



# CROWDFUNDING ARCHITECTURE

Customized Research Report Prepared For  
The American Institute of Architects

January 2013



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## Crowdfunding and Architecture: An Introduction

### What is crowdfunding?

Crowdfunding, also referred to as crowd financing or crowd sourced capital, is the practice of developing an online group-based investment campaign to generate financing for a specific project. This practice leverages dedicated internet fundraising websites to spur community support and financing for an assortment of ventures, including architectural, through numerous small dollar investors.

The campaign owner is provided the opportunity to petition a wide variety of potential investors as opposed to solely relying on angel investors or venture capitalists. The investing public is protected from outsized losses through the nature of the small dollar contributions with the risk spread across a larger population.

### Why is it relevant to architects?

Crowdfunding applies to such a broad range of investment opportunities, services and physical structures that it opens numerous doors to architects and their clients.

Presently, architects' role in the funding cycle can be limited due to the nature of how construction projects are typically financed. Crowdfunding presents the opportunity to:

- 1) Impact the role of architects in the funding cycle by providing the investment models and communications tools to encourage financing for a broad array of self-selected projects.
- 2) Provide architects with the ability to work with local communities to discuss, develop and then implement design ideas that benefit the members of the community while creating both short and long term job opportunities.
- 3) Generate support for "passion projects" that may be unable to secure financing through conventional avenues, allowing practitioners to generate opportunities for a wider selection of design concepts.
- 4) Though an embryonic industry, crowdfunding has already shown the potential to fund architecture projects including pedestrian bridges, religious structures, urban skyscrapers and a multitude of community improvement projects through small dollar contributions.

## What kinds of projects have been crowdfunded?

### The BD Bacatá

In what the developers have called "the first skyscraper built by common people," Colombia's 66-story BD Bacatá Downtown (*right*) will be Bogota's tallest building when the project is completed. This fundraising drive is being done primarily through a crowdfunding campaign, allowing the organizers to utilize the local community's interest in owning a percentage of the project.



Source: Prodigy Network

### "I Make Rotterdam"

The I Make Rotterdam project in the Netherlands (*below*) is a great example of how Reward Based crowdfunding allows designers to incentivize funding for a development that has benefits for the larger community. The bridge will alleviate pedestrian traffic, and investors will have their name listed across visible planks along the bridge's outward facing beams.



Source: Luchtsingel

## How can the AIA help?

Recent legislation signed into law will make it easier for crowdfunding developments to get off the ground, making it a potential new source of financing for innovative design projects.

Crowdfunding, like any financing drive, possesses liabilities based on the nature of the project, generated interest, and economic climate. What distinguishes crowdfunding is that it innately encourages community based investment in projects that have a collective goal and shared regional interest.

The AIA is committed to providing its members with tools and resources to help architects design better buildings and spaces. The AIA is developing additional research and analysis to help members understand the opportunities and implications of this innovative financing mechanism.

## Crowdfunding Models

Crowdfunding refers to any kind of capital formation where both funding needs and funding purposes are communicated broadly via an open call in a forum where the call can be evaluated by a large group of individuals, the *crowd*. The outreach is referred to as a crowdfunding *campaign* and the person or company in charge of the campaign is referred to as the *campaign owner*.

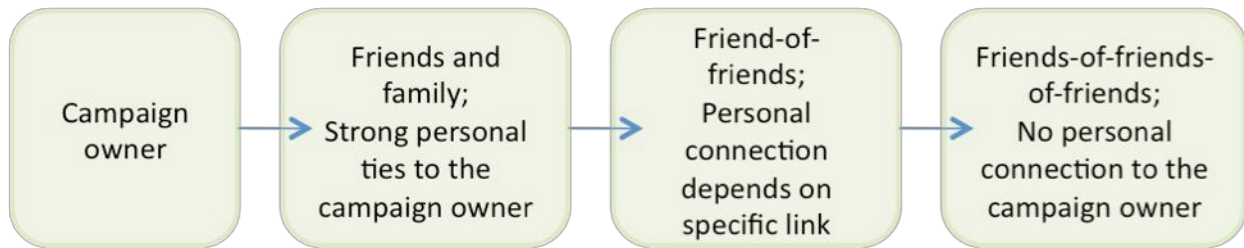
What we can observe with this kind of capital formation is that relatively small individual contributions add up to millions of dollars allocated into campaigns, which are promoted by various campaign owners, including but not limited to: independent musicians and film makers; sport teams reaching out to their local community for sponsorships; students trying to cover their tuition; and small companies getting a head start using crowdfunding as a means to pre-sell their products and services.

With the development of Web 2.0 and the easy access for participants to upload content on web sites, crowdfunding is most effective in the online space. For this reason, it is often misinterpreted as any online fundraising. The distinction between *online fundraising* and *crowdfunding* is important primarily because crowdfunding entails communication at a social network level and because crowdfunding campaigns can offer something in return for the funds being raised; online fundraising entails neither.

The opportunity to communicate ideas and proposals via social networks means that the campaign owner must communicate on several levels at once. A social network can roughly be divided into three categories:

- Friends and family
- Friends-of-friends
- Friends-of-friends-of-friends

Individuals in each of these groups will respond very differently to a crowdfunding campaign. *Friends and family* can easily be expected to support a campaign and promote it through their own social networks. *Friends-of-friends* will receive such a promotion and perhaps show support if the campaign is interesting enough, or if the social tie to the person who promoted the campaign is close enough. In this regard, support can be funds and/or promotion. In case the campaign is distributed via a friend of a friend outside the campaign owner's own social sphere, it will be received by a person who responds to the campaign and not the person behind it.



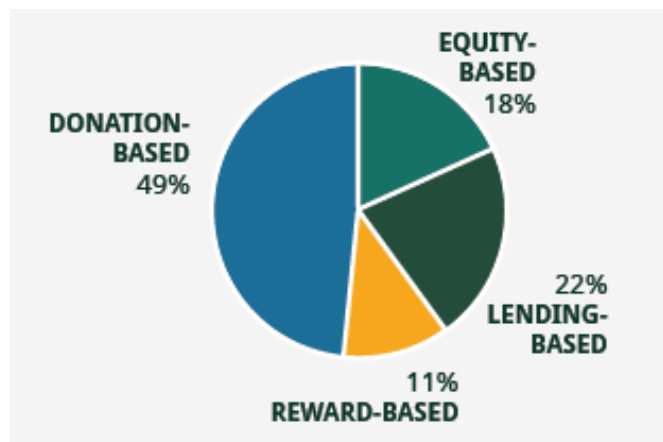
Many campaign owners fail to recognize this underlying setup for social network communication, and the failures fall into two categories: 1) either the social network is not utilized sufficiently, which means that the size of the audience (the crowd) is too small; or 2) the campaign is not appealing enough for people in the friends-of-friends-of-friends category to support the campaign and direct attention to it via their own networks. In order to be successful in crowdfunding, the campaign owner needs to be mindful of both the social outreach, and that the most crucial point in the campaign’s life is when it is viewed by someone who only sees the campaign and has no personal connection to the person behind it. This requirement is referred to as *third-level survivorship*.

In the following sections, we go through the five most important crowdfunding models. These are divided into three categories based on what they offer in return for the fundraising.

### Donation-Based Crowdfunding

The type of crowdfunding that comes closest to our traditional understanding of online fundraising is *donation-based crowdfunding*. With this crowdfunding model, tangible returns are not the reason for individual contributions, and thus the success of the crowdfunding campaign is solely determined by the crowd’s identification with or emotional attachment to the campaign’s cause.

Common examples include: individuals’ coverage of medical expenses, donations for political or religious campaigns, and community projects that would otherwise require municipality or governmental funding. In massolution’s *Crowdfunding Industry Report* (May, 2012) the aggregate crowdfunding volume throughout 2011 was close to \$1.5 billion, of which almost half was raised via donation-based crowdfunding as described above.



Source: *Crowdfunding Industry Report, massolution 2012*

The main benefit of donation-based crowdfunding is that the campaign owner does not need to compensate the crowd once the funding is secured. The challenge, however, is that the crowd needs to identify or have an emotional connection with the campaign cause itself. Interesting

examples of current campaigns in this category include the *I Make Rotterdam* project, the *Franklin Park Coalition*, and the *Rebuild the Joplin Mosque* project. These campaigns, which seek support for architectural projects, are analyzed in upcoming sections.

