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## **Innovative Forms and Methods of Investing in Housing Construction**

**Abstract**

In modern conditions, the housing construction sector is dynamically developing and transforming under the influence of the turbulent processes of our time: globalization, digitalization, platformization, greening, etc. The purpose of the article is to identify new innovative forms of investment in housing construction and their features in different countries. When analyzing innovative forms of investment in housing construction, a generalization of theoretical approaches to understanding this phenomenon was carried out, modern trends and features of investment were identified. Such new forms as crowdfunding and crowdinvesting are disclosed, which allow expanding opportunities for individual investors, reducing risks and promoting the further development of housing construction, taking into account modern key features. Mechanisms for financing housing construction depend on many factors: the development of the credit and financial, insurance and stock markets, the stability of the national currency, the inflation rate, the solvency of the population, the development and implementation of information technologies, the dynamic development of which is accompanied by the creation of digital platforms and other processes. Under the influence of these factors, the processes of investing in housing construction are actively developing and becoming more complex. Real estate crowdfunding is carried out through online crowdfunding platforms, in which many investors gather to implement construction or renovation projects for residential and commercial real estate. The crowdfunding platform acts as an intermediary between the fund seeker and investors. Crowdinvesting is equity crowdfunding that raises capital from many small investor companies through internet platforms. Loan crowdfunding or crowdlending is the financing of a real estate project through a loan that investors provide to develop the project. Modern information and communication technologies provide ample opportunities for developing new investment and lending instruments, which allows diversifying risks, expanding the number of investors, easing the debt burden for potential borrowers, etc.

**Keywords**

digitalization,  
platformization,  
crowdfunding,  
crowdinvesting,  
crowdlending

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**1 Introduction**

A mandatory resource in demand in any country, regardless of the level of development, since housing is a necessary condition for maintaining human life. Housing construction is an essential part of the economy of any country. At the same time, this sector is dynamically developing and transforming under the influence of the turbulent processes of our time: globalization, digitalization, platformization, greening, etc. Of course, the scale and dynamics of the development of the housing construction sector are influenced by the state of the economic situation (phases and cycles of economic crises), the COVID pandemic-19, wars in Europe, etc. Under the influence of the global economic crisis, such socio-economic problems as: a slowdown

in economic growth, a decline in production, an aggravation of inflationary processes, and a crisis of market capital have become aggravated. At the same time, the negative trends in social and economic development caused by the war in Ukraine are significantly slowing down the pace of global economic recovery after the pandemic.

The situation in the financial markets is changing Economists from Oxford Economics in their forecast for 2023 note that the era of cheap money in the US and Europe will not return soon, therefore, there will be an increase in the cost of loans, a decrease in consumer demand and investment in the housing market (Oxford Economics...). The rise of financial market tensions in advanced economies is driving up asset price volatility, raising interest rates, and making it

difficult to maintain a restrictive monetary stance. Due to the increase in the cost of financial resources, the situation on the real estate market will become more difficult, especially with regard to providing the population with affordable housing. For example, in Germany, despite the high standard of living, only 41% of the population (and in the new lands 26%) lives in their own homes (in France this figure is 54%, in Belgium – 65%, Great Britain – 67%, Spain – 78%, Ireland – 81%) (ObobcsHENIJE...).

These trends indicate the need to search for new investment mechanisms, the use of innovative forms that can significantly increase the volume of investment in housing construction. This determines the relevance of studying the most effective forms of housing construction financing in modern conditions, which, on the one hand, are characterized by complex challenges and circumstances, and, on the other hand, receive new development opportunities with the help of the latest information and communication technologies.

## 2 Analysis of recent researches and publications

The foundations of the investment theory are laid down in the works of J. Schumpeter (Schumpeter J., 2007), P. Drucker (Drucker, 2007), M. Porter (Porter, 1985; Porter, 1993), A. Pigou, R. Coase, J. Baron, etc. Innovations, innovative investment are the most important aspects of the modern theory and practice of investments. Based on the work of Joseph Schumpeter, innovation is traditionally understood as new combinations of production factors that lead to the creation of new goods and services, as well as to the improvement of existing ones. Peter Drucker defined innovation as changes in processes, products and services that lead to improved quality of life for people and increased business efficiency (Drucker, 2007). Christensen K. defines innovative development as the process of creating new products, services and business models that change the market and create new growth opportunities (Christensen, 2020).

