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An Appraisal of Awareness and Benefits of Crowdfunding in Real Estate Development

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ABSTRACT

Crowdfunding offers a great and robust source of funds for real estate development projects in Nigeria. However, its usage in the Nigerian context is not popular, despite its huge potential in the real estate industry. It offers a transformative approach to financing real estate development, opening up opportunities for both developers and investors. This study is aimed at accessing the awareness and benefits of crowdfunding in real estate development within Benin City, Nigeria, using quantitative survey approach with empirical data obtained through structured questionnaire. A total of 72 structured questionnaires were distributed to property managers and real estate developers' companies in the study area with 61 filled questionnaires retrieved, representing 84.72% response rate. Data obtained were analyzed using descriptive statistics. The study revealed that only 11.48% of the respondents were very aware of crowdfunding in real estate, majority, representing 34.43% were not aware. The results indicate that 70% became aware through the internet/social media platform, 18.03% through colleague in the profession and 9.84% learned of crowdfunding through Television or Radio media. The study concluded that majority of the respondents were not aware of crowdfunding as an alternative to real estate development and recommended that greater attention and focus be given to creating awareness by estate surveyors and valuers and real estate developers through training programs, research and development and partnering with existing crowdfunding platforms that have experience in the real estate sector.

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1. INTRODUCTION

Access to alternative finance markets through activities such as raising capital outside of banks, financial intermediaries, and traditional capital markets has changed the fundraising landscape (Yasar, 2021). The growth experienced in these alternative sources of financing businesses during the previous decade and shortly after the financial crunch were due to numerous innovative technologies, artificial intelligence, and online platforms. According to Fukuhara (2020), alternative online finance began with online crowdfunding platforms and has quickly expanded with new online capital raising activities such

as initial coin offerings and peer-to-peer lending. To tackle funding challenges, developed countries have resulted in a crowdfunding system (Adjakou, 2021). Individuals, investors, groups of people, or a vast pool of cash, collectively known as "the crowd," lend money to project owners, developers or even assume stock as joint venture partners in a project. According to Bradford (2012), the term "crowdfunding" is formed by combining two common concepts. That is crowdsourcing and microfinance. In crowdsourcing, contributions in services, ideas, or content are collected from many individuals to achieve a goal. Microfinance, on the other hand, lends extremely modest loans to poor people who may have trouble accessing financial institutions. Online alternative finance has grown and diversified significantly into investment, non-investment and lending models due to what is promised to the contributors for their contribution.

In Nigeria, development and housing projects are crucial for advancement. However, surging inflation and rising financial costs have made accessing credit increasingly challenging. Ogedengbe and Adesope, (2003) in their analysis of Nigeria, highlighted issues like high interest rates, strict loan requirements, and economic instability as key obstacles facing real estate investors and developers locally. Amidst these financing limitations, real estate crowdfunding has emerged as an innovative new funding model. Crowdfunding involves raising funds from a large pool of contributors through online platforms, providing an alternative to traditional financing channels (Krol, 2013). Prior research on real estate crowdfunding has examined its applications and potential benefits. For example, a study of 78 real estate crowdfunding platforms by Lukkarinen *et al.*, (2016) noted the lack of comprehensive analysis of success factors and identified the need for more research on adoption drivers.

Globally, real estate crowdfunding volumes grew over 700% from \$1 billion in 2013 to \$8.6 billion in 2020 (Zetzsche *et al.*, 2022). In Africa, while still nascent, real estate crowdfunding activity has accelerated in recent years. However, academic study of how real estate crowdfunding specifically influences development in the Nigerian context remains limited. Therefore, this study aims to fill that research gap by thoroughly analyzing how real estate crowdfunding impacts development in Nigeria. Focus areas include investigating the awareness of crowdfunding and its benefits.

A number of literatures exist on crowdfunding in different perspective. The concept has gained prominence over time. However, this concept seems not to have gained prominence in developing countries like Nigeria. The concept needs to be understood to facilitate its acceptance or rejection. Crowdfunding is a concept which has emerged as an alternative source of funding businesses including real estate development through a number of investors (Agrawal *et al.*, 2013; Wierzbicka and Katarzyna (2018)). Several definitions of crowdfunding have been propounded over the years. Hossain and Oparaocha (2017) presented the definition of Harrington (2014) as "*The collective effort of individuals who network and pool their money, usually via the Internet, to support efforts initiated by other people or organizations*". Lebraty and Lobre-Lebraty (2013), defined it as "*a resource allowing a project initiator to obtain financing from Internet users*". The first definitions indicate the fund is from individuals who bring their money together for another to assess to finance project that is initiated by the individual. This is made possible through the use of internet network. The fund when obtained can be used to finance any such project as trade, financial investment, chattels and real estate. Three players in the crowdfunding network has been identified Bouncken *et al.*, (2015); the fundraisers, intermediaries and investors.

