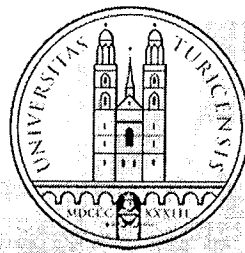


# Crowdfunding – an alternative financing form for the Italian real estate market, particularly for Milan's retail market

Lucrezia Compagnucci Lehnen

Under the supervision of Dr. Philipp Gamper

Bachelor thesis



University of Zurich

Department of Banking and Finance

Chair Prof. Dr. Alexander Wagner

15<sup>th</sup> July 2015

**Keywords:** Crowdfunding, Democratization, Innovation, Italy, Real Estate, Real Estate Finance, Financing, Milan, Retail Real Estate

# Abstract

This thesis aims to review the potential effects and implications of the emergent real estate crowdfunding phenomenon for the Italian market as well as to identify potentials and obstacles this innovation would be facing in that specific market. To do so, it will perform a detailed analysis of Italy's real estate sector based on literature research and interviews with industry experts. Despite the obstacles real estate crowdfunding must overcome to successfully enter this market, the analysis reveals that Italy, its real estate market and its people could greatly benefit from this more democratic and flexible approach to real estate investments.

# Executive Summary

## Problem statement

The Italian real estate sector plays a key role for Italy's entire economy in terms of GDP<sup>1</sup> as well as in terms of the Italian people's wealth<sup>2</sup>. Although activity in the market began to decline already around 2006, the global financial crisis and the subsequent Italian debt crisis effectively paralyzed the market (Fabrizi et al. (2015)). Today, Italy's real estate sector is still far from pre crisis activity levels and has only begun to show the first signs of recovery very recently.

Over the past few years, a new phenomenon has emerged in the American real estate market, which applies an innovative fundraising tool known as crowdfunding to the real estate market. Real estate crowdfunding has achieved incredible success in the United States and has recently been adopted in other European markets, primarily in the United Kingdom, too. The ability of this financing channel to provide liquidity for the real estate market independent from banks is especially valuable given the sharp reduction of credit granted by banks following the crisis (Wang and Zhang (2014), Iyer et al. (2013)).

The purpose of this thesis is to identify the possible effects and implications of real estate crowdfunding for the Italian real estate market, and especially whether it could support the sector on its road to recovery. This thesis also assesses major potentials and obstacles the introduction of the recent phenomenon could face in the Italian market.

## Approach

The reader of this thesis will initially be introduced to crowdfunding in general and to the legal frameworks that regulate this new fundraising vehicle in the United States and in Italy. This is followed by a description of real estate crowdfunding, with a focus on recent developments as well as a future outlook. Specific examples will deepen the reader's understanding of the application of crowdfunding to the real estate market. The thesis then proceeds with analysing Italy's real estate market, its current strengths and weaknesses as well as its future challenges. A particular focus is placed on the Milanese retail real estate market. Finally, the possible impact that real estate crowdfunding could have on the Italian real estate market is discussed, as are potentials and obstacles this alternative financing form might face in Italy. The information and results provided in this thesis are based on two different types of sources. The first is traditional literature research, consisting primarily of research reports, journals, law reviews and carefully chosen newspaper articles

---

<sup>1</sup> Over one fifth of total GDP is generated by the real estate sector (Fabrizi et al. (2015))

<sup>2</sup> Real estate assets and investments in the sector, account for two thirds of the Italian families' total wealth (Banca d' Italia (2013)).

or other web based sources. The second is qualitative research through interviews with selected industry experts.

### Results and Discussion

The in-depth analysis of Italy's real estate market in combination with the study of

Effects and  
implications of real  
estate crowdfunding  
for the Italian market

the emergent real estate crowdfunding phenomenon has brought forward some insightful results. Firstly, Italy and its real estate market could profoundly benefit from an innovation such as real estate crowdfunding, which has the potential to decrease the sector's dependency on banks. At the same time, introducing an instrument that respects and addresses the needs of smaller players in the market can significantly contribute to the enhancement of investor diversity. Another potential effect real estate crowdfunding could have in the particular case of Italy, is to increase the markets attractiveness and activity. This is because crowdfunding can tackle two major obstacles for developers and investors who consider entering the Italian real estate market: low transparency and low competitiveness. As such, this new approach could effectively support the market's recovery from its nearly decade-long contraction.

Obstacles real estate  
crowdfunding could  
face in Italy

Furthermore, this thesis identifies the major potentials and obstacles that the introduction of real estate crowdfunding could face in Italy. The primary obstacle for real estate crowdfunding in Italy so far is the country's legislation. However, just this year, the Italian government passed an amendment to crowdfunding regulation that reduces the barriers for its application to real estate. This first and most necessary step needs to be followed by others, which eliminate remaining barriers for the proper and successful introduction of crowdfunding in Italy's real estate sector. In this respect, it is important that future changes to regulation promote innovation as an integrative process rather than single selective steps. Given the complexity and variety of Italy's real estate sector, an innovation only has potential to succeed if the entire system is adjusted for it and not by simply introducing it in the market. Also, this study discovered some specific Italy-related obstacles, which need to be carefully considered and implemented in the business strategy of any crowdfunding platform that wishes to operate in that market.

Potentials for real  
estate crowdfunding in  
Italy

On the other hand, the thesis also found that Italy offers a clear window of opportunity for a more democratic and flexible approach like real estate crowdfunding, i.e. Milan's retail real estate market. In recent years, large institutional investors developed several high-end projects in non-prime locations of the city. Investments to refurbish remaining parts of these areas, however, are too small for the big but too big for the small, which is why crowdfunding could ideally fill this gap. Also, there is no other financial vehicle in Italy that manages to separate the concepts of collective and indirect

investments. Crowdfunding allows collective investments to still be direct, since any investor can pick the single projects that are most interesting to him. Considering that Italians feel a strong tie to their real estate assets, this tool could satisfy the wish of the Italian people to shape their real estate market in a way that no other vehicle can.