The increasing importance of intellectual, environmental and social factors of economic growth led to the emergence of new theories of innovative investment: the creative "theory of investment" by R. Sternberg (Sternberg, 1985), the theory of direct investment by J. Dunning (Dunning, 1977), social investment by J. Baron (Baron, 2014). The sphere of construction, including housing construction, has its own characteristics of investment, which is confirmed in the works of scientists N. Asaul (Asaul, 2005), A. Matusevich (Matusevich, 2020). The purpose of investing in construction is to receive a certain amount of income from investing all types of resources, property, values as a result of the process of investing in construction investment projects, programs and integrated solutions.

The search for new forms of investment in housing construction is taking place in the context of all-encompassing digitalization and platformization. These processes contribute to the emergence of such new forms of investment as crowdfunding, green bonds, etc. These new processes and phenomena are being actively studied in the scientific literature. Thus, Schwienbacher and Larralde in 2010 were among the first to define crowdfunding as "an open call to use the Internet to provide financial resources in the form of a donation or in exchange for some form of remuneration to support and implement a project" (Schwienbacher, 2010). The most important publication that laid the foundations for the active interest of scientists in the topic of crowdfunding is the publication by E. Mollick "The dynamics of crowdfunding: An exploratory study" in 2014 in the *Journal of Business Venturing*. According to Ethan Mollick, crowdfunding is a funding method in which a large number of entities invest small amounts of money in projects or businesses through Internet platforms. Crowdfunding provides an opportunity for entrepreneurs or groups of entrepreneurs to finance their projects by collecting small cash contributions from a relatively large number of people through the use of the Internet, without the involvement of conventional financial intermediaries (Mollick, 2014).

Other influential and important authors include Agrawal A. K., Catalini C., Goldfarb A. (Agrawal, 2013), Ahlers G., Cumming D., Günther Ch., Schweizer D., (Ahlers, 2015), Firek A. M. (Firek, 2017), Gostkowska-Drzewicka, M. (Gostkowska-Drzewicka, 2016), Kuppuswamy V., Lehner O. M. (Lehner, 2013), Mollick, E. (Mollick, 2014), Belleflamme P., Hornuf L., Gallego A. F. (Gallego, 2011), Schweizer D., Zhou T. (Schweizer, 2016), Jeff Howe (Howe, 2012), Schwienbacher A. (Schwienbacher, 2010), Vogel J. H., Moll B. S. (Vogel, 2014). with many scientific articles on the use of crowdfunding in various sectors of the economy. The scientific articles of the authors present the results of empirical studies of the effective use of crowdfunding as a form of investment.

A new trend of our time has been the transition of the construction industry, as well as most sectors of the economy, to "green" development. This is manifested not only in new standards and requirements for construction, but also in the emergence of new financial instruments. Construction investors are actively looking for green projects. Thus, the total amount of green bonds in the world reaches 1.3 trillion dollars. The Climate Bonds Initiative's forecasts that the annual green bond issuance of the green bonds could exceed \$1 trillion in 2023. Of the total green bond issuance of \$290 billion in 2020, more than a quarter (\$76 billion) was allocated to green buildings (2021 GLOBAL...). The 2021 World Green Building Trends report showed that 34 percent of companies

surveyed in the United States were focusing on green building, and 46 percent said they would do so in the next three years (2023 engineering...).

**The main purpose of the article** is to identify new innovative forms of investment in housing construction and their features in different countries.

**Methods.** When analyzing innovative forms of investment in housing construction, a generalization of theoretical approaches to understanding this phenomenon was carried out. The identification of modern trends and features of investment has been carried out, such new forms as crowdfunding and crowdinvesting have been disclosed, which allow expanding opportunities for individual investors, reducing risks and promoting the further development of housing construction, taking into account modern key features.

