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TACKLING INVESTORS' INVESTMENT PROCESS AND RISKS IN PROPERTY CROWDFUNDING: THE CASE OF ESTONIA

Master's thesis

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Tartu 2018

Name and signature of supervisor...

Allowed for defence on………………………

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I have written this master's thesis independently. All viewpoints of other authors, literary sources and data from elsewhere used for writing this paper have been referenced.

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Abstract

Purpose – The purpose of this study is to explore crowdfunding investors' investment process and its risks in the example of Estonian real estate crowdfunding market, bring out their processes´ shortcomings and give improvement suggestions.

Design/methodology/approach – Semi-structured interviews were conducted with 8 investors who have invested to real estate crowdfunding projects to understand which stages they go through before and after making an investment decision. The interviews also explored the investors' perception of the risks involved. The sample was created using author's connections with investors and snow-balling method afterwards.

Findings – It appears that investors who invest in real estate crowdfunding know the risks in it but do not take them too seriously. Furthermore, it appears that the funding goals are filled very quickly, which makes investors decrease the time they spend on analyzing the projects and its developers exposing them to greater risks. As real estate crowdfunding has taken off only recently in an economic growth period it has not come across any major drawbacks so far. It is therefore very unclear to predict what will happen to the investments when the economy starts slowing down.

Research limitations – Firstly, the conclusions of this study may not be applicable to all investors who are operating on property crowdfunding market. Secondly, the study presents investors' thoughts and experience at a specific point of time and not looking at them changing over time. Further longitudinal studies would be needed to make to understand the investors' behavior and decision-making processes better.

Originality/value – Previous studies have brought out several factors influencing the crowdfunding investors' decision-making process but the present scholarly literature lacks in studies that investigate and describe the whole crowdfunding investors' investment process.

Keywords: crowdfunding, real estate, crowdinvesting, investment process, Estonia

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1. Introduction

In recent years, alternative financing has become especially valuable for young businesses because of their inevitable short company history makes it hard to get financed by banks (Lambert & Schwienbacher, 2010). Furthermore, fundraising campaigns realized through most popular crowdfunding platforms are nearly doubling their turnover every year (Garvey *et al.*, 2017). According to some estimates, due to the rise of the financial technology sector, the bank revenues may drop up to 20% by 2023 and one third of bank employees may lose their jobs in ten years Gábossy (2016). The growth of crowdfunding is primarily linked with two factors: the growth of the use of Internet, which facilitates new channels linking savers/investors with borrowers/investees; and the global financial crisis that began in 2008 reducing the availability and attractiveness of bank lending, both in terms of borrowing from banks and the rates that investors could get by lending to banks ("Crowdfunding from an investor", 2015).

Coherently with the rising popularity of crowdfunding, according to Web of Science on 08.05.2018 the amount of published topical academic research papers on crowdfunding has raised exponentially in recent years. However, during its short less than ten year history, the field of study of crowdfunding is still very young and currently under the stage of fast development on different levels and layers. Currently available previous studies (e.g.: Niemand *et al.* 2018, Kim & Kim 2017, Günther *et al.* 2017, Gerber *et al.* (2012), Steigenberger 2017, Lowies *et al.* 2017) have brought out several factors that influence crowdfunding investors' decision-making process, but the present scholarly literature lacks in studies that investigate and describe whole crowdfunding investors' investment process itself. To fill this gap, the current study aims to explore crowdfunding investors' investment process and its risks in the example of Estonian real estate crowdfunding market, bring out their processes´ shortcomings and give improvement suggestions. The main research questions are: how does the crowdfunding investors' investment process look like? How do investors act in different stages of the property crowdfunding investment process? How do investors treat the risk when investing? What could investors do better while investing to real estate crowdfunding projects?

Author believes this study to be useful:

- Firstly, as this is one of the first studies exploring real estate crowdfunding investors' investment process, it builds the basic framework for other authors studying the real estate crowdfunding for further research.
- Secondly, the study is useful for the new investors interested in real estate crowdfunding projects as they can see how experienced investors make their investment decisions and what do they think of risks related to crowdfunding that exhibit.
- Thirdly, fundraisers can use this study to build better project offers by seeing how investors make their decisions and what factors do they find to be important in real estate crowdfunding projects.

Although crowdfunding as an alternative financing method has only recently became increasingly popular in the market, the crowdfunding concept itself is known already by longer time. For example, there is a proof that Mozart and Beethoven funded their projects in the eighteenth century with the contributions from the interested parties (Hemer, 2011). Even one of the world's most known tourist attraction, the Statue of Liberty in New York, had its pedestal funded by more than 125 000 contributors from France and USA, some of whom donated less than 1 USD (Moreno, 2004, as cited in Lowies *et al.*, 2017; Hemer, 2011).

Crowdfunding is defined by number of authors (e.g., Kleeman *et al.* 2008, Sigar 2012, Ramsey 2012, Ahlers *et al.* 2015, Langley 2015, Belleflamme *et al.* 2014), but in overall it can be stated that crowdfunding is used to grow capital for a project by asking it through small investments over internet from many different investors. Since this paper is focusing on real estate crowdfunding, then the P2P type of crowdfunding, where the fundraiser is typically an entrepreneur, is going to be investigated. Although the Estonian real estate crowdfunding market is relatively small, where currently only few crowdfunding platforms are actively involved, the crowdfunding as a phenomenon has still grown its popularity very fast, especially among small retail investors. The popularity can be described by the fact that Estonia holds the second place in Europe after UK in total volume per capita invested in alternative financial (fintech) instruments ("Current state of crowdfunding", 2016).

As there is no association of the crowdfunding investors and no statistical data is gathered about crowdfunding investors and investments, then the total population of crowdfunding investors in Estonia is unknown. Also, there is no overview of how many investors of those investing on Estonian crowdfunding platforms, are Estonian residents. However, to achieve the goal of the study semi-structured interviews were conducted with Estonian real estate crowdfunding investors. To find the investors author used his own connections and later the snow-balling method was used.

Current paper is outlined as follows. Chapter 2 in the next section, presents through the literature review a conceptual framework, in which the different aspects that can influence investors' investment process, are discussed. In Section 3 the more detailed overview of research method is presented. In section 4 the investors' investment process is explored. Finally in chapter 5, the results are discussed among the previously brought theoretical context, shortcomings of investors' investment processes are discussed and suggestions for the improvement are offered.

2. Literature Review

Irrespective of the crowdfunding type, investors are always faced with high uncertainties about the reliability and credibility of the project initiators and project outcome (Moss *et al.*, 2015). Although it does contribute partially to the issue of crowdfunding, the accumulated literature on general entrepreneurial financing including bootstrapping, angel finance, bank loans, public support, venture capital (VC) and private equity is enormous, but will not be referred to in this paper (Hemer, 2011). However, crowdfunding is a popular form of investing, there are many aspects that make investing on crowdfunding platforms complicated and risky:

- There are many different business-models that vary in different platforms and can sometimes vary among different projects;
- Investors typically have very few information about the projects and fundraisers;

Due to the above said, there raises the topicality of the exposure to the real estate crowdfunding investment risks that is discussed under different sub-sections of this paragraph. There are many risks that are discussed under different sections of this paragraph.

2.1. Crowdfunding business models

As there are many different business models that platforms use, it is difficult for an investor to ordinate. Overall, crowdfunding business models fall mostly into investor- versus sponsor-led platforms. Sponsor-led platforms are usually comprised of institutions, large real estate companies or developers who are able to leverage their own brand to raise capital from the crowd. Investments may comprise of securities in the company, but are most often structured as securities in a specific project, through a special purpose vehicle (SPV) managed by the platform for equity investments or using a SPV for a management company and nominee structure for debt securities (O'Roarty, 2016).

