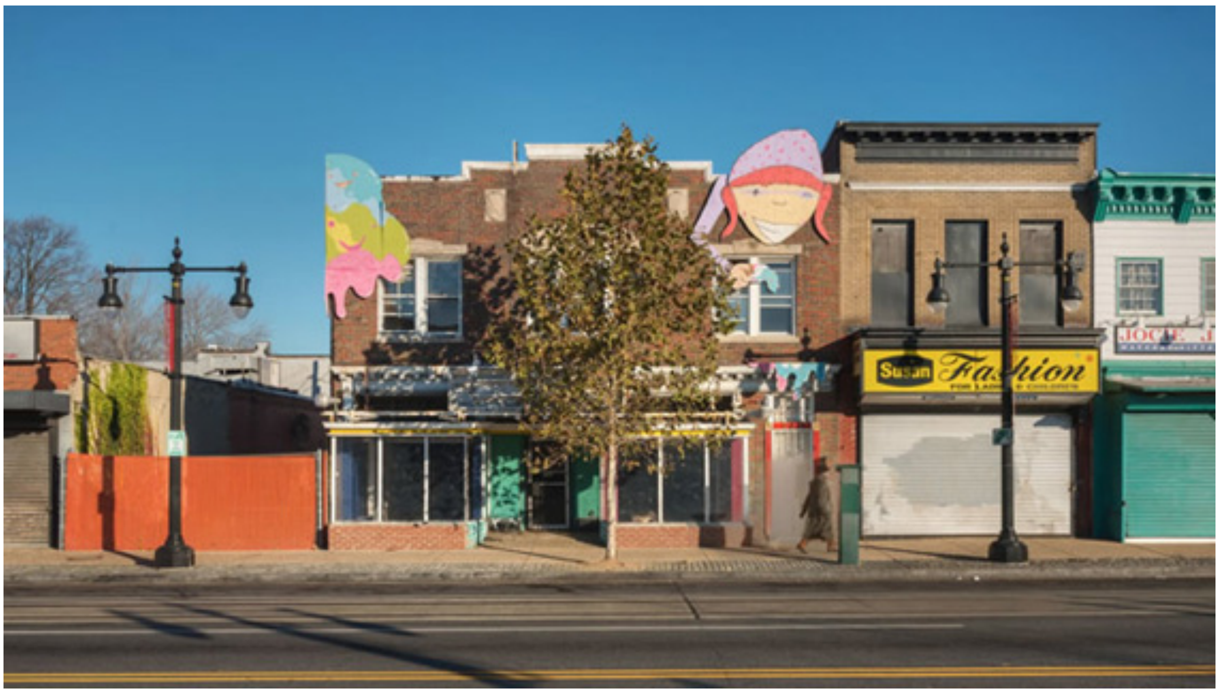
Own Your Neighborhood



A Fundrise property at 906 H Street in Washington D.C.

Photo courtesy of Fundrise

I recently asked a real estate professional about a new company called **Fundrise** that's built on the simple dream of selling small shares in urban real-estate projects to the masses. He told me he had three points to make:

After looking into it, I agree with two-thirds of what he says. It *is* very cool. It is *not* illegal. And—unfortunately, it probably won't work. But if it does work, it'll work in an excellent way. Not so much by providing a new kind of financial product that makes sense for middle class investors, but by altering the currently toxic politics of urban real estate development. A huge network of small-time, commercial real-estate shareholders could provide a much-needed counterweight to the plague of NIMBYs strangling America's cities.