### 3 Results and Discussions

Currently, one of the main products of innovative development is the development and implementation of information technologies, the dynamic development of which is accompanied by the creation of digital platforms. The introduction of digital platforms in various sectors of the economy fundamentally changes the structure and management of business, models of interaction with the consumer, including investment processes. The use of digital platforms has resulted in the creation of innovative forms and methods of investment, including crowdfunding, crowdinvesting, crowdlending, real estate investments through cryptocurrencies and blockchain.

Financial market experts suggest that most of the financial infrastructure will move to blockchain over the next 10 years. Banks and stock exchanges are already working on projects that will make securities transfers and settlements faster, more transparent and less prone to error. Traditional financial securities such as stocks, bonds, and other real-world assets are increasingly moving into blockchain infrastructure. This is due to the many benefits of this technology, such as instant settlement, 24/7 trading, access to international investors, and significantly increased liquidity.

Through DigiShares, company shares can be digitized and issued as tokens on the blockchain. The digital share certificate will be stored in each token. Each token will represent one share of the company. DigiShares ensures that only verified and approved whitelisted investors will be able to buy tokens. Security in the blockchain is called a tokenized security or security token. Stocks and bonds are being digitized and online trading of these digital securities becomes possible without relying on any intermediaries.

The World Economic Forum predicts that by 2027, 10% of global GDP (\$7.8 trillion) will be stored

on the blockchain. At the same time, DigiShares will mainly focus on the tokenization of large physical assets, such as real estate, infrastructure, solar energy, wind, etc. (Tokenization ...).

Currently, fundamentally new forms of financing are actively used, which allow large-scale involvement in the investment process of a large number of potential investors. Crowdfunding deserves special attention, or crowdfunding (from the English Crowd – crowd, funding – funding), which is the collective cooperation of people who voluntarily pool their money or other resources together, usually through specialized Internet platforms, to support the efforts of other people or organizations in relation to the implementation of certain projects.

According to the World Bank forecast, by 2025 the volume of the crowdfunding industry could grow to \$96 billion. It is believed that the term "crowdfunding" appeared in 2006 and its author is journalist Jeff Howe (Howe, 2012). Andrés Felipe Gallego (Gallego, 2011) notes that crowdfunding is an alternative financing for projects and is implemented through civil initiatives as an innovative form of investment through digital platforms. Therefore, the main purpose of crowdfunding is to attract investors through crowdfunding platforms to implement a specific project, which can be carried out by individuals, groups of individuals, individuals or legal entities.

Crowdfunding is one of the fastest growing forms of investment in residential and commercial real estate. This is due to the fact that construction companies need capital to finance projects at the beginning of construction, as banks provide 50-60% of the required amount at a later date.

Scientists Gostkowska-Drzewiecka, Agrawal, Catalini, and Goldfarb note that the use of crowdfunding allows attracting significant amounts of investment into the real estate sector for the implementation of various projects. In the field of real estate, these can be projects for new construction and reconstruction of residential buildings and complexes, commercial premises, infrastructure facilities with subsequent operation or resale (Gostkowska-Drzewicka, 2016; Agrawal, 2013). Schweizer and Zhou defined real estate crowdfunding as a form of financing in which a real estate project developer, through a specialized online platform, offers equity participation in project financing to a large group of investors (Schweizer, 2016).

It should be noted that real estate crowdfunding was initially developed in the United States. Currently, 50% of global real estate crowdfunding occurs in the Asia-Pacific region. Due to the intensive economic development of China, this country has now become a world leader in the use of crowdfunding as a form of real estate investment.

According to the Global Real Estate Crowdfunding Market Survey 2028, real estate crowdfunding will

grow globally at a CAGR of 33.4% per annum from 2020 to 2028. On a global scale, it can reach 58.3% in the period from 2020 to 2027 (Global Real..., 2021). According to a research report, the volume and share of the global real estate crowdfunding market was estimated at US\$10.78 billion in 2021 and is expected to reach US\$250.62 billion by 2030, with a CAGR of 45.6% in during the forecast period. However, the real estate crowdfunding market experienced negative growth during the pandemic and is expected to pick up in a short period of time after business resumes (Global Real..., 2021).

