Decree Law 179/2012 converted into law n. 221/2012), and it has delegated to the Consob the task of issuing the regulatory provisions, which were put into force in July 2013. The Consob regulation n. 18592 of 2013 defines the scope of equity crowdfunding, establishing the principles and methods of managing a portal and protecting mainly the retail investor, who is different from the professional client as they are less expert in an investment path of this type. The substantial changes to the "Testo Unico Finanza" for equity crowdfunding are as follows:

- Collection must be carried out through web portals managed by investment firms and banks authorised for the relevant investment services, which have notified Consob before starting operations of the conduct of a portal management activity.
- Campaigns must be proposed by companies that qualify as innovative start-ups and must relate to equity securities of the capital.
- The amount of the offer must not exceed the limits established, in this case €5m.

In particular, an innovative start-up is defined as a company that is characterised by the development, production and marketing of innovative products or services with high technological value. This basically means that to be recognised as such and be registered in the appropriate section of the Business Register, the new company must offer products or services that have a strong technological matrix and are able to have an impact of positive change in the sector in which they operate or intend to operate. "Innovative" means those start-ups that meet the following criteria:

- To be enrolled in the Business Register as an innovative start-up, the company must have been legally established for no more than 60 months, or not more than five years with respect to the time of the request.
- The main office of the new business reality must be located in the Italian territory or, in any case, at least one branch must be present in our country, with a main office that could also be located in a foreign country belonging to the European economic area.
- The exclusive or prevalent corporate purpose must be relating to the creation of innovative products or services with high technological value.
- The value of the annual production must not exceed the figure of €5m, and profits must not be distributed.
- It must not be the result of a merger between different companies, as they must not derive spin-offs from the company or the transfer of a company or business branch.

It must also possess two of the following three requirements:

(1) The team must be made up of highly qualified personnel: at least one-third of the members must have a research doctorate, or at least two-thirds must hold a master's degree.

(2) Research and development costs must correspond to at least 15 per cent of the greater of cost and total value of production.

(3) Be in possession of a registered patent, also defined as an industrial patent relating to an industrial invention, or possess the rights relating to a software programme registered in the public software register (Official Gazette of the Italian Republic, 2012).

3.1.2 Consob regulation n. 19520 of 24/02/2016. The reference law was then amended by the D.L. 3/2015, "Decreto Crescita 3.0" or "Decreto Investment Compact", expanding equity crowdfunding to innovative SMEs, in addition to also giving the possibility to collective investment savings organisations (OICRs) and companies that invest mainly in innovative start-ups/SMEs to place their capital online through equity crowdfunding (De Luca, 2015). More recently, the Senate 2017 Budget Law, under art. 1, paragraph 70, also granted the listing through crowdfunding portals to SMEs that are not innovative but are established as a joint-stock company. In particular, the innovative SME must be established as a joint-stock company and located in Italy, or even in another EU country but with a subsidiary or production site in Italy.
All joint-stock companies, also established as co-operatives, as defined by recommendation 2003/361/EC and in possession of the legal requirements, can become innovative SMEs and consequently can register in the special section of the Business Register.

To be considered innovative, an SME must meet the following requirements:

- The company is not listed on the regulated market.
- An essential requirement is "the certification of the last financial statements and any consolidated financial statements prepared by an auditor or an auditing company registered in the register of auditors"; this is a distinctive requirement with respect to the start-up, deriving from the fact that the activity of the SME is prior to the registration of the same in the special section of the register of companies and, therefore, must have a budget and this balance must be certified.
- The company must not be registered as an innovative start-up in the Business Register: this means that a company cannot simultaneously belong to the two categories, which is quite evident for the same requirements.
- Innovative SMEs must have less than €50m of turnover per year (or an asset of the balance sheet under €43m), and, basically, not less than €5m, the maximum limit of the innovative start-up.
- Innovative SMEs must have less than 250 employees.
- Innovative SMEs must meet at least two of these three requirements: 3 per cent of the total costs must be attributable to research, development and innovation activities; one-third of the team must be composed of people in possession of a master's degree or one-fifth of the team must consist of doctoral students, research doctors or researchers or must be the owner of a form of intellectual protection or software protection (Official Gazette of the Italian Republic, 2015).

