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What do you know about syndicated investing?

While syndication or crowdfunding evokes the vision of young “digital natives” launching online appeals for their pet projects or even their Gap Year trip, the notion of strangers banding together to fund a venture is not new.

In 1885,the Statue of Liberty lay prone because no one in government wanted to fund the foundations for what’s now a globally recognised landmark. That’s until Joseph Pulitzer stepped in, using the clout of his New York World newspaper to raise $100,000 from 160,000 civic-minded individuals.

Today, the digital revolution has transformed the ease at which campaigns can be launched; from modest personal ventures or grass-roots philanthropy to raising millions to acquire properties.

Along the way, funders and proponents of crowdfunding, or fractional investing which is the preferred name for the model, have learnt much about what does and doesn’t work, while the corporate regulator keeps an eagle eye on investment-focused activities.

This model for “group” investing is about pooling money using internet technology based platforms to give small investors the opportunity to participate in assets they would not normally have access to.

Locally, the sector came of age in 2014, when the taxi booking service Indigogo raised more than $9 million to launch its then revolutionary platform.

In 2018, the Federal Government extended equity crowdsourcing to proprietary companies, allowing them to raise up to $10,000 from retail investors. Rather like public company investors, these investors shared the right to participate in future profits, to vote and to get returns of capital should the company be wound up.

While it’s difficult to glean authoritative data on the growth of crowdfunding, it’s clear that collective funding has become more organised and involved larger amounts – especially at the investing (as opposed to philanthropic) end of the market. Based on inputs from several sources, the SME information site SmallBizGenius estimates the market was worth $US84 billion in 2018 and is growing rapidly.

In terms of investment opportunities, it seems there are few boundaries. DomaCom initially attracted more than 5000 backers pledging more than $80 million for its crowdfunding bid for the Kidman pastoral business. Although the Kidman campaign was not successful, DomaCom has crowdfunded a beef cattle property in western Victoria, Doyles, with 92 investors contributing to the $858,000 acquisition.   
  
Another DomaCom project gave investors the opportunity to derive income from a $500 million a 270 megawatt Wind Farm in the New England region via a debt instrument.

But residential property probably still heads the list for most advisers. For many younger would-be buyers and their families, fractional investing can be a stepping stone to home ownership, helping them get the first foot on the property ladder. In effect, the model has ‘democratised’ property investment by enabling more people to invest in bricks and mortar assets with as little as $1000.

Benefits of this model include:

* Scaled entry into the property market, which is particularly important for younger clients who may otherwise have limited opportunities to buy residential property.
* Diversification. By spreading the funding across multiple property assets, the investor usually is exposed to different property types in different geographies.
* The ability of financial advisers to enhance their fees by including direct property investment in their client offerings via a Managed Fund, which does not preclude advisers.

There are several options available to Australian investors in this space. Importantly, there are two quite distinct models. Fractionalised property, where a property is “broken down” into affordable segments or fractions, enabling investors to buy a portion of a property, or peer-to-peer where the investor makes a loan to the property investor in return for interest payments and the return of capital at an agreed time.

When reviewing fractional property investment options, it is important to ensure:

* The crowdfunding platform has a robust legal structure, and the property is an asset of a registered managed investment scheme, with the property title held by a registered custodian. This provides security to investors.
* Each property asset is segregated into a sub-fund, so returns and costs pertinent to each property are kept separate and applicable to investors in that property only.
* The platform has a liquidity facility available, whereby investors can sell all or part of their property unit holdings if necessary.

The options have expanded to include renewable energy projects, rural farmland, seniors home equity release, NDIS and affordable housing, cash and mortgage loans, residential property development, commercial properties and land banking among them.

The fractional model is worth exploring for advisers looking for something more for their clients who are after income and/or capital growth or investments with a social conscience where their capital can do some good.

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