

Top Deal: House Flipping for \$10



Key Deal Stats:

- Raising Platform: Groundfloor.us
- Valuation Cap: \$17,348,998
- Raise Type: Common Stock
- Raise completion date: January 7th, 2020
- Minimum Investment: \$150
- At the time of publication, March 21st, Groundfloor has raised \$1.7M of the current round

The Groundfloor team has been selected as a “Top Deal” by KingsCrowd. This distinction is reserved for deals selected into the [top 10% of our due diligence funnel](#). If you have questions regarding our deal diligence and selection methodology please reach out to hello@kingscrowd.com.

The Problem

“Buy land, they’re not making it anymore.” -Mark Twain

Real Estate has always been an enticing investment. Since 2000, real estate has outperformed the S&P by nearly 2 to 1. This is evident when you scan TV channels and can choose shows which make it sound easy to make a quick buck flipping houses.

House flipping takes considerable capital, knowledge of the market and construction savvy to see a diamond in the rough. The JOBS Act of 2012 opened the floodgates for individual investors to participate in non-traditional investment vehicles.

Crowdfunding was born. According to the World Bank when the JOBS Act becomes a teenager in 2025, Crowdfunding will reach \$93 Billion worldwide. Real estate crowdfunding dominates the crowdfunding market.

While there are many real estate crowdfunding sites, most fall into one of two categories. REITs (Real Estate Investment Trusts), a real estate fund, in which investments are based on a criterion set by the fund's managers. REIT's diversify the risks and let the "experts" make the decisions.

The other option is to invest in individual projects. Unfortunately, investment in individual projects for non-accredited investors is limited to only one crowdfunding site. An accredited investor, according to US law, is available to 7% of the US population, those with at least \$1 million net worth and earned at least \$200,000 in the past two years.

On the borrower side, regulations implemented after the global financial crisis require banks to have more cash on hand to manage potential losses from construction loans, thus banks are lending less money to developers.

These regulations force banks to be more conservative about lending to developers, thus reducing the developer cash liquidity in the market.

[Non-banks now constitute 10% market share for construction loans, up from only 2% in 2014.](#)

The Solution

Founded in 2013, GroundFloor targets small residential real estate flip projects in the US. The company recently launched a new product for new construction loans as well.

GroundFloor is the only real estate crowdfunding site that allows for the 93% of Americans that are non-accredited to partake in investing in real estate projects with as little as \$10.

GroundFloor offers investors short term lending opportunities ranging from [6% to 26%, graded from A to G](#) depending on the riskiness of the loan. Borrowers are experienced flippers with at least a 600 credit score. Put simply, these are often professional, commercial house flipping construction companies with proven track records.

Properties are residential non-owner occupied. Developer presents a VC like business case detailing: schedule, valuation, and costs. According to co-founder and CEO, Brian Dally, 50% of borrowers are repeat business.

GroundFloor makes money from loan origination and servicing fees. Our own Founder & CEO, Chris Lustrino has been investing in Groundfloor loans for the past 3 years and has realized an actual return of 9.6% on 34 individual investment projects.

“My investments on the Groundfloor platform have actually outperformed the 9% expected rate of return, I thought I would see because some investment paid back faster than expected. This portfolio has beat many of the ETFs I am invested in over that same time period,” says Lustrino.

Customers

According to Mr. Dally, anyone with \$10 can be an investor. GroundFloor has successfully grown investors via standard social media campaigns. Recently, GroundFloor offered a \$10 referral to bring in new customers and saw a surprising bump. The \$10 was enough to get users on the platform to tell their friends.

Borrowers are successful real estate developers in GroundFloor's target geographic locations. According to Mr. Dally, developers find GroundFloor via the relationships the company cultivates in the real estate community.

Competitors

GroundFloor has no direct competitors, since it is the only platform for non-accredited individuals to make direct real estate investments. It is important to understand the myriad of paths a developer can take to fund a project. There are two groups of competitors, traditional lending/investing and real estate crowdfunding sites.

Traditional: On the borrowers' side, there are multiple options to access capital.

6 Types of Fix and Flip Loans

1. Hard Money Loan



2. Cash Out Refinance Loan



3. Home Equity Line of Credit



4. Investment Property Line of Credit



5. Bridge Loan



6. Permanent Bank Loan & Online Mortgage



All of the six above options take 10 to 45 days to fund, charge fees from 2% to 15%, half have terms around a year and the other half start at 15 years. Most require equity to back the loan. Traditional lending is a large competitor with 90% market share.

Real Estate Crowdfunding: Real Estate Crowdfunding garners around 90% of all crowdfunding. There are two primary categories of Real Estate Crowdfunding:



	Risk	Return	Fees	Time	Foreclosure Protection
Equity	High	High	Low	3-10 Yrs.	No
Debt	Low	Low	High	6months – 2 Yrs.	Yes

Most real estate crowdfunding sites are for accredited investors, so they are not comparable to GroundFloor in that regard. There are three real estate crowdfunding sites for non-accredited investors which seem to rise to the top; [RichUncles](#), [Fundrise](#), and [RealtyMogul](#). All of these are REITs and require at least a \$500 investment.