Donation-based crowdfunding is ideal for projects that do not have something tangible to offer in return for the funds raised. In order to activate the accessible crowd it is important to communicate why no other means of funding is available. On top of that, the project itself needs to appeal either via identification or emotion in order to get individuals to contribute but also to get them to spread the word of the project on to likeminded crowdfunders. In a crowdfunding ecosystem it is crucial to make the purpose of the call for capital as clear as possible as raising funds for vague purposes can make it difficult for the individual crowdfunders to truly identify themselves with the campaign. Donation-based crowdfunding is therefore the model that will require the most carefully thoughtful communications strategy, and the most persistent communications effort.

## Reward-Based Crowdfunding

Reward-based crowdfunding is the most commonly known model. Here, the campaign owner offers something tangible in return for the raised funds. In contrast to donation-based crowdfunding, offering rewards opens up funding from individuals that do not necessarily agree with or feel an emotional attachment to the reason behind the campaign but, simply put, are intrigued by the offered rewards. This type of crowdfunding was first adopted by independent artists, who have used the model to pre-sell music, movies, tickets, etc. Recently, most of the capital being raised in this category has shifted to established companies, who use the reward-based model as a means to test the market before making their product.

It is important to note that a reward-based campaign does not preclude communication that establishes an identification or emotional attachment with the campaign cause. In fact, this is one of the main benefits of reward-based crowdfunding. The campaign owner can create a dual marketing message for the campaign, thus securing funding based on individuals' identification with or emotional attachments to the campaign and/or based on the rewards being offered. This duality has led to some confusion in the choice of vocabulary; e.g. campaigns which focus on the emotional value can be seen to offer *perks for donations* and campaigns which focus on the rewards will *pre-sell products from their existing portfolio*. However, the funding mechanisms are identical, and we will thus refer to campaigns that offer something tangible in return for funds (via an open call) as reward-based crowdfunding.

The more interesting and unique rewards a project can offer, the more applicable the reward-based crowdfunding model becomes. A recent example is the *Let's build a ... Tesla Museum* campaign, where a prospective museum reaches out to the crowd offering rewards from the gift shop in return for funding. This and other campaigns that seek support via reward-based crowdfunding are analyzed in greater detail in the section *Case studies and Overview*.



## Crowdfunding with Financial Returns

Allowing for repayment of the pledged funds, equity, or other types of revenue-sharing changes several aspects of the campaign owner's role. Rather than selling the idea based on identification, emotional components, or an intriguing reward structure, the campaign owner now has to convince the crowd that the project is a viable investment opportunity. In turn, the challenge is then to outline the projected cash flows from the project and determine which financing option is most relevant.

In the U.S., equity- and lending-based crowdfunding have gained much interest since the 2012 enactment of the federal JOBS Act. Although the Securities and Exchange Commission still needs time to formulate the specific rules for equity based crowdfunding, the JOBS Act will undoubtedly increase new opportunities. The limitations under the JOBS Act include a funding cap of \$1 million for crowdfunding campaigns; these funds can be raised over a one year period. Thus, for architectural ventures a range of opportunities opens up with the JOBS Act. Even if the funding need exceeds the funding cap, there are vast synergies to be explored. In a later section, we interview a platform operator who will host a campaign that will be partially funded by crowdfunding and partly funded via traditional channels. In that particular case, it is important to note that the project would not have received any funding from traditional channels if the campaign owners (in this case, a partnership between an architect and a developer) had not been able to show investors that the local community was backing the project with their own funds as well. Before going into greater detail on this, we give an outline of the three most prominent models of crowdfunding with financial return.

**Lending vs. Equity.** Lending is without a doubt the most common source of financing, and we have no reason to believe that lending-based crowdfunding will differ in market share from what we see in the public markets. In 2010, the global bond markets rose to a record high of \$95 trillion while the global equity market capitalization was around \$55 trillion, and this 2:1 split between debt and equity has historically been somewhat stable.

One of the most attractive features of debt versus equity is the simplicity of the claim that the crowd is promised. Compared to evaluating the share-value of a company or project, it is much easier to form an opinion as to whether a given campaign owner will be able to honor the repayment schedule that is proposed. On the other hand, lending does not offer the high potential that an equity stake does. This means that when choosing between lending-based and equity-based crowdfunding, the campaign owner must determine whether there is a high growth potential that might intrigue the crowd. Another important aspect of this decision is credit risk. By increasing the debt level, the risk of not being able to repay increases as well. The main benefit of equity in this regard is that any cash-flow risk is shared with the investors/co-owners.

There are, of course, several other considerations to make when deciding between debt and equity (signaling, resolving agency conflicts, taxation, etc.), and it is outside the scope of this presentation to go into greater detail on these specific issue. However, there is one final and very important note to be made here. Different crowdfunding models are most likely to resonate differently within the community being targeted by the campaign owner. This means that if a project’s success is determined by the acceptance and support of a local community, the choice of funding model needs careful consideration. If the nature of the project is such that its success henceforth is determined by community acceptance, sharing the ownership with the local community vastly dominates offering a repayment schedule. From a financial point of view, this might not make a big difference when raising the funds, but from outside co-investors and other constituents important to the project, it can be the difference between having a proposal to create a valuable opportunity and actually being able to take it to market. An example of the latter is provided below in *The Marketplace* section.

**Non-equity revenue-sharing models** refer to campaigns where the crowd is offered a share of a specific batch’s sales revenues. This model is also referred to as *licensing*, and what is important to understand here is that the model will work only if the product can enter an established market immediately after being developed. Otherwise, too much risk is transferred to the crowd and thus a higher risk premium must be offered, therefore the campaign will not be viable. At the same time, the campaign owner induces a steep reduction in the first sales revenues, which means that the product has to be close to perfectly scalable for this model to work. For these reasons, non-equity revenue sharing models are especially applicable for smart apps and similar software productions where scaling is not an issue.

The benefits of this model are that the campaign owner maintains ownership without inducing any significant credit risk. However, the community synergies are rather limited because the relationship between crowd and campaign is concluded once the return is realized. The table below summarizes some of the key observations.

Types of crowdfunding	Ownership	Credit risk	Community synergies
Lending	No effect	Increased	Limited
Equity	Reduced	No effect	Increased
Non-equity revenue sharing	No effect	No effect	Limited

## Use Cases

### Donation-Based Crowdfunding

In this section, we present three crowdfunding campaigns that have successfully utilized the donation-based model. The three campaigns have one thing in common: they all engage the local community to support the underlying cause of the campaign.

The *I make Rotterdam* initiative was set forth to recreate the inner city of Rotterdam, the Netherlands, and facilitate a more pedestrian-friendly environment.<sup>1</sup> The people of Rotterdam have long been struggling with a city split in half by heavy traffic and few ways of accessing shopping and recreational areas. Having very limited means to invest in infrastructure, the group *Luchtsingel* decided to go online in an attempt to crowdfund a pedestrian bridge in the middle of the city. The premise of their campaign was, “the more you donate, the longer the bridge.”

The group had initiated similar projects in the Rotterdam area before, and because of their ability to involve the local community and crowdfund their suggestions, access to public funding had eased as well. This synergy became obvious in March 2012, when the group won the *Stadsinitiatief 2012* award along with a €4 million (\$5 million) cash prize to further their projects.<sup>2</sup> Because of the recognition and support, the *Luchtsingel* group is now able to establish itself as a sponsor for new ideas while they carry out their own projects, as well.



Source: the iMakeRotterdam project

The *I make Rotterdam* initiative is thus a perfect example of how a crowdfunding campaign can serve several purposes: the initiative raised (and is still raising) funds to complete the pedestrian bridge; at the same time, the group’s ability to communicate their purpose and energy resulted in governmental attention and created a commercial platform for the *Luchtsingel* group.