Those two general types of platformas can be divided roughly into four main types of crowdfunding: donation-based crowdfunding and reward-based crowdfunding can be classified under sponsor-led platform type and loan-based crowdfunding (also known as debt-based and peer-to-peer crowdfunding) and equity-based crowdfunding (also called as crowdinvesting) can be classified under investment based crowdfunding (Cox & Nguyen, 2018). A brief overview of different model types and descriptions is brought in Table 1.

Table 1. Crowdfunding business model types and descriptions

Platform type	Model type	Description
Sponsor-led	Donation-based crowdfunding	Used for humanitarian, charity or non-profit projects, where donors (supporters) have no financial (return) consideration in exchange for their money (Jenik, 2017).
	Reward-based crowdfunding	Individuals donate to a project or business with expectations of receiving in return a non-financial reward, such as goods or services, at a later stage in exchange of their contribution ("Crowdfunding in the EU", 2016) .
Investor-led	Peer-to-peer crowdfunding	Investors bid on unsecured microloans sought by individual borrowers (Lin *et al.*, 2013).
	Equity-based crowdfunding	A contrast to donation-based crowdfunding, where factors other than potential monetary returns are important for funders. Equity-based crowdfunding investors receive an interest in the form of equity or equity-like (profit-sharing) arrangements in the venture they support (Ahlers *et al.*, 2015).

Source: elaborated by the author, based on Jenik 2017; Crowdfunding in the EU Capital Markets Union 2016; Lin *et al.* 2013; Ahlers *et al.* 2015

Moreover, loan-based (or P2P) crowdfunding can be divided into three subtypes depending on who the funders and fundraisers are. The subcategories are: peer-to-peer, where individual investors lend to individual fundraisers, peer-to-business, where individual investors lend to SME-s (small and medium sized companies) and business-to-business, where the funder is made up of many small companies that lend money to other businesses for relatively higher rates of return (Jenik, 2017). Real estate crowdfunding is part of the P2P crowdfunding where the investors are usually private persons or smaller companies and fundraisers are the other companies. There are different business models used depending on the business model type and crowdfunding platform preference. In some cases the business model can differ among different projects not only by different platforms. As this study is concentrated on real estate crowdfunding and previously brought P2P crowdfunding business model type, the business models under other business model types are not further discussed. A short overview of the P2P crowdfunding business models and their descriptions can be seen in Table 2.

Table 2. Business models used by investor-led platforms

Model	Description
Client-segregated account	An individual funder is matched to an individual fundraiser through the platform, and a contract is set up between them. The platform is not a contractual party to the loan agreement between the funder and the fundraiser, and all funds from the funder and the fundraiser are separated from the platform's balance sheet through a legally segregated account. The platform derives its revenues and covers expenses, including debt collection and fundraiser screening, from fees and other costs charged to either or both the fundraiser and the funder.
Balance sheet lending	The platform lends directly to fundraisers and holds the loan on its balance sheet. Platforms generate their revenue through interest rate spread (the difference between the platform cost of borrowing and the interest rate it charges to fundraisers). The platform also charges additional fees as in other models, including fees for servicing loans sold to the crowd.
Notary	Loans are originated by a partner bank and distributed through the platform. This model reflects the regulatory requirement that lenders need to be authorized (e.g., hold a license). The loans issued by the partner bank are held on its balance sheet for one to two days before they are purchased and resold by the platform to the crowd (funders) in the form of notes (which, in many jurisdictions, are regulated as securities). Funders receive repayments directly linked to the performance of the underlying loan proportional to their initial investment.
"Guaranteed" return	The platform guarantees a certain return agreed on with the funder. A third-party provider, who effectively insures the investment, guarantees the return.
Offline	Fundraisers are typically recruited offline through direct channels and in-person sales techniques, including the process of creditworthiness assessment. Once the loan was funded and disbursed, the platform collected repayments in person on behalf of funders.

Source: elaborated by the author, based on Jenik (2017).

As it can be seen from previously presented tables, there are very many business models that platforms operate and it may be very hard for the inexperienced investor to operate. It is also important to know if there is enough information about business models provided by the platforms and do current investors understand it.

2.2. Risks exposed to real estate crowdfunding

Crowdfunding often deals with projects that are in an early stage of existence and in many cases cannot get financing through the traditional commercial banking channels. There are many risks involved with this. Since there is a big level of uncertainty of the feature performance and outcome or the company has very few or no history at all, banks tend not to trust the company nor help finance the project. Different studies have brought out risks from both: investor perspective and platform perspective. Since this study is concentrating on crowdfunding from an investor's perspective, the following section highlights risks from an investor's perspective. Overall, since this paper is focusing on lending-based crowdfunding, the main risks are generally the same as the ones that occur with all other financial intermediaries.

The main risk among financial instruments is always the risk of financial loss. In crowdfunding this risk is higher than usual because the loans are unsecured and investors may use their money if the fundraiser defaults or the project is not successful ("Crowdfunding from an investor", 2015). Even if the investment in not a total loss, depending on the business model or project outcome, the investor may still lose part of it or not get the returns expected ("Crowdfunding in the EU", 2016). In addition, project delays have also been frequent and there is a risk of low-quality or fraudulent projects and the risk that the other party does not use the funds for the intended purposes (Jenik *et al.*, 2017).

The risk of losing the investment is much higher compared to traditional investments because of the asymmetric information which can play a significant role in crowdfunding. Investors are more likely to be less informed than entrepreneurs or fundraisers regarding the quality of the project and they may not be in a position to make informed decisions or correctly price the securities invested ("Crowdfunding from an investor", 2015). As crowdfunding does not need a big starting capital, there are many underqualified or inexperienced investors in the market, who cannot usually make educated and informed decisions (Mian, 2016). Moreover, funders may wrongly assume that offerings are endorsed by the platform or are subject to an approved credit scoring methodology (Jenik *et al.*, 2017). The Financial Conduct Authority (2013) notes that conflicts of interest may arise when platform remuneration is transaction-based and platforms are trying to grow their market share quickly. In this case they may be "motivated to downplay risks and over-emphasize possible returns".

In equity-based crowdfunding the main risk is the liquidity of projects. Investor should know beforehand that the investment will be locked until the event occurs. For example it could mean selling all the apartments of the crowdfunded building before getting the return. Funders are usually paid back in regular installments or as a lump sum and they cannot withdraw the investment amount unless the platform allows the funders to do so (Jenik *et al.*, 2017).

Previously mentioned risks were the most significant ones, but there are many more brought out in different studies ("Crowdfunding in the EU", 2016) and ("Crowdfunding from an investor", 2015):

- Agency risk – a potential conflict and misalignment of interests between issuers, platforms and investors;
- Insolvency risk – the insolvency of the platform operators, in particular in regard of the continuous servicing of existing claims (e.g., dividend and interest payments) and protection of clients' assets;
- Platforms may be used for illicit activities;
- Failure/Bankruptcy risk – a risk of the potential failure and bankruptcy of the platform;
- Security risk – a security of client data;
- Cyber-risk – a risk of a potential platform-based/-targeted cyber-attack;
- The risk of insufficient amount of funds being raised, which may decrease the probability of the project to finish;
- The risk of share dilution as competing investors are brought on board (if the company engages in further rounds of capital raising).

As there are many risks involved, Van Dijk (2016) asked investors why they have not chosen to invest in crowdfunding and the most common answers were that thethe investors were concerned about the reliability of the investments, lack of regulation in crowdfunding platforms, not having enough understanding about crowdfunding and also because of the poor financial returns.

2.3. Real estate crowdfunding investors' investment process

Since crowdfunding is relatively a new topic the investment process is not thoroughly researched and mapped at this point. In the following section investors' investment process and it's stages in crowdfunding are mapped based on previous studies on investment theory from studies focusing on angel investors', venture capital investors' and real estate investors' investment process.