Real estate crowdfunding is carried out through online crowdfunding platforms, in which many investors gather to implement construction or renovation projects for residential and commercial real estate. There are two main types of real estate crowdfunding platforms: equity-based and debt-based. Equity-based platforms allow investors to own a piece of financed property, while debt-based platforms provide loans to developers that pay back with interest. Each type of platform has its own advantages and disadvantages.

The crowdfunding platform acts as an intermediary between the fund seeker and investors. The investor, using the payment system, transfers money to a special project account on the platform, which, in turn, transfers the money received to the project creator. Money is usually transferred to the authors of projects by the crowdfunding platform at the end of the project, if the entire desired amount has not been collected, the money is returned to investors, and the project is recognized as unsuccessful. At the same time, the crowdfunding platform may charge a commission for its mediation.

Crowdfunding platforms can be roughly divided into three categories: lending models, investment models, and models that do not offer financial income. Credit models unite all participants in the investment process – investors and borrowers. Investment models combine applicants who provide the opportunity through a crowdfunding platform to invest in securities, stocks, shares or equity instruments, and financing providers who receive in return a share, bond or part of the proceeds of the project. Non-revenue models bring together beneficiaries and sponsors to fund projects on a philanthropic basis.

The use of online crowdfunding platforms allows developers to expand their base of potential investors and capitalize on projects requiring financing. For investors, crowdfunding platforms provide access to a significantly larger amount of investment resources, allow the distribution of funds in smaller amounts for more investments, increasing diversification. Investors buy shares of companies or provide loans in exchange for a percentage of profits.

Unlike other forms of investment, crowdfunding platforms are open to investors with small budgets. They do not require the participation of the investor in asset management. On average, they generate higher returns than a number of other instruments, such as securities, deposits, or commodities. Debt crowdfunding brings a fixed return on capital from the rental of premises in the amount of 8-12%.

There are three main types of investments in real estate crowdfunding: land acquisition, development projects, and real estate rental projects. Land acquisition projects typically involve the purchase of agricultural land that can be converted to other uses and subdivided into construction lots. At the end of the investment period, usually after 5 years, the land is sold and the resulting profit is distributed among investors on a pro rata basis.

Another type of investment is real estate development projects managed by development companies. Crowdfunding participants acquire shares in a special company created to implement the project, the developer undertakes to buy back the shares from the investor at a predetermined price upon completion of construction or sale of the facility (Gostkowska-Drzewicka, 2016).

Real estate rental projects involve the purchase of well-maintained commercial premises through a crowdfunding platform. Rent from the lease of premises is paid to shareholders on a constant and proportional basis. The rate of return of such an investment model is 6-8% per year (Firek, 2017).

The development of crowdfunding platforms in housing construction has led to the use of crowdfunding as an innovative form of external financing. Crowdfunding, at its core, is stock crowdfunding, which raises the capital of many small investor companies through Internet platforms. Crowdfunding was introduced for the first time on the French platform WiSeed and has been developed as a form of financing (Ahlers, 2015). Crowdfunding of real estate shares allows an investor to become a shareholder of companies and thus a co-owner of real estate. The investor receives funds either from renting out the property or from capital gains from selling the property at a higher price. The return on this type of investment can be very high, but it is also difficult to estimate in advance and carries a higher level of risk.

Currently, crowdfunding is used in housing construction in order to attract investments from the population to finance projects. This funding method is widely used in many countries around the world, including the US, UK, Canada, Australia and New Zealand. In the US, crowdfunding is used to fund housing projects, including multi-family homes, single-family homes, and apartments. For example, Fundrise offers investors the opportunity to invest in housing projects in various US cities. Investors can invest in projects starting from \$500. In the UK,

crowdfunding is used to finance housing projects, including social housing. For example, Crowd-Property offers investors the opportunity to invest in housing projects in the UK. Investors can invest in projects starting from £5,000.

1. In Canada, crowdfunding is used to finance housing projects, including multi-family homes and single-family homes. For example, NexusCrowd offers investors the opportunity to invest in housing projects in Canada. Investors can invest in projects starting from \$10,000. In Australia, crowdfunding is used to finance housing projects, including multi-family homes and single-family homes. For example, BrickX offers investors the opportunity to invest in real estate in Australia. Investors can invest in real estate starting from \$100. In New Zealand, crowdfunding is used to finance housing projects, including apartment buildings and single-family homes. For example, PledgeMe offers investors the opportunity to invest in housing projects in New Zealand. Investors can invest in projects starting from \$20 (Overcoming ...).