The fundraisers are the first group in the chain. They are those who seek for funds from the crowd through the instrumentation of the various platforms (the intermediaries). The fundraisers could be an individual, companies, institutions and organizations. The main objective of the fundraiser is to raise fund for an identified project. The intermediaries are the various platforms that links the fundraisers and the investors. These platforms provide a medium for communication between the fundraiser and the investor, means of getting information and eventual execution of the investors' projects. The intermediaries have different objectives and operate with any of the crowdfunding models donations, reward, lending and equity (Bouncken *et al.*, 2015). The investors, the third group in the chain are those who contribute financially to the project in the form of investment with the hope of receiving returns

on what they have contributed. These returns are in different forms such as material and immaterial reward for the reward model, immaterial and social reward for the donation model, financial gains (fixed interest rate) for lending model and profit for the equity crowdfunding model. The investors are the crowd who are willing and committed to contribute to the fund. By contributing to the fund, they bear some level of risk which are associated to the models they have contributed.

According to Baum (2017), the real estate sector has not evolved in decades, and this status quo is about to be challenged by technological advancements. Real estate crowdfunding has the potential to eliminate the middleman and cause havoc in the real estate finance business (Cannon, 2014). Vogel and Moll (2014) assessed crowdfunding of real estate to be a game changer and disruptive technology capable of correcting the "inadequacies" of traditional real estate finance. In the past, it was highly difficult for individuals to gain access to real estate assets because it was only available to wealthy individuals and institutions (Baum, 2015). The average man finds it difficult to assess fund for real estate development due to high cost of finance and stringent collateral (Ogedengbe and Adesope, 2003). The development of the crowdfunding system of real estate, real estate developers now have an alternative means of gather funds from a group of investors via the internet in a more efficient and effective manner (Cannon, 2014; Maarbani, 2015). Individuals, investors, groups of people, or a vast pool of cash, collectively known as "the crowd," lend money to project owners, developers, or even assume stock as joint venture partners in a project. Real estate developers can have access to a much wider pool of funds for their projects by using this crowdfunding platforms. It was opined that the rise of debt crowdfunding models may endanger the bank's traditional finance system (Hollas, 2013). People who save and invest through traditional financial institutions (such as banks and venture capital firms) are unhappy with the high costs, fees, limited options, and long investment periods they face.

According to Soreh (2017), crowdfunding is an emerging funding model for entrepreneurs, yet awareness of crowdfunding remains limited in Nigeria. Soreh (2017) opined that only 24% of respondents were familiar with crowdfunding, with minimal participation as fundraisers or backers. However, where crowdfunding knowledge did exist, it mirrored patterns in other countries - spreading through social media and family networks and being leveraged primarily for charitable causes initially. This indicates that with greater understanding, crowdfunding could gain tractions for entrepreneurial ventures in Nigeria as well. Aderemi *et al.*, (2021) identified deficits in awareness and adoption of innovative financing options like crowdfunding for real estate developers. Other critical areas of challenges identified include problems of regulation, insufficient understanding of the system, and fraud and corruption. The study further highlighted the need for expanded promotional efforts, particularly employing both social media and traditional media channels.

The use of crowdfunding in real estate development has been considered to be advantageous and command some benefit to the investor. Ziobrowska (2022) opined that crowdfunding provides and avenue for an investor with small capital to enter the real estate industry, thereby opening the real estate market to a wider range of investors. The investor can become a shareholder in a real estate company through the equity crowdfunding model which makes him a co-owner of the company (Ziobrowska 2022). The study also identified good annual rates of return, record of completed projects and user-friendly applications as other advantages of crowdfunding.