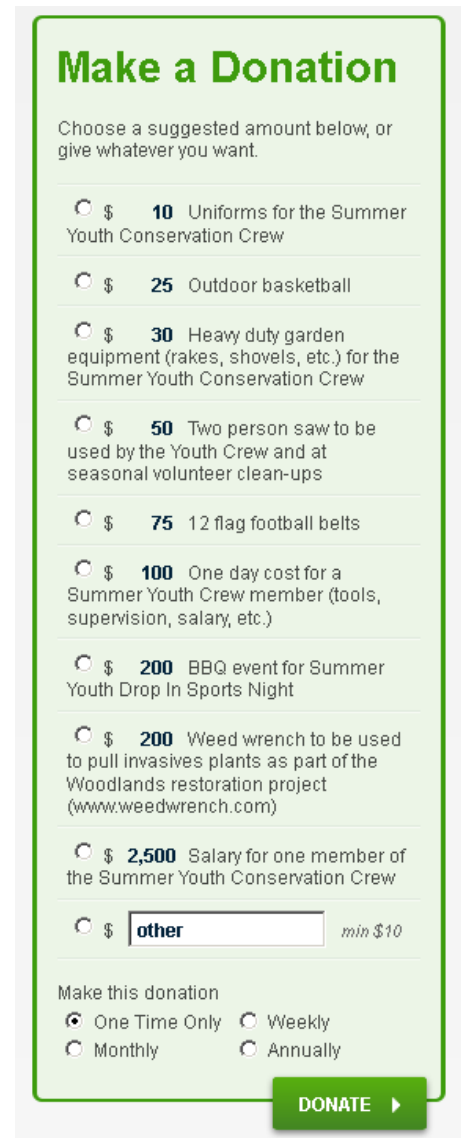
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<sup>1</sup> See <http://en.imakerotterdam.nl/> for further details.

<sup>2</sup> Stadsinitiatief is an annually held contest for creative community projects in the Rotterdam area.

The most important observation to be made about the *I make Rotterdam* initiative is not the project itself – similar suggestions have been, and still are, on the table in several major cities that struggle with heavy inner-city traffic. Neither is the *Luchtsingel* group specifically important; for years they suggested changes to the mayor, like hundreds of other similar groups. What made this particular campaign successful was the media attention it got from the “the more you donate, the longer the bridge” statement. This type of communication is effective because it engages local community empathy. Every individual in the campaign’s crowd knows the problem and agrees to support the solution. Once the first funds are contributed, the construction can begin, and the image of half a bridge is an easy one to use as a campaign message.

The Boston-based special interest group *Franklin Park Coalition* was created to activate the local community that made us of the park.<sup>3</sup> A part of their effort is raising funds for the park’s maintenance. The coalition does this online, via donation-based crowdfunding on the platform Razoo. They ask for donations of any amount, but have turned around the traditional reward-based crowdfunding model, where a crowd-funder can choose to pledge different amounts in return for different classes of rewards. The coalition’s campaign spells out what specific donation portions will finance: a donation of \$25, for example, pays for a basketball, while \$2500 pays the salary for a Summer Youth Conservation Crew member (as shown on the right). The coalition has been successful both in terms of raising funds and also in engaging others to raise funds for the same purpose. This illustrates that something as simple as itemizing what donations will pay for can be an activating factor in itself. Although the coalition offers memberships, t-shirts, and pictures from the park in return for donations, this kind of campaign is still regarded as donation-based crowdfunding. The reason for this is that no one’s decision to donate is governed by the rewards themselves. Rather, donors are motivated by the cause – park recreation, rebuilding,



**Make a Donation**

Choose a suggested amount below, or give whatever you want.

- \$ **10** Uniforms for the Summer Youth Conservation Crew
- \$ **25** Outdoor basketball
- \$ **30** Heavy duty garden equipment (rakes, shovels, etc.) for the Summer Youth Conservation Crew
- \$ **50** Two person saw to be used by the Youth Crew and at seasonal volunteer clean-ups
- \$ **75** 12 flag football belts
- \$ **100** One day cost for a Summer Youth Crew member (tools, supervision, salary, etc.)
- \$ **200** BBQ event for Summer Youth Drop In Sports Night
- \$ **200** Weed wrench to be used to pull invasives plants as part of the Woodlands restoration project ([www.weedwrench.com](http://www.weedwrench.com))
- \$ **2,500** Salary for one member of the Summer Youth Conservation Crew
- \$  min \$10

Make this donation

One Time Only    Weekly  
 Monthly    Annually

**DONATE** ▶

Source: [Frankling Park Coalition campaign on Razoo](#)

<sup>3</sup> See [www.razoo.com/story/Fpcmarathoncharityteam](http://www.razoo.com/story/Fpcmarathoncharityteam) for details.

maintenance, and activity. With these donations, the coalition is able to initiate anything from individual activities and events to larger building projects, all with the support of the local community.

Community activation is the main driver behind the third donation-based campaign, too. In 2011, Joplin, Missouri, was struck by heavy thunderstorms and tornados that left the entire area's infrastructure in shambles. The Joplin Mosque was hit especially hard because, after the tornadoes, the building suffered severe fire damage and burned to the ground. Following these events, a local independent group initiated the *Rebuild the Joplin Mosque* campaign on the platform IndieGoGo.<sup>4</sup> As opposed to the *I make Rotterdam* and *Franklin Park Coalition* campaigns, *Rebuild the Joplin Mosque* has a limited purpose, and can therefore set its funding goal accordingly. In this case, the campaign owners asked for \$250,000, which was raised in less than one week.<sup>5</sup>



Source: [Rebuild Joplin Mosque campaign on IndieGoGo](#)

The IndieGoGo platform allows for campaigns to exceed their funding goal and motivate their campaign owners to explain what any additional pledges will finance. In the case of the Joplin Mosque, additional funds will finance additional safety features, expansion of the original structure, and access roads. The Joplin Mosque group has raised more than \$400,000 for this initiative to date. Although the campaign owners offer anyone who pledges over \$250 a name on a donor plaque inside the new mosque, this is not the motivation behind individual pledges, and it is not what made the campaign successful. More than 3000 people have made donations, and only about 400 of these claimed a place on the plaque.

What drives the success of campaigns like *Rebuild the Joplin Mosque* is the urgency of the cause and an emotional attachment to the campaign. The group behind the campaign not only gets to see the mosque rebuilt, but they also have unique access to a crowd who might be interested in

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<sup>4</sup> See [www.indiegogo.com/joplinmosqueofficial](http://www.indiegogo.com/joplinmosqueofficial) for further details.

<sup>5</sup> Although not confirmed, arson was suspected to be the cause of the fire, which is also included in the campaign material. Such factors can strengthen a broad community activation, as it becomes relevant for believers outside the mosque's own proximity.

similar projects in the future. This is an immensely important feature of crowdfunding's unique ability to utilize social networking.

What we can learn from campaigns like the three presented above is that one key for crowdfunding success when looking for pure donations is engaging the local community around the campaign. The *I make Rotterdam* campaign engages via the "the more you donate, the longer and more effective the bridge" offer to the people of Rotterdam. The *Franklin Park Coalition* does it by itemizing their funding needs, thus making each donation more personal (although the donation might finance other coalition investments, such as building or refurbishing park facilities). The *Rebuild the Joplin Mosque* campaign taps into a community that is already engaged – in this case, crowdfunding simply provides an efficient communications tool for the campaign owners to secure much-needed contributions.

## Reward-Based Crowdfunding

As mentioned above, offering something in return for funds opens up a new range of possibilities for the campaign owner. The crowd does not need to have an emotional connection to the underlying cause of the campaign as long as the rewards being offered in return are compelling, interesting, or in other ways valuable. In this section, we present four campaigns with very different outcomes. The *Artist Hostel* campaign sought funds for a new urban hostel in San Diego.<sup>6</sup> The intention was that the hostel would mainly attract members of the art community. The campaign owner directed the campaign towards this demographic, asking for \$252,000 in a reward-based crowdfunding campaign on the platform RocketHub. The reward structure was focused on filling up the hostel once built; e.g., for \$250, one got a one-week stay, along with a large poster.