Firstly, there are four main studies that describe angel investors' investment process: Van Osnabrugge & Robinson (2000), Riding *et al.* (2007), Paul *et al.* (2007) and Lahti (2008). As all those describe the same process, there are no conflicts between them. The main difference between the processes is in the amount of stages (5-8) within the process, but the overall logic is the same, i.e. – some of the authors decided to divide the same stage to multiple phases or name some stage differently than others. Investment processes offered by Van Osnabrugge & Robinson (2000) and Lahti (2008) are brought out on Figure 1.

Secondly, there are two main concepts on venture capital investment process offered by Tyebjee & Bruno (1984) and later Fried & Hisrich (1994). Those are very similar as Fried & Hisrich (1994) divided both screening and evaluation stage to two phases and merged structuring and post investment activities stage of Tyebjee & Bruno (1984) to one process – closing.

Thirdly, Farragher & Savage (2008) offered their concept of the real estate investors' investment process. There are more risk-related processes than the previously shown angels' investment process and venture capital investors' investment process showed which does not mean that those do not take risks into account, but those processes did not bring it out as a separate process, as screening involves most of the pre-investment activities in one process. Real estate investors' investment process contains ten stages in their concept and it can be seen on Figure 1.

Finally, author deducted crowdfunding investors' investment process that can be seen on Figure 1 and it consists of six stages:

1. Investment motivations
2. Screening
3. Evaluation
4. Decision-making (investment)
5. Post-investment activities
6. Exiting.

As crowdfunding investors are not involved in entrepreneurs' business as is with angel investors the crowdfunding investors' investment process cannot include processes like managing or negotiating. Although the main goal for crowdfunding investors is still to make profit on the investment there are also other incentives highlighted in motivations stage. For example: is there some well-known investor who suggests investing to crowdfunding (Moritz *et al.*, 2015), are there many motivating success stories from other investors (Gerber *et al.*, 2012) As Property crowdfunding has become popular only recently, many investors have only few knowledge about crowdfunding and the related risks. Therefore, crowdfunding may seem as a risky business and in order to start investing into crowdfunding projects the investor needs to have some additional incentive (motivation). For example, Van Dijk (2016) conducted interviews to investors and brought out five most common reasons why they do not invest to crowdfunding projects:

1. "I am concerned about the reliability of investing in crowdfunding";
2. "I am concerned about the lack of regulation of crowdfunding platforms";
3. "I do not have enough understanding about crowdfunding";
4. "I have not had the opportunity to invest in crowdfunding (e.g. lack of funds or lack of time)";
5. "I am concerned about poor financial returns".

Therefore investors many times need to get a push or incentive from somewhere more experienced.

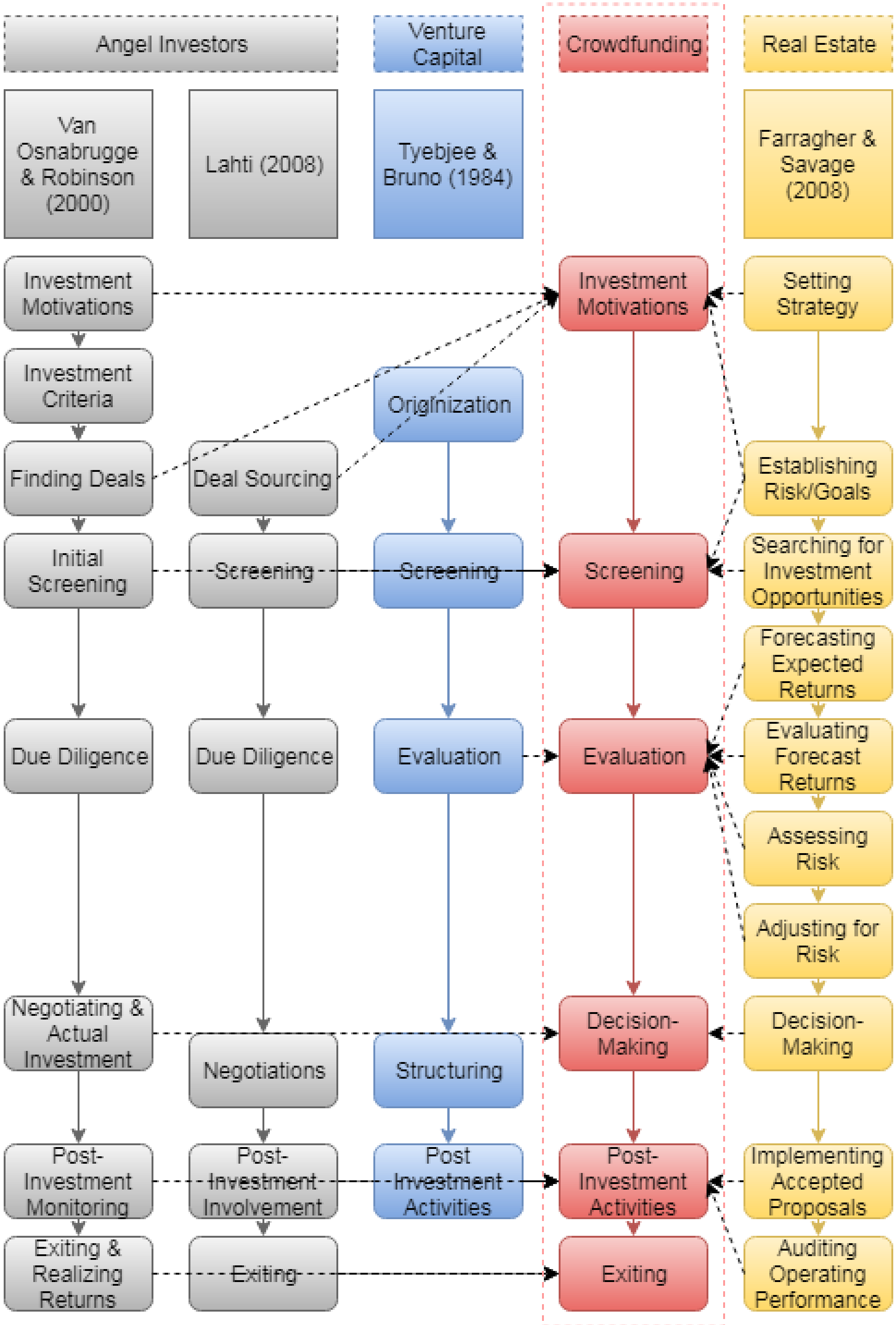

Figure 1. Crowdfunding investors' investment process (Source: elaborated by the author, based on Van Osnabrugge and Robinson (2000); Lahti (2008); Tyebjee and Bruno (1984); Farragher and Savage (2008)).

After the motivation stage the investor is screening for investment opportunities in crowdfunding platforms (screening phase) and picks all the projects that seem to be interesting and continues to analyse the projects in the evaluation phase. The evaluation phase is similar to due diligence phase where the investor does some research on entrepreneur and its previous projects. Then the investor evaluates the investment opportunities based on the information available on the project page of the crowdfunding platform. Due to various risks, especially regarding information asymmetry, this evaluation process can be very challenging to perform. It is important to mark that different investors can treat this stage in various degree of severity and some of them may also skip this phase at all.

Decision-making phase is the stage in the investment process, where the actual investment happens. Investor has chosen the project that he thinks to be suiting the best for him, selects the investment amount, accepts the terms and conditions of the project and makes the transaction to crowdfunding platform.

After the transaction the post-investment phase starts. It is the time between the actual investment making and payout, when the investor and entrepreneur are in a contractual agreement. As we are looking at real estate crowdfunding and the project due dates are usually 2-5 years, this phase takes the most time.

Exiting phase completes the crowdfunding investors' investment process and investors earn dividends or interest on their investment. In case the investment project was not successful the exiting phase marks the end of the contractual agreement with the entrepreneur. This may mean getting back only the amount invested without interest, getting a return on only part of the investment or losing the entire investment.