3.1.3 Consob regulation n. 20204 of 29/11/2017. The Decree Law n. 50 of 24 April 2017, "Urgent provisions in financial matters, initiatives in favour of local authorities, further interventions for areas affected by seismic events and measures for development", has definitely extended the possibility of resorting to equity crowdfunding to all SMEs. This change was introduced, in particular, from the first paragraph of art. 57 on the attraction for the investments of the aforementioned Decree. The provision went into force in January 2018 with the introduction of the new Consob Regulation on equity crowdfunding, approved with resolution n. 20204 on 5 December 2017 (Official Gazette of the Italian Republic, 2018).

3.1.4 Consob regulation n. 20264 of 17/01/2018. The last Consob regulation n. 20264 relates to the internal whistle blowing procedure, establishing procedures for reporting violations. The operator shall appoint a person responsible for the internal systems for reporting violations, which shall ensure their correct functioning and report directly and without delay to the competent corporate bodies the information reported, where relevant. The operator may outsource the activity of receiving, examining and assessing reports of breaches.

The following table summarises the key elements of the four different Consob regulations in Italy. (Table I)

3.1.5 Consob consultation document of 20/06/2019 to modify Consob regulation n. 18592 of 26/06/2013. Finally, the Budget Law for 2019 (Law 145/2018) allowed the crowdfunding equity portals authorised by Consob to place bonds issued by SMEs with professional investors and particular categories of investors by Consob in a section of the portal different from the one where the collection of risk capital takes place. For this reason, a consultation document was published on 20/06/2019 to amend the existing regulations, which will affect the definition of investors, professional and otherwise, who may invest in debt securities.

In addition, this amendment to the Regulation also provides the opportunity to host sections on the portals where investors can offer for sale or buy the securities subscribed, effectively creating a secondary market.

4. Crowdfunding and real estate sector in Italy

The real estate sector showed significant growth until the early years of the 21st century because of opportunities connected to the possible achievement of good yields and high expectations of capital gains through the development of new financial tools. However,

Consob regulation no.	Time period	Key points
18592	26/06/2013	Introduction of the category of innovative start-ups Register of online platform operators established Ordinary and special sections Introduction of requirements of good repute and professionalism for controlling entities Regulation of offers via online platforms
19520	24/02/2016	Focus on disclosure Expansion of the category of innovative start-ups, introducing tourism start-ups Introduction of the category of innovative SMEs End of authorization to operate for online portal operators Changes to the conditions of offers on portals for professional investors Amendment to operators' conduct of business rules
20204	29/11/2017	The extension to all types of SMEs of the possibility to raise capital through authorised online portals The reduction from 5 per cent to 3 per cent of the share of the capital to be subscribed by an institutional investor Compensation system to protect investors or, alternatively, the taking out of insurance to cover liability for damage arising from professional negligence The inclusion among the legal operators of portals of numerous types of collective savings management organisations The possibility of self-quotation of own shareholdings of controlling, controlled or jointly controlled entities in accordance with MiFID II
20264	17/01/2018	Procedure for reporting violations The operator shall appoint a person responsible for the internal systems for reporting breaches The operator may outsource the activity of receiving, examining and assessing reports of breaches