Source: Artist Hostel campaign on RocketHub

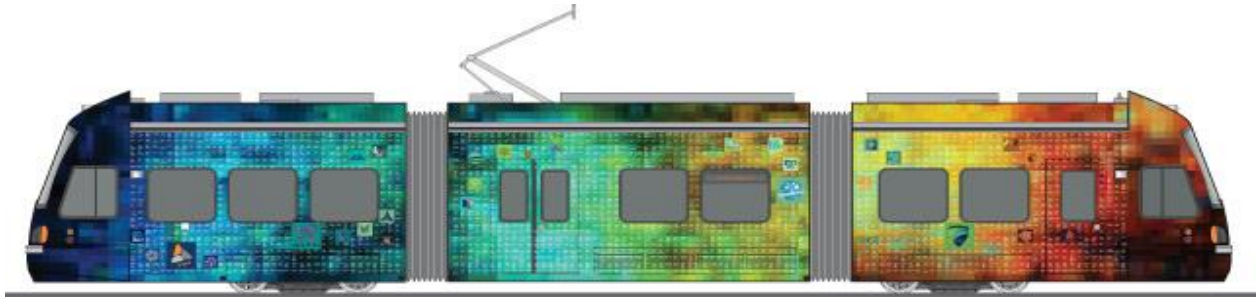
The campaign owner has had very limited success with this approach, and received no pledges, public comments, or similar acknowledgements on the campaign site. There are several reasons why this might have been the case. First and foremost, it is absolutely crucial to create some kind of activity on the campaign itself; this is where the *Friends and family* category is

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<sup>6</sup> See [www.rockethub.com/projects/9486-artist-hostel](http://www.rockethub.com/projects/9486-artist-hostel) for further details.

important. The second consideration one should make is whether a reward structure that is designed to rent out the rooms in a building that is not yet built is effective. The campaign owner asked the crowd to take on a sizeable risk by pledging to these terms. The third issue with this campaign was the target audience; artists in San Diego and the surrounding regions. A hostel such as this has a lot of value when offered to the local community and with the right guidance. The campaign owner should be able to restructure the campaign to make it more active and approachable for non-artists in the community. A mix of donations and reward-based crowdfunding that engaged the larger community may have been more effective.

A second example is in Kansas City, where the KCMO group launched a campaign to fund the *KC Streetcar Starter Line* on neighbor.ly, a platform dedicated to civic projects.<sup>7</sup> Streetcars are believed to be the more energy-efficient and less disrupting successors to light rails and similar means of public transportation. The campaign was not successful, although not due to a lack of effort to reach out to the community. Nor was there a lack of creativity in the campaign's reward structure. One very creative reward that KCMO offered (beside t-shirts, caps, posters,



Source: [KC Streetcar Starter campaign on neighbor.ly](#)

bumper stickers, etc.) was “Streetcar pixels.” In return for the pledged funds, the streetcars would display messages from the crowd. KCMO envisioned that the streetcars would be covered in a collage of such messages in different colors, looking like the example above.

The main reason this campaign was not successful was the funding goal. The campaign asked for \$10,000,000, and KCMO expected to raise these funds in a couple of months. In order for something like that to happen, a campaign needs intensive promotion way in advance of the campaign, and preferably a strong signal (a pledge of funds) that shows that the campaign has secured a considerable amount of pledges from day one. Projects of this magnitude require a carefully thought-out media strategy and eye-grabbing elements, similar to the *I make Rotterdam* campaign presented above.

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<sup>7</sup> See [neighbor.ly/kc-streetcar](http://neighbor.ly/kc-streetcar) for further details.

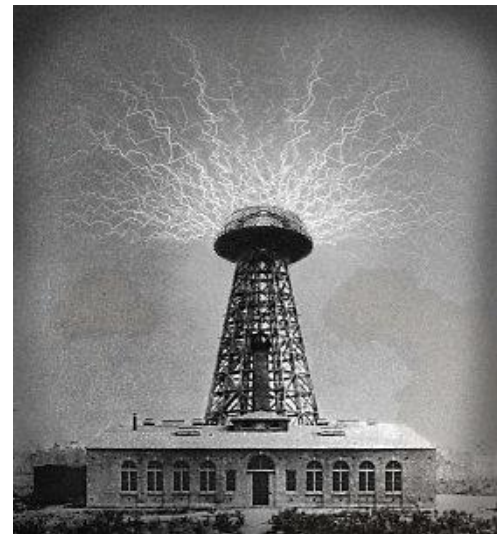
Another interesting project from Kansas City is the *BikeShare KC* campaign (also hosted on neighbor.ly). It is owned by *BikeWalkKC*, who asked for \$1,200,000 to fund the maintenance of a self-service bike rental system. The campaign has raised more than \$400,000 so far. The rewards that the campaign offers are focused on expanding the client base for the service, and thus offer a variety of membership options, along with different merchandise. It is important to note that the campaign owners are not offering the rental of bikes to-be-built (similar to the *Artist Hostel* campaign), but are rather seeking funds to expand existing operations. This difference reduces the crowd-perceived execution risk, and thus makes success more likely.



Source: [BikeShare KC campaign on neighbor.ly](#)

For larger community-oriented projects – like many architecture projects – it is important to understand how the risk of not receiving a reward is perceived by the crowd. If the *BikeShare KC* campaign turns out to be successful, it would be partly because of the reduced execution risk (the campaign owners have already shown both proof of concept and delivered to the initial client base), and partly because of a highly relevant reward structure. If the campaign is not successful, it could be explained by a lack of funding need communication – there is no explanation for why the campaign owner needs \$1,200,000 and not half as much, or less. Raising funds for maintenance rather than a specific and visual investment does not engage the local community to the same extent as, for instance; the *I make Rotterdam* and *Rebuild the Joplin Mosque* campaigns did.

What we can learn from these cases is that reward-based crowdfunding opens up new opportunities for a campaign's owner. It is, however, crucial that the reward-structure matches the chosen communication strategy, and that the target audience is not too narrow. Many platforms allow for a mix of donations and reward-based crowdfunding. When this is the case, the campaign owner has to consider the different



Source: [Let's build a... Tesla Museum campaign on IndieGoGo](#)



motivations the crowd can have to support his or her campaign.

A recent example of this mix is the *Let's build a ... Tesla Museum* campaign hosted on IndieGoGo by TheOatmeal.com.<sup>8</sup> The campaign owner asked for \$850,000, having already received a matching offer from the state of New York. If successful, the first museum honoring the revolutionary physicist Nikola Tesla would be built in his last laboratory in New York. The campaign became so successful that even 20 days before the campaign ended, it had raised over \$1,200,000. The funding will cover the purchase of the property, repairs, and reconstruction to make the building safe for visiting.

The campaign's success can be explained both by a well-executed communications strategy and an interesting reward structure. The campaign owner, TheOatMeal.com, utilized its own platform, along with the entry on IndieGoGo, to explain who Nikola Tesla was, why his work is of such significance, and (more importantly) that the alternative to a Tesla Museum was having the building demolished to make room for a retail store. The campaign owner thus benefited from his own network (visitors on TheOatMeal.com) and presented a cause that engaged the crowd's sympathy. The reward structure reflected the diverse crowd behind the campaign in that everything from Tesla merchandise, museum admissions, and memberships, to exposure on TheOatMeal.com was offered.

Because of the diverse crowd, the campaign owners were able to ask for both donations and reward-motivated pledges. On top of that, TheOatMeal.com was able to leverage its reputation to mitigate the perceived execution risk, which means that the campaign effectively can offer admissions and memberships although the museum is not yet operational.

## Summary

While donations are granted due to either identification or an emotional attachment to the project's cause and/or urgency, rewards have to be interesting themselves, meaning the campaign has to offer a set of rewards that are economically sound or in some way relevant to the campaign. In this context, the campaign owners must consider the crowd-perceived execution risk, and attempt to communicate how they will follow through. In other words, when asking for donations, it is crucial to focus on WHY the campaign is set in place, while offering rewards entails elaboration on HOW the campaign owner will execute.

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<sup>8</sup> See [www.indiegogo.com/teslamuseum](http://www.indiegogo.com/teslamuseum) for further details.

## The Marketplace

### Media Coverage

The potential for Crowdfunded architecture has, to some extent, caught media attention, chiefly related to city development projects. Because of this narrow scope, the attention is mainly on the concern that crowdfunding is a hidden tax. Two such stories can be found on Crowdsourcing.org's website: *Can crowdfunding build cities? (Should it have to?)*<sup>9</sup> and *For cash-strapped cities, crowdfunding comes to the rescue.*<sup>10</sup>

There are several misunderstandings inherent in this debate. First, there is a general misunderstanding that crowdfunding is equivalent to *online fundraising*. As the examples above illustrate, this is indeed not the case, especially in respect to reward-based crowdfunding. Second, the idea that city projects are traditionally funded without sponsorship, private fundraisers, donations, etc. is misinformed. Crowdfunding simply adds a more visual public component that simultaneously allows the campaign owner to efficiently communicate the cause of the campaign.

As with any innovation, crowdfunding is prone to these kinds of misunderstandings in the media. The following section summarizes interviews with some of the experts in the US crowdfunding market.<sup>11</sup>

### Interviews

As part of the conversations that were held with industry constituents in developing this research paper, during preparations there have been additional attention paid to any communication related to architectural ventures and their potential in the crowdfunding ecosystem. Some of the platform operators within massolution's network have taken the time to answer a few questions in great detail. We talked to the executives from the platforms *When You Wish*, *ProHatch*, *Neighbor.ly*, *Primarq*, and *CommunityLeader*.