2. MATERIALS AND METHODS

The study adopted the quantitative research design to gather information from estate surveyors and valuers and real estate development companies in Benin City. The sample frame for the study was 56 estate surveying and valuation firms as obtained from the unpublished list of the Nigerian Institution of Estate Surveyors and Valuers and a pilot survey revealed that there are 16 identified real estate developer's companies in the study area. This gave a total of 72 which forms the sample size for the study. Total enumeration approach was adopted for the distribution of questionnaire to obtain primary data for the study. The structured questionnaire was distributed to all estate surveying and valuation. A registered estate surveyor and valuer was purposively selected from each firm based on qualification

and experience in order to get reliable information. The choice of purposive sampling was to ensure that the selected sample is representative, statistically valid and unbiased, to allow the researcher draw meaningful conclusion. The study also adopted purposive sampling in selecting a qualification and experience staff from each of the real estate development companies. A total of 72 questionnaires was distributed to estate surveying and valuation firm and real estate development companies out of which 61 was completed and retrieved for analysis and interpretation, representing a response rate of 84.72%. Responses were computed and analyzed using descriptive statistical tools.

A five-point Likert scale ranging from 1 to 5 in ascending order was adopted for questions on the perceived benefits of using crowdfunding for real estate development projects. Responses from the Likert scale were computed for mean ratings of each options following their level of importance as perceived by the respondents. The mean scores were then ranked according to their weighted level of importance. The decision point for the 5-point Likert used in the study was based on the average rating point of the respondents for each attribute within a subset of attributes. In each computation, the weighted mean was obtained by dividing the sum with the number of respondents. Thus the decision point of the 5-point Likert used in the study is 3.00 such that an attribute is considered as valid if the mean value is ≥ 3.00 but considered invalid if the mean value is < 3.00 .

3. RESULT AND DISCUSSION

3.1. Questionnaire Administered

Analysis from Table 1 shows that out of 72 questionnaires administered, 61 (84.72%) questionnaire was returned, while 11 (15.28%) questionnaire was not returned. The 61 questionnaires were used for the study.

Table 1: Questionnaire administered

Respondents	No. of questionnaire administered	No. returned	% Returned	No. not returned	% not returned
Estate surveyors and valuers	56	47	83.93	9	16.07
Real estate developers	16	14	87.50	2	12.50
Total	72	61	84.72	11	15.28

3.2. Professional Status

The study sought to find out the professional status of the respondents by asking question. The responses were tabulated on Table 2. Analysis from Table 2 shows that there were 24 (39.34%) respondents were Property Managers, 15 (24.59%) respondents were Developers, 8 (13.11%) respondents were Contractors, and 5 (8.20%) respondents were Investors and Architects respectively, while 4 (6.56%) respondents were Land Use Planners. So, the study comprised more of Property Managers.

Table 2: Professional status

Items	Number of responses	Percentage (%)
Property Managers	24	39.34
Developers	15	24.59
Contractors	8	13.11
Investors	5	8.20
Architects	5	8.20
Land Use Planners	4	6.56
Total	61	100.0

3.3. Awareness of Crowdfunding for Real Estate Development Projects

The study sought to find out the awareness of crowdfunding by Estate Surveyors and Valuers and Real Estate Developers for real estate development projects. The responses are presented in Table 3. Analysis from Table 3 shows that 21 (34.43%) respondents were not aware of crowdfunding for real estate

development, 13 (21.31%) respondents have little awareness of crowdfunding, 11 (18.03%) respondents are averagely aware of crowdfunding, 9 (14.75%) respondents were considerably aware of crowdfunding while 7 (11.48%) respondents are very much aware of crowdfunding for real estate development. The analysis showed that majority of the respondents were not aware of crowdfunding for real estate development. The studies of Aderemi *et al.*, (2021) which identified lack of awareness correspond with the findings of this study. Also, the study of Soreh (2017) on awareness and attitude towards crowdfunding in Nigeria, revealed that the awareness of crowdfunding in Small and Medium Enterprises (SMEs) was very low, with others who have heard of it were not familiar with the functioning of crowdfunding and as a means for alternative source of funding of businesses. From the findings and findings from other literature, it is certain that many Nigerians are not yet aware of crowdfunding as an alternative source of financing real estate development and other business. Awareness can be created through the conscious use of social media engagement, reliability of E-commerce and entrepreneurial Culture.

Table 3: Awareness of crowdfunding for real estate development projects

Items	Number of Responses	Percentage (%)
No awareness	21	34.43
Little awareness	13	21.31
Averagely aware	11	18.03
Considerably aware	09	14.75
Very much aware	07	11.48
Total	61	100.0

3.4 Medium of Crowdfunding Awareness for Real Estate Development Projects

The study sought to find out the medium of awareness of crowdfunding for real estate development projects from the respondents. The responses were tabulated in Table 4. Analysis from Table 4 shows that 29 (47.54%) respondents opted for internet/social media platform as a medium for crowdfunding information, 17 (27.87%) respondents settled for colleagues in the profession while 15(24.59%) opted for television/radio. This indicates that internet/social media platform emerges as a significant channel for spreading awareness about crowdfunding, reflecting the widespread use and influence of social networking sites in modern communication.