Table I. Key points of equity crowdfunding regulation in Italy starting in 2007, the conditions that supported the development of the real estate industry came to a screeching halt as a result of the negative economic situation strongly influencing the global market (Lakhani, 2015; Tardivo *et al.*, 2015). After almost ten years of crisis, the real estate sector in Italy is in recovery (Battisti, 2018). The total amount invested in 2017 was over €11bn, 23 per cent more than in the previous year. Technological change also meant that the real estate sectors in which investment was taking place were also changing: the office sector remained unchanged (36 per cent of total volume) and retail fell (21 per cent of total volume), whereas the logistics sector (11 per cent of total volume) and hotels (12 per cent of total volume) both grew. This trend was confirmed for 2018, even allowing for an increase in volume due to macro-economic growth, the appearance of new investors and new methods of investment (CBRE Research, 2018). In 2018, international capital was the main component of investments (around 65 per cent), but domestic investor activity (35 per cent) was up over 2017. If, on one side, the compression of yields has continued, on the other side, the attention to real estate development, whether for large urban regeneration projects or enhancement of individual properties, is constantly growing (Business People, 2018). However, the real estate market in Italy continues to express a rather low potential compared to its size, with only 4 per cent of European volumes compared to an economy worth 12 per cent of the total gross domestic product (CBRE Research, 2018).

As previously mentioned, crowdfunding is used in different fields, and one of these fields is real estate. In general terms, real estate crowdfunding refers to a model of collective financing in which capital is collected for real estate investments. In short, it is the application of crowdfunding to the real estate sector. It appears to be a subset of crowd investing, which allows participants – in exchange for a return on capital – to join in the financing of a real estate project, typically the purchase of a property for income, the restructuring of a property or the development of an environmentally sustainable project (Morri and Ravetta, 2016; Ferrero, 2017; Fusillo and Giardino, 2018; Gambarini, 2018).

Developed in the United States with the *Jumpstart Our Business Startups Act*, real estate crowdfunding can be divided into three models:

- *Equity-based real estate crowdfunding* (also called real estate equity-based) – Following this model, the investors are a shareholder in a specific property, and their stake is balanced with the amount they have invested. In general, returns are achieved in the form of a share of the rental income the property produces, minus service fees paid to the crowdfunding platform.
- *Lending-based real estate crowdfunding* (also called real estate lending-based) – Following this model, investor capital is used as debt security, and platforms are used as financial intermediaries. A project is promoted to obtain financing, and investors lend money as an intermediary. Investors obtain a fixed rate of return that is based on the interest rate of the loan and how much they have invested.
- *Hybrid models* – Hybrid models incorporate elements of both previous models.

As of April 2019, there are seven real estate crowdfunding platforms that operate in Italy, four following the equity type model (Crowdestate, Walliance, Concrete and House4Crowd) and three the lending type (Housers, Trusters and Rendimento Etico).

The main difference between the lending and equity models lies in the greater potential return for investors in the equity-based model because of a greater risk. The lower yield linked to interest rates means that investors using the lending-based model tend to have lower returns because of the lower risk. The main features and benefits of real estate crowdfunding are itemised below (Brzeski, 2014; Politecnico of Milan, 2018):

- increased accessibility to real estate sector projects, which were historically reserved for families with higher purchase power, pension funds and other institutional investors, through low-capital investments;
- greater transparency to investors, thanks to shared projects via the Web;
- improved information quality based on the investment sought, because crowdfunding websites vary in the approach to each type of investment according to need;
- greater opportunity for diversification by lowering the capital needed for individual investment, so each individual can invest in a greater number of projects and diversify their investments both by geographic area and by size and type of property; and
- delegation of the management of the building process to the project promoter.

The main source of income for a real estate crowdfunding platform is the fees on the campaigns, which may become a source of concern to the real estate companies in charge of the project or the investors. Fees applied by the platforms can be classified as follows:

- fees paid by the partner, which vary between 2 per cent and 10 per cent depending on the platform and the size of the project; and
- fees paid by the investors, which can be for intermediation or property management.

The first are generally applied by the lending platforms, whereas the second are used for equity platforms. Brokerage fees represent a percentage of the total funds raised. The values range between 1 per cent and 5 per cent and are applied once the target sum of the project has been reached. The property management fees are for remuneration connected to the management of the building. Such fees are often variable and linked to the profitability of the investment; depending on the platform, they can fluctuate between 1 and 7 per cent of the capital gain. Some platforms apply a single fee for both brokerage and property management. Finally, some platforms may have fixed quotas for owners of a property who decide to sell the property over the Internet.