2.4. Factors influencing investors' decision making process

As it came out from the previous sub-chapter, a significant part of the real estate crowdfunding investment process is engaged with the investor´s decision-making process. Therefore, this stage needs a separate and more thorough investigation, especially in terms of the factors influencing the final decision made by the investors.

According to the literature there are many factors that influence investors' decision making considering e.g. on which platform to use, where to get the information about the new project, where is the project located, is there enough information available about the project and developer. The investment decision making in the situation of restricted information is the key and most difficult part when talking about crowdfunding. Moritz *et al.* (2015) found that the openness, trustworthiness and perceived sympathy of the management team plays an important role in reducing the perceived information asymmetries of investors in equity-based crowdfunding and the communications of third parties influence the decision-making process of individual investors in equity-based crowdfunding. Furthermore, Moritz *et al.* (2015) found that there exists a minority group of investors that resemble opinion leaders, whom the other investors are following. Gerber *et al.* (2012) arrived to a similar conclusion that people become funders after watching their peers succeed at crowdfunding, building further competence later, when completing the task for themselves.

Different studies also reflect that an important factor that influences investors' decisions is the geographical distance from the project. Niemand *et al.* (2018) and Kim & Kim (2017) brought out that crowdfunding investors find home country to be more attractive than a distant geographical country. There are different factors for this. Firstly investors would like to place their money to their own society to boost their local economy. Secondly there may exist an exchange rate risk which makes investing to abroad more expensive. Finally, there is uncertainty of legal issues and understanding the legislations of the target country. Both previously mentioned studies found that geographic distance play an important role in crowdfunding due to its informational advantage. Günther *et al.* (2017) have also shown that crowdfunding investors prefer to invest in their home country. They found that this is because investors can perhaps assure themselves of venture quality by, e.g., visiting a store and speaking personally to the employees or entrepreneurs. Such personal contact can help investors familiarize themselves with ventures, and their products/services may appear more tangible, which is commonly perceived to increase investment probability.

Gerber *et al* (2012) found that the design of the crowdfunding platform is one of the key factors when it becomes deciding to which platform to choose. Cox & Nguyen (2018) also marked that the choice of the platform is typically a significant determinant of the campaign outcomes, including the amounts raised and the probability of success.

Steigenberger (2017) study based on reward-based crowdfunding type, found that investors can be divided into two clusters named "buyers" and "involved". "Buyers" are more interested in getting the product and therefore commit only the amount required to gain it, while “involved” supporters desire to be the part of the project. The median investment among the investors in “buyers” cluster was 25 USD (72.89 USD in arithmetic average), while it was 40 USD (122.15 USD in arithmetic average), in “involved” cluster. The research also states that “buyers” are somewhat older and spend more on the gaming hobby, but the differences between the two clusters were not big.

Lowies *et al.* (2017) brought out that female investors, on the average, invest more than male respondents, but in less-risky projects (like real estate). They show also that female respondents hold higher percentages of cash in their portfolios, whereas male respondents invest higher percentages in stocks. This suggests that female investors have more liquid cash assets looking for a relatively un-complex and easy investment vehicles Property crowdfunding presents one such possibility. They also show that younger investors tend to invest bigger amounts than older investors. Older investors have a greater propensity to hold significantly higher percentages of their portfolios in cash. Given their life stage, they invest more conservatively through cash or cash equivalents, and in more liquid investment vehicles. Furthermore, Lowies *et al.* (2017) found that newer investors invest on average much smaller amounts than existing investors. This is possibly so because of the uncertainty and lack of knowledge in making investments attached to a new investment vehicle. As an average the single investment tends to be bigger in equity-based crowdfunding type than reward-based crowdfunding type. It is shown by Belleflamme *et al.* (2014) that investors prefer pre-ordering if the initial capital requirement is relatively small compared with market size and prefer profit sharing otherwise.

Cox & Nguyen (2018) evidenced that there exists a seasonality pattern in crowdfunding activity, in which the spring and autumn periods represent the best times to launch crowdfunding campaigns rather than during the summer or Christmas periods. Additionally, they found that although campaigns with high funding targets typically raise greater in absolute sums, the probability to successfully achieve that goal also declines. In addition, they found that campaigns with longer durations typically perform less well, compared to those with shorter durations.

3. Data and Method

To understand and describe the investment process and decision-making by investors, this research is set up as an explorative study, which is outlined, based on a deductive reasoning, i.e., at first, a crowdfunding phenomenon was explored via theoretical investigation through the literature review (see ch. 2) and thereafter the specific phenomenon under current study was explored and the theory was tested, based on the single observational investigations, conducted by a qualitative study (see the results in ch. 4). For that, the one-on-one semi-structured interviews with open-ended questions with crowdfunding investors were conducted to ensure free expression of the views and experiences of market participants. To develop the interview guideline, the prior research on loan-based and other types of crowdfunding was studied. The result of this research is mostly descriptive, describing the crowdfunding investors' investment process and exposure to the risks outlined from the crowdfunding investment.

This research method was chosen because there is no publicly available databases, which cover the data with investors and their investment activity; the population of real estate crowdfunding investors is not known to the public and as Estonian market is rather small, it is hard to find enough investors to combine a representative sample for the quantitative research. Knowingly to the author, at current state of the study, there is no available academic research, being conducted on Estonian crowdfunding investors. On the other hand, knowingly to the author, current study is a seminal work on being conducted for describing the investment process of investors, who participate on the real esate crowdfunding market.

As Carruthers (1990) states there are three types of interviews: unstructured, semi-structured and structured. Structured interviews contain only specific list of the questions. Semi-structured interviews contain the list of questions, but interviewer can ask additional specifying questions. While conducting unstructured interviews the interviewer has only main topics and the interview sails on its own. The advantage on using semi-structured interviews is that it allows the researcher to cover a specific list of topic areas, while the time allocated to each topic is left to the discretion of the interviewer. The open structure ensures that unexpected facts or attitudes can be easily explored (Sampson, 1972; as cited in Jarrat, 1996). Conducting semi-structured interviews seems to be the best choice for the research method for this given paper since the author can develop a questionnaire based on existing literature and findings. In addition, if interviewee comes to interesting facts the interviewer can ask more detailed questions regarding that topic as well.

Carruthers (1990) has brought out that there are different opinions of using semi-structured interviews. Borg & Gall (1983) have written: "The semi-structured interview has the advantage of being reasonably objective while still permitting a more thorough understanding of the respondent's opinions and the reason behind them than would be possible using the mailed questionnaire" (Borg & Gall, 1983, as cited in Carruthers, 1990). As a counterweight Bogdan & Biklen (1982) have stated: "With semi-structured interviews you are confident of getting comparable data across subjects, but you lose the opportunity to understand how the subjects themselves structure the topic at hand" (Bogdan & Biklen, 1982, as cited in Carruthers, 1990).
Carruthers (1990) concludes that topic in a way that: "Questionnaires plus interviews may not reflect a perfect picture but they reflect a clearer image than do questionnaires alone."

Yin (1994) offered some possible analytic techniques: pattern-matching, explanation-building, and time-series analysis. In general, the analysis will rely on the theoretical propositions that led to the case study. If theoretical propositions are not present, then the researcher could consider developing a descriptive framework around which the case study is organized. As this research is mostly descriptive then we are going to use pattern-matching and explanation-building techniques. Trochim (1989) considered pattern-matching as one of the most desirable strategy for analysis. This technique compares an empirically based pattern with a predicted one. If the patterns match, the internal reliability of the study is enhanced. The actual comparison between the predicted and actual pattern might not have any quantitative criteria. The discretion of the researcher is therefore required for interpretations. Explanation-building is considered a form of pattern-matching, in which the analysis of the case study is carried out by building an explanation of the case. This implies that it is most useful in explanatory case studies, but it is possible to use it for exploratory cases as well as part of a hypothesis-generating process. Explanation-building is an iterative process that begins with a theoretical statement, refines it, revises the proposition, and repeating this process from the beginning. This is known to be a technique that is fraught with problems for the investigator. One of those problems is a loss of focus, although keeping this in mind protects the investigator from those problems (Tellis, 1997).