We have asked the following three questions to the first four constituents:

1. *What are the strengths and challenges of the crowdfunding model, when applied to larger projects such as architecture?*

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<sup>9</sup> See [www.crowdsourcing.org/document/can-crowdfunding-build-cities-should-it-have-to/16808](http://www.crowdsourcing.org/document/can-crowdfunding-build-cities-should-it-have-to/16808).

<sup>10</sup> See [www.crowdsourcing.org/document/for-cash-strapped-cities-crowdfunding-comes-to-the-rescue/16755](http://www.crowdsourcing.org/document/for-cash-strapped-cities-crowdfunding-comes-to-the-rescue/16755).

<sup>11</sup> The full-length interviews are presented in the appendix.

2. *How could an architectural campaign be set up as to appeal to a larger crowd? Please highlight if your platform has specific functionalities that could be utilized.*
3. *What communications strategy would you choose for an architectural campaign? What would your estimated time commitment be for such a strategy?*

Their responses are presented in full in the accompanying appendix. Here we outline their answers in bullet form with brief explanations:

The strengths of crowdfunding when applied to architectural projects:

- Opportunity for architects to develop community relationships/promote design services
- Provides the opportunity for regional/neighborhood improvement projects
- Apparent and attractive market-driven rewards
- Pre-sale "Price Points"; the capital formation process is very flexible and easily adaptable to different circumstances
- Architecture is creative by nature, which matches crowdfunding as creative capital formation
- The right crowd supports the right projects; builds community support
- Broad visibility
- Emotional appeal

From the responses we have received, it is clear that the ability to create a flexible campaign, tailored to the specific crowd and circumstances, was highlighted in all four answers. The relationship that is built between the architect and the local community is highlighted, as well. With the broad visibility of a crowdfunding campaign, the architect is in a position to communicate early in the process with potential supporters. This means that over the course of the campaign, the architect gets his or her creative talent promoted locally, while raising funds for the particular campaign. Another interesting observation in this context is that the local community adopts the project emotionally in the crowdfunding process.

The challenges of crowdfunding when applied to architectural projects:

- Overselling
- Converting interest into action
- Large overall funding requirements
- Communicating different investment profiles for real estate opportunities

Our responders highlight four challenges of the crowdfunding model. Two are general: overselling and the issue of converting interest/sympathy for a cause into action (free-riding). The two other challenges are more specific to campaigns that share relatively large funding requirements and long life-cycles with architectural ventures. Over-selling has not yet shown to be a big issue in crowdfunding, and free-riding can easily be solved with a proper reward

structure (which is also mentioned in the appendix). Large funding requirements are a challenge because crowdfunding campaigns usually ask for small pledges; this may not be the case for architectural campaigns, though. Several platforms in this space are looking into the opportunity to incorporate fund matching as a fixed component of larger campaigns. This means a large donor or investor agrees to match the aggregated pledge from the crowd before the campaign goes public. There is tremendous marketing value in such fund matching, and for the architect it basically means that the funding requirement is halved. In the context of crowdfunding with financial returns, one responder highlighted that an architectural campaign needs to carefully explain that investing in real estate is rarely a high-yield opportunity, and will require more patience on the part of the investor.

#### Architectural campaigns' appeal to larger crowds:

- Wide range of campaign profiles; wide range of potential audiences
- Fund-matching, a mechanism where funds pledged by the crowd are matched by a corporate sponsor/investor
- Campaign focus on *engaging* local communities
- Specialized platforms; the crowd is already there
- Campaigns can give back according to the nature of the project

On how architectural ventures can appeal broadly, we also received suggestions from the four responders. The main insight was that the communications strategy must engage the local community with the campaign. There are several important observations, such as the variety in both the types of campaigns and rewards architects can offer. Fund-matching is highlighted again now as a community motivator (“we are halfway there”), and it is pointed out that within the ecosystem, a range of highly specialized crowdfunding platforms is likely to form.

#### Communication:

- Strong video content
- Written narrative
- Campaign owner's passion
- Multi-tiered broadcasting
- Demographics oriented communication

The feedback we have received regarding communications strategies is consistent with what has been explained in prior sections.

### Buy-in components:

Joseph Barisonzi, co-founder and CEO of the equity crowdfunding platform CommunityLeader, shared an interesting case where the buy-in component of crowdfunding has been utilized by a local developer and an architect in Minnesota.<sup>12</sup> The developer and the architect shared a property and wanted to build a 4-story mixed use (residential and commercial) building. Their problem was that the zoning commission only allows 3-story buildings, which would make the investment less viable. The owners of the property knew that there was local interest in the new building and offered an equity stake in return. In this way, the local community became shareholders in a property that the zoning committee may not otherwise support. Now, with broad-based community co-ownership, the zoning committee will be more inclined to allow 4-story buildings.

What we can learn from a case like this is that equity-based crowdfunding opens up the opportunity to align the interests of the local community with those of developers, architects, and other constituents.

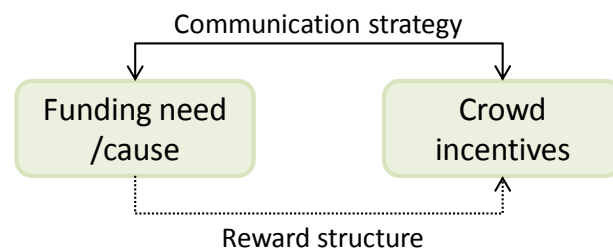
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<sup>12</sup> The specific details of this case study are anonymized at the request of Mr. Barisonzi.

## Applicability for Architectural Projects

With the right understanding of a communications strategy – i.e., social network information flows and targeted reward structures – AIA members could benefit from the crowdfunding models that are available today. Furthermore, by continuously updating and calibrating the crowdfunding knowledge flow within the profession, the AIA could assist its members in understanding and utilizing both equity- and lending-based crowdfunding. Once crowdfunding is legalized (with the provisions of the JOBS Act being written by the SEC), many future architectural endeavors may very well be financed by community investing.

To assist AIA members in this, it is important to understand how the architect’s funding needs can most properly be communicated, so the crowd is incentivized to give its support.



### Funding needs

Besides deciding on how big a campaign’s funding goal should be, the campaign owner must also consider exactly how the capital will be spent and whether there is an interesting or engaging way to communicate that premise. Based on the case studies presented in the prior section and similar use cases, there are essentially two different kinds of funding needs: those that stem from *project potential* and those that stem from an *ongoing project*.

With project potentials, it is much easier to signal a sense of urgency and in many cases (such as the campaign for the *Tesla Museum*), it is directly stated what the consequence of not reaching the funding goal will be. Although this might sound almost like a threat, it is a highly effective communications tool. More importantly, it engages the crowd and creates a sense of community determination.

Only a small share of architecture projects may entail an actual urgency, but their campaigns will still most likely fall into the *project potentials* category. This is because, without funding the project is abandoned, as opposed to *on-going* projects that can be scaled down in activity depending on the financing level. The *I make Rotterdam* and *Franklin Park Coalition* campaigns are examples of ongoing projects while the others are *project potentials*.

Further discovery of project funding needs will reveal which communications strategies are most applicable. In addition, local AIA chapters themselves might see a tremendous benefit in crowdfunding. At least one local AIA chapter, *AIA Minnesota*, is already active. Their campaign

seeks donations for the *Minnesota Architectural Foundation*, whose purpose is to provide advocacy and capital for the advancement of architecture in Minnesota. The campaign is hosted on the crowdfunding platform Razoo and has so far received support from 19 crowdfunders.<sup>13</sup>

## Crowd Incentives and Contributions

Crowdfunders can have various motives for supporting a campaign and, as explained in the sections above, their contributions are not limited to only monetary donations. In this section, we highlight the most important crowd incentives, along with the three basic contributions. The table below outlines the incentives and contributions.

Crowd incentives:	Crowd contributions
Identification	Funding
Emotion	Create attention/Forwarding
Rewards (or financial returns)	Buy-in components

*Identification* refers to any circumstance where crowdfunders identify themselves with the cause of the campaign at a practical level. When communicating with the purpose of stimulating identification, it is most important to address objective issues related to the execution of the campaign. An example of this is the *I make Rotterdam* initiative, where a solution to a common problem for the citizens of Rotterdam was presented and explained exactly how the funds being raised would finance a pedestrian bridge that the public already needs.