Like any type of investment, there are potential risks to crowdfunding, including in real estate. In the literature, three main types of risks have been identified (Yuan, 2015; Miglietta *et al.*, 2019): liquidity, reputation and credit. The liquidity risk, which is principally associated with equity crowdfunding, denotes the possibility of potential loss generated by the lack of capacity to trade. Reputation risk is a risk for organisations and is directly linked to the firm's market value. Finally, credit risk is principally connected with the lending crowdfunding model, particularly when, despite the application of credit evaluation instruments, false information or inauthentic initial data influence the quality of the valuation, and information asymmetry thus becomes more relevant. In fact, a peculiarity of the lending model concerns the possibility of accessing credit even without offering guarantees. For example, some platforms in Italy offer non-collateral loans for amounts up to €100,000 (De Luca and Lucido, 2019).

In general, platforms implement different methods to minimise risks (Miglietta *et al.*, 2019). Specifically, the credit risk associated with the use of the lending crowdfunding model in the real estate sector can be mitigated through the implementation of appropriate risk management strategies. In particular, diversification represents an important method to manage credit risk, for example, setting limits to the maximum amount to invest in a single real estate project. In addition, the implementation of an adequate internal control system for real estate crowdfunding platforms can enable the reduction of some types of risk previously introduced.

5. Real estate crowdfunding in Italy: Focus on the equity-based model

Crowdfunding represents an attractive option for investors who desire to invest in private real estate deals in a money-making way. As previously analysed, an equity investment in real estate consists of direct subscription through the Web to the equity securities of a property. Investing in equity means becoming a co-owner of a real estate asset or a company that finances a real estate project. In this type of investment, the return is often the result of an increase in the value of the property, the relationship to the risk incurred, and/or periodic dividends generated.

Equity investment in real estate has peculiar characteristics that distinguish it, in part, from a lending type investment. An investor who decides to invest in an equity crowdfunding project can become a co-owner of a company that controls the property (indirect) or co-owner of the property (direct).

The indirect is the most common method of financing a project, as a company is created to manage the control or construction of the building. Such companies are called special purpose vehicles (SPVs) and represent a separate legal entity created by an organisation. By investing in equity, investors may become holders of a portion of the SPV that will manage the property and that allows individual investments to be pooled. Alternatively, platforms that do not use SPVs provide the opportunity to become a direct co-owner of the property, as registered in the land registry.

A relevant theme of the equity type is to structure attractive transactions in terms of risk, as the "equity" collection involves the direct participation of the investor in the capital of the offering company, usually operated through an *ad hoc* capital increase. The selection of projects must be made with care and attention, with the intention of reducing risks as much as possible. Some platforms (e.g. Walliance) subject projects to a sort of external evaluation, which returns a "rating" of the operation based on variables such as cost analysis, market values, demand–supply dynamics, accessibility, socio-demographic development and attractiveness of the geographical area of reference and the type of property.

The four real estate equity crowdfunding platforms that operate in Italy, despite being born a few years/months ago, have some peculiarities that make them potentially attractive for investors, including:

- strong specialisation in certain types of properties or business models; and
- propensity towards cross-border transactions, which allow an investor to diversify investments while also taking into account risk appetite or aversion.