It is not possible to create a representative sample as the population of crowdfunding investors is unknown and moving closer to General Data Protection Regulation validity platforms refuse to give out any personal data that would be needed for statistical analysis. As the study itself is exploratory, the best way to describe the investors' investment process in our sample is to conduct interviews with experts of that area (Saunders *et al.* 2009). The sample of interviewees was created using author's connections and snow-balling sampling technique.

Another question to answer before conducting interviews is: "How many interviews are enough?" There is no concrete answer on that question as Sanders *et al.* (2009) suggest conducting additional interviews until the additional data collected provides few, if any, new insights. However, consensus theory developed by Romney *et al.* (1986) is based on the principle that experts tend to agree more with each other (with respect to their particular domain of expertise) than do novices and uses a mathematical proof to make its case. They found that small samples can be quite sufficient in providing complete and accurate information within a particular cultural context, as long as the participants possess a certain degree of expertise about the domain of inquiry ("cultural competence"). Romney *et al.* (1986) calculated that samples as small as four individuals can render extremely accurate information with a high confidence level (.999) if they possess a high degree of competence for the domain of inquiry in question (Bunce *et al.*, 2006).

Bunce et al. (2006) also brought out that for research where the aim is to understand commonalities within a fairly homogenous group, six to twelve in-depth interviews should suffice. According to those studies it is possible to conclude that the number of interviews conducted should be somewhere between four and twelve and there is no need for additional interviews if the answers start overlapping each other.

According to the previous discussion interviews were conducted to 8 investors (5 male investors and 3 female investors). The age of the investors was between 26-36 years, which means that all the interviewees land for more or less the same age group. All the investors had higher education of which only 2 investors had a degree related to economics and finance. Furthermore, only those 2 had graduated Master's degree as all the others had Bachelor's degree or unfinished Master's studies.

Crowdfunding investments ratio in investors' portfolios was from 10%-75% (these are extreme samples since all the other investors have it between 40%-50%). Interviewees had done approximately 3-40 investments to real estate crowdfunding (most commonly 20-30) during by average 3 years of investment period per investor, from which only few projects had ended, which illustrates clearly the actuality of the topic.

The interview plan is presented in Appendix 1 and it was composed according to crowdfunding investors' investment process as shown in Figure 1 in section 2.3 of this study. Moreover, it is important to remark that the interview plan does not involve all of the discussion points with the investors due to the fact that semi-structured interview format gives some freedom to the author to discuss some attractive topics further while interviewing. The interviews were audio-recorded and the time limit per interview was approximately 60-90 minutes.

4. Results

4.1. Exploring real estate crowdfunding investors investment process

During the interviews, crowdfunding investors were asked to draw a flowchart of their investment process. It appeared to be very similar to what can be seen on Figure 1. Three investors even drew the very same process. The only difference between the theoretical flowchart and the drawn processes appeared to be the amount of stages. Investors divided some stages, creating/adding some sub-stages. The other investors investment process and activities are brought concisely in Figure 2 As it can be seen investors draw different activities they perform in an evaluation phase separately. The following section follows the theoretical investment process shown on Figure 1 and which is represented in Figure 2. The real estate crowdfunding investors' investment process is explored stage-by-stage.

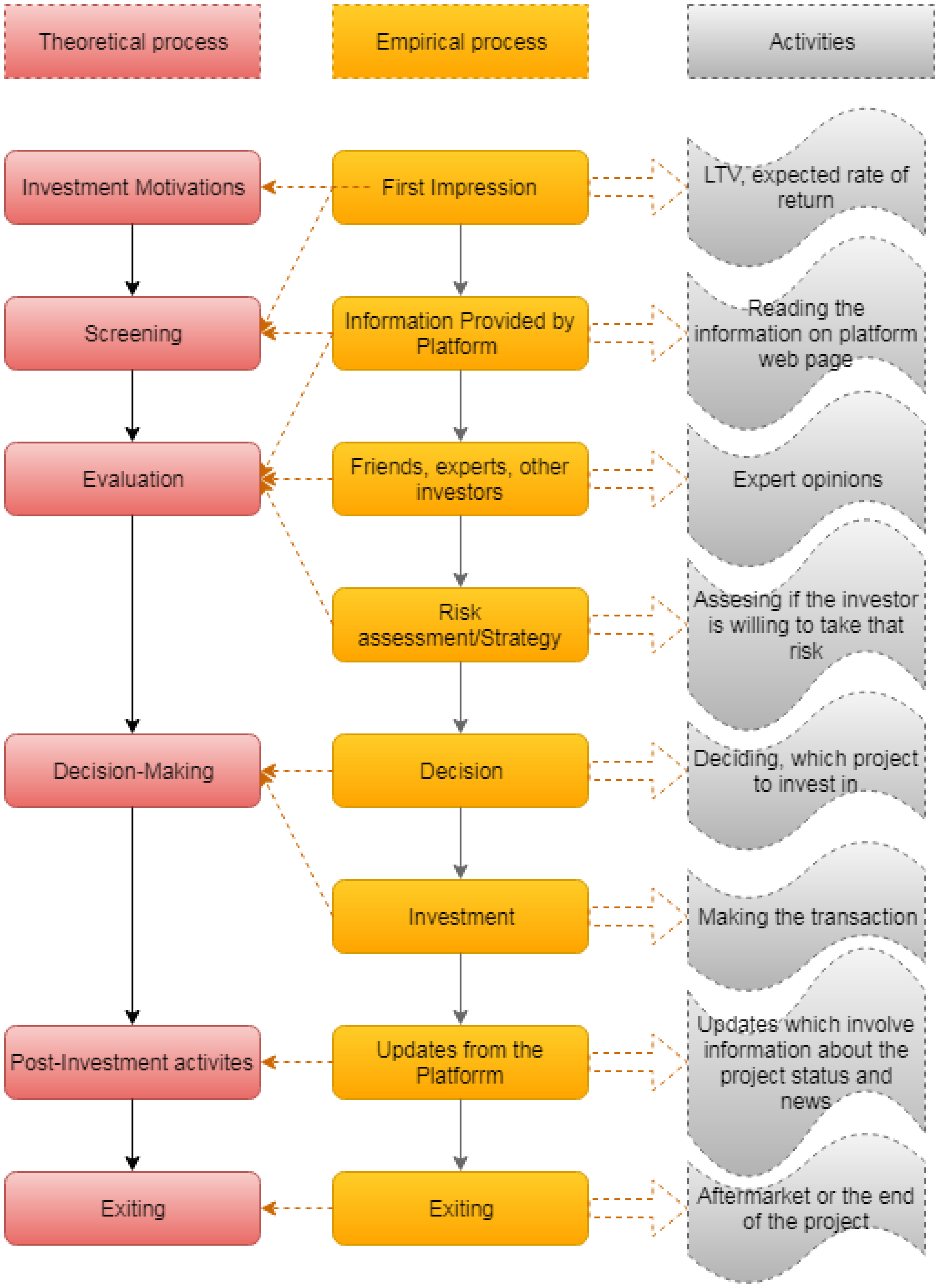

Figure 2. Crowdfunding investors' investment process (Source: elaborated by the author, based on Figure 1 and interviews).

As shown on Figure 2, the first stage of the real estate crowdfunding investors' investment process is investment motivations. Two interviewees, who started investing to real estate crowdfunding at the very beginning,when the first platforms were established in Estonia (2013-2014) stated that they had been previously already dealing with crowdfunding on platforms that dealt with P2P lending, but they operated there with smaller sums. They also said that they knew in some way the owner of the crowdfunding platform. Five of the interviewees found the opportunity to invest in real estate crowdfunding by reading the success stories from different blogs and articles from the internet, which was is similar to findings by Moritz *et al.* (2015) and Gerber *et al.* (2012). One investor became a RE crowdfunding investor as it was closely related to his job and he found it to be interesting and profitable. He also said that he found it riskier than the other investment opportunities and that he likes to have some risky projects in his portfolio. None of the investors said that they started to invest in RE crowdfunding projects because they had a friend, who had recommended them to invest.