A key difference between *I make Rotterdam* and a campaign like *Rebuild the Joplin Mosque* is the crowd incentive that the campaign is trying to stimulate. The pedestrian bridge did not seek funding because of an emotional attachment between the crowdfunder and the underlying cause of the campaign. It simply outlines the problem – a city cut in half by heavy traffic – and suggests a viable solution.

The *Rebuild the Joplin Mosque* campaign, on the other hand, shows pictures of a severely burn damaged structure and a community in need of help. Campaigns that arouse an emotional

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<sup>13</sup> See [www.razoo.com/story/Msaia-Architectural-Foundation](http://www.razoo.com/story/Msaia-Architectural-Foundation) for further details.

attachment between a crowdfunder and the cause often need to focus more on the urgency of the campaign and less on how it will be executed.

A campaign does not need to stimulate identification or emotions if it can offer something in return for the funds. It is, however, important for the campaign owner to analyze and understand if the cause of the campaign is best fitted to identification or an emotion-oriented communications strategy. Trying to address both can dilute the campaign's focus.

Rewards and financial returns can be offered if the completed project can sustain it. If the completed project does not create revenues, products, or services, these should not be promised within the crowdfunding campaign. Neither of the campaigns in the donations section is structured as to generate revenues, and the services they provide are free. For this reason, the campaign owners have rightfully decided to utilize donation-based crowdfunding, and are thus communicating the funding need either via identification (*I make Rotterdam* and the *Franklin Park Coalition*) or emotionally directed communication (*Rebuild the Joplin Mosque*).

Even when a reward-based campaign offers a tangible product or a service in return for funds, there can still be an opportunity to stimulate the identification or attachment-based incentives within the crowd. The *Artist Hostel* campaign had a very direct focus, and attempted to secure funding by renting out the rooms in a hostel before it was built. This strategy is useful whenever the rewards themselves can create and sustain enough attention, and when any additional stimulus would disrupt the focus of the campaign.

The most obvious crowd contribution is naturally the funding itself. But as pointed out in the *Crowdfunding models* section, a campaign owner must utilize social networking and outreach keeping in mind that the campaign eventually will be reviewed by individuals who are out of his or her social network. This was referred to as the *third-level survivorship* requirement, and can only be satisfied if the communications strategy, the campaign execution, and the cause of the campaign are unified and coherent.

There is another important success factor at play. The campaign owner cannot rely on the crowdfunding platform to promote the campaign. To this end, both the campaign owner's own network, and the individuals who see the campaign at the third level, must be motivated to create attention and tap into their own networks. This is referred to as *forwarding*, and only serves one purpose: to create attention from outside the campaign owner's social reach, thus increasing the volume of the crowd to review the campaign.

The third crowd contribution is the buy-in component, which was highlighted in Joseph Barisonzi's example from Minnesota in the *Market place* section. While utilizing these kinds of contributions will require a deeper level of understanding of the legal and political



environment, it is clear that crowdfunding can engage and align a local community's interests with the ones of both developers and architects. The benefits of doing so can carry a political benefit for both constituents. Another added value in crowdfunding is that a campaign can raise public awareness and in some cases political awareness, as in the case of *I make Rotterdam*, which won an additional €4 million government cash prize towards the initiative.

Another buy-in component that is more closely tied to the funding itself is fund-matching, like New York State's offer to match an \$850,000 crowdfunding total in order to complete the Tesla Museum. This idea is being implemented as one of the innovations on crowdfunding platforms that serve civic purposes (such as neighbor.ly). The idea is well known, but the adoption into the crowdfunding ecosystem, is new and holds tremendous potential for AIA members working in this space.

## Matching Model

The section above gives a better understanding of why people pledge funds via crowdfunding portals and what other benefits raising capital this way can have. Once these incentives and contributions are well understood, the campaign owner's decision is how to utilize them; i.e., how to analyze the project and build the right crowdfunding campaign around it. That means: choosing the *crowdfunding model* and the necessary *communications strategy*.

There are three very important determinants in this analysis. These are: on-going projects vs. project-potentials, buy-in needs, and funding requirements. The main difference between on-going projects and project-potentials is the impact the funding will have. If an on-going project gets funded it will *continue*; if a project-potential gets funded it will be *initiated*. Thus, communicating the urgency of an on-going project and why the project needs funding at all is more difficult than with a project-potential.

Donations-based crowdfunding is an option, but requires a tireless effort to engage the community. Itemizing the funding need, as the *Franklin Park Coalition* did, serves as an effective way to communicate why the campaign needs contributions, especially because it indirectly communicates what will be lost if this project is no longer *on-going*. Reward-based crowdfunding is an option whenever there is something campaign-specific to offer the crowd. In this regard, on-going projects have an advantage because the crowd-perceived execution risk is lower when the campaign owner is visibly able to deliver what is promised, or when the campaign owner has her or his reputation at stake. The *BikeShare KC* is an example where the

campaign owners put their reputation at stake and showed that the model already works well elsewhere.

Although crowdfunding with financial returns is not yet legal, subject to SEC rulemaking, reducing the perceived execution risk will be a key to lowering the cost of (crowd) capital. Disregarding what is offered in return for funding, the expected value of the delivery will be measured against the risks associated with both the reward and/or the one offering it. In this context, project-potentials are induced with more risk than on-going projects, and it is thus especially important for the success of project-potential campaigns that the perceived risks are minimized and that the communication addressing risk-related issues is as clear as possible.

The strength of reward-based crowdfunding is that the attention a campaign receives from individuals, not directly linked to the campaign owners, can be very powerful and can carry forward solely due to a highly relevant reward structure. Combined with the urgency of project-potentials, a campaign can create a level of social acceptance and vastly exceed the campaign's initial goal, as was the case with the Tesla Museum. These findings are summarized in the table below, which shows how the different crowdfunding models differ in their impact of on-going projects versus project-potentials.

The relative match between each combination is assessed based on communications requirements and the strengths of each crowdfunding model.

			Communication	Strengths	Matching
<b>On-going projects</b>					
Donation-based			Requires a detailed explanation of the funding need.	No formal commitment posterior to the campaign.	Average
Reward-based	Relevant rewards?	yes	Identification/emotion-orientation must be clear, and coherent with the reward structure	Reputational effect: reduced perceived execution-risk	Good
		no			Bad
<b>Project-potentials</b>					
Donation-based			Focus on the urgency of the funding cause	No formal commitment posterior to the campaign.	Good
Reward-based	Relevant rewards?	yes	Identification/emotion decision must be clear, and coherent with the reward structure	The urgency of the campaign can have a strong impact on the attention it receives.	Very good
		no			Average

As was already pointed out, buy-in components can be extremely valuable. For this reason, it is necessary to understand whether a campaign can have a buy-in *need*. Disregarding the kind of crowdfunding model, a campaign owner must always clearly communicate what the buy-in need is. Online communication is fast, and any misunderstandings about the underlying cause of a campaign can have a very negative influence on all communications that follow. If the campaign is donation-based, the buy-in component is strengthened because outsiders will see the high level of community engagement.

With a reward-based campaign, the strength of the signal is not as strong because it is impossible to distinguish whether the crowd is interested in the cause or the rewards.

			Communication	Strengths	Matching
<b>buy-in need</b>					
Donation-based			The buy-in aspects of the campaign must be clear.	High community engagement	Good
Reward-based	Relevant rewards?	yes		Average community engagement; Market testing	Average
		no			Bad

With relatively high funding requirements, it is, of course, necessary to explain what the funds will be used for. With a donation-based campaign the crowd expects nothing in return, and thus the perceived execution risk is immaterial. However, it is important to decide on *identification-* or *emotion-*oriented communication, and make sure that this strategy coheres with the purpose of the campaign – as well as ensuring that the communication strategy is followed throughout the campaign. With a reward-based campaign, the crowd needs to be convinced that the campaign owner can follow through and execute on a successful campaign. To this end, any information about past success stories or other types of credentials is most valuable.

			Communication	Strengths	Matching
<b>High funding requirements</b>					
Donation-based			Basic explanation of the funding need.	Campaign can create awareness outside the platform.	Average
Reward-based	Relevant rewards?	Yes	High detail explanation; Minimize perceived execution risk.	The funding need is motivated within the campaign.	Very good
		No			Bad

## Appendix: Interviews

### David Harvilcz, Founder & CEO, *When You Wish*

*What are the strengths and challenges of the crowdfunding model, when applied to larger projects such as architecture?*

#### Strengths:

**Obvious and Attractive Market-Driven Rewards** We have been having high-level talks with a group that might crowdfund a new football stadium near Carson. The obvious rewards can include season tickets, exclusive player engagements etc.