6. Concluding remarks, implications and future lines of research

This paper has gathered initial evidence about the nature and features of the equity crowdfunding model in Italy, particularly in terms of regulations, and it has presented this new alternative finance source based on technology applied to the real estate sector. Although recent literature has examined the concept of crowdfunding and highlighted different models, features and campaigns, no prior research, to the authors' knowledge, has explicitly and jointly investigated, based also on regulation, the equity model and the real estate sector in Italy. This research is based methodologically on a qualitative perspective, using primary data from regulations (Consob Regulation n. 18592 of 26/06/2013, n. 19520 of 04/02/2016, n. 20204 of 29/11/2017, n. 20264 of 17/01/2018 and Consob Consultation Document 20/06/2019) and secondary data from the public domain, which were examined in relation to the current literature. As previously explained, real estate crowdfunding is a recent phenomenon that started in 2012 in the United States. During 2018, there was a significant growth in the real estate crowdfunding market, especially in Italy, where it started later than in other countries (Politecnico of Milan, 2019). An increased number of platforms are offering the possibility of investing in real estate through this method and without the need for a significant amount of money. In general, there are three main models of real estate crowdfunding: equity, lending and hybrid. However, despite this growth, the crowdfunding applied to real estate does not yet fund social projects or allow for the sharing of housing between different people (Garcia-Teruel, 2019). Despite this, we think that the real estate sector could derive an enormous benefit from equity crowdfunding and become a promoter of a sustainable economy based also on the sharing economy, where crowdfunding represents an element together with other modern forms of urbanised land use, including, for example, co-working. Furthermore, through the use of the real estate crowdfunding model, it would be possible to develop important initiatives with high social impact, such as subsidised social housing or providing significant assistance for the development of entire urban areas.

The contribution of this paper is twofold. First, through a general revision of regulations, we have extended the literature examining the equity crowdfunding model to fill the theoretical gap with reference to the Italian market. Second, we have highlighted how equity crowdfunding can represent an important source for financing that could support the real estate sector in Italy, thanks to the innovative approach of crowdfunding platforms and related business models. This is because it allows participation in the real estate market even with small amounts of money and enables private investors to diversify their portfolio with an investment that has always been considered safe and profitable.

The insights of this study offer implications for both research and practice in real estate and in financial technology. Concerning the theoretical implications, this study associates crowdfunding with real estate and contributes to the literature on equity crowdfunding by clarifying some aspects related to the regulations, also highlighting the risks and opportunities for real estate in Italy. Specifically, in Italy, real estate assets need important interventions for redevelopment, from both the building and energy point of view. In this sense, crowdfunding could be a new financial tool for the real estate sector and this, potentially, could represent a typical disruptive innovation for the real estate finance industry (Montgomery *et al.*, 2018). Concerning the practical implications, this research is useful for the different stakeholders and people involved in the real estate finance industry globally (e.g. investors, sellers and buyers) because crowdfunding will be able to increasingly represent a new important financial technology instrument. Thanks to the use of technology, specifically internet-based platforms, this type of crowdfunding allows small investors, as well as professional investors, to access an asset class otherwise not open to small investment tickets and improve the diversification of investments. In Italy, the year 2018 was positive, with an upward trend in investment compared to previous years. However, the number of platforms of real estate crowdfunding is still exiguous, with only four platforms that deal with real estate investments through equity and three through lending. The potential in real estate through crowdfunding is still relevant although there are some structural problems typical of Italy. First, it is necessary to increase the knowledge of these financing instruments in a country which, as a digital and financial culture, is always rather far behind other countries (e.g. Germany, the UK). Second, one could think of using real estate crowdfunding at the institutional level. The idea would be to start from the municipalities, establishing a platform where the manager is the municipality itself, check the legal aspects, so as to finance projects in the real estate sector of social housing, given the housing emergency in the major Italian municipalities. In addition, it would be possible to finance redevelopment projects for entire urban areas or the more degraded neighbourhoods of the main Italian municipalities. In this way, two goals would be achieved: the first for the investor to invest in a project with a strong social connotation that makes them feel connected to the territory, obtaining as a return of the real estate investment the valuation of the property, in areas that are certainly more devalued and second, for the municipality to find those funds for urban and social projects that it otherwise would be forced to set aside because of their limited availability. In addition, it could be an alternative instrument for SMEs to access credit, especially in the construction sector, where difficulties still exist as a result of the financial crisis. Equity crowdfunding can also be used as an ideal tool for the financing mix for real estate projects and as a lever for access to bank credit.

For these reasons, the future development of our research could concern the analysis of crowdfunding projects' success, through analysing the platforms that use the equity crowdfunding model in the real estate sector in Italy and also analyse the opportunity to use new blockchain technologies in the service of equity crowdfunding, especially in the phase of raising capital.