According to Lehner, an innovative form of lending is Peer-to-peer lending Peer-to-peer lending is a form of crowdfunding that is commonly used in the real estate industry to raise funds for capital construction. In this model, a group of investors collectively lend to a development company through an online platform without the involvement of traditional financial institutions. Peer-to-peer lending is one of the alternative investment methods and the most attractive for developers who have difficulty in raising funds from banks and non-banking companies (Lehner, 2013).

Loan crowdfunding or crowdlending is the financing of a real estate project through a loan that investors provide to develop the project. In return, the investor receives the amount of the loan money and the agreed interest over a predetermined period.

Crowdlending in housing construction is a relatively new form of financing, but it already has some world experience of use. In the UK, Brickowner, a crowd-lending platform, allows investors to invest in housing developments. Brickowner partners with small developers and offers investors the opportunity to earn income from renting or selling real estate.

The Property Partner crowdlending platform allows investors to invest in housing construction and earn income from renting or selling real estate. Property Partner cooperates with major developers and offers investors the opportunity to invest in various projects.

In the US, the Fundrise crowdlending platform allows investors to invest in housing construction and earn income from renting or selling real estate. Fundrise cooperates with major developers and offers investors the opportunity to invest in various projects. In Estonia, the Crowdestate

crowdlending platform allows investors to invest in housing construction and earn income from renting or selling real estate. Crowdestate partners with small developers and offers investors the opportunity to invest in various projects.

The analysis carried out shows that real estate crowdfunding can be considered a type of equity crowdfunding if the investor is offered shares in the financed real estate. This can also be considered an example of debt crowdfunding if the real estate investment is debt based. Registered online platforms operating in the most developed markets, provide both forms of investment, debt and equity, or specialize only in debt or equity financing (Vogel, 2014).

In real estate debt crowdfunding, profits are capped at a predetermined interest rate and are independent of the profits of the company to which the funds are being lent. The project implementation period is specified in advance, so investors know from the very beginning when they can expect a return of principal and interest. Compared to equity crowdfunding, debt crowdfunding is far less risky and easier to predict. However, even debt crowdfunding does not offer a risk-free investment.

Crowdfunding is regulated by the Directive of the European Parliament and of the Council (Regulation EU 2020...), according to which, from November 10, 2021, crowdfunding service providers providing bridge loans to companies or allowing investments in corporate securities or instruments accepted for crowdfunding purposes, will be able to apply for obtaining a license from the Financial Inspectorate.

The main purpose of the Crowdfunding Directive is to protect the investor. When issuing a license, the Financial Supervision Authority conducts a thorough check of information about the company, its activities and management. Since crowdfunding service providers operate mainly through electronic means, the inspection also assesses the level of technical organization and business continuity of the company. In addition, licensed crowdfunding service providers will be required to verify the information received from the project owner and provide relevant information to investors. Investors should also be informed of conflicts of interest associated with the offer and measures to mitigate them.

In our opinion, the use of crowdfunding in housing construction has significant advantages over the classical forms of investment, including the availability of financing, shortening the project implementation time, and the possibility of attracting additional financial resources. At the same time, low interest rates on deposits offered by banks and the significant risk associated with investing in capital markets encourage potential investors to look for alternative ways to raise capital,

and real estate crowdfunding seems to be a good solution.

The biggest advantage of crowdfunding in real estate is the ability to attract significant investment in housing construction. With real estate crowdfunding, it is possible to invest in much larger projects, which also generates a higher rate of return. Until recently, such projects could not be carried out by investors without sufficient capital. Real estate crowdfunding offers many opportunities for investors with both small and large capitals (Gostkowska-Drzewicka, 2016).

Real estate crowdfunding allows investors to minimize risk by diversifying their investment portfolios. Instead of investing the entire amount in one project, the investor can distribute it over several projects. Investing in real estate allows investors to receive a passive income stream, since there is no need to take part in the management of the project.