**Pre-Sale "Price Points"** Large projects like stadiums or museums require large capital expenditures but can be divided into small parcels that can be palatable to the public (yes: publicly palatable parcels). So, unlike some sort of large-scale indivisible project, a museum can offer individual entrance tickets or special events that are divisible.

#### Challenges:

**Tragedy of the Commons** Must avoid "overselling" the project so as to avoid so many participants that it makes the thing itself less valuable. This can be avoided with reward limits.

**Avoiding Free Riders** How to get everyone who would benefit to contribute --

Mostly around proper structuring of rewards.

*How could an architectural campaign be set up as to appeal to a larger crowd?  
Please highlight if your platform has specific functionalities that could be utilized.*

We have a patent-pending feature that some have described as "eBay meets crowdfunding" where either the fundraiser creator OR a third party can offer something (a good or even a service) for sale on the site and some portion of the proceeds can go toward any fundraiser.

*What communications strategy would you choose for an architectural campaign?  
What would your estimated time commitment be for such a strategy?*

We offer support on marketing, including national or regional press releases for top projects and specific, targeted media campaigns including ads on sites like Google and influential blogs. Most potential donors look to a strong video not only for marketing appeal, but also to establish credibility and integrity, and, in home runs, for entertainment value. We suggest putting a lot of effort in a strong video, written narrative, and rewards, and then repeated

touches with your existing base of supporters, and any prospective natural supporters. MBA marketing 101 teaches roughly 17 "touches" are needed before your message hits home.

## **Elizabeth Smith Kulik, Co-founder and CEO, ProHatch**

*What are the strengths and challenges of the crowdfunding model, when applied to larger projects such as architecture?*

### Strengths:

Real estate is a physical, fiscal, and emotional asset that is necessary for every business, individual, and government to accomplish its goals. Real estate is a vital aspect of identity and brand; from fundamental infrastructure to iconic landmarks, people identify with the real estate in which they live, work, play, and learn. Architecture is a constant component of this process and is rarely far from the heart of this supply chain, making an architectural focus for a real estate crowdfunding effort an interesting and compelling backbone.

Today, for any real estate project to succeed, it must be investment-worthy from the start and appeal to multiple public and private stakeholders with different bottom lines. Whether the goal is social or commercial development, early capital is increasingly difficult to attract. Traditional sources are still recovering from the financial crisis, foundation budgets are shrinking for social development competitions, and commercial developers require more equity to start and finish a project.

The pressure is enormous for the severely undisciplined real estate industry to change its approach to the project creation and development process, capital markets, and technology. The industry must learn to create alternatives and service new stakeholders who can fill the gap in traditional resourcing. Crowdfunding provides just such an alternative. In an era when every real estate development is a new version of public private partnership, the Crowd is fast becoming a powerful source of ideas, time, goods/services, expertise, and capital.

Architecture is specifically well suited for crowdsourced funding because of its creative nature. There is an immediate visual appeal that can be embraced by the crowd and which, much like a Charette, provides immediate feedback about the extent of support from society there may be for a proposed project. Successful crowdfunding for a social or commercial real estate project that is in the architectural concept stage of development replaces or supplements the need for what is typically the riskiest capital required for any development project.

This makes crowdfunding a remarkable opportunity for the public to become extraordinary stakeholders in the next generation of real estate development and investment.

### Challenges:

Architecture is at the start of every real estate project, and it takes significant resources for an architectural firm to conceptualize a project and compete for work. This will be no different with crowdsourcing funds. Developing a real estate project also has a very long lifecycle of many, many years. It will be important to make connections to a funding crowd that will help sustain the ongoing development throughout the process of development.

It may be difficult for architectural firms to revamp traditional processes to include the level of social campaigning and ongoing campaign management that is required for successful crowdfunding. There is a colloquialism that needs to be instilled in a process that has traditionally faced authorities and stakeholders with more institutional mindsets. Crowdfunding requires an immediate connection that comes from telling a passionate story well. A project must have significant physical, fiscal and emotional interest to attract the crowd.

*How could an architectural campaign be set up as to appeal to a larger crowd?  
Please highlight if your platform has specific functionalities that could be utilized.*

Campaigns that involve architecture will come from across the real estate spectrum, and include: architects/entrepreneurs in pursuit of creating social and commercial projects; developers who need to fund to early stage architecture and development; public entities and governments who need to craft and fund infrastructure and social development projects; corporations building/renovating campuses and tenant improvements; sports teams who require income-generating stadium facilities; healthcare facilities, transportation, education, large-scale, master-planned communities, and not-for-profits, among others.

Architectural campaigns will appeal to a wide audience if they are set up to tell a compelling story and back it up with the same facts and figures required by fundamental real estate development. The crowd has the capacity to engage in a real estate project at any point along the development spectrum. The complete spectrum of development from concepts, acquisition, development and occupancy is all feasible with crowdsourced funding.

Ideally, architectural firms could benefit from campaigns that are set up to: source ideas for new social and commercial projects and infrastructure; source concepts for proposed social and commercial uses; source/outsource design professionals; source new technologies; create a brand around projects; and reposition assets for best and highest use, all leading ultimately to the creation of sustainable communities and businesses.

Shared interests and follow through are at the heart of a successful crowdfunding campaign. Recognizing that many things appeal to many people, in order to attract a larger crowd, there

must be a collection of strong touch points that make for a rich and ongoing story. This lends itself especially well to real estate, as the development process takes years to accomplish, and the asset itself has a many-year lifespan that can change over time.

ProHatch uniquely aligns the public and private stakeholders who participate in real estate financing and the development process. We offer social and business entrepreneurs a complete stream of financing options including donor, donor/rewards and equity. ProHatch is a complete solution for developing and broadcasting media savvy campaigns, as well as creating a long running relationship with the Crowd that is built on transparency, accountability, and trust.

ProHatch broadcasts in eight channels of social and investment interest. These channels are also specifically real estate investment and support verticals.

In our view, the best crowd investor/donor is one who funds repeatedly throughout a given project in several ways: as a donor expecting a reward or incentive, and later as an accredited or unaccredited equity source. We believe that because real estate projects go through any number of public and private funding events from concept to execution, a hybrid crowdfunding model is best suited to respond to the project's ongoing financial needs and changing risk profile.

A real estate project sees the highest risk in its early stages. Applying a donor and donor/reward crowdfunding model in early stage projects will help build momentum, consensus and public interest in a new project that is yet to be developed. Applying an equity model for later stage approved developments will be an amazing opportunity for the public to participate in real estate projects as an investor, much like REITs allowed for public investment in the 1980s. The expectation that the SEC will require crowdfunded equity investment to have a required multi-year hold period associated with funding makes real estate developments ideally suited for crowdsourced funding.

In response to changing crowdfunding regulations in the U.S. that allow for equity trading in 2013, ProHatch has developed and will launch a specifically-focused real estate investment and development module that will specifically address the JOBS Act and Regulation A requirements that will allow for real estate crowdfunding.

We have developed a unique project phasing and execution process that is called Phase to Raise. This is ideally suited for real estate-related architectural projects because phasing is a fundamental principal of creating enterprise value in assets and strong relationships between entrepreneurs, investors, donors, and advocates. Phase to Raise TM programs fundraising efforts into a series of 30-day Phases that promote incrementally growing higher enterprise value for stakeholders. Phase to Raise TM introduces post-funding Milestones that measure progress and provide documentation of project execution through each Phase.



*What communications strategy would you choose for an architectural campaign?*

*What would your estimated time commitment be for such a strategy?*

In addition to broadcasting projects across 8 channels of social and investment interest, ProHatch approaches all crowdfunding campaigns with a multi-tiered communications strategy that reaches from project creation through project execution. This is particularly important with regards to crowdfunding real estate and an architectural campaign.

To meet the challenges of crowdsourcing funds, the communications strategy would begin with the development of a media-savvy digital story that includes video, narrative, and pictures that represent not only the project, but the passion of the project creator for the project.

On ProHatch, the broadcast communication plan that follows for an architectural campaign in many ways would mirror the kind of consensus building process that occurs in a Charette, when all stakeholders are brought into the process of shaping a project and goals are aligned. A wide variety of social and business networks contribute to the numbers of people who can be touched by the project and converted to donors/investors.