References

Agrawal, A., Catalini, C. and Goldfarb, A. (2015), "Crowdfunding: geography, social networks, and the timing of investment decisions", *Journal of Economics and Management Strategy*, Vol. 24 No. 2, pp. 253-274.

Alvisi, P. (2014), "Equity crowdfunding: uno sguardo comparatistico", *Rivista di Diritto Bancario, Dottrina e Giurisprudenza Commenta*, No. 3, pp. 1-22.

Banca d'Italia (2017), "FinTech in italia. Indagine conoscitiva sull'adozione delle innovazioni tecnologiche applicate ai servizi finanziari", available at: www.bancaditalia.it/

Barbi, M. and Bigelli, M. (2017), "Crowdfunding practices in and outside the US", *Research in International Business and Finance*, Vol. 42, pp. 208-223.

Battisti, E. (2018), *Finanza e Servizi Integrati Nell' industria Immobiliare*, FrancoAngeli, Milano.

Beaulieu, T. (2015), *Crowdfunding Illuminated: A Multi-Method Investigation*, Washington, DC State University.

Beaulieu, T., Sarker, S. and Sarker, S. (2015), "A conceptual framework for understanding crowdfunding", *Communications of the Association for Information Systems*, Vol. 37, pp. 1-31.

Belleflamme, P., Lambert, T. and Schwienbacher, A. (2014), "Crowdfunding: tapping the right crowd", *Journal of Business Venturing*, Vol. 29 No. 5, pp. 585-609.

Brzeski, J. (2014), *Real Estate Crowdfunding. Is It a Snazzy New Type of Syndication or Something More*, Arixa Capital.

Business People (2018), "Business people [online] Il real estate rallenta in italia: −40% nei primi sei mesi del 2018", available at: www.businesspeople.it/

Campanella, F., Della Peruta, M. and Del Giudice, M. (2017), "The effects of technological innovation on the banking sector", *Journal of the Knowledge Economy*, Vol. 8 No. 1, pp. 356-368.

Cbre Research (2018), "Real estate outlook report", available at: www.cbre.it/it-it/research-and-reports

Consob (2013), "Regolamento in materia di raccolta di capitali di rischio da parte di start-up innovative tramite portali on-line", *Consob documents, 29 March*, pp. 1-48.

Cultera, I. (2015), *Crowdfunding e Regolamentazioni. La Tassazione in Italia: il Quadro Generale*, Upspringer Int. LLC.

De Luca, R. (2015), "Il crowdfunding: quadro normativo, aspetti operativi e opportunità", *Fondazione Nazionale Dei Commercialisti*, pp. 1-30.

De Luca, R. and Lucido, N. (2019), "Il peer to peer lending. Aspetti operativi ed opportunità per aziende e investitori", *Fondazione Nazionale dei Commercialisti, 6 March*, pp. 1-23.

European Commission (2018), "Impact assessment accompanying the document proposal for a regulation of the european parliament and of the council on european crowdfunding service providers (ECSP) for business and proposal for a directive of the european parliament and of the council amending directive 2014/65/EU on markets financial instruments", *European Union*, pp. 7-11.

European Crowdfunding Network (2013), "Review of crowdfunding Regulations - interpretations of existing regulation concerning crowdfunding in Europe, North America and Israel", available at: https://eurocrowd.org/wp-content/blogs.dir/sites/85/2016/12/ECN-Review-of-Crowdfunding-Regulation-2013.pdf

European Crowdfunding Network (2017), "Review of crowdfunding regulation", available at: https://eurocrowd.org/wp-content/blogs.dir/sites/85/2017/10/ECN_Review_of_Crowdfunding_Regulation_2017.pdf

Ferrari, R. (2017), *FinTech Era. Digital Revolution in Financial Services*, FrancoAngeli, Milano.