All of the investors agreed that at the beginning, they had big doubts about RE crowdfunding and started investing in the minimum amounts possible on the platforms (50 to 100 EUR, respectively), but the experience from P2P crowdfunding, bigger profit opportunities and success stories from the internet were enough incentives for them. For example, one investor described her start like this:

> *"The idea that you transfer your money into some kind of black hole in the internet hoping to get a return seemed to be like science fiction to me, so I waited for quite some time before I dared to do it. It basically seemed very sketchy business in the beginning."*

The second stage of RE crowdfunding investment process is screening. Regarding this stage, all the investors said that they do not search for RE crowdfunding projects from the internet or from the platforms manually. The platform(s) they use send the investment opportunities to them via e-mail and most of the investors pre-select their projects after clicking on the received link, checking the main description and attributes of the project. There are different criteria what the investors consider important while making a pre-selection decision.

Firstly, all the investors check, what is the rate of return and loan-to-value (LTV) ratio (mortgage-backed) of the project. The rate of return is usually lower when the loan is backed by the mortgage and higher when it is a new project. Six of the interviewed investors stated that they look for a higher rate of return and therefore prefer new RE developments. Same interviewees also brought out that the existence of a mortgage is not a decisive factor for them. One investor stated:

> *"The mortgage does not always play an important role. We always check what is the ratio between what we want to get and what is the probability that it will be a successful project. According to that probability I use my instincts to calculate whether it is reasonable to invest into the expected rate of return or choose the loan covered by mortgage for my investment."*

Secondly, investors check the duration of the project. All the investors said that the shorter the duration the better, but the maximum duration that they count acceptable differs from investor to investor. Most common duration of a RE crowdfunding project is 1-2 years. According to one investor, he is not investing in projects that are longer than one year and another investor said that although he prefers projects with shorter duration, the it is not the main factor [in deciding over the project] for him. One comment from an investor about the longer-duration projects was as follows:

> *"The project duration of 3 years or even a little longer does not intimidate me since my investment portfolio all in all is focused on long-term investments anyways. But in our current real estate situation in Estonia, this is the place where to consider, whether the risk is worth the expected return. It is easier to analyze shorter projects since it is easier to imagine the situation in one year ahead than it is in three years."*

Thirdly, all but one investor look at the project location. It appeared that the investors would like to invest only to projects that are located to Estonia. This was also brought out by Niemand *et al.* (2018) and (Kim & Kim, 2017) The reason is mostly that they do not know if the foreign project is located to good or bad location and they do not know nor trust foreign RE developers:

> *"The risk regarding real estate projects in Riga is higher. There are more problems with loans. Let's say that the lack of information for me is the turn off. Here, I know the rent rates, yields, vacancies because I have a track record here. Also here I know experts I can ask additional information if I need to. /.../ I*

don´t have a lot of info about those other projects and I don´t know the developer that well either."

Fourthly, investors opinions differ on the level of importance they place the RE developer. They all said that the project and its developer need further investigation even if the developer is known to the investor. However, six investors out of eight said that the project is easier to analyze if there is a bigger and known company behind the project. Two interviewees said that the effort they allocate to the project does not differ.

"If it is a big company as developer /.../ they don´t want to blow off a project for some 100 000 EUR. Although legally they could. It is a separate entity, there is no certainty nor nothing.

Fifthly, one investor brought out that he is looking if there is Special Purpose Vehicle (SPV) established and this increases confidence for him:

"I try to understand whether there is a SPV established. If there is, who is running it. /.../ If SPV is established it means that the platform has an interest in this project and they have an opportunity to step in if necessary. /.../ In case of development projects, SPV returns can be received in parts."

It appeared that depending on an investor, there are 25%-50% of projects that can move on to the next phase, which is evaluation. During this phase, investors evaluate the project outcomes and risks and gather all the information they can find regarding the project and developer´s background and their previous projects. Evaluation stage involves comparing information presented on the platform with information found by googling, checking their credit info and in some cases asking advice from experts. It is interesting, that two investors brought out that they make their analysis in groups by sharing experiences in order to save time. More experienced investors said that they have found some fundraising campaigns where the loan applicant or its owners have done something fraudulent in the past and most investors try to avoid their projects, but sometimes it is not found during the evaluation, e.g.:

"A well-known developer definitely creates a positive image. I definitely will not invest in projects by developers who "misbehaved" during the crisis period."

All interviewees mentioned that currently the economy is doing very well and projects fill in too fast, so there is no much time to make an investment decision per project. It appeared that 25%-40% of the projects that qualified to the previous stage of the investment process can advance to decision-making process. During that phase, investors try to choose the best project they believe in and where the risk-outcome relationship is most acceptable to them. All the investors said that there may be cases, when the amount they want to invest has to be divided between two projects as both seem to be equally acceptable to them. All investors also mentioned that they could not take part in some projects because the fundraising goal was already fulfilled for the project. This also pushes investors to shorten the time limit they spend on pre-analyzing the project. One investor brought an example:

> *"If some loan appears, requiring 2 million EURs, then you know that you will have a couple of days to think about it, but if it is 100 000 then you will only have a couple of minutes. /.../ I remember one project I saw and wanted to take part in. I was on a ferry to go to Hiiumaa and went to order a cup of coffee and while I was waiting for the cup to fill up, the loan goal was already reached."*

Investors see that the time that takes for the fundraising campaigns to fulfill is often too short to make proper analysis and although they try not to hurry with their decisions, they have shortened their time for analysis, which may make overall investment riskier as it otherwise would be, e.g.:

> *"I will never believe that the projects that fill in within five minutes, have participants, who actually thought anything through. Maybe they check the [proposed] rate of return [by the platform owner] and [project] LTV and just go for it. If it fills up before I have a chance to participate I will not cry about it either."*

All the investors answered that they do not conduct any kind of after-investment analysis and they just check the course of the project from quarterly reviews sent by the platform. Thereafter, the post-investment stage is mostly related with waiting for the project outcome and checking the quarterly reviews.

All but one investor brought out that it is pretty common that projects are prolonged as the developer does not manage to sell the property on time or has some other complications. In those cases, the investment outcome will not be transferred on time. Only one investor said that he has managed to avoid investing in such projects. It is interesting to highlight that the same investor reportedly spends the more amount of time compared to other investors analyzing the projects in order to make a proper investment decision. As the decision regarding the project will be prolonged is announced after the expiration day, one investor had a proposal to the platforms:

> *"Usually it is not announced in advance but the platforms should contact the developer some time before the deadline to check on the status of the project. Currently the problems are found out after the money is not being transferred and only after that they contact the developer. Then in a few days they will let the investors know of the situation."*

When the project ends and the project was successful the fundraiser transfers the investment with accumulated interests to investors' virtual accounts in platform. Then the investor can decide if they want to reinvest the money or transfer it to their bank account. There have been two projects in Estonian crowdfunding platforms´ history when the project has not been successful. In one case, the developer was able to refinance the loan and platform did not see it as a precedent. The other has been directed to enforcement proceedings and the final outcome is not known yet. Three investors who have had experience with prolonged or not successful projects said that they additionally check if there are any signs referring that the project they have invested in might not be as good as it seemed at first.