A multi-tiered broadcasting strategy has an overlapping appeal to a variety of audiences that identify with: the project creator, the locale and geography, the purpose of the project, the project brand, potential users and customers, developers, supply chain vendors/contractors, and financial resources beyond crowdfunding.

Combining a tiered broadcast strategy with a tiered financing strategy that includes donations/rewards for various early stages of the project with crowdfunding equity (JOBS Act - 2013) for more institutional-like later stage financing will allow an architectural firm to manage crowdfunding in a manner that will promote project execution from start to finish.

In our Phase to Raise crowdfunding process, ongoing episodic broadcasting keeps crowdfunding stakeholders involved in the advancement and execution of a development project. Was the rendering turned into a viable project? Were plans drafted, revised and a final approved? Were plans approved by building departments, neighborhood agencies, city councils, economic development agencies? Were RFP's sent to developers/contractors/PMs/GMs/etc? Was the land acquired? Was there a ground breaking?

It is easy to see how with crowdfunding, the story around a single event in the architectural and development process becomes a series of chapters in an ongoing execution plan in which stakeholders remain interested in and will repeatedly fund in small amounts from a large number of people.

## Jase Wilson Founder & CEO, neighbor.ly

*What are the strengths and challenges of the crowdfunding model, when applied to larger projects such as architecture?*

Strengths include the ability to cover parts of the budget in non-traditional ways at a point in history when funds for excellent design / architecture are limited. We're positioning Neighbor.ly as an alternative to Value Engineering because the right crowd will get behind high quality projects if given the reason and means. Also the ability to rally community support in addition to the money is as important if not greater.

Challenges center around the necessary complexity of the campaign. The budgets are orders of magnitude greater than a typical Kickstarter project, there are phases to consider, and lots of moving parts among the community.

Opportunities are numerous for a rewards-based crowdfunding model. Architectural projects offer huge potential for offering incentives without selling equity in the project. By way of example, we're working on a large-scale redevelopment project with a community component set to be released in 2013. The ability to sell off bricks, naming wings of the building, naming rooms, etc. -- these things are already done in traditional fundraising. Crowdfunding through Neighbor.ly will just add lubricant and rocket fuel to the process.

Threats include potential liability issues that need to be clearly mapped out with project-specific terms and conditions and contingency plans. Suppose you get \$50,000 from a backer in exchange for naming rights to a particular space in the building. What if that space gets nixed but the project moves forward? Do you refund the \$50,000 or do you apply it elsewhere, trying to come up with a comparable reward? Or force majeure - what if the project suffers an earthquake, or a major fire?

*How could an architectural campaign be set up as to appeal to a larger crowd?  
Please highlight if your platform has specific functionalities that could be utilized.*

Neighbor.ly is being built from the ground up for exactly this kind of purpose! Several ways:

- \* Opening it up to people in the community where the building will go is the best start but probably not enough. One needs to open it up to companies and institutions around the world through the right appeals and incentives.
- \* Offering structured match programs that appeal to the companies and institutions
- \* Using the campaign to leverage larger buckets of money, for example, government grants that increasingly require local match as a ranking criteria. We want Neighbor.ly to be a down payment engine in this regard. We're building a feature set that allows for situations like this. "If we raise \$100,000 locally we can get \$300,000 from Program XYZ"

*What communications strategy would you choose for an architectural campaign?*

*What would your estimated time commitment be for such a strategy?*

Depends largely on the nature of the project. We've been talking to various architecture and engineering firms about this sort of thing. The conclusion we're arriving at is more of a consulting model, where we'd have an a la carte menu of services that are offered on top of the platform itself. The time commitment could be considerable and probably scales in direct relation to the size of the proposal. Offhand, I see events and mixers playing a role, and if the project is big enough offering some glimpse into what the incentives would look and feel like using scale models or swatches. Older generations rely overwhelmingly on printed materials so that would be part of it. Then there's the PR channels, epicenter in the community where the project goes combined with key pressure points in other parts of the world. And social media, online media -- these are easy and baked into the platform.

### **Steve Cinelli Founder & CEO, Primarq**

*What are the strengths and challenges of the crowdfunding model, when applied to larger projects such as architecture?*

The application of crowdfunding to architectural projects and initiatives, I believe, makes inherent sense. Architectural projects, particularly those with public exposure, are ripe for the support of the crowd, not only in the public patronage and visceral enjoyment, but can become engaged in the early stages of the design and concept work. Watching a project from start to finish, subscribing to it, feeling a part of it, and then evolving that into a participation, namely through funding, could create a great bond between the architect and the crowd where the crowd enjoys tacit and emotional ownership of the end result. So, I believe a great strength of the crowd is the broad visibility, emotional adoption, and potential funding of the project. A great example was a mosque in the U.S., which was destroyed by fire. It tapped into the crowd and raised nearly \$400,000 for a rebuild in a matter of a week or two, with participation from a global network.

That said, different projects may require significant funding, potentially well past the "crowd" to fully finance, as most projects are generally small in size. So, the weakness is probably the extent of funds that could be generated through the crowd for any one project, though the power of the social network to convey the opportunity should have no limitations.

*How could an architectural campaign be set up as to appeal to a larger crowd?*

*Please highlight if your platform has specific functionalities that could be utilized.*

The key to a successful crowdfunding campaign is choosing the right platform, but more so, engaging one's own constituency and following to be directed to the platform when funding is requested. Using social networks, blogging sites, mobile and other means of social media marketing is critical to drive traffic to the appointed site at the appointed time. Then, it

becomes an attempt to engage the audience in what is being requested – namely money to fund an architectural project.

Engagement is critical and as we approach it at PRIMARQ, we want the user to become enveloped in the materials and information on the offering site. Architectural projects lend themselves exceedingly well as in telling the story, we want to have the story and the project envisioned, from design and concept to what it may look like when completed. Technology and rich media can be used to “tangibilize” the finished product, with photos, videos, computer – generated imagery, animation – really creating a virtual rendition of the project. Beyond that, as architecture can have produce an emotional effect and response, using musical accompaniment, voiceovers, and other elements can imbue the story yet deeper, so when the “ask” is made, one can get the desired response.

As our platform is designed for real estate, how to show it, how to engage the audience, including 3-D walkthroughs, the use of rich media is a fundamental element. It enlivens and emboldens the story. And architecture is visual, tactile, and emotional.

Another key beyond the emotive is the “give back” of the project to crowdfund patrons. Is the project ultimately for sale, is an economic return being offered and sought? Or is it more a subsidy or patronage to see a great project come into existence, thus more reward or patron based, i.e., feeling good about it? Like with the aforementioned mosque, there will be bricks and plaques engraved with the names of the patrons which are part of the build. Having been involved in “capital campaigns” for new academic facilities projects, the use of the crowd could be a great complement as most “capital campaigns” revolve around a localized community. Thus, most, if not all, funds typically come from local patrons. This is the great power of the internet: sharing the story broadly, outside the locality, to like minded, passionate supporters. It raises the numbers of individuals that could support the project. An example, though not architectural, but with the tsunami in Japan and earthquake in Haiti, the Red Cross raised nearly \$100 million in a matter of a month or so from mobile donations of \$5-\$10 – this is the power of the crowd.

*What communications strategy would you choose for an architectural campaign?*

*What would your estimated time commitment be for such a strategy?*

Communication strategy is really referred to in the answer above. It means leveraging social networking platforms, blogging sites, publications, and other media initiatives to get the concept and word out. Defining how much and when the strategy should be rolled out will dictate where energies are placed; given targeted demographics absorb information from various places. I would seek to lay out the core demographic groups, structure the hook for such groups and then develop a multi-pronged campaign to alert all as to the project, its purpose, the vision and mission of the architect, and build a broad and deep buzz to prime the crowdfunding pump. Again, communication in the 21<sup>st</sup> century is not just flat content. The use

of rich media, interactive, CGI, and other means, particularly something of a creative nature, should be mandatory. Engagement is the key, and the more senses “engage,” the better.

The time committed to engaging really depends on the size and nature of the project. For example, the aforementioned mosque had many Islamic followers spread the word like wildfire on a global basis. Again, they raised \$400,000 in a matter of a couple of weeks. One needs to understand the best channels and patterns of communications for the audience that one is seeking, and that is a preliminary effort to moving onto one of the platforms for funding. Is it weeks or months? It depends on the affinity of the group that may be most supportive, but then layer other focus groups, as well.

## CROWDFUNDING ARCHITECTURE

Customized Research Report Prepared For  
The American Institute of Architects

January, 2013

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