Ferrero, V. (2017), "Real estate, può essere il futuro sicuro del crowdfunding?", *Diario del Web*, available at: www.diariodelweb.it/innovazione/articolo/?nid=20170801_436188

Freedman, R.S. (2006), *Introduction to Financial Technology*, Academic Press, New York, NY.

Frydrych, D., Bock, A.J., Kinder, T. and Koeck, B. (2014), "Exploring entrepreneurial legitimacy in reward-based crowdfunding", *Venture Capital*, Vol. 16 No. 3, pp. 247-269.

Fusillo, E. and Giardino, V. (2018), "Real estate crowdfunding: un nuovo modo di investire nell'immobiliare", available at: www.diritto24.ilsole24ore.com

Gambarini, F. (2018), "Crowdinvesting, che passione: in italia raccolti 249 milioni di euro", *Corriere della Sera*, available at: www.corriere.it/economia/leconomia/18_luglio_17/crowdinvesting-che-passione-italia-raccolti-249-milioni-euro-7eb28054-899f-11e8-8bbc-b107b233a106.shtml

Garcia-Teruel, R.M. (2019), "A legal approach to real estate crowdfunding platforms", *Computer Law and Security Review*, Vol. 35 No. 3, pp. 281-294.

Gerber, E.M., Hui, J.S. and Kuo, P.Y. (2012), "Crowdfunding: Why people are motivated to post and fund projects on crowdfunding platforms", in *International Workshop on Design, Influence, and Social Technologies: Techniques, Impacts and Ethics Proceedings of the Conference*, ACM, New York, NY.

Giudici, G. Nava, R. Rossi-Lamastra, C. and Verecondo, C. (2012), "Crowdfunding: the new frontier for financing entrepreneurship?", [online], available at: http://ssrn.com/abstract=2157429

Harrison, R. (2013), "Crowdfunding and the revitalisation of the early stage risk capital market: catalyst or chimera?", *Venture Capital*, Vol. 15 No. 4, pp. 283-287.

Hornuf, L. and Schwienbacher, A. (2018), "Market mechanisms and funding dynamics in equity crowdfunding", *Journal of Corporate Finance*, Vol. 50, pp. 556-574.

Kleemann, F., Gunter, G. and Rieder, K. (2008), "Un(der)paid innovators: the commercial utilization of consumer work through crowdsourcing – science", *Technology and Innovation Studies*, Vol. 4 No. 1, pp. 5-26.

Lakhani, K. (2015), *Prodigy Network: Democratizing Real Estate Design and Financing*, Harvard Business School, Boston.

Lowies, B., Viljoen, C. and McGreal, S. (2017), "Investor perspectives on property crowdfunding: evidence from Australia", *Journal of Financial Management of Property and Construction*, Vol. 22 No. 3, pp. 303-321.

Lukkarinen, A., Teich, J.E., Wallenius, H. and Wallenius, J. (2016), "Success drivers of online equity crowdfunding campaigns", *Decision Support Systems*, Vol. 87, pp. 26-38.

Miglietta, N., Battisti, E. and Graziano, E.A. (2019), "Equity crowdfunding and risk management: the attitude of Italian platforms", in De Vincentiis, P., Culasso, F. and Cerrato, S. (Eds), *The Future of Risk Management, Volume II*, Palgrave Macmillan, Cham, pp. 43-66.

Mollick, E. (2014), "The dynamics of crowdfunding: an exploratory study", *Journal of Business Venturing*, Vol. 29 No. 1, pp. 1-16.

Mollick, E. and Kuppuswamy, V. (2014), "After the campaign: outcomes of crowdfunding", *SSRN Electronic Journal*, doi: 10.2139/ssrn.2376997.

Montgomery, N., Squires, G. and Syed, I. (2018), "Disruptive potential of real estate crowdfunding in the real estate project finance industry", *Property Management*, Vol. 36 No. 5, pp. 597-619.

Morduch, J. (1999), "The microfinance promise", *Journal of Economic Literature*, Vol. 37 No. 4, pp. 1569-1614.