4.2. Choosing a crowdfunding platform for investing

There are not many crowdfunding platforms that offer the chase to invest in funding of real estate projects. Although, the business models those platforms use and what kindof projects they offer differ. That is why it is important to choose the platform investor understands the best and it also has to offer projects that are acceptable to certain investor (acceptable expected rate of return, mortgage, LTV, new development projects). Interviewees only named CrowdEstate (est. 2014) and EstateGuru (est. 2013), which are also the first and most known platforms in Estonian Real Estate crowdfunding market. There are more platforms that have been established recently such as BitOfProperty, BulkEstate and Argeld, but none of the interviewees have invested on those platforms. EstateGuru offers investment opportunities to loans that are at least in some extent guaranteed by mortgage. In CrowdEstate platform there are many real estate development projects, but in addition they offer also mortgage loans and bridge financing as well.

When it comes to choosing the platform, it appeared that investors are negatively minded in newcomers and it is hard for a new platform to start operating. Additionally, all interviewees know people in one way or other who are behind these two main platforms. Most of the interviewees might not know them personally, but they have built their trust on their public statements. Therefore, investors have a strong faith in the two bigger platforms and the due diligence that platforms do as well, e.g.:

> *"I have chosen the two (EstateGuru and CrowdEstate) because I know the people behind them. /.../ Because, well, if they know how to do their due diligence, it is a big motivator for me. I would not want a random Lithuanian behind the project. Nor would I trust a random Polish one either."*

It came out that investors who are looking for bigger revenues and are therefore willing to make riskier investments, use CrowdEstate more often. These investors brought out that they believe that CrowdEstate does a bit more due diligence and this is an argument what they use in their marketing as well. CrowdEstate also puts up less projects for investing than EstateGuru. This was considered to be a good argument as well:

> *"Why CrowdEstate? I strongly prefer development projects and the other reason is that CrowdEstate has a bit stronger filter on which projects make it through."*

Therefore, when deciding, which platform to invest on, investor have to state, how risk willing he is and whether the loan is covered by mortgage or not. Although many investors brought out that mortgage is a nice addition, it is not necessarily so, when they are looking for bigger revenues. They also brought out that, even if there is a mortgage-involvement, the property´s location is regarded as more important aspect, e.g.: :

"If the property is backed with mortgage, I am now of course exaggerating, but located somewhere in Siberia, what good is it? If we are dealing with a downtown apartment in Tallinn, this is very good. /…/ Fact that something is covered by mortgage does not automatically make it good."

The other investor, who is looking for bigger revenues before anything else, stated that the mortgage is often hard to realize:

"Covered by mortgage – well it is not actually not that sure as it seems. Maybe that is why it is covered by mortgage, but well, someone would have to want to buy it with that mortgage for it to realize. The fact that it is covered by mortgage is a bit misleading in showing if it is a quality loan."

Investors also said that often the value of the mortgage is questionable:

"If the mortgage is figuratively stacks of wood or piles of snow then I generally steer clear."

However, any of the investors did not bring out the importance of platform design like it was found by Gerber *et al* (2012). It may be because of lack of real estate crowdfunding platforms in Estonia and as all have needed information well presented, the investors may not think of that.

4.3. Exploring the risks exposed to real estate crowdfunding

The other important topic, when talking about crowdfunding are the risks the investors are exposed to, while investing in real estate via crowdfunding platforms. If investors do not turn enough attention to risks in their investment process, it can raise the possibility of losing the capital. All the interviewed investors stated that they know that investing in any form is a risky business, but unfortunately, most of them do not see crowdfunding to be riskier than the other investment opportunities, e.g.:

"I think that it is less risky than I thought. /../ I think it is less risky than giving out a loan by yourself. Well, two main cons. One is that they [crowdfunding platforms] have professional legal power behind them. /../ The other is that

these environments [platforms] do not want anything to go bad because of their PR."

One investor even thought RE crowdfunding to be less risky than the other investment opportunities:

"In case of stocks, if I buy 100 EUR worth of stocks today I might have 50 left tomorrow because some news came that I could not control. /.../ If everything is as normal I find that it [real estate investment] is less risky and offers a bigger return. Because there is less volatility."

On the other hand, one investor stated:

"In case of stocks the total loss is small. /.../ Likelihood that my real estate investments go sour is definitely bigger."

In addition, another investor stated:

"I take into account that I have a greater risk there [in real estate crowdfunding investments] because there is a reason why developers (or whoever) is not getting the funding from a bank or the market is too hot for them and they have used up all their capital from the bank already. I understand that the risk there is bigger but the rate of return is also bigger and that is OK with me."

Most of the investors agreed that the loan agreements that platforms issue are very difficult to understand. For example, one interviewee who has BA degree in law stated:

"Most contracts could be drafted much more simplistically. Actually, you do not have to have a contract full of all that complicated text. Some law firm is justifying their work hours by creating all those complicated sentences."

As a result, most of the investors admitted said that they do not even read the loan agreement before signing it and they get all the information they need about the project, business model and cash flows it involves from the platform:

> *"I think you need to understand the business model, but why I do not read the contract? Because I am not very fluent in law."*

The next issue, as discussed also in the part of the literature review, is the understanding of the platform business model by the investors. All investors said that they understand the business model of the platforms and different projects quite well and at times they do not understand the business model of some certain project, they are not going to invest in it:

> *"For me, there is enough information regarding the business model, but maybe for a beginner in investing or who has not worked in this field, it can be complicated or more complicated for sure. /.../ But I have seen also platforms, where I do not understand it and I do not invest in there."*

All the investors also thought that platforms provide enough information about the projects. Although, the project and the developer, who is behind the project, still needs to be researched via other channels:

> *"A small amount of faith is what goes with it. There is never as much information as you would like, but enough to let you sleep easy at night."*

One of the interviewees stated that the crowdfunding platform provides enough information, but the investment process still involves risks that the platform cannot foresee:

> *"You can run a background check as thorough as you like, but you cannot foresee, what goes on in the developer's head. For example, one Latvian project is on hold, because the developer is still arguing with the neighbors over some things regarding the detail planning. This is something a platform, regardless of how much information they provide, cannot foresee that these kinds of risks will realize. You cannot assign a percentage to which degree you think there is a risk that the neighbors disagree with the detail planning."*

When asking about possibilities of fraud, most of the investors did not believe it might happen in Estonia as the market is small and if the fundraiser disappears with the money, it would not happen again. Therefore, the risk of fraud is a type of risk, which is silently assumed not to occur by the crowdfunding investors. One investor stated:

> *"You can see here that people who do not feel it or understand it or whose investment process does not have it. There is no e.g. if you have done something bad once then you will probably do it again. Maybe they don´t have the know-how. /.../ You always have to ask why they are applying for it. /.../ A regular person maybe can´t quantify the potential loss."*

Due to previous discussion that fundraisers are reaching investment goals too fast, it appeared that most of the investors take not enough time for analysis of the project before investing:

> *"The amounts that I invest are small enough. Every moment you waste on analyzing you must consider the potential effect of it on the actual outcome. There is a reasonable limit to it."*

As real estate crowdfunding is still a very new topic and all the investors have started investing in real estate crowdfunding projects after the last crisis then crowdfunding has not survived any drops in economy and therefore most of the projects have ended successfully. Due to this, investors have very positive attitude towards real estate crowdfunding:

> *"I am more of a lazy investor or have not gotten beaten hard enough but both platform show my future incomes. I assume it will be as they show it."*

On the other hand, one investor stated:

> *"Since real estate crowdfunding is yet so new not enough time has passed for many projects to end. The more projects emerge, the more there is a chance that all sorts of interesting things will happen."*

If investing in crowdfunding projects is often considered almost as risky as venture capital investing and angel investing, the interviewees didn't see it as risky. It referres to that they may underestimate the risk it exposes.

5. Conclusions and Discussion

The semi-structured interviews were conducted to RE crowdfunding investors and investment process was drawn with every interviewee. Overall, the investment process of investors is very similar to that what was discussed in section 2.3. of this study. There are some limitations that have to be taken into consideration while making conclusions:

- The study is focused on one small group of Estonian investors. Therefore the conclusions of this study may not be applicable to all investors who are operating on the property crowdfunding market;
- This is a cross-sectional study which presents investors' thoughts and experience at a specific point of time and not looking at them changing over time. Further longitudinal studies would be needed to make to understand the investors' behavior and decision-making processes better.