I sat down with **Fundrise co-founder Benjamin Miller** last week and it's clear that he's well-aware of the legal hurdles. The idea is to sell shares in small real-estate projects to the public. But there's a reason you don't see small companies doing IPOs—the regulation and governance of public companies is much too burdensome to be worthwhile. What Miller wants are essentially classic small-business silent partners. Your $100 share could make you the owner of 0.01 percent of a building, but you'd have no say in its governance. This sort of thing is normally illegal, **unless you're selling to so-called "accredited investors"**—rich individuals or institutions who the SEC figures can afford to lose their money in a lightly-regulated venture. As **Emily Badger detailed for the *Atlantic***, after a lot of legwork Fundrise managed to find a different SEC provision whose main use in the recent past was financing Broadway shows that makes their model possible. Still, it requires a fairly laborious state-by-state regulatory filing process that limits Fundrise's scale and scope. The good news for the company is that the Jumpstart Our Business Startups (JOBS, get it) Act passed in 2012 will substantially deregulate this area of activity and make it much easier for Fundrise to grow.

As Miller writes on the company's blog, crowdsourced real estate investment is an **exciting opportunity cut out all kinds of middlemen** and deliver better returns to investors even while attracting capital to projects that huge anonymous pools of money ignore. After all, urban real estate isn't a homogenous commodity product. Rehabbing particular buildings in particular neighborhoods and leasing them to independent businesses can't be analyzed in the same way as new-built cookie-cutter shopping centers leased to national chains.

And yet, as enthusiastic as the urbanist in me is about this idea, the business reporter in me thinks it probably won't work. Will Oremus' skeptical JOBS Act coverage correctly noted that under the new rules, "**Now Everyone Can Lose Big Investing in Startups**"—or, in this case, real estate. The fact is that people are pretty terrible at investing. Economists love nothing better than a good rousing debate over the ins-and-outs of the efficient markets hypothesis, but nobody on either side disagrees with the basic conclusion that people ought to invest in diversified low-fee index funds. And yet despite total unanimity on this point, lots of people ignore this advice and waste money on high-fee actively managed funds or futile efforts at stock picking. People's inability to follow basic and unequivocal investment advice only further reinforces the point that people are really bad at investing and shouldn't be trying.

A Fundrise investment is essentially the opposite of that advice. It is an idiosyncratic investment that naturally carries fees (someone has to manage the project, after all) full of possible risks. Direct investor familiarity with the neighborhood risks breeding something worse than ignorance—the illusion of knowledge, that can tempt people into a false sense of security.

Yet, despite knowing all that, I couldn't resist the **temptation to buy a few shares in a project**. I want to believe. And on some level, I do believe. Fundrise's founders have a vested interest in seeing the platform succeed, which means they have a strong interest in seeing the first wave of projects turn out well for investors. Down the road, the crowdfunding space will likely become infested with scams and terrible ideas but it should at least start in promising ways.

Still, the main reason I want to believe isn't because I hope for a huge return, it's about politics. Specifically the toxic local politics that too often loads the dice against change and new businesses. Here in Washington, even a proposal as innocuous as **replacing a vacant storefront with a functioning restaurant** attracts politically potent complaints about noise and traffic. Some people have been trying to fight back by **organizing anti-NIMBY citizens' groups** to lean against busybodism. But no amount of organizing changes the fact that incumbent business owners often have an interest in curbing nearby development, or the fact that only socially and psychologically abnormal people want to waste their evening showing up to neighborhood hearings.

The real promise of Fundrise is that it gives pro-growth members of the community a way to become literally and figuratively invested in the success of a project. A building owned by hundreds of local people, rather than owned as part of a pooled investment vehicle marketed to pension funds, is one that's much more likely to get a sympathetic hearing from local authorities. It's also one that's much more likely to inspire people to show up to meetings and hearings and make the case for development and expansion. As George Mason University Law School's David Schleicher **has observed**, despite the stereotype of politically powerful real-estate developers, in practice most cities' legal framework "creates a peculiar procedure that privileges the intense preferences of local residents opposed to new building." The best solution to this would be to change the legal framework and reduce the peculiar privileging. But within the existing political order, broadening the scope of potential stakeholders is promising solution. Perhaps if people owned little slices of their neighborhood, urban politics could take a broader view of development and unleash more of the economic potential sitting beneath our cities.