Moritz, A., Block, J. and Lutz, E. (2015), "Investor communication in equity-based crowdfunding: a qualitative-empirical study", *Qualitative Research in Financial Markets*, Vol. 7 No. 3, pp. 309-342.

Morri, G. and Ravetta, M. (2016), "Real estate crowdfunding. A financial innovation for direct property investment", *Territorio Italia*, No. 2, pp. 9-24.

Official Gazette of the Italian Republic (2018), [online] available at: www.gazzettaufficiale.it/

Official Gazette of the Italian Republic (2012), [online], available at: www.gazzettaufficiale.it/

Official Gazette of the Italian Republic (2015), [online], available at: www.gazzettaufficiale.it/

Pais, I., Peretti, P. and Spinelli, C. (2014), *Crowdfunding. La via Collaborativa All' imprenditorialità*, Egea, Milano.

Philippon, T. (2017), "The FinTech opportunity", BIS Working Papers, No. 655, August, pp. 1-29.

Piattelli, U. (2013), "Il crowdfunding in italia", *Una Regolamentazione All' avanguardia o Un' occasione Mancata*?, Giappichelli Editore, Torino.

Piattelli, U. (2017), "Legal frameworks in Europe for crowdfunding business", *Presentation during Vilnius 6th ECN Crowdfunding Convention, Osborne Clarke*.

Politecnico of Milan (2018), "3° Report italiano sul CrowdInvesting", Politecnico of Milan, pp. 1-65.

Politecnico of Milan (2019), "Real estate crowdfunding report 2018", Politecnico of Milan, pp. 1-67.

Previati, D., Galloppo, G. and Salustri, A. (2015), "The 'wisdom of the crowd' as an antidote to the credit crunch: a preliminary analysis of crowdfunding", in Beccalli, E. and Poli, F. (Eds), *Lending, Investments and the Financial Crisis. Palgrave Macmillan Studies in Banking and Financial Institutions*, Palgrave Macmillan, London, pp. 22-51.

Quaranta, G. (2017), "Il crowdfunding", in Quattrocchio, L.M. (Ed.), *Diritto ed Economia Dell' Impresa*, Giappichelli Editore, Torino, pp. 915-943.

Review of Crowdfunding Regulation (2017), [online], available at: https://eurocrowd.org/wpcontent/blogs.dir/sites/85/2017/10/ECN_Review_of_Crowdfunding_Regulation_2017.pdf

SEC (2012), "Securities and exchange commission", [online], available at: www.sec.gov/spotlight/jobs-act.shtml

Shahrokhi, M. and Parhizgari, A. (2019), "Crowdfunding in real estate: evolutionary and disruptive", *Managerial Finance*, doi: 10.1108/MF-10-2018-0492.

Short, J.C., Ketchen, D.J., McKenny, A.F., Allison, T.H. and Ireland, R.D. (2017), "Research on crowdfunding: Reviewing the (very recent) past and celebrating the present", *Entrepreneurship Theory and Practice*, Vol. 41 No. 2, pp. 149-160.

Tardivo, G., Battisti, E. and Riorda, M. (2015), "Role of financial services and real estate Management - Towards a new value chain: Exploratory research findings", *Journal of Financial Management and Analysis*, Vol. 28 No. 2, pp. 75-87.

Vulkan, N., Åstebro, T. and Sierra, M.F. (2016), "Equity crowdfunding: a new phenomena", *Journal of Business Venturing Insights*, Vol. 5, pp. 37-49.

Yuan, X. (2015), *The Risk Management in Crowdfunding: How Could Intermediaries Reduce Risks for Crowdfunding Participants*?, Tredition, Hamburg.

Ziegler, T., Shneor, R., Garvey, K., Wenzlaff, K., Yerolemou, N., Rui, H. and Zhang, B. (2018), *Expanding Horizons: The 3rd European Alternative Finance Industry Report*, *Cambridge University Center for Alternative Finance*, Cambridge.

Corresponding author
Fabio Creta can be contacted at: fabio.creta@unito.it