In addition, it has been a weighted decision for investors to start investing in real estate crowdfunding. All the investors had doubtful feelings when they first heard about real estate crowdfunding, but different success stories and reviews over the internet added the necessary courage to start. Although the investors need some additional incentive to start investing to real estate crowdfunding, most of them find it interesting even before that due to bigger interest rates than other investment opportunities (in some cases even 40% per project). This average rate of return is significantly higher than investing into stocks or other assets. Another argument that interviewees said to be the advantage was the fact that the investor can start investing in relatively small amounts and still earning quite big rewards.

Investing in RE crowdfunding projects involves many risks and many of them can be amplified if not turned enough attention in investors' investment process. Everything starts with analyses. All the investors brought out that the fundraisers fill their goals too fast for them to make a proper analysis on the project and developer. This makes them rush their evaluation and decision-making process and are therefore willing to make decisions that are not so well elaborated making them take more risk with the same risk reward. In order to save time and make the evaluation stage more efficient, some investors gather into groups of 10 investors who analyze the projects together. The decision in the end whether to invest in the project or not is made by investors individually though.

This being said, it should be pointed out that real estate crowdfunding is in the state it is now due to the rise after the economic crises and as the economy is doing well now, the crowdfunding investors are also doing well. Investors should realize that at some point the economy starts to slow down. As crowdfunding is considered one of the riskiest ways of investing (offering great rewards due to exactly this) and the investments are not injured by mortgage, the investors should be wiser to scatter their investments and decide how much of their portfolio they are willing to lose (as it is possible to lose an investment entirely).

Another topic referred in many papers exploring property crowdfunding is the location factor. It appeared very clearly that investors do not know the foreign markets and they are clearly interested in projects that are located near to their home avoiding foreign projects. This is understandable and correct way to avoid unnecessary risk.

It appeared that investors are not very open for newly established platforms as from one side there obviously there are less projects to invest in and on also the trust in current market leaders EstateGuru and CrowdEstate is so high with investors trusting people who are behind those two platforms. This makes the establishing of new platforms a lot harder and explains why there are so few projects listed on the newer platforms. Moreover, another interesting point, that appeared was that Estonian crowdfunding investors have started to establish companies for investing to optimize taxes (there is no income tax for businesses who reinvest their capital), which changes real estate crowdfunding in Estonia in many cases from P2B to B2B lending.

Another important topic covered was the loan agreements that the platforms issue. Most investors find them very hard to understand and this leads to the situation where investors do not read the agreements at all. The investors said that they believe to understand the business model of the project and platform just as well without reading an agreement. This potentially increases the risks of fraud and risk that the investor does not understand the project in full. This all adds even more to the high trust of investors to the platforms and their due diligence.

The existence of the mortgage is a topic that seems to be underestimated by investors. It came out that investors in most cases prefer bigger rewards than the existence of mortgage. Furthermore, they even do not see it being riskier than investment that is injured by mortgage or estimate that the risk of those investments is smaller than it might be. All this is not a big issue when there are good times and there is a continuing economic growth, but what will happen when the economy starts to slow down or falls into another crisis? It will be interesting to see what will happen since the real estate crowdfunding arose after the crisis and has not survived any shortcomings so far.

As it appears from previous discussion the following suggestions can be given to new and existing investors:

- investors should take more time for analyzing the projects and fundraiser;
- To save the time and make the process more efficient the evaluation phase can be covered in a group like two investors of the sample of this study do;
- It depends on an investor but investors who are investing in real estate crowdfunding and prefer new development projects should always be prepared to lose the whole capital they have put in as there is no mortgage coverage to those projects;
- Invest to those projects that you know are in a good location, to minimize the risk of not getting the project sold when ready;
- Invest in small amounts to diversify the portfolio as the more the projects in the portfolio the lower the risk of losing all the invested capital.

As this was an exploratory research, it only sets the theoretical framework over future studies. Firstly, if there is possible to create representative sample of Estonian RE crowdfunding investors then it would be very interesting to build a quantitative research on the topic and this would help to understand the RE crowdfunding process better. Secondly, as a whole RE crowdfunding investors' investment process was explored in this study, which added borders to the depth of the every single stage analyzed in this paper, then future studies could focus on exploring one single stage at a time. This could build a better understanding of what kind of analyses and activities investors perform in every stage. Thirdly, the study of the same form as current article can be conducted among investors that invest to other form of crowdfunding and the results could be compared to findings from this study. It would be interesting to know if there are differences. Fourthly, there are no studies which would approach the topic from platform side, which would also be a valuable to understand.

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Appendices

Appendix 1. Interview plan

1. DEMOGRAPHIC DATA

1.1. Gender

1.2. Age

1.3. Education (Primary-, Secondary-, Higher (Bachelor's, Master´s, PhD)

1.4. In which field do You work?

2. BACKGROUND

2.1. What is Your previous experience in investing?

2.2. What kind of investments have You usually made? (What asset classes You have most in Your portfolio?)

2.3. How many crowdfunding projects have You participated in so far? (1) Number of finished and still ongoing projects (2) How many of the finished projects have been successful?

2.4. How many of them were real estate crowdfunding projects?

2.5. How long have You been involved in (real estate) crowdfunding? (When did You make Your first investment?)

2.6. What is the estimated amount of crowdfunding projects in Your investment portfolio?

2.7. Please describe in stages Your investment process from start to finish.

2.8. Please rate the risk level of investing in crowdfunding projects compared to other investment opportunities?

2.9. Which risks have You encountered in real estate crowdfunding projects and what risks do You see in crowdfunding?

3. INVESTMENT MOTIVATIONS

3.1. Where do You get information regarding possible crowdfunding projects?

3.2. What was and is the incentive for You to start investing in crowdfunding projects? (Did anyone recommend, looking for opportunities etc)

4. SCREENING

4.1. Which crowdfunding platforms have You used /are using?

4.2. What kind of projects do You find good to invest in before making a more thorough analysis (highest rate of return, shortest duration, interesting location etc)?
4.3. Do You look for only local (Estonian) crowdfunding projects or do You also look elsewhere? (Why?)
5. EVALUATION
5.1. Why have You chosen the aforementioned platforms for Your investments?
5.2. What business model do these platforms use?
5.3. How do You get information regarding projects of interest and/or developers that are asking for the loans through crowdfunding?
5.4. Do You analyze anything before choosing a project?
5.5. What kind of data do You use for Your preliminary analysis?
5.6. How long does it usually take to make a pre-selection?
5.7. How many projects do You usually have left after pre-selection?
5.8. Do You evaluate the risk and corresponding rate of return before investing?
5.9. In case You do, what methods do You use? Please describe.
6. DECISION-MAKING
6.1. How do You choose the final project to invest in?
6.2. How big has been the average amount You invest (EUR)?
6.3. How long has the usual duration and rate of return been?
6.4. How many investments per year do You usually make?
7. POST–INVESTMENT ACTIVITIES
7.1. What kind of activities do You usually do after making the investment? (Do You follow up on the project, communicate with the developer etc?)
7.2. How often do You usually receive payment from Your investments (once a year, only in the end of a successful project)?
7.3. How is interest rate calculated in crowdfunding?
8. EXITING
8.1. What does the exiting process look like in crowdfunding?
8.2. Has the estimated rate of return (probably shown with the project on the platform) been equal to the actual outcome?
8.3. If and how many unsuccessful projects have You had? Please describe the unsuccessful projects and the reasons for their failures.

8.4. Do You have the option to exit the investment before the project end meaning can You sell Your part of the investment forward? In case You do not have this possibility have You wished for such an opportunity? Do You have any further recommendations how could You otherwise realize Your investment before project end date?

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