Traditional forms of real estate investing were mostly available to accredited and institutional investors, while the entry barrier was too high for retail investors. Participating in real estate crowdfunding still requires money, but the entry barrier is much lower than in traditional forms of investment.

Real estate crowdfunding platforms usually do their own due diligence before allowing investors to participate in an offer. At the same time, there is a risk of a conflict of interest (if there are several owners). Due to the volatility of the real estate market, a high rate of return cannot be guaranteed. It is advisable to assume a longer investment period, at least several years, in order to reduce the risk of a significant drop in property prices. Estimated rate of return may be inflated.

Thus, crowdfunding is a new way and the most effective form of investment in housing construction in modern conditions. This is explained by the fact that crowdfunding allows you to accumulate the financial resources of different investors, in the necessary volumes for the implementation of a project in the field of housing construction, as well as avoid the involvement of financial intermediaries in the investment process. The basic condition for crowdfunding is the presence of a digital platform that acts as an aggregator of investment proposals and a payment instrument.

Taking into account the types of fundraising and the specialization of digital platforms, a distinction is made between charitable and investment crowdfunding. Charitable crowdfunding does not provide a return on investment, but may involve non-financial benefits for donors. Investment crowdfunding aims to attract funds from the population in investment projects with a subsequent return on investment and, by analogy with traditional formats of investment activity,

is divided into debt and equity. Debt crowdfunding involves investing in bonds or participating in the provision of loans, when the platform operator acts as a project lender on behalf of users. Equity crowdfunding involves investing in the shares of a project company or participating in a mutual investment fund.

Taking into account the specifics and features of housing construction, as well as based on the results of the study, it should be noted that the most effective form of investment in the construction of residential real estate is investment crowdfunding. Crowdfunding platforms provide tools for the development of investment processes and the promotion of housing construction projects and are an intermediary between the borrower and the investor. The process of attracting investments is carried out through crowdfunding platforms in the form of credit or investment models, while the object of real estate crowdfunding can be either financial resources, or shares, or real estate, or land.

The main principles of crowdfunding of residential real estate projects are as follows:

- the main donors are individuals;
- a platform for conducting financial transactions is a digital platform, with the operator of which the user enters into an agreement;
- investments through the acquisition of financial products (eg. stocks and bonds) are made directly by platform users or by the platform operator on behalf of users;
- the owner of the project on the platform launches a campaign to raise funds / attract debt / investments with a given target amount of attracted financing;
- platform users accept the financial offer, the platform operator blocks the corresponding amount on the user's account;
- funding provided by users is retained by the platform until the campaign objective is reached;
- if the campaign is successful, the funds are debited from users' accounts and go to the disposal of the project owner – thus deliberately unsuccessful projects are eliminated.

At the same time, the results of the theoretical analysis allowed the author to systematize the main characteristics of crowdfunding of residential real estate as a progressive form of financing projects in the construction industry, depending on its goals, objects, subjects, functions and specific differentiation, as well as on the main types and forms of investments (Table 1).

It should be noted that the effectiveness of the implementation of mechanisms for financing housing construction depends on many factors, and above all, on the development of the credit and financial, insurance and stock markets, the stability of the national currency, the level of inflation,

the solvency of the population and other processes that determine the overall scale and dynamics of development. housing markets.

#### 4 Conclusions

The processes of investing in housing construction are actively developing and becoming more complex. Modern information and communication technologies provide ample opportunities for developing new investment and lending tools, which allows you to diversify risks, expand the number of investors, ease the burden of debt for potential borrowers, etc. In order to increase the efficiency of using innovative tools in investing in housing construction, it is necessary to analyze investment trends, identify the features of the development of innovative forms and methods of investment, as well as their prospects and potential risks.

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TABLE 1 Systematization of characteristics of residential real estate crowdfunding

Purpose of crowdfunding	Construction Reconstruction Rent
Crowdfunding objects	Money Stock Real estate Earth
Crowdfunding entities	Investors Borrowers
Types of crowdfunding	Joint Stock Debt
Forms of investment attraction	Credit models Investment Models
Crowdfunding Features	Investment
Types of Crowdfunding Investments	Land Acquisition Development projects Rental Property

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