Team

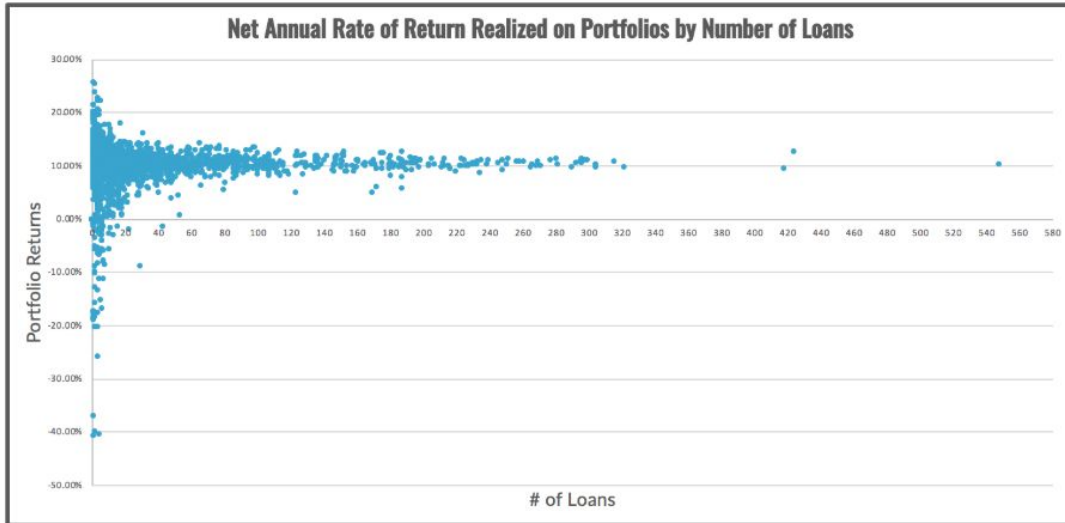
[Brian Dally](#), Co-Founder and CEO, holds both a JD and an MBA from Harvard. For the past two decades he has been involved with building disruptive technology startups.

[Nick Bhargave](#), Co-Founder and EVP of Regulatory Affairs, has over two decades of experience in finance and regulatory. According to Mr. Dally, the two co-founders have complementary strengths, and in the six years since GroundFloor's start there has been zero executive drama.

What is missing from the founders is real estate experience. The team appears to have augmented their real estate experience by engaging the experience of one board member and three advisors to the organization that have real estate experience.

Why We Like GroundFloor

1. **Offering:** GroundFloor is offering a unique product in a crowded market, direct debt investment starting at \$10 to non-accredited investors. If the market were to take a downturn, liquidity would become more difficult for developers and non-accredited investors often look for alternatives to the equities markets. GroundFloor might be the option they are seeking.
2. **Record:** The team is executing well in finding and funding real estate projects that drive meaningful returns. To date, the team's investment models garners impressive results across its portfolio of investments. In December 2018, the Groundfloor ran a [hypothetical model portfolio of all 421 loans repaid to date, and determined a 10.72% annualized net return](#).



3. **Differentiation:** GroundFloor is 10X better than any other competition in the online real estate investment market with its market leading investment minimums of \$10, investors ability to invest in singular projects directly as a non-accredited individual, and in driving really strong investment returns with greater speed to liquidity to other investments.

Overall, this is a market leader with a truly unique offering that is excelling at delivering on its unique value proposition of truly democratizing access to real estate investing for anyone.

4. **Growth:** GroundFloor has a growing investor base, which drove over \$3M in net revenue in 2018, up from \$1.6M in 2017 and \$714K in 2016. The team also raised \$4.2M from its own customer base last year in an equity raise similar to this. In 2019, the team expects to hit \$20M in funded projects. The team is finding product market fit with each passing year and is executing well.

The Rating: Top Deal

Groundfloor is a Top Deal. This team has set themselves apart in the market by building a uniquely differentiated marketplace solution that enables anyone to be able to build a diversified portfolio of high return real estate investments.

While more traditional, accredited only platforms such as, RealtyShares which raised nearly \$100M and had revenues last year of almost \$4M have gone under, due to poor management and overfunding from traditional VCs, Groundfloor has taken a radically different approach.

With a model focused on serving all types of investors with a specific type of loan products it has set itself apart from other online real estate investment platforms. Their portfolio of investments have also performed very well and their growth speaks for itself.

We think this can be a market setting company if they can continue to raise new capital from its own investors and perform both from an amount raised and return provided point of view.

There are obvious risk in investing in real estate investment platforms including market downturns in the housing market, which can hamper investment levels and performance. With continuing losses of about \$2M during 2017, a slowdown in investment and growth could challenge the businesses ability to sustain. And the rate of defaults that remain uncovered stands at about 0.6% today, but that number could grow meaningfully in a market downturn as well.

Groundfloor has a terrific management team that has continued to be transparent and forward thinking across every dimension of the business. With significant upside in such a large market opportunity, we think Groundfloor is a trendsetting company that has the opportunity to be a market leader in a large new category of real estate investing. For these reasons, we think it is a Top Deal. Be sure to invest [HERE](#).

Disclosure: Our Founder & CEO Chris Lustrino is a long term investors in Groundfloor with a small holding of \$1,000 in stock purchased during last years online raise.