Table 4: Medium of crowdfunding awareness for real estate development projects

Variables	Number of respondents	Percentage (%)
Through colleague in the profession	11	18.03
Through the internet/social media platform	23	37.70
Through Television or Radio	06	09.84
No response	21	34.43
Total	61	100.00

3.5. Interest in Crowdfunding to Finance Real Estate Development Project

The study sought to find out interest in learning more about using crowdfunding to finance real estate development project from the respondents. The responses were tabulated on Table 5. Analysis from Table 5 shows that 21 (34.43%) respondents show that to a very large extent, they are interested in learning more about using crowdfunding to finance real estate development project, 17 (27.87%) respondents considerably agreed, 12 (27.87%) respondents were on average, 8 (13.11%) respondents opted for a little while 3 (4.92%) respondents opted for not at all. This implies that many of the respondents are interested in learning more about the operation and functioning of crowdfunding with a view to applying it in the funding of real estate project and to be better placed in advising their clients and other intending investors and developers. Corresponding to this finding is the study of Soreh (2017), affirming that the attitude of people towards crowdfunding was positive but acknowledged that its awareness requires great political will to promote it.

Table 5: Interest in crowdfunding to finance real estate development project

Items	Number of responses	Percentage (%)
Not at all	3	4.92
A Little	8	13.11
Averagely	12	19.67
Considerably	17	27.87
To a very large extent	21	34.43
Total	61	100.0

3.6. Perceived Benefits of using Crowdfunding for Real Estate Development Projects

The study sought to find out perceived benefits of using crowdfunding for real estate development projects from the respondents. The responses were tabulated on Table 6. Table 6 shows that access to wider pool of investors has the highest mean of 4.10 and is ranked 1st, Crowdfund-investing platforms enable faster flow of information with mean value of 4.08 and is ranked as 2nd while Faster funding process with the mean of 3.97 is ranked 3rd. This indicates that majority of the respondents' accent to the fact that crowdfunding can be beneficial in bringing access to wider pool of investors for real estate development projects. This finding agrees with the study of Vogel and Moll (2014) which listed more investors and smaller minimums as part of the benefit of crowdfunding for real development. Other benefit enumerated include greater transparency, involvement of local investors, improved reporting and accountability and reduced fees. The results of this study have revealed that more benefit can be gotten from the adoption of crowdfunding in the execution of real estate projects.

Table 6: Perceived benefits of using crowdfunding for real estate development projects

Variable	N	SD	D	U	A	SA	Sum	Weighted Mean	Rank
		1	2	3	4	5			
Access to wider pool of investors	61	2	4	7	21	27	250	4.10	1 st
Crowdfund-investing platforms enable faster flow of information	61	2	1	12	21	25	249	4.08	2 nd
Faster funding process	61	3	6	9	15	28	242	3.97	3 rd
Wider markets and partnerships	61	3	4	6	23	24	241	3.95	4 th
expand geographic range of investment	61	5	3	8	22	23	238	3.90	5 th
Access to support networks	61	4	5	9	22	21	234	3.84	6 th
Increased community engagement	61	4	8	12	17	20	224	3.67	7 th

Where SA= Strongly Agree; A= Agree; U=Undecided; D=Disagree; SD=Strongly Disagree; N=Number of values; Decision indicator: ≥ 3.00 = Agreed; < 3.00 = Disagreed

4. CONCLUSION

The findings indicate that majority of the respondents were not aware of crowdfunding with few of them been aware, this affect their utilizing of crowdfunding on real estate development. Despite favorable factors such as technological advancements and demographic factors that could potentially facilitate crowdfunding as an option of financing real estate development, many respondents have refrained from utilizing it for their projects despite the numerous benefits such as access to wider pool of investors, fast flow of information, faster funding process, wider markets and partnerships, expanded geographical range of investment, access to support networks and increased community engagement. The study recommend that greater attention and focus should be given to creating awareness by estate surveyors and valuers and real estate developers through Training programs, Research and Development by continuous research into the effectiveness and impact of crowdfunding in real estate development and Partnering with existing crowdfunding platforms that have experience in the real estate sector.

5. ACKNOWLEDGEMENT

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6. CONFLICT OF INTEREST

There is no conflict of interest associated with this work.

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