FUNDRISE

Testimony to the Subcommittee on Capital Markets and Government Sponsored Enterprises
"Legislative Proposals to Enhance Capital Formation for Small and Emerging Growth Companies Part II," May 1, 2014
Benjamin Miller, Co-Founder of Rise Companies Corp.

Chairman Garrett, Ranking Member Maloney, and members of the Subcommittee – my name is Ben Miller, and I am the co-founder of Rise Companies Corp., which owns and operates Fundrise, a real estate crowdfunding platform based out of Washington, DC. I am honored to be here today to testify on my experience using Regulation A to crowdfund the development of local real estate here in the District of Columbia. Let me spend a moment on my background so that you understand how I came to run Rise Companies, one of the only companies in the country currently raising equity online from the public—both accredited and unaccredited investors—in Washington, DC, Maryland and Virginia, prior to implementation of the JOBS Act. We are legally crowdfunding real investment today, through currently existing regulations, and have been doing so since 2012.

Prior to starting Fundrise, I ran a real estate company. In that capacity, I lead the acquisition and development of more than 2 million square feet of property. We built some of the more iconic projects in Washington DC, such as Gallery Place on 7th and H Streets NW -- a 750,000 square foot mixed-use development. As a real estate entrepreneur, I have partnered with some of the largest institutional investment companies in the country, such as Mass Mutual, Angelo Gordon, and the AFL-CIO. I understand what it means to raise debt and equity.

After the 2008 financial crisis, I began to focus on real estate in emerging neighborhoods. Neighborhoods filled with new energy and growth driven by the millennial generation, and a reinvigorated desire from people of all ages to move into cities. When I went to my traditional capital partners, they didn't understand the dynamics of these neighborhoods—neighborhoods such as Washington's H Street NE, Greenpoint, Brooklyn, Lowertown, Minneapolis, or the Los Angeles Arts District. It was striking to me how little they understood local neighborhoods, where new growth is, as compared to traditional core downtown markets.

I would speak to local people in the communities where I was building and they would get very excited about what we were doing. They understood why we were investing there. They cared deeply about the places we were changing and how we were changing them. They wanted to participate in building their city too.

So one day we asked ourselves, "Why are we raising money from institutions which have no real relationship with the places in which we are investing? What if we raised money from the people who live there, who care, who get it?"

So that's what we're doing, and explains why I am sitting here. We have been raising real investment, in increments as affordable as $100 per share, from the people who live near our real estate projects. Anyone and everyone locally can invest--even if they are not accredited investors, as defined by the SEC. Thousands of people have been investing millions of dollars through Fundrise, purchasing shares of their neighborhoods through our web platform.

Since the JOBS Act did not exist when we started our endeavor, we had to work within the existing regulatory framework. Thanks to our outstanding (and expensive) legal team, we found a way through using Regulation A. Our initial Regulation A filings with the Securities and the Exchange Commission (SEC) totaled more than 350 pages, but eventually allowed us to sell equity online at $100 per share to the local public. To my knowledge, over the past two years, we are the only ones who have successfully qualified more than one Regulation A offering, having climbed the regulatory mountain associated with Regulation A no less than three times.

Each Regulation A offering was a serious undertaking, one that did not generally get easier over time. For example, despite many similarities to prior offerings, our third Regulation A offering took us six months to get through the regulators, which included hundreds of pounds of physical paper filings with the SEC and states, eight attorneys (generating fees of approximately $50,000) to get through the regulatory process, and two sets of reviewed financial statements. All of this to raise $350,000 from the residents of only three states. Yet, we view ourselves as fortunate. Our local regulators in DC, Virginia and Maryland understood that we were working to build local places and create a new capital source for local job growth, and know that less inclined regulators could have, and would have, made it impossible for us to move forward.

In our experience, the likelihood that a Regulation A offering becomes effective is primarily dependent upon the jurisdictions in which the offering has to be registered. Given the great uncertainty this places upon an endeavor that requires tens of thousands of dollars and many months to even begin, without regard to whether the issuer will actually be successful in its Regulation A offering, we support any proposal that lessens the regulatory burdens of Regulation A offerings while simultaneously increasing the regulatory certainty faced by small businesses seeking to raise capital.

In addition, like many in the industry that have reviewed the proposed Regulation A+, we support the exclusion of investors in Regulation A+ offerings from the number of holders of record counted under Section 12(g) of the Exchange Act. We do not believe that, given the ongoing reporting requirements already proposed in Regulation A+, requiring small issuers to become subject to the onerous and expensive reporting requirements of the Exchange Act serves either investors or the small business community. However, we would note that we found the wording contained in the draft bill to be slightly confusing and ask that the Subcommittee consider whether there are clearer and simpler ways to accomplish this goal.

We at Fundrise take very seriously our ongoing mission to open up real estate investing to the general population beyond the institutional and accredited investors that have predominantly held sway in the market. We believe that the proposals contained in these bills provide substantial, positive steps towards democratizing real estate investment, and encourage the Subcommittee to consider each of these proposals seriously.

I am happy to take any questions that